ANNUAL REPORT
FREENET AG

2014

freenet GROUP

MOBILCOM-DEBITEL / FREENET / GRAVIS / FREENET DIGITAL / KLARMOBIL.DE / TALKLINE / MFE ENERGIE / MOTION TM

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KEY FINANCIALS: GROUP OVERVIEW

Result

In EUR million/as indicated	2014	2013	Q4/2014	Q3/2014	Q4/2013
Revenue	3,040.6	3,193.3	833.7	762.1	818.8
Gross Profit	778.1	731.2	210.8	194.2	199.8
EBITDA	365.6	357.4	96.3	96.3	94.4
EBIT	301.2	301.3	79.6	80.9	80.0
EBT	260.6	258.4	68.6	71.6	67.0
Group result from continued operations	248.2	238.9	67.5	66.2	59.8
Group result from discontinued operations	0.0	0.0	0.0	0.0	0.0
Group result	248.2	238.9	67.5	66.2	59.8
Earnings per share in EUR (diluted and undiluted)	1.93	1.87	0.53	0.52	0.47
Dividends paid per share[1] in EUR	1.45	1.35	0.00	0.00	0.00

Balance Sheet

In EUR million/as indicated	31.12.2014	31.12.2013	31.12.2014	30.09.2014	31.12.2013
Balance sheet total	2,498.3	2,477.2	2,498.3	2,436.7	2,477.2
Shareholders' equity	1,293.6	1,239.6	1,293.6	1,234.8	1,239.6
Equity ratio in %	51.8	50.0	51.8	50.7	50.0

Finances and investments

In EUR million	2014	2013	Q4/2014	Q3/2014	Q4/2013
Free cash flow[2, 3]	266.6	256.2	55.6	79.6	54.6
Depreciation and amortisation	64.4	56.1	16.7	15.3	14.4
Net investments[3] (CAPEX)	27.9	22.2	9.2	8.3	9.2
Net cash[3, 4]	−426.6	−427.2	−426.6	−472.0	−427.2

Share

	31.12.2014	31.12.2013	31.12.2014	30.09.2014	31.12.2013
Closing Price Xetra in EUR	23.70	21.78	23.70	20.61	21.78
Number of ordinary shares in '000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation om EUR '000s[4]	3,034,406	2,789,169	3,034,406	2,638,697	2,789,169

Employees

	31.12.2014	31.12.2013	31.12.2014	30.09.2014	31.12.2013
Employees[4]	4,826	4,576	4,826	4,939	4,576

KEY FINANCIALS: OVERVIEW MOBILE COMMUNICATIONS SEGMENT

Customer development

In million	2014	2013	Q4/2014	Q3/2014	Q4/2013
Mobile Communications customers[4]	12.73	13.29	12.73	12.83	13.29
Thereof customer ownership	8.92	8.76	8.92	8.90	8.76
Thereof contract customers	6.01	5.86	6.01	5.97	5.86
Thereof no-frills customers	2.91	2.90	2.91	2.93	2.90
Thereof prepaid cards	3.81	4.53	3.81	3.93	4.53
Gross new customers	3.03	3.34	0.85	0.76	0.91
Net change	−0.57	−0.79	−0.10	−0.16	−0.08

Result

In EUR million	2014	2013	Q4/2014	Q3/2014	Q4/2013
Revenue	2,988.7	3,160.4	820.3	749.9	809.7
Gross profit	731.8	710.8	196.5	184.3	194.7
EBITDA	378.5	365.1	98.0	98.7	101.3
EBIT	324.5	312.7	84.0	86.1	87.9

Monthly average revenue per user (ARPU)

In EUR	2014	2013	Q4/2014	Q3/2014	Q4/2013
Contract customer	21.4	22.3	21.1	21.7	21.6
No-frills customer	2.8	3.4	2.5	2.9	3.0
Prepaid cards	2.9	3.0	2.8	3.1	3.0

1 In financial year for the previous year.
2 Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.
3 This information relates to the overall Group (including discontinued operations).
4 At the end of period.

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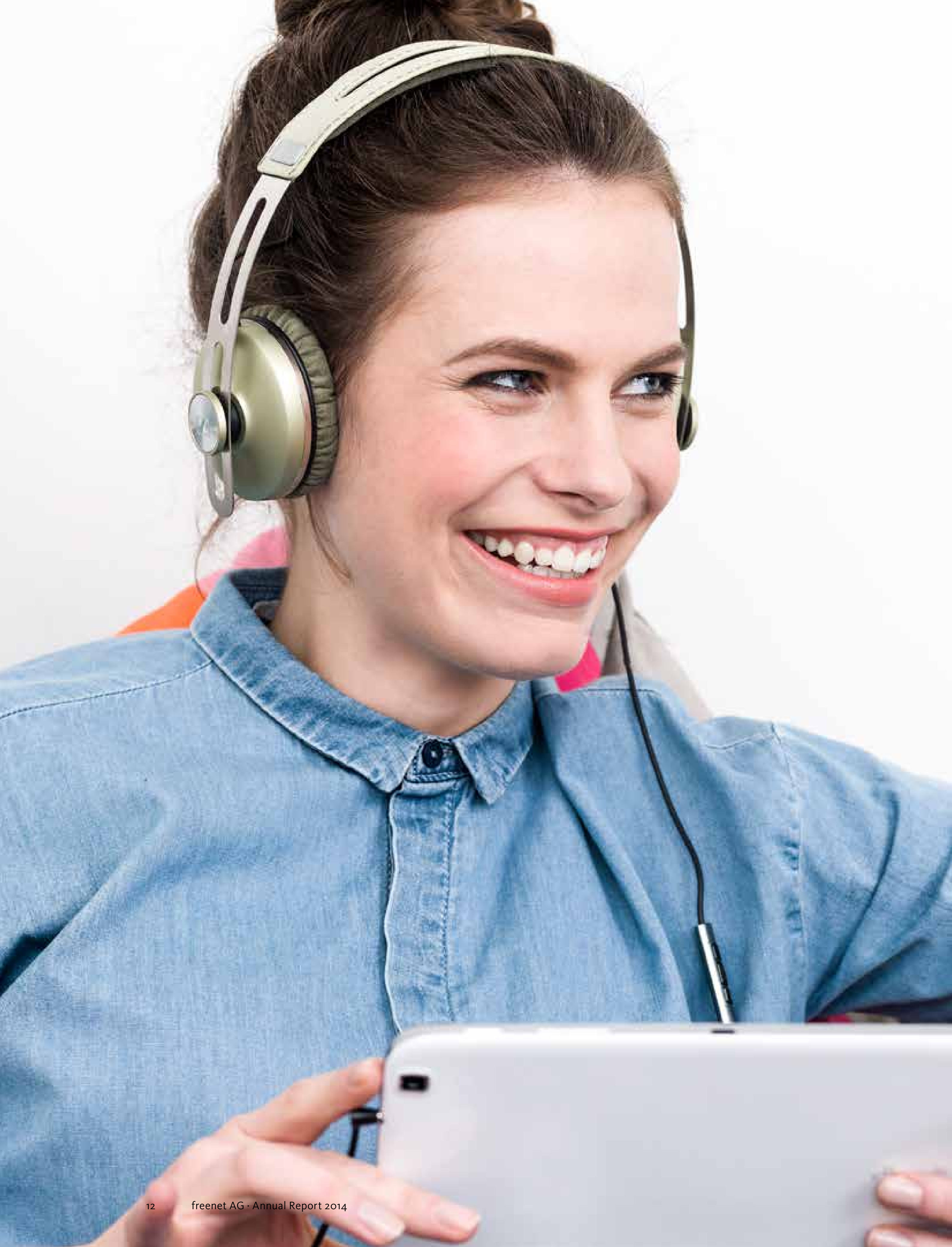
DIGITAL LIFESTYLE AND MOBILE COMMUNICATIONS

FREENET AG IN THE WORLD OF DIGITAL LIFESTYLE

Smartphones, tablets and the digital services, applications and products linked to them are increasingly creating a new, mobile lifestyle that is enriching our social and economic lives in a fascinating way: it is opening up innovative, individualised possibilities for structuring our lives fully in accordance with our desires and needs—in our everyday lives and when travelling, in our work and in our leisure time, during routine activities and in extraordinary situations. This trend has accelerated further in recent months and quarters, as a number of facts and figures for 2014 impressively demonstrate:

- In the course of the year, the number of smartphone users around the world increased to 1.76 billion, or 38 per cent of the world's population—compared with 32 per cent in the previous year.
- In Germany during the same period, the number of smartphone users increased to 55 per cent of all German citizens aged 14 or over, and among the under-30s from 65 to 78 per cent.
- Three-quarters of all Germans never leave their homes any more without a smartphone or handset—compared with 62 per cent in the previous year. Many of them can imagine replacing their wallets or purses with a mobile wallet on their smartphone in the future—and 14 per cent can imagine going without their physical wallet or purse altogether.
- The mobile trend isn't sparing children and teenagers either: almost all are already online at ten years of age, at twelve virtually all have their own smartphone, at 14 most are using it actively in social networks, and among 16- to 18-year-olds, nine out of ten access the internet by mobile means.
- In addition, one-third of Germans were also using a tablet by the end of 2014; equivalent to 24 million users, compared with 18 million at the beginning of the year. 9.2 million tablets went over the—often virtual—shop counter in 2014, an increase of 15 per cent over the previous year.
- Three-quarters of Germans now regard digital technologies as indispensable because they facilitate the work done in schools, in higher education and at work, but also because they make social life and consumer behaviour more pleasant—and even broaden the possibilities of political involvement.
- The most attractive applications in the digital lifestyle field increasingly include the smart home segment—the intelligent interlinking and mobile control of appliances in the household. While just 315,000 private households were thus equipped by the end of 2013, experts are forecasting that their number will be trebled by 2020—or even by 2018 if the country's politicians expand the broadband network with sufficient rapidity. The greatest potential in this area is being shown in the fields of smart energy, convenience and security, home cloud and nursing care and health.
- Furthermore, "wearables"—networked devices worn on the body—are becoming more and more coveted. Almost a third of people aged 14 or over can already imagine wearing smart spectacles such as Google Glass—before the turn of the year it was only one in five. And with regard to smartwatches the proportion is already 38 per cent, or no fewer than 27 million German citizens.
- Most amateur sports enthusiasts—of which there are 39 million—are already using digital high technology and analyse their performance, calorie consumption, pulse rate and health indicators with their smartphone, fitness tracker or sports watch; they improve



their training, perhaps listen to music while doing so, and in this way feel more motivated and safer at the same time.
- Three-quarters of all Germans read books regularly, from whom one in three read e-books. Either using tablets or with an e-reader pure and simple, of which around 1.2 million were sold in the Federal Republic in 2014—12 per cent more than in the previous year.
- Digital lifestyle is also increasingly shaping consumer electronics. Every owner of a smartphone takes photos with it, almost three-quarters use it as a gaming platform, and it is estimated that revenues with video content for retrieval will almost quadruple by 2020.
- Last year, the music industry was already serving 18 million Germans with streaming services—three times more than in 2013. In five years' time, the industry will earn half of its money with audio streaming, and some 40 million German citizens are already watching videos on their smartphones.
- Revenue with games for mobile devices in Germany increased by 33 per cent to 465 million euros in 2014, with the smartphone advancing to become the most popular gaming platform.
- The market for cloud computing, too, is growing at a dramatic rate. Last year, for example, it expanded by 46 per cent to 6.4 billion euros. In the business sector, experts are predicting average annual increases of 35 per cent up to 2018, with most consumers choosing to do without hard disks or USB sticks altogether as storage media. 15 million German citizens already use a cloud, 90 per cent of them for private purposes.
- Last but not least, digital lifestyle also aids the search for a partner—around 9 million Germans have already tried out online dating and one-third got to know a steady partner that way.

In this fascinating world of digital lifestyle, freenet AG systematically sets its own priorities—as an independent service provider and one of Germany's leading major enterprises in the digital sector.

freenet offers its customers
- integrated lifestyle product ranges, inexpensive mobile communications tariffs and services in all German networks, namely
  - with the main brand mobilcom-debitel, into which two decades of experience and expertise in telecoms, mobile communications and the internet flow, and
  - with the premium brand GRAVIS for high-quality digital lifestyle products and services, as well as
  - with the discount brands "klarmobil", "callmobile", "freenetmobile" and "debitel light";
- competent, objective advice and support tailored to the personal needs and requirements of each individual customer, and
  - with no pressure to amortise high development costs, but
  - with the market and purchasing power of a very large customer base that has been established over many years and a blanket sales presence;
- the greatest possible proximity to customers, based on
  - around 570 own mobilcom-debitel shops,
  - 45 GRAVIS stores, the biggest retail chain in Germany for Apple products,
  - just over 400 exclusive partnerships with electronic goods stores, especially Media-Saturn Deutschland GmbH,
  - around 5,600 further retail and sales partners among specialist traders,
  - a wide range of efficient online channels, social networks and comprehensive customer support by way of apps, chat, email, telephone, letter or a personal conversation.

This outstanding position that freenet AG enjoys in the competitive environment is guaranteed by some 4,800 employees in eleven locations and their day-to-day commitment to their company and their customers. In return, freenet AG gets involved in a large number of initiatives for social and ecological projects at the respective locations and beyond. That is also in the spirit of mobilcom-debitel's long-term marketing campaign: Together we can do more!

INNOVATIVE PRODUCTS

Home automation, entertainment and cloud are among the most popular digital lifestyle applications. mobilcom-debitel has already been offering appropriate products in these areas for several years. These include, for example, SmartHome sets for the mobile control of heating at home using an app; music and game flat rates, and the mobilcom-debitel cloud for the secure storage of emails, files, contacts and dates, as well as photos, videos and/or music.

The company expanded and enhanced this spectrum further during the course of 2014. As a result, the already successfully established product SmartHome Heizung received new additional options for individual radiator regulation, plus plug adapters with which electrical devices and lamps can be controlled and various home scenarios can be realised. In addition, an eco-switch restrains the integrated radiators when the householder leaves the house or flat, and switches the integrated devices off. Since November 2014, mobilcom-debitel has given a money-back guarantee if heating costs do not fall by at least 20 per cent compared to the previous year with the SmartHome product.

In May, moreover, mobilcom-debitel launched the test for a new, complete security package for the home. It encompasses—in return for a monthly fee of around 20 euros—mobile system control by means of an app, as well as, among other things, an alarm siren and button, a Wi-Fi-enabled camera, motion and opening detectors, a cloud solution for storing photographs, and a range of service and repair options in the event of a burglary.

In the entertainment sector, mobilcom-debitel provided the additional service GameFlat, which has been available since the spring of 2013, with two new variants: with the GamePack Basic for 1.99 euros per month, beginners can download two games from the extensive range provided by supplier Gameloft on to their smartphone and try them out, while GamePack Plus for 3.99 euros per month offers Android users access to a wide range of "Freemium Games"—free games that can be upgraded during the course of the game with additional levels and tools.

The smartphone option "mload Plus" is also designed to facilitate entry into the digital lifestyle's world of adventure. For a monthly charge of 4.99 euros, it offers the possibility of downloading three MP3 titles, six current Android premium games or apps, and a ringtone or a logo per month. In addition, users can play more than 100 smartphone-optimised browser games online at any time at no additional cost. The available selection includes just over 2.8 million MP3 songs, more than 2,800 games/apps as full versions without further in-app purchases, a browser game flat rate and around 100,000 further content elements such as ringtones or logos. Games and music tracks remain the customer's property after the option has expired. For prepaid customers with Android smartphones, "GamePack Prepaid" offers ten current Gameloft games, which load themselves via Wi-Fi and can likewise be used after the contract comes to an end—for the same package price as the six-month minimum period.

During the course of the year, mobilcom-debitel also enlarged the cloud that has been available since April 2013—with unchanged charges. The "Cloud Basic" variant now includes 40 GB of free memory for 1.99 euros per month, while the "Cloud Pro" now has 80 GB of storage capacity for 3.99 euros. At the same time, the functions of the Web interface were improved, together with the app to access the cloud, with convenient rights administration options to ensure maximum data security.

Additionally, a document management system in the form of the "Smart Organizer" has been integrated in the cloud since September 2014: the user scans the document in question with a smartphone and files it, whereupon the cloud makes it available as a PDF and indexes it automatically for a full-text search. The user can also set a reminder in the respective document for, say, the payment deadline for an invoice. The "Smart Organizer" recognises all of the common document types such as Word files, PowerPoint or other text files.

In the Health segment, too, freenet came up with new approaches during the year. Since August, the company's subsidiary GRAVIS has been selling the smart sleep system "Withings Aura"—honoured with the Innovations Design and Engineering Award 2014 at the International Consumer Electronics Show in Las Vegas—exclusively for Germany. This intelligent product for sleep analysis, which costs around 300 euros, contains a bedside table unit, a sleep sensor and a smartphone app, with which it monitors and improves the respective user's sleep. To do this, the sensor under the mattress measures the personal sleep pattern, including body movements, breathing cycles and heart rate, and calculates the perfect time to be woken up by the bedside table unit. The illuminant registers the sleep environment, including noises, room temperature and the light level, and runs scientifically tested light and sound programs. Finally, the smartphone app depicts the sleep pattern by graphical means, analyses sleep behaviour and runs personalised programs for waking up and falling asleep.

GRAVIS also sells numerous other digital lifestyle products from the home automation and entertainment segments. These include, for example, wireless app-controlled loudspeaker packages in different price categories—from the inexpensive "Bluetooth Bubble Speaker" from Networx through the mobile-enabled "UE Boom" from Logitech to the high-calibre "Play:5 All-in-One" solution from Sonos. Or the LED lighting system "Avea" from Elgato, which is controlled by iPhone/iPad, fits into normal lamp holders and generates automatically predefined light effects with refined nuances using up to ten lamps—even with a simulated sunrise on request for waking the user. And finally there is also the fitness tracker Jawbone UP for around 50 euros: the bracelet records data pertaining to sporting activities and sleep behaviour, for example the number of steps taken and distances, the number of calories burned or various sleep phases. The data analysis and interpretation is then carried out using a free app.

INEXPENSIVE TARIFFS AND HARDWARE

As digital lifestyle applications become more and more successful, transparent, inexpensive flat rates are increasingly gaining in significance for customers. Against this backdrop, mobilcom-debitel successfully established a clear, comprehensive offering in the form of the Allnet tariff system in the summer of 2013 in this fiercely competitive sector. It is customised to reflect the individual needs of users, who can choose economically priced packages with varying service ranges for all German mobile communications networks.

It was on this basis that freenet regularly set new emphases on the market with targeted discount and tariff options in the course of 2014. The focal points of these activities were, in particular, temporary campaigns by the Group's various discount brands, each of which was offered via its own or neutral online platforms. Here is a small selection from each month:

- In February, the subsidiary klarmobil's Allnet flat rate was available at a monthly rate of 14.85 euros using the D1 network—with unlimited calls to any German network, 3,000 free text messages and 500 MB of data per month.
- This was followed in March by the Allnet flat rate in the D2 network with a special bonus for phone number portability and two free months for 19.85 euros per month—which means savings of 185 euros compared with the regular tariff over a two-year contractual period. Even more economical were the Allnet-Starter with 200 MB data flat rate, 200 free minutes and 200 free text messages, and the mobile data tariff Flat-to-go with 500 MB volume in O_2's UMTS network and three free months—each for 9.95 euros per month.
- In April, customers of freenetmobile received a D1 call flat rate to all German networks, including mobile surfing up to 250 MB for 16.95 euros per month.
- In June, klarmobil offered the Talk Allnet Comfort in the D1 network with 300 MB inclusive and free calls to all German networks for 4.99 euros per month, plus a package comprising Allnet-Starter in the D-network with 200 MB data volume, 100 free minutes and text messages, a Nokia Lumia 630 and the free Bluetooth loudspeaker MD-12 from Nokia for 9.95 euros per month.
- freeSmart, on the other hand, with 50 free text messages and minutes to all German networks plus 100 MB data volume in the O_2 network was available with no basic charge in the four-month minimum contractual period; then it was increased to 6.95 euros per month.
- In August, klarmobil doubled the data volume in the Allnet-Starter without changing any other services and charges, and
- in September, the subsidiary paid a bonus of 100 euros to new customers who switched with phone number portability to the Allnet-Spar-Flat rate and reduced the monthly charge by 5 euros to 19.85 euros.

mobilcom-debitel—firmly established on the mobile communications market for over 20 years with its two components mobilcom and debitel—is focused primarily on high-quality contractual relationships accompanied by customer acquisition and customer base management. In addition to its own tariffs, it offers the network operators' original tariffs—generally with discounts of 10 per cent.

In the course of the year, freenet's main brand again made the market sit up and take notice with some special promotional activities.

- In March, for example, mobilcom-debitel halved the monthly basic charge for the Flat 4 You tariff and doubled the data volume to 1 GB for the Real Allnet. On the other hand, new customers choosing the "Flex

Basic" tariff—with no basic monthly charges and considerable flexibility for users—received a fuel voucher worth 35 euros.

- In May, the company offered the O_2 Flat M Internet for a monthly charge of 4.95 euros—a saving of 480 euros over the two-year term compared with the regular price.
- In November, the monthly charge for Yourflat was reduced to 7.80 euros from its regular price of 19.80 euros. It comprises a landline and mobile communications flat rate, plus a data volume of 500 MB with a maximum bandwidth of 7.2 Mbit/s.

In addition, mobilcom-debitel launched the new smartphone tariff family Smart in autumn—as well as the surf flat 5000 as an additional high-quality tariff package. Smart is aimed primarily at frequent surfers on the mobile internet for whom extensive free additional services for telephony and SMS are less important: depending on the variant chosen, the Smart Surf, Smart Light, Smart Plus and Smart Premium tariffs include a data volume of between one and ten GB plus free minutes and text messages. The package prices range from around 10 to a maximum of 40 euros per month. The surf flat 5000, on the other hand, offers a high-speed data volume of 5 GB for smartphones/tablets in return for 5.95 euros per month, and a mobile LTE-Wi-Fi hotspot for an additional 6.95 euros per month plus a one-off payment of 29 euros.

Once again, the tariffs of mobilcom-debitel and its discount subsidiaries also picked up a number of test triumphs, recommendations and awards in independent comparative tests in trade journals and business publications during the course of the year.

With many tariffs, moreover, combinations with suitable, inexpensively acquired smartphones and tablets—from all relevant manufacturers such as Apple, Huawei, LG, Nokia, Samsung or Sony—were offered. Some of these terminals were even available as free additions or at the symbolic price of one euro: for example, the Samsung Galaxy Tab 3 Lite in combination with the digital lifestyle bundle consisting of the Samsung Galaxy S5 and the Smart Light tariff—as with mobilcom-debitel in November, at a monthly package price of 29.99 euros in the first twelve months of the two-year contractual period.

One highlight was the market launch of the new iPhone 6 in September—as is always the case when Apple launches its new products. Fans of the Californian cult brand were able to pre-order their long-awaited smartphone from mobilcom-debitel with a Telekom or Vodafone tariff, and in time for the sales launch, the new iPhones were available in the GRAVIS stores—and soon afterwards also in the electronic goods stores belonging to the exclusive freenet sales partner MediaMarkt/Saturn. In connection with this, GRAVIS offered special 0 per cent financing for payment by instalments. And in order to shorten the hardened Apple fans' traditional overnight sojourn in front of the shops before product premieres, a number of GRAVIS stores in the large cities opened their doors a few hours earlier than usual.

IMPROVED SERVICE

Customer orientation is of crucial significance, especially for service providers. freenet AG therefore works constantly to improve its processes, services and customer proximity.

It was with this in mind that the company launched its “Balance” project in 2013: its objective is to harmonise the respective customer’s concerns and/or requirements with the service employees’ fields of expertise as best as possible by means of intelligent routing. And regardless of whether the customer communicates their concerns by phone, mail, fax or letter.

Over the past financial year, the project produced outstanding results: customer satisfaction levels increased significantly in a short period of time, inactive call times were reduced as a result of new automated workload distribution, and off-peak times in day-to-day call centre work were handled more efficiently. Consequently, mobilcom-debitel’s Head of Customer Care Birgit Geffke was named Call Centre Manager of the Year.

GRAVIS launched a many-sided service offensive to accompany its development from an exclusive Apple dealer of many years’ standing to a more broadly positioned digital lifestyle provider. This includes greater flexibility regarding payment, plus any necessary repairs. In the first half of 2014, consequently, the subsidiary introduced “Yapital” as an innovative payment method with which customers can use the Otto Group’s new multichannel payment procedure in stores all over Germany and in the GRAVIS online shop.

To use this service, all that users have to do is scan a QR code with the Yapital app on their smartphone and click on “Confirm”. Alternatively, they can settle their purchase amount by entering their user name and password. A real-time transaction overview on the app lists all of the amounts in a transparent manner. And since September, GRAVIS has also been authorised to repair iPhones of all generations—for example, replacing the batteries last autumn in some of the iPhone 5 devices sold between September 2012 and January 2013 with a reduced battery lifespan. The company had already been an “Authorised Apple Service Provider” for computers and notebooks for more than ten years and thanks to its exemplary customer satisfaction rating of over 90 per cent in this area, its Apple certification now applies to the iPhone as well.

Since July 2014, GRAVIS customers have also been able to trade in their old handsets, smartphones, tablets and Apple products, as well as DVD players, cameras, navigation devices and computers from other manufacturers online. The old device in question can be selected and assessed by way of a special purchase link. Following a short value assessment, customers receive an email containing a parcel label for sending in the device—and after it has undergone a technical inspection, a GRAVIS voucher card.

But digital lifestyle products are particularly fascinating when they are picked up, tried out or being explained. That is why GRAVIS has cleared a table in each of its stores since November for selected product highlights that customers can then test

thoroughly. This “solution table” presents fully functional product samples with RFID tags and a computer with an RFID reader. When the customer places the device they are interested in on the reader, a detailed product video starts automatically on the computer. For Christmas shoppers, the Google Chromecast, Avea lamp from Elgato, the Parrot Rolling Spider, UP by Jawbone, the Beats Studio headphones and Sonos Play:1 were displayed.

In the mobilcom-debitel shops, on the other hand, customers could collect goods they had already ordered as part of the “Click & Collect” project while making use of the employees’ expert advice. Since the first quarter of 2014, the internet and TV products marketed jointly with the company’s cooperation partner Kabel Deutschland have also been presented in a customer-oriented way—in the approximately 320 mobilcom-debitel shops in the biggest German cable network operator’s distribution area: their offerings were given their own wall panel in the stores.

As an additional service, mobilcom-debitel has been offering Deutsche Telekom’s new “landline number option” since September. With this service, customers can be reached not only within their homezone, but also throughout Germany at no further cost via mobile/smartphone on their landline number: in the “Complete Comfort XXL” tariff they can select this additional option free of charge, and with tariffs featuring a landline flat rate there will be an additional charge of 4.95 euros per month; in all other tariffs, 9.95 euros per month.

A customised phone number for the smartphone has likewise been available at mobilcom-debitel since November, namely in its own shops and at cooperating electronic goods outlets and specialist trade partners. In the process, customers can choose from three options: Silver for a one-off payment of 29.99 euros, Gold for 99.99 euros and Platinum for 199.99 euros. The call numbers in question are clustered according to various attractive patterns and are easier to remember than conventional random numbers. Categories can also be determined individually, for example six identical numbers with the Platinum option.

In addition, mobilcom-debitel is treading new paths in its presentation of the fascinating world of digital lifestyle. In time for the traditional “Christkindlesmarkt” Christmas market, the shop on Breite Gasse in Nuremberg decorated a display window as an interactive miniature version of a living room with SmartHome products from the company—mobile-control heating, lighting and a camera. Passers-by and anyone who was interested could then test their functionality playfully using a touch display on the window and gain a realistic insight into how they work—through their impact on the room temperature, lighting management, a simulated burglary complete with alarm and brief explanations of each product on the touch display. The test phase ended in March 2015.

NEW MARKETING ACTIVITIES

Digital lifestyle was also a central topic in the varied marketing activities carried out in the financial year 2014. In August, mobilcom-debitel launched another large-scale campaign under the slogan "Deutschland macht den Soundcheck" (Germany is running a soundcheck). The objective behind this was to bring musical digital lifestyle products to life with synchronised promotional, guerrilla and social media campaigns.

As the campaign's central element, three VW vans—known in Germany as "Bullis"—branded in mobilcom-debitel green visited 74 hotspots in German towns, cities and vacation regions on around 200 campaign days and attracted a great deal of attention with their sound system. Visitors had the opportunity to borrow and try out the latest music gadgets, including mobile sound systems or cordless Bluetooth headphones, take a "sound shower" or sing their favourite song, where the prize tempting the participants was a digital lifestyle package worth 10,000 euros.

Three two-week flights of TV commercials—broadcast from 1 August to 12 October on all high-reach private TV channels—gave the campaign an appropriately broad impact; all in all, the commercials were shown more than eleven hundred times and generated some 300 million gross contacts in the process. In addition, an out-of-home poster transported the slogan while relying on the campaign's key visual: a turntable on which the music accessories were presented.

The Facebook page *www.md.de/facebook* was the campaign's central platform, where the guerrilla campaigns and "Bulli" stations were shared and the commercial's lifespan was extended. The registered participants received a test product and entered a prize draw in the hope of winning the digital lifestyle package.

At the same time, the mobilcom-debitel shops were decorated in a musical style—with elaborate adhesive posters in the display windows and the presentation of accessories. Participating stores also erected music-themed activity centres outdoors on the promotion days. And a preferential offer—the "md MusicFlat" for new customers as well as existing ones who might be willing and able to extend—accompanied the promotion exclusively in mobilcom-debitel shops: the package price was reduced in the first three months of the two-year contractual term by around 45 per cent to 4.99 euros per month.

Another highlight in the financial year ended was, once again, the bus tour around Germany—which has been a permanent feature of mobilcom-debitel's marketing mix since 2010. The occasion last year was the World Cup in Brazil, for which the already well-known mobilcom-debitel trucks embarked on their journey again: they visited a total of 41 towns and cities between 26 May and the final on 13 July. At the same time, a promotional team from mobilcom-debitel went on tour during the four World Cup weeks leading up to the final—through German pedestrian zones, ensuring additional footfall in the surrounding shops and specialist dealers with a total of 160 promotions. Passers-by had the opportunity to try their luck as a virtual striker or goalkeeper, in return receiving vouchers that they could swap for a prize in the shops.

Additionally, at the beginning of May, mobilcom-debitel's "World Cup Wager" was launched. The prizes on offer had an aggregate value of more than 180,000 euros and included three BMW Mini Coopers and ten digital lifestyle packages: anyone who bought anything via one of the sales channels—in the shop and from specialist dealers, online or through telesales—between 1 May and 13 July, or concluded or prolonged a contract, received a participation code to place an online tip for the coming world champions. The widespread promotion was placed on television and radio, online channels and social media, and at the point of sale in the mobilcom-debitel shops: for this purpose, all of the shops were designed and fitted out in the appropriate World Cup style.

Then, at the end of the year, mobilcom-debitel turned in another huge advertising performance at the Hamburg location. During Advent—from 28 November to 3 January 2015— Hamburg's local train station at Jungfernstieg was transformed into a fascinating Christmas world. As part of a "Station Domination", the company covered Hamburg's most important public transport hub exclusively with advertising. This included, in particular, 200-metre-long advertising spaces behind the two tracks, plus 19 pillar casings, 63 standard advertising media and a number of infoscreens—all in all, a Ströer advertising space measuring over 2,300 square metres.

With around 92,000 passers-by per day on the platform, the campaign generated not only a great deal of attention, but also a lot of interest and enjoyment among those who participated: interactive product ads, selfie posters and a gift generator, for example, brought mobilcom-debitel's digital lifestyle products directly to life; and the products could be ordered directly by way of a QR code on the motifs. At the same time, the promotion at Jungfernstieg prolonged the company's Christmas campaign content-wise with the slogan "Willkommen unterm Weihnachtsbaum" (Welcome under the Christmas tree). Thanks to the linkage of different media channels, the real and digital worlds combined to create a unique brand experience above and beyond the actual installation.

TO OUR SHAREHOLDERS

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

LETTER TO SHAREHOLDERS

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

As far as freenet AG was concerned, the last financial year was characterised by proven commercial virtues: strategic continuity, a systematic approach to continuously improving product offerings, customer services and employee training and the careful integration of previous-year acquisitions and new collaborations into process operations. All with the objective of improving EBITDA and free cash flow.

This may appear rather unspectacular at first in view of a market and competitive environment that was shaped by sizeable changes and dynamic developments in 2014: the European Commission approved the acquisition of E-Plus by Telefónica—and formulated binding standards for dealings with network-independent service providers as a requirement for the new company.

freenet AG, also conducted intensive negotiations with Telefónica against the backdrop of the market restructuring that this involved; although we ultimately decided against entering into far-reaching obligations that included the fixed purchasing of network capacities. This was because the higher risks were not compensated for by any associated improvements for freenet.

Our competitive position has improved in any case with the completion of the restructuring in its present form: the guarantee as to the continued existence of our business model as a service provider dealing with all aspects of digital lifestyle, mobile communications and mobile internet was extended until 2025 with Telefónica Deutschland; in addition, the company had to undertake to provide us with the latest technology and as much network capacity as is necessary.

This establishes the basis for freenet to continue with its highly successful strategy in the coming decade, too: as Germany's largest network-independent telecommunications company, we can continue to offer our customers in the traditional mobile communications segment the best possible selection of products accompanied by independent advice and maximum customer proximity thanks to our multichannel approach—with our own shops, specialist retailers, electronic goods stores, and online and social media channels.

At the same time, we have been serving the attractive growth market of digital lifestyle successfully for several years now; focusing on home automation, security and entertainment with a range of different options, packages and terms. These are generally provided in accordance with the 24-month model and with the assurance of a service provider that markets tried-and-tested products and services without significant development costs and risks.

This clear, systematic strategy geared towards sustainable profitability again paid dividends in the last financial year, as the figures for 2014 demonstrate:

- Gross profit increased compared to the comparative year 2013 and amounted to 778.1 million euros, equivalent to a gross profit margin of 25.6 per cent.
- EBITDA also improved slightly in comparison to the previous year, totalling 365.6 million euros, while
- the free cash flow showed a similarly positive trend and amounted to 266.6 million euros; this puts freenet AG firmly within the target range of our guidance strategy for the financial year 2014.
- In the important field of customer ownership, the positive trend of the previous two-and-a-half years was continued up to the balance sheet date at the end of December 2014: the number of our contract customers was back above the 6 million threshold again, reaching 6.01 million, while the aggregate number of customers in the postpaid and no-frills segments increased by some 160,000 to 8.92 million.
- Postpaid ARPU largely stabilised during the course of 2014 and amounted to 21.4 euros; in view of the generally rather downward trend in the market as a whole, this represents a welcome success for our profitability-oriented tariff strategy, which has focused on high-value contract customers for several years now.
- With regard to revenues, freenet has increasingly and quite deliberately been eschewing low-margin hardware business; as a result, sales in 2014 were slightly lower than in the previous year—down 4.8 per cent to 3.04 billion euros. At the same time, however, we increased sales in the fourth quarter of 2014 over the comparative quarter in 2013 by 1.8 per cent to 833.7 million euros; this results not least from the effects of our successfully addressing the digital lifestyle growth market.

The good results achieved in 2014 fit seamlessly into the highly positive development of freenet AG over the past five years—and in the process are starting to look suspiciously like permanent sure-fire successes. Anyone observing the international telecommunications market and its product and service providers closely, however, knows that their fortunes can undergo a rapid turnaround: even former market leaders are now withdrawing from the market, while other, in some cases new companies are advancing to become dominant players in the competitive environment. The digital world with all of its innovative features, moreover, is becoming more and more complex and fast-changing, but also increasingly difficult as far as the requirements for successful commercial activities are concerned.

In this extremely demanding competitive environment, only suppliers that work permanently on continuous improvement processes in all areas of their commercial activity—virtually the equivalent of permanently adjusting millions of small screws—can maintain long-term market success. freenet AG again practised this with great success in the last financial year: in everyday interaction with customers, and therefore also in the interests of our shareholders, our employees and business associates, and not least our business locations, for which we feel a sense of social responsibility. These efforts concern our products and services with regard to all aspects of digital lifestyle, mobile communications and mobile internet, our interfaces to customers, and collaborations with new and existing partners.

To illustrate the diversity of such measures, here are some selected examples:

- In the digital lifestyle field, we have already enhanced established products such as mobile SmartHome heating control, the mobilcom-debitel cloud and GameFlat with new features during the past few months. These include the money-back guarantee in the event of insufficiently sinking heating costs, the Smart Organizer in the cloud and the GamePack Plus with a wide range of additional "Freemium Games". In addition, the new smartphone option mload Plus offers MP3 titles, Android premium games, ringtones or logos for downloading every month in the entertainment segment.
  Furthermore, a new app-controlled security package for the home was subjected to a market launch test, equipped with, among other things, a Wi-Fi-enabled camera, motion and opening detectors, an alarm siren and valuable services in the event of a burglary.
  Further innovative product launches concerned, for example, the smart sleep system "Withings Aura" for analysing sleep and the LED lighting system "Avea", which is controllable by iPhone and creates extraordinary lighting effects in rooms using up to ten lamps.
  To provide potential users with optimum information about such products, services and general topics surrounding various aspects of digital lifestyle, the new online service portal *www.my-digital-lifestyle.de* was launched midyear. It covers the areas of smart home, wearables, health and entertainment with numerous supplier and advice topics, while also publishing articles containing background information from independent authors and experts.
- The Allnet tariffs from mobilcom-debitel which were launched in 2013 were enhanced in autumn with the new smartphone tariff family Smart—in four variants which are aimed primarily at frequent surfers on the mobile internet. In addition, our discount brands in particular launched dozens of special short-term campaigns in the course of the year on special online platforms which enabled regular charges to be reduced significantly. At the same time, needless to say, customers also had the opportunity to acquire from us sought-after smartphones and tablets from all established manufacturers and/or make their own combinations on favourable terms.
- At the end of the year, we launched the "Click & Collect" service in our shops, which combines online purchasing with on-site advice. And in the shops operated by the subsidiary GRAVIS, the innovative payment method "Yapital"—the Otto Group's new multichannel means of payment—has been available since mid-2014.
  Apart from that, customers can now also
  - easily trade in old handsets, smartphones, tablets or notebooks online,
  - use Deutsche Telekom's "landline number option",
  - receive their desired mobile number in three options,
  - test hardware extensively in our shops on special tables and
  - "grasp" the fascination of digital lifestyle on a variety of displays more palpably than before.
- In connection with this, we have gradually started to revamp mobilcom-debitel shops extensively during the past few months in order to improve customer buying experiences and advice. This has led to a considerable increase in customer footfall and the amount of time spent in the shops in question.

At the same time, all of the shops managed directly—i. e. our branches and franchisees—were integrated into mobilcom-debitel's Web shop in December. Now customers can see whether a particular smartphone or other product is in stock, order it online and then pick it up at the shop.

- New collaborations and acquisitions effectively complement all of these services and supplement our product and service range in the area of digital lifestyle. In the second quarter, for example, GRAVIS signed a contract for the acquisition of up to twelve retail outlets belonging to the Apple premium reseller reStore, thereby expanding its presence in coveted prime locations in German cities to the current level of 45 stores.
  In August, freenet agreed on a collaboration with the publishing house Axel Springer Verlag on the basis of which our customers can book the content from Bild+, including the Bundesliga football reports, as an option under their tariffs.
  This was followed in September by a collaboration with car2go, the world's largest app-based car-sharing service. In more than 100 shops operated by mobilcom-debitel and GRAVIS in major German cities, users can now carry out the mandatory driving licence validation, install the required app on their smartphone and receive advice.
  In November, GRAVIS became a partner of shopkick, the pioneer and US market leader in the field of mobile shopping, which rewards even visits to cooperating shops with non-cash points and also gives its app users appropriate shopping tips;
  mobilcom-debitel simultaneously entered into a sales partnership with maxdome, the provider of over 50,000 feature films, series, comedies and documentaries for internet-enabled TVs, PCs, laptops and smartphones.
  Finally, December also brought collaborations with the two payment service providers Paymorrow and Barzahlen.de—designed for customers who order online but would rather pay cash for their purchases in physical retail outlets.

We again accompanied all of these steps, both large and small, along the path of continuous improvement with appropriate marketing campaigns last year. Of these activities, two Advent campaigns by mobilcom-debitel particularly stood out: the interactive digital lifestyle living room in the shop window near Nuremberg's “Christkindlesmarkt” and the “Station Domination” at Jungfernstieg, the most heavily frequented station in Hamburg's local rail network. Here, our main brand enjoyed exclusive occupation of the entire 2,323 square metres of advertising space from the end of November until the beginning of January 2015—the biggest out-of-home presence that has ever been designed and realised in Germany.

We are now approaching the coming months and quarters with the same rigour and intensity that characterised the positive financial year 2014: we are confident and determined to carry on dealing with the challenges and uncertainties of the telecommunications market as successfully as before—with a proven strategy that addresses the digital lifestyle growth market while retaining its orientation towards sustainable profitability. All the more so because the company also has the necessary continuity in its senior management: as early as February 2014, the Supervisory Board of freenet AG extended the three Executive Board members' contracts ahead of schedule until the end of 2018 and 2019 respectively.

We regard this as an exceptional incentive to continue along our company's successful path with the same enduring commitment and all of our experience and expertise. Above all, though, we regard the trust that has been placed in us as acknowledgement of the work done by all of our employees throughout the Group: they contribute with all their commitment every day to the lasting success of freenet AG, and for that we would like to take this opportunity to thank them sincerely once again.

Christoph Vilanek | Joachim Preisig | Stephan Esch

KEY INFORMATION FROM THE MANAGEMENT'S PERSPECTIVE

We are undergoing a paradigm shift

The huge transformation that digital lifestyle is bringing about in commerce, society and for the individual is now an exhaustive topic everywhere. A canny journalist recently described it simply and vividly in his newspaper as an array of paradigm shifts in the sources of light with which humankind lit their homes throughout history: camp fires—torches—candles—light bulbs—LED lamps.

As a matter of fact, freenet AG, too, is currently undergoing a huge paradigm shift—from a traditional mobile communications supplier to an innovative digital lifestyle provider: not solely due to the fact that in Avea, we are currently offering a fascinating app-controlled LED lighting system that conjures up diverse lighting effects in the home—even a camp fire if desired. And within a second, with negligible power consumption and an almost unlimited lifespan for the lamp.

In fact, this paradigm shift is penetrating and shaping our entire company: in the last financial year, for example, the number of our products doubled to almost 5,000, with digital lifestyle accessories in the entertainment segment alone increasing their volume of products sold by two-and-a-half times to over 2 million.

This is having an enormous impact on our customer life cycle management, our shops and trading partners, our multichannel sales activities and customer service, and our logistics and IT—in other words, on virtually every department in our company. And, pleasingly, on our revenues and profitability as well: for our digital lifestyle products are increasingly developing into the second strong revenue pillar for our company—in a period of falling ARPUs in mobile communications throughout the sector.

Coping with this complex and highly demanding transformation without an excess of fuss for customers and as efficiently as possible is a great challenge for all of us at freenet AG. But this radical change and departure is also a wonderful opportunity to help shape the future of the digital age in a small way!

Christoph Vilanek,
Chairman of the Executive Board,
freenet AG

Financially, we have set an important course

2014 was an uneventful year in financial terms—this false impression could be gained only by those who were oriented merely towards the fact that our guidance was again fulfilled reliably: it is true that in previous years, there was more "publicity" at freenet AG. For example, the acquisitions of GRAVIS, MOTION TM and the Jesta Digital Group (now freenet digital). Or the Group's diversified refinancing.

Behind the scenes, however, 2014 was another highly work-intensive year—in which important courses were set. For one thing, we, as a capital-market-oriented company, must take account of numerous standard-setters that generate a veritable regulatory flood, and in some cases divergent calculation methods and disclosure obligations—for example in the reports on Executive Board remuneration with IAS/IFRS, HGB/DRS and the changes for 2014 in the German Corporate Governance Code. The latter now encompasses a variety of recommendations from which freenet AG diverges in only ten cases.

Additionally, for two years now, we have been preparing ourselves for the revenue recognition standards in accordance with IFRS 15 that will be valid from 2017 onwards and we are also elaborating the new balance-sheet accounting concepts—which means that we are very well positioned in that area. At the same time, enforcement institutions such as the German Financial Reporting Enforcement Panel (FREP) are establishing themselves and supervising our financial reporting more and more extensively. We are reacting to this with the steady further development of our internal control system IKS.

Since mid 2012, moreover, we have been making intensive preparations throughout the Group for the SEPA changeover in 2014 in the areas of treasury, accounting, customer support, receivables management, human resources, sales, marketing, legal and IT. freenet invested more than 4,000 person-days in the punctual implementation of a series of steps with a core team of around 30 employees.

In the highly sensitive area of compliance, we ultimately succeeded in continuously increasing transparency in all of the relevant business processes. The German Federal Network Agency (FNA) examined our elaborate security concepts for all of our Group companies in 2014—and approved them without any objections.

Joachim Preisig,
Chief Financial Officer,
freenet AG

We are working on the topic of "smart data"

Everyone is talking about big data—and so are we at freenet. As Germany's biggest network-independent telecommunications company, we work very carefully every day with the data from our almost 13 million customers, whom we bill with precision and to whom we sell an assortment of around 5,000 different products and services.

For two years now, moreover, we have been offering the mobilcom-debitel cloud as a variably dimensioned online memory for data, documents, date and appointment management, photos and music—which we upgraded again in 2014; now, private and corporate customers alike can have secure access to their data—particularly since we are one of the few providers that stores such customer data solely in Germany.

The major theme in the next few years, however, will be smart data! If we want to make customers' lives more comfortable and efficient within the framework of digital lifestyle, we must virtually anticipate their requirements and desires. Here we can learn from the retail sector, which uses, for example, predictive analytics to estimate in advance the exact need for products and employees every day, taking account of the weather, days of the week, holidays, opening hours, goods deliveries and/or discount campaigns.

Smart data, however, is helpful only if it is available everywhere. The last invoice, a service enquiry from a customer, new offers or information about price reductions—we at freenet work very assiduously to provide our customers with all information, irrespective of their location and the terminal they are using. And just as our service will be present across all channels, so too will our offerings. Order by mobile and collect at your nearest shop: over the next few months, we will be investing heavily in omni-channel retailing in order to improve the interlinking of our various sales channels. This will enable us to offer the desired information anytime and anywhere and position ourselves as a reliable partner—for both existing and new customers alike.

Stephan Esch,
Chief Technical Officer,
freenet AG

We individualise our customers

21st century human beings enjoy the benefits of a digital lifestyle—making their lives more mobile, more comfortable and more individual. We want to help them as best we can, but only while respecting their private sphere and protecting it as much as possible.

Traditional customer management ultimately homogenised what was actually a highly heterogeneous customer base, narrowing it down to just a few types. But people are individuals—with totally different needs, preferences and behaviour patterns. Today, with the help of modern business intelligence methods, we can create a totally individual profile of every customer on the basis of their previous buying decisions, their options and their preferred apps in relation to digital lifestyle: for example, we know how satisfied the customer is with us, when they are likely to cancel their mobile communications contract with us, what product might interest them next, whether they will contact us for that purpose online or via the hotline—or rather use their local retailer. And we also know the combination for when exactly they will need what products and services and, accordingly, would like to buy or book them.

On this basis we can, for example, offer them the next best offer at short notice, if they want one, with a suitably optimised offer being suggested from over 1,000 tariffs or dozens of the latest digital lifestyle products. These possibilities, which are based on big data, may not accord with everyone's ideological worldview, but the technological clock simply cannot be turned back. And those who consciously use the opportunities presented by digital lifestyle can look forward to a genuine enrichment of their lives!

Antonius Fromme,
Managing Director at klarmobil.de
and responsible for Customer Management
and Online Sales at freenet AG

Retail is changing

Digital lifestyle is also changing the daily routines of customers, for example their shopping behaviour. In the next five years, for example, a triumphal sweep of online shopping will lead to a reduction of around 20 per cent in retail space throughout Germany.

This will have significant consequences for a company with substantial selling space such as freenet—with 570 shops of its own, its presence in specialised electronics goods stores and efficient online sales channels: for one thing, we must optimise and differentiate the shop locations—perhaps by making local suppliers of additional services unrelated to the sector available, but also trendy digital lifestyle providers in highly-frequented top locations as in the GRAVIS stores.

In addition, we must make each and every shop better—while learning from the supermarket principle. For example by expanding our assortment even further, especially by adding digital lifestyle products, and arranging it more skillfully, guiding customers through the shop in a targeted way while giving stimuli for spontaneous purchases and finally also providing them with targeted advice.

In doing so, we follow innovative paths: we carry out tests with focus groups and other market research activities, focus on a quick, highly efficient car repair service—with the objective of, for example, replacing defective devices as swiftly as possible—gradually equip shops with videoconferencing terminals for advising customers, and recruit and train our advisers in accordance with particular profiles.

This is because digital lifestyle products generally require more explanatory effort than a conventional mobile communications contract. In this way, we intend to thoroughly revamp around 200 mobilcom-debitel shops by the end of 2015.

Another crucial factor for our lasting success, however, will be how optimally we can interlink our online and offline activities/channels and further expand our multichannel approach. And with a view to a crossover, so that customers can choose as flexibly as possible: for example by ordering a product online and then picking it up in the shop while obtaining expert advice as well.

Hubert Kluske,
Managing Director,
mobilcom-debitel Shop GmbH

The logistical challenge is growing

freenet's development as a digital lifestyle provider is also reflected impressively in the logistics figures. Of the current total of some 5,000 products in our entire assortment, the diverse smartphones and various SIM cards from mobilcom-debitel and its discounter subsidiaries—i. e. our traditional business—now account for only a minority of around 20 per cent. By way of contrast, "alternative merchandise"—such as headphones, loudspeakers, mobile phone cases, device holders—has risen to almost 3,700 articles... and counting.

This presents the logistics department with a number of challenges. For example, more and more customers are ordering their goods online and then expect a swift delivery to their home or to the shop around the corner on a specified day. In 2014, an average of 6,500 consignments per day were already being sent to end customers—in the run-up to Christmas, their number even reached 9,000—and another 1,000 to retail partners; the shipping volume to end customers thereby increased by 10 per cent compared with 2013. All in all, we sent around two million consignments, more than 10 per cent more than in the previous year. At the same time, we had around 280,000 returns of new smartphones, SIM cards and accessories in 2014—this too is a concomitant feature of the modern digital lifestyle. We receive and examine these goods and then bring them back into circulation as quickly as possible.

We must therefore have ordered articles available in exactly the right quantities and without long storage periods, get them ready for shipping, configure the desired terminals—except in the case of Apple—with apps, work with great flexibility, quickly and faultlessly, and adjust our process chains to the prevailing conditions and carry on with their continuous further improvement.

We succeed in doing so, for example, with our two logistics locations, which are highly specialised in end customers and retailers and partly operate on a 24-hour basis. Today we process 60 per cent of orders within eight hours—and for orders received after 4 p.m., we process more than 80 per cent within 32 hours.

Michael Sujan,
Managing Director of
mobilcom-debitel Logistik GmbH and
Head of Supply Chain Management
in the freenet Group

We are intensifying our IR activities

The freenet AG share rose by 8.8 per cent in 2014. This development has occurred in a phase in which the company, with its business model, is undergoing a fundamental further development from a classical mobile communications supplier to a digital lifestyle provider.

In 2014, against this backdrop, we again intensified our continuous dialogue with, in particular, institutional investors and analysts compared with the previous year: we participated in investors' conferences and additionally attended road shows. The presentations were held at the most important European stock market locations and in New York and Boston. At these functions we discussed the respective current market and business trends and the freenet Group's future strategic orientation.

In the process we intensified our activities, especially in London, Frankfurt and Zurich. Apart from that, we visited the financial centres Berlin, Dublin and Milan for the first time. All in all, we held almost 340 discussions with investors—around 80 more than in the previous year.

As a result, we currently have an international, geographically highly balanced shareholder structure. The largest holdings of freenet shares as at the end of 2014 were held by financial investors from the USA and Canada with 23 per cent, followed by German institutional investors with 20 per cent, then investors from the United Kingdom and Ireland with 15 per cent, followed by the rest of Europe with 13 per cent. Incidentally, institutional investors also make up by far the largest shareholder group—with around 77 per cent of the shares as at the end of December 2014; in the previous year, the figure was 79 per cent.

In the course of this year, we are going to consolidate our investor relations activities further and, in connection with this, also establish contact with new investors.

Ingo Arnold,
Managing Director of
mobilcom-debitel GmbH and i.a. Head of
Investor Relations at freenet AG

SUPERVISORY BOARD REPORT

Dear Ladies and Gentlemen,

Below, the Supervisory Board reports on its activities in the financial year 2014.

Supervision and advice in continuous dialogue with the Executive Board

In the financial year 2014, as in the previous years, the Supervisory Board diligently performed the monitoring and advisory duties incumbent upon it under the law and the articles of association. As well as numerous issues that were discussed and decided upon at the Supervisory Board's meetings, the plenum's deliberations in the first half of 2014 were focused primarily on

- prolongation of the Executive Board appointments,
- the auditing of and making of resolutions for the annual financial statements as at 31 December 2013 and
- the preparations for the Annual General Meeting on 13 May 2014, in particular
- the proposal for the choice of a new auditor.

In the second half of the year, the Supervisory Board then concerned itself primarily with the further optimisation of the company's financing structure.

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

In particular, the Supervisory Board held detailed discussions with the Executive Board about divergences in the business performance compared to the plans and targets, and examined these with the help of the documents that it had received. In addition, the Executive Board continued with the company's strategic alignment—with its concentration on the mobile communications business and simultaneous restructuring as a digital lifestyle provider—in close consultation with the Supervisory Board. All of the commercial transactions with significance for the company were discussed in detail on the basis of the Executive Board's reports. Likewise on the basis of the Executive Board's reports, the Supervisory Board made resolutions after examining the subject matter in question, as and when required. Outside of the

Dr. Hartmut Schenk, Chairman of the Supervisory Board meetings, too, the Executive Board kept the Supervisory Board members informed about current business developments.

Furthermore, the chairman of the Supervisory Board held regular discussions with the Executive Board on the company's prospects and future strategic alignment and informed itself about current topics and events. The propriety, expediency and efficiency of the Executive Board's management were unobjectionable.

In the financial year 2014, the Supervisory Board held four meetings requiring personal attendance and one meeting conducted by telephone, and additionally made resolutions in written form. The attendance at the Supervisory Board meetings was again pleasingly high in the year under review: in three meetings, eleven of the twelve Supervisory Board members attended, and the other two meetings were attended by the entire Supervisory Board. Again, no member of the Supervisory Board participated in fewer than half of the meetings. Apart from a telephone conference held by the personnel committee, the committee meetings were attended by their full complement of members in 2014.

In connection with a corporate acquisition that was not carried out, a member of the Supervisory Board declared a conflict of interest to the chairman and waived his participation in plenum discussions and in the Supervisory Board's making of resolutions in relation to the subject matter in question. The member concerned also relinquished the receipt of all information and documents in relation to this matter. In the opinion of the Supervisory Board, through this course of action by the Supervisory Board member in question, the precedence of the company's interests was ensured in the handling of this conflict of interest, with the result that no further-reaching actions were deemed to be necessary.

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

Supervisory Board meetings

Regular topics for discussion in the plenum were
- current business developments,
- the market and competitive situation and
- the financial position and financing situation of the company.

In a meeting conducted by telephone on 21 February 2014, the Supervisory Board members discussed a premature prolongation of the Executive Board employment contracts and prolonged the appointment periods and employment contracts for Christoph Vilanek until 31 December 2018 and for Joachim Preisig and Stephan Esch until 31 December 2019. In this way, the Supervisory Board ensured efforts to achieve continuity in respect of the Executive Board's successful work.

The Supervisory Board meeting on 20 March 2014 gave its members the opportunity to concern themselves with an acquisition project that was ultimately not carried out. Previously, the Executive Board had presented the Supervisory Board with a variety of potential acquisition projects that it had identified and regarded as capable of delivering inorganic growth in the company's core business and in the area of digital lifestyle. Irrespective of this isolated case, the Supervisory Board basically supports the Executive Board's objective of fostering inorganic growth opportunities through acquisitions.

In the meeting on 25 March 2014, the main subject matter of the audit and discussion was initially the annual and consolidated financial statements as of 31 December 2013. The findings of the annual financial statements audit was discussed together with representatives of the auditor, Wirtschaftsprüfungsgesellschaft RBS RoeverBroennerSusat GmbH & Co. KG. After completing its own audit, the Supervisory Board raised no objections to the auditors' audit findings and followed the audit committee's recommendation by approving the annual and consolidated financial statements. The annual financial statements were thereby adopted. Another crucial point brought up at this meeting was the agenda for the 2014 Annual General Meeting and the corresponding proposed resolutions from the Supervisory Board to the Annual General Meeting. Acting on a recommendation by the audit committee, which had conducted an appropriate tendering procedure, the Supervisory Board proposed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft to the Annual General Meeting for election as the auditor for the annual and consolidated financial statements as of 31 December 2014.

On 19 September 2014, the Executive Board gave a detailed report on the development of business and on projects for increasing the efficiency of the company's internal organisation. Another topic comprised deliberations on optimising the company's financing structure by issuing a promissory note bond up to a maximum of 100 million euros.

At its meeting on 5 December, the Supervisory Board discussed, inter alia, the following subjects: it approved the promissory note bond and the budget for 2015, and made a resolution on the submission of the annual declaration of confirmity with the German Corporate Governance Code. In connection with this, the Supervisory Board, following preparation work by its personnel committee, dealt intensively with the application of the model tables recommended by the Code for the depiction of Executive Board remuneration. The Executive Board and the Supervisory Board decided not to use those tables and to declare a divergence in the current declaration of conformity.

After the financial year 2014 had come to an end, a plenum meeting was held on 25 March 2015 mainly for the purpose of discussing the annual and consolidated financial statements as of 31 December 2014. The details concerning this matter are the subject of the separate section "Audit of the annual and consolidated financial statements for the financial year 2014" in this report. Further topic was the agenda for the 2015 Annual General Meeting, including the resolutions proposed to the Annual General Meeting by the Supervisory Board.

The work of the Supervisory Board's committees

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

Steering committee

In two meetings requiring personal attendance in 2014, the steering committee concerned itself with current acquisition projects on the one hand, and possibilities for optimising the company's financing structure on the other.

Personnel committee

In 2014, the members of the personnel committee got together for two meetings requiring personal attendance and one meeting conducted by telephone. The meeting conducted by telephone was part of the preparations for the prolongation of the Executive Board's employment contracts. At its second meeting in 2014, the committee established whether and to what extent the parameters for the variable remuneration of the Executive Board members for 2013 were reached, set new parameters for the target agreements for the financial year 2014 and proposed these to the Supervisory Board for a resolution. At its third meeting, finally, the committee concerned itself with the effects of using the model tables in accordance with the German Corporate Governance Code.

Audit committee

In four meetings requiring personal attendance, the committee concerned itself regularly with the current audit focal points in the balance sheet accounting and discussed them with the auditors. The committee's members dealt intensively with the annual report, the half-year report and the interim reports. One highly significant topic in the committee in the first six months of 2014 was the dividend recommendation, which the committee members discussed in depth with the CFO. In the second half of 2014, focal points were receivables management, risk management and dealing with fraud. The responsible managers reported regularly to the committee on these subjects. The committee members received further reports from the managers in Internal Revision and Compliance.

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 auditor's statement of independence in accordance with clause 7.2.1 of the German Corporate Governance Code,
- the committee monitored the auditor's independence and the implementation of the audit assignment,
- the committee determined the focal points of the financial statements audit and
- the committee prepared the Supervisory Board's resolutions on the annual and consolidated financial statements as well as the proposal on the appropriation of profit and the agreements with the auditor.

Mediation committee

The mediation committee did not have to be convened in 2014.

Nomination committee

The nomination committee, too, remained inactive in 2014.

Annual and consolidated financial statements for the financial year 2014

The annual financial statements prepared by the Executive Board in accordance with the rules of the German Commercial Code (HGB) for the financial year from 1 January 2014 to 31 December 2014 and the freenet AG management report were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt. The audit assignment had been awarded by the chairman of the audit committee in accordance with the resolution passed by the Annual General Meeting on 13 May 2014. The auditor awarded an unqualified audit opinion. The consolidated financial statements of freenet AG as of 31 December 2014 were prepared in accordance with section 315a HGB on the basis of the international accounting standards IFRS. The auditor granted these consolidated financial statements and the Group management report, too, an unqualified audit opinion.

The audit was reported on and discussed in the audit committee on 24 February 2015 and at the Supervisory Board meeting on 25 March 2015. The auditors participated in the discussion of the annual and consolidated financial statements in both committees. They reported on the most significant results 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 audit of the annual and consolidated financial statements, the management report and the Group management report, the Supervisory Board raised no objections and approved the result of the audit conducted by the auditor.

The Supervisory Board followed the audit committee's recommendation and approved the annual and consolidated financial statements at its meeting on 25 March 2015. The annual financial statements are thereby adopted. At its meeting on 25 March 2015, the Supervisory Board also examined the Executive Board's proposal for the appropriation of the net profit 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.

Changes on the Executive Board and the Supervisory Board

In the financial year 2014 there were no changes in the composition of the Executive Board and the Supervisory Board.

In the financial year 2015, Achim Weis stepped down from his Supervisory Board position effective from 31 January 2015. The Supervisory Board thanks Mr Weiss for his expert and constructive contributions and trusting cooperation.

In his place, Kiel District Court appointed Ms Sabine Christiansen to the Supervisory Board by resolution of 10 February 2015.

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

Büdelsdorf, 25 March 2015
For the Supervisory Board

Dr Hartmut Schenk
Chairman of the Supervisory Board

FREENET AG AND THE CAPITAL MARKETS

Capital market environment

In the first half of the financial year ended, the prevailing mood on the German stock market was mixed. Foreign investors positioned themselves in turn—against a backdrop of high anticipated dividend payouts—as buyers of German equities. Domestic investors, on the other hand, conducted themselves neutrally despite the emerging signs of general economic expansion in the first quarter, the reason being that the price level was generally felt to be relatively high by the market players. In the second quarter there was initially an upward trend without any substantial setbacks. This was sustained by, among other things, positive results from the business survey conducted by the Association of German Chambers of Industry and Commerce (DIHK), but failed to last until the mid-year point because of an increasing dearth of upward potential. After the temporary climb above the psychologically important 10,000 mark by the DAX, the leading German index, the mood among institutional and private investors deteriorated markedly.

The labour market and private consumption were extremely robust at the mid-year point. The renewed improvement in the business climate to which this led, however, was only short-lived because the positive trend in industrial production in the middle of the year was excessively dependent on one-off effects. The deterioration in trust indicators for the future economic situation, a declining orders position in industry and the sharp fall in exports contributed further to the slowdown in the real economy as the year progressed. Despite economic stimulus measures by the European Central Bank, investors increasingly assumed that there would be a recession in the eurozone. During the fourth quarter, the worsening of the economic outlook was intensified primarily by the spreading of existing geopolitical risks, the danger of a further restriction in goods traffic with Russia and increasing speculation-driven price fluctuations on the currency and commodities markets.

In December, after the barometer for economic expectations calculated by the Centre for European Economic Research (ZEW) and based on a survey of financial market experts had surprisingly climbed to its highest level since May, market players' trust in the German economic climate ended the year more buoyantly. This was attributed primarily to the favourable environment for the German economy in the form of a weak euro and a low oil price.

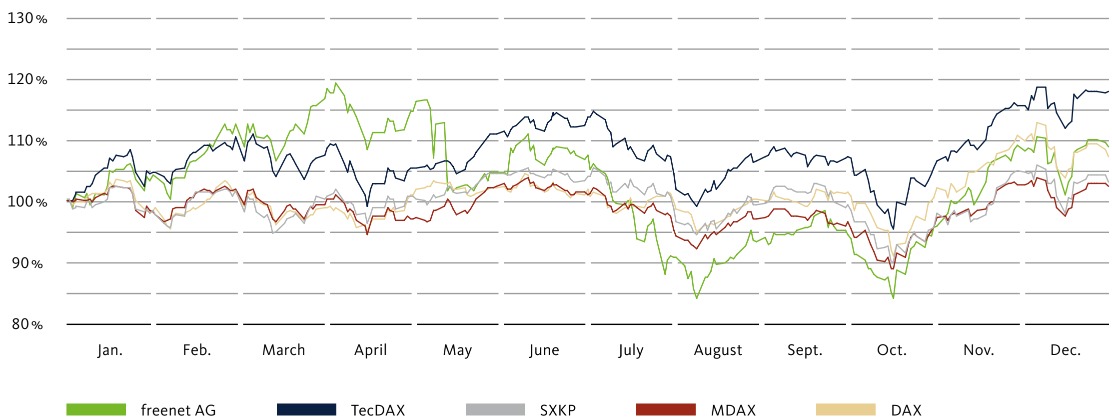
In addition to the existing structural economic risks in the eurozone, expectations regarding the political debates , plus the speculation-driven currency and commodity prices, are set to continue to influence further developments on the capital market.

The freenet share

The DAX showed a predominantly sideways trend in the reporting year and increased year-on-year by only 3 per cent. Given its slightly greater volatility, the freenet share's stock market performance, was largely in line with the above trend and increased by 9 per cent in the same period. All in all, freenet AG's market capitalisation in the financial year 2014 increased by around 212 million euros to some 3.0 billion euros.

While the technology shares bundled in the TecDAX (up by 18 per cent) ended the year with a distinctly positive overall trend, the average performance of the companies that comprise the SDAX (6 per cent) and the MDAX (2 per cent) was rather less dynamic. The SXKP, which bundles the performances of the European telecommunications companies, rose by 7 per cent in the course of the year.

Figure 1: **Performance of the freenet share in 2014**
(Indexed; 100 = Xetra closing price on 31 December 2013)



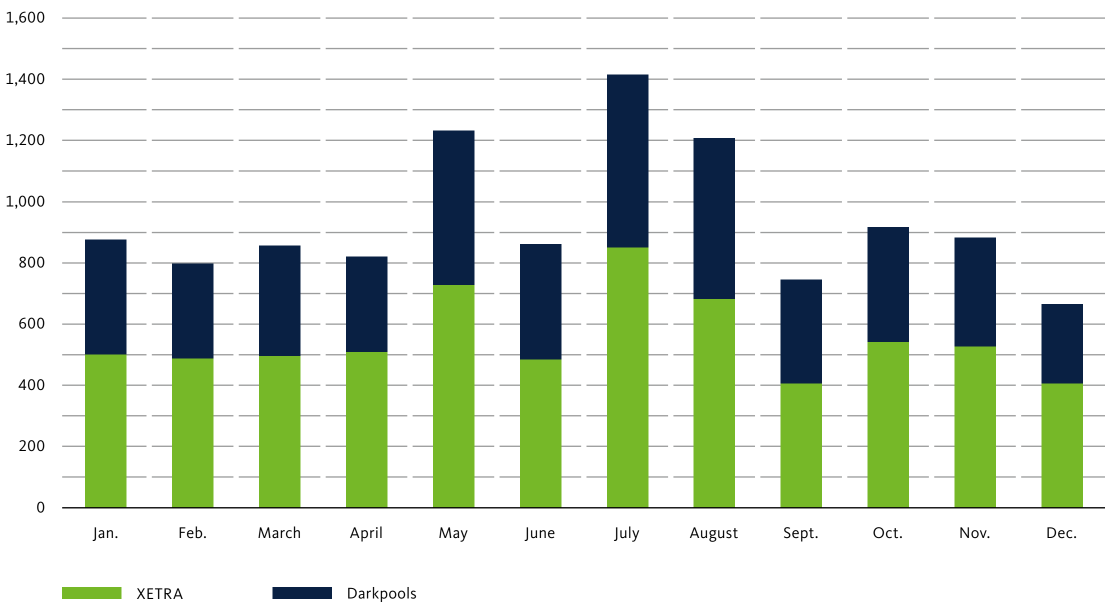
The freenet share initially posted a significant price gain of 17 per cent in the first quarter of 2014. The share started the new year with a Xetra daily closing price of EUR 21.78, and continued to trend dynamically throughout the quarter, ending at EUR 25.39. The average daily Xetra closing price in the first quarter was 23.26 euros and the average daily volume traded via the electronic trading platform Xetra was around 512 thousand units. The proportion of shares traded via alternative trading venues ("dark pools") was 40 per cent of the entire trading volume. This means that during the first three months of the financial year ended, the freenet share initially performed much better than its benchmark index, TecDAX, which rose by only around 7 per cent in the same period. In contrast, the SXKP index, in which European telecoms companies are compiled, posted a slight decrease of 1 per cent in the first quarter of 2014.

In comparison, the freenet share fell by 8 per cent in the second quarter of 2014. The share began the second quarter with a daily closing price of 25.70 euros in Xetra trading and—following the distribution of the dividend payout amounting to 1.45 euros for each share entitled to dividends—further loses during this period to close at 23.23 euros, while the average Xetra daily closing price was 23.81 euros. The average daily volume traded on Xetra amounted to some 605 thousand units. The proportion of the volume traded via dark pools declined to 39 per cent in the second quarter. As a result, the freenet share lagged behind the benchmark index TecDAX, which rose by around 5 per cent during the same period. The SXKP Index posted a modest increase of 2 per cent.

As the real economy slowed down to an increasing degree, the German stock market showed a negative overall trend in the third quarter of 2014. While the DAX closed 4 per cent lower for the quarter at 9,474 points on 30 September 2014, the TecDAX was down by almost 5 per cent during this period. The freenet share was unable to defy the general market trend. While the share had begun the third quarter with a daily closing price of 23.38 euros in Xetra trading, an uneven overall trend ultimately led to a 12 per cent fall in its performance to a closing price of 20.61 euros. The average daily Xetra closing price in the reporting period was 20.62 euros, while the average daily volume in Xetra trading was around 653 thousand units. The volume traded via dark pools again increased slightly and totalled 42 per cent. The freenet share thereby underperformed in comparison with its benchmark index TecDAX, which closed 5 per cent down. The SXKP Index closed at an unchanged level at the end of the third quarter of 2014.

The final quarter of the financial year ended was shaped primarily by a broad-based market recovery. While the subdued mood among German companies was still reflected in hesitant investment behaviour as late as the beginning of the fourth quarter, the publication of the surprisingly positive Institute for Economic Research (ifo) business climate index at the end of November contributed to an upturn on the financial markets. With an increase of 15 per cent in its price, the freenet share, too, was able to benefit from this general trend in the fourth quarter. From a closing price of 20.45 euros in Xetra trading at the beginning of the quarter, the share gained in momentum and finished the quarter at 23.70 euros. The average daily Xetra closing price during this period was 21.42 euros and the average daily volume traded via the electronic trading platform Xetra was around 478 thousand units. The proportion accounted for by dark pools declined slightly to 41 per cent. As a result of the above, the freenet share outperformed the benchmark index TecDAX, which rose by only around 10 per cent, in the final quarter of the year. The European telecommunications index SXKP posted a modest increase of 6 per cent in the final quarter.

Figure 2: **Average daily trading volume of the freenet share in 2014 in thousands**



Shareholder structure at freenet AG

freenet AG's share capital amounts to 128,061,016 euros and is divided into 128,061,016 no-par-value bearer shares. The proportional value of the share capital attributable to each share is 1.00 euro.

Voting rights disclosures

According to the voting rights disclosures received pursuant to Section 21 of the German Securities Trading Act (WpHG), freenet AG's shareholder structure changed as follows during the financial year 2014:

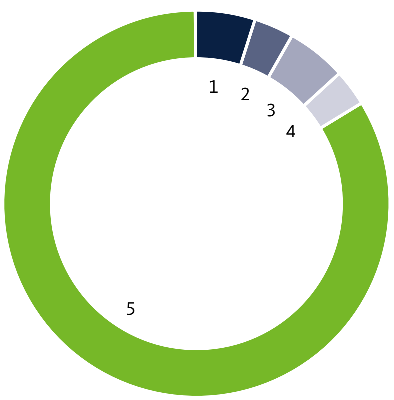
- On 24 January 2014, LSV ASSET MANAGEMENT (USA) informed us that it had exceeded the 3 per cent reporting threshold on 14 September 2012. This revealed that its share of the voting rights in freenet AG on that day amounted to 3.04 per cent (3,897,259 voting rights).
- On 4 February 2014, BlackRock (USA) informed us that it had exceeded the 3 per cent reporting threshold on 31 January 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 3.01 per cent (3,860,680 voting rights).
- On 6 February 2014, BlackRock (USA) informed us that it had exceeded the 5 per cent reporting threshold on 4 February 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 5.05 per cent (6,465,114 voting rights).
- On 19 March 2014, J. P. Morgan (USA) informed us that it had exceeded the 3 per cent reporting threshold on 13 March 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 3.08 per cent (3,943,983 voting rights).
- On 27 March 2014, LSV ASSET MANAGEMENT (USA) informed us that it had fallen below the 3 per cent reporting threshold on 25 March 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 2.99 per cent (3,830,300 voting rights).
- On 7 May 2014, BlackRock (USA) informed us that it had fallen below the 5 per cent reporting threshold on 5 May 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 4.99 per cent (6,399,211 voting rights).
- On 8 May 2014, BlackRock (USA) informed us that it had exceeded the 5 per cent reporting threshold on 6 May 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 5.002 per cent (6,406,133 voting rights).
- On 12 May 2014, Norges Bank (Norway) informed us that it had fallen below the 3 per cent reporting threshold on 9 May 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 1.74 per cent (2,230,926 voting rights).
- On 13 May 2014, Norges Bank (Norway) informed us that it had exceeded the 3 per cent reporting threshold on 12 May 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 3.30 per cent (4,230,926 voting rights).
- On 6 June 2014, BlackRock (USA) informed us that it had fallen below the 5 per cent reporting threshold on 4 June 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 4.96 per cent (6,346,438 voting rights).
- On 17 June 2014, BlackRock (USA) informed us that it had fallen below the 3 per cent reporting threshold on 13 June 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 2.92 per cent (3,739,948 voting rights).
- On 4 July 2014, Allianz Global Investors (Germany) informed us that it had exceeded the 3 per cent reporting threshold on 1 July 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 3.24 per cent (4,154,149 voting rights).
- On 11 July 2014, J. P. Morgan (USA) informed us that it had fallen below the 3 per cent reporting threshold on 8 July 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 2.98 per cent (3,815,146 voting rights).
- On 8 August 2014, Deutsche Asset & Wealth Management Investment (Germany) informed us that it had exceeded the 3 per cent reporting threshold on 5 August 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 3.41 per cent (4,369,869 voting rights).
- On 12 September 2014, Norges Bank (Norway) informed us that it had fallen below the 3 per cent reporting threshold on 11 September 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 2.82 per cent (3,606,994 voting rights).

- On 17 September 2014, Deutsche Asset & Wealth Management Investment (Germany) informed us that it had exceeded the 5 per cent reporting threshold on 15 September 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 5.13 per cent (6,572,541 voting rights).
- On 30 September 2014, BlackRock (USA) notified us of its portfolio of voting rights as at 25 September 2014 as a consequence of the disclosure obligations under the German Securities Trading Act (WpHG) that were newly interpreted in close coordination with the German Federal Financial Supervisory Authority (BaFin). This revealed that its share of the voting rights in freenet AG on that day amounted to 3.34 per cent (4,280,677 voting rights).
- On 13 October 2014, Flossbach von Storch (Germany) informed us that it had exceeded the 3 per cent reporting threshold on 9 October 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 3.04 per cent (3,889,601 voting rights).
- On 17 October 2014, Flossbach von Storch SICAV (Luxembourg) informed us that it had exceeded the 3 per cent reporting threshold on 15 October 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 3.15 per cent (4,034,401 voting rights).
- On 10 December 2014, Allianz Global Investors (Germany) informed us that it had exceeded the 5 per cent reporting threshold on 8 December 2014. This revealed that its share of the voting rights in freenet AG on that day amounted to 5.07 per cent (6,496,079 voting rights).

Current shareholder structure

The shareholder structure at the end of 2014 was therefore as follows:

Figure 3: **Shareholder structure of freenet AG on 31 December 2014**



1	**5.07 %**	Allianz Global Investors GmbH*
2	**3.34 %**	BlackRock, Inc*
3	**5.13 %**	Deutsche Asset & Wealth Investment GmbH*
4	**3.04 %**	Flossbach von Storch AG*
5	**83.42 %**	Other shareholders**

* *Including attributions according to German Securities Trading Act*
** *The free float according to Deutsche Börse AG amounts to 89.80%*

The shareholder structure at freenet AG has not changed significantly since Drillisch AG sold all of its strategic holdings in the company in 2013. With holdings of around 77 per cent (previous year: 79 per cent), institutional investors remain the largest group of investors in freenet AG. As at the balance sheet date, the institutional investors' shareholdings are purely financial investments. While, for the first time, fewer than half of all the financial institutions with investments in the company were pursuing a value-oriented investment approach, the proportion of growth-oriented financial investors increased to a quarter—also for the first time. The remaining financial investors were index- and/or returns-oriented or pursued specialised investment strategies.

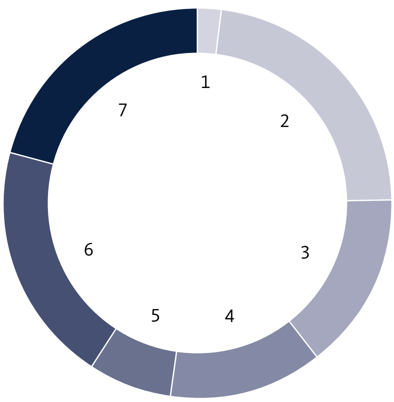
Geographical distribution

With 23 per cent of the share capital (previous year: 28 per cent), the North American continent still accounts for the highest proportion of financial investors. The proportion of investors from the United Kingdom remained unchanged at 15 per cent.

The share capital held by investors from the rest of Europe, on the other hand, increased slightly to 13 per cent (previous year: 12 per cent), while the proportion of financial investors from other countries decreased slightly from 9 per cent to 7 per cent.

The 41 per cent (previous year: 33 per cent) held by German investors accounts for almost all of the remaining share capital. The smaller proportion, 20 per cent, is held by German institutional financial investors. The investments held by German private investors again increased significantly and now account for 21 per cent of the company's share capital (previous year: 18 per cent). Finally, 2 per cent of the shares continued to be held by private investors from the rest of Europe (previous year: 2 per cent).

Figure 4: **Geographical distribution of the freenet AG shareholder structure on 31 December 2014**



1	**2 %**	Private investors rest of Europe
2	**23 %**	Financial investors USA and Canada
3	**15 %**	Financial investors UK and Ireland
4	**13 %**	Financial investors rest of Europe
5	**7 %**	Financial investors rest of the world
6	**20 %**	German institutional investors
7	**21 %**	German private investors

Source: Private investor shares according to the share register; institutional and financial investors according to shareholder identification

Earnings per share

The undiluted/diluted earnings per share amounted to 1.93 euros in the reporting year, compared with 1.87 euros in 2013.

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

Table 1: **Earnings per share**

	2014	2013
Undiluted earnings per share in EUR	**1.93**	**1.87**
Diluted earnings per share	**1.93**	**1.87**
Earnings per share from continued operations in EUR (undiluted)	1.93	1.87
Earnings per share from continued operations in EUR (diluted)	1.93	1.87
Earnings per share from discontinued operations in EUR (undiluted)	0.00	0.00
Earnings per share from discontinued operations in EUR (diluted)	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)	128,011	128,011
Weighted average of shares outstanding in thousand (diluted)	128,011	128,011

Dividend

On 13 May 2014, freenet AG's Annual General Meeting decided to pay a dividend of 1.45 euros per eligible no-par-value share for the financial year 2013, representing a payout ratio of approximately 73 per cent of free cash flow. The dividend was distributed to the shareholders on 14 May 2014 through Clearstream Banking AG, Frankfurt am Main, by way of the respective custodian banks and financial institutions. The payout was made from the tax-specific contribution account in accordance with section 27 of the German Corporation Tax Act (KStG). This means that the dividend was again paid out without any deduction of capital gains tax and the solidarity surcharge.

The Executive Board and Supervisory Board have decided to propose to the Annual General Meeting on 21 May 2015 the payment of a dividend for the 2014 financial year in the amount of 1.50 euros per no-par-value share from the net profit. This corresponds to a dividend payout ratio of around 72.1 per cent of free cash flow.

Analysts' recommendations

Table 2: **Actual recommendations regarding the freenet share***

Bankhaus Lampe	Hold	21.00 €
Berenberg	Hold	21.00 €
Citi Research	Hold	20.50 €
Commerzbank	Buy	28.00 €
Deutsche Bank	Hold	20.00 €
DZ-Bank Research	Buy	25.00 €
equinet Bank	Buy	22.50 €
Hauck & Aufhäuser	Buy	30.00 €
HSBC Global Research	Hold	23.00 €
Independent Research	Buy	26.00 €
Landesbank Baden-Württemberg	Buy	26.00 €
Metzler Equity Research	Buy	27.00 €
Oddo Seydler	Hold	22.00 €
UBS Investment Research	Hold	23.50 €
Warburg Research	Hold	21.00 €

** As of 31 December 2014*

In the financial year 2014, a total of 16 well-known analyst firms participated in the consensus estimates organised on a quarterly basis by the company and published around 120 comments and recommendations regarding the freenet share, compared with almost 150 comments in the previous year. This constitutes a decrease of around 20 per cent in the cumulative number of publications. Five analysts in total have made more comments than in the previous year, nine have made fewer and two made the same number as last year. While the most active broker in the last financial year, who published 18 reports, increased the number of his publications by 80 per cent, the next most active analyst published 12 comments. The median of all published comments relating to the freenet share decreased to seven comments per analyst, compared with ten in the previous year. A “buy” recommendation was made in 50 per cent of all the published comments made by nine analysts in all. In the financial year 2013, a total of 14 analysts had between them made “buy” recommendations in as many as 72 per cent of all the published comments. 45 per cent of the reports made a “hold” recommendation, compared with 28 per cent in the previous year. In the end, there were six “sell” recommendations, compared with one in the previous year. In the course of the year, one analyst discontinued his reporting about freenet AG as a result of internal organisational changes.

Investor Relations

freenet AG cultivates an ongoing dialogue with all institutional and private investors as well as analysts. At investor conferences and road shows at the most important European stock exchange locations and in New York and Boston, the Executive Board and the Investor Relations team discussed the current market and business trends and the freenet Group's further strategic orientation with institutional investors and analysts. While fewer locations were visited altogether in the financial year ended, the activities in London, Frankfurt and Zurich, in particular, were intensified. In addition, Milan, Dublin and Berlin were included for the first time. In connection with this, almost 340 discussions were held with investors, compared with around 260 in the previous year. In the process, we again gave appropriate consideration to the development of our shareholder structure in the reporting year.

Furthermore, the Investor Relations team keeps in regular touch with interested private shareholders. The communication channels email and telephone were again the dominant media used in these activities in the financial year ended. The smartphone-optimised reorganisation of our Investor Relations Web pages in connection with the redesign of the company's home page has been instrumental in increasing to around five thousand the average number of visits per month to our Investor Relations pages.

We are planning to stabilise our financial communications in the current financial year in order to further consolidate the relationships with freenet AG's shareholders on the basis of a reliable supply of information and to make external momentum utilisable for the freenet management.

Information about the freenet share

Master data	
Name	freenet AG NA
Type of share	No-par-value-share
ISIN	DE000A0Z2ZZ5
WKN	A0Z2ZZ
Sector	DAXsector Telecommunication, DAXsubsector Wireless Communication
Transparency standard	Prime Standard
Market segment	Regulated market

Information on the security	
Class	Registered shares without par value
Index	TecDAX, Midcap Market Index, CDAX, HDAX, STOXX Europe 600 Telecommunications (SXKP), Prime All Share, Technology All Share
Share capital	128,061,016 euros
Quantity of shares	128,061,016
Stock exchanges	Regulated market/Prime Standard: Frankfurt Open market: Berlin, Hamburg, Stuttgart, Düsseldorf, Hannover, Munich

Trading parameters	
Symbol	FNTN
Reuters instrument code	FNTGn.DE
Trading model type	Continuous Trading
Designated sponsors	Close Brothers Seydler Bank AG, equinet Bank AG

Further information about the freenet share is available at *http://www.freenet-group.de/investor/share*

Corporate bond

In April 2011, freenet AG replaced its private equity financing by, among other things, successfully placing a five-year corporate bond with a volume of 400 million euros on the capital market. The interest coupon is 7.125 per cent per annum and the bond is due on 20 April 2016. At year-end 2014 the bond was quoted at 106.81 euros.

Figure 5: **Performance of the freenet corporate bond in 2014 (daily closing price)**

For more information about the freenet AG corporate bond, please refer to the following table:

Stock exchanges	The regulated market of the Luxembourg stock exchange
Issue volume	400 million euros
Denomination	1,000 euros
ISIN	DE000A1KQXZ0
WKN	A1KQXZ
Term	20 April 2011 to 20 April 2016
Coupon	7.125 percent p. a.
Interest payments	Annually, starting on 20 April 2012
Repayment price	100.0 percent
Security	Non-subordinated corporate bond

Promissory note bond

In December 2012, freenet AG successfully placed a promissory note bond totalling 120 million euros that was marketed broadly by Commerzbank Aktiengesellschaft, Landesbank Baden-Württemberg and Landesbank Hessen-Thüringen Girozentrale.

The non-callable financing instrument is divided into a five-year fixed tranche of 44.5 million euros, a five-year variable tranche of 56.0 million euros and a seven-year fixed tranche of 19.5 million euros. It was drawn over its entire volume at the lower end of the respective marketing range with a fixed coupon of 3.27 per cent p.a. for the five-year fixed tranche, a floating coupon of 2.82 per cent p.a. for the first six months of the floating five-year tranche, and a fixed coupon of 4.14 per cent p.a. for the seven-year fixed tranche. The variable tranche could be redeployed due to the improved market environment in the financial year ended. The margin was reduced by one percentage point for a fraction of 55 million euros. At the same time the rentention for a fraction of 45 million euros of the tranche was prolonged by two years.

Credit facility

The current syndicated loan agreement for the general financing of commercial activities was concluded in December 2013 with Commerzbank AG as the coordinating mandated lead arranger. In addition, Bayerische Landesbank, HSH Nordbank, Landesbank Baden-Württemberg, Nord LB and UniCredit also acted as mandated lead arrangers.

The existing facility makes available a total of 300 million euros to be drawn. Withdrawals are calculated with a margin on EURIBOR, which, given the company's current debt ratio (net debt/EBITDA), amounts to 0.95 per cent.

The agreement is based on the usual market warranties, as well as information obligations and rules of conduct. The debt factor was fixed at a maximum of 2.5x and the equity ratio at a minimum of 30 per cent.

By the end of 2014, the facility had not been utilised.

Detailed financial information available online

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

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

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

GROUP MANAGEMENT REPORT

CORPORATE PROFILE OF THE GROUP

Business model

As digital lifestyle provider, the freenet Group is the largest network-independent supplier of mobile communications services in Germany. In addition, the Group is increasingly establishing itself in the digital lifestyle field as a supplier of internet-based applications for private customers.

The freenet Group offers its customers in Germany an extensive portfolio of services and products from the mobile voice and data services segment. It markets the services of the mobile communications network providers Deutsche Telekom, Vodafone and Telefónica Deutschland (O_2 and E-Plus) under its own name and for its own account through numerous sales channels and various brands. In addition to its own network-independent services and tariffs, the freenet Group also markets the original tariffs of German mobile communications network operators under its own name.

Furthermore, the freenet Group offers a growing range of attractive products and services for the household and other areas of private customers' lives relating to all aspects of mobile internet. With Gravis-Computervertriebsgesellschaft mbH (GRAVIS), one of the largest independent authorised Apple dealers in Germany, the Group occupies an outstanding market position in this area as well.

These business activities, which are consolidated in the mobile communications reporting segment, are completed by extensive trading activities involving mobile terminals and innovative accessories.

In the company's view, the key factors for its commercial success are customer development, monthly revenue per user in the mobile communications segment and the development of digital lifestyle activities in the three strategic business segments Fitness/ Wearables, Entertainment and Smart Home.

Customer proximity across all sales channels is indispensable for the success of the company's distinct competitive position as a digital lifestyle provider. With 570 shops operated under the main brand mobilcom-debitel and 45 stores under the premium brand GRAVIS, plus a multiplicity of further distribution outlets for mobile communications in the specialised retail segment—including an exclusive arrangement with around 400 large electronic goods stores in Media-Saturn Deutschland GmbH—the freenet Group has a blanket presence in the stationary retail sector in Germany. At the same time, several sales brands of its own are being used successfully through a diversity of online sales channels. All in all, 4,826 employees in the freenet Group are working continuously on improving sales and service expertise.

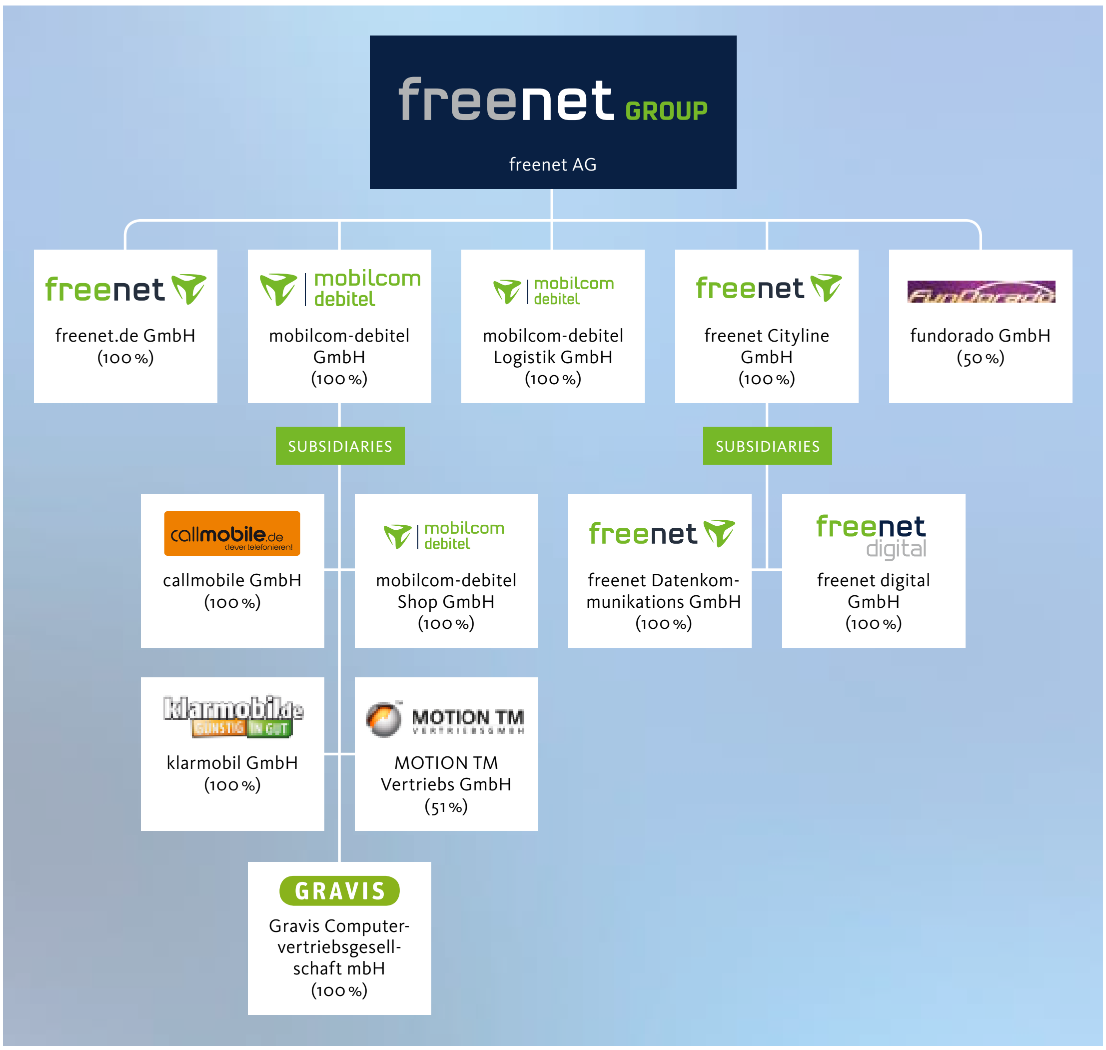
Marketing activities essentially focus on end customer business with private customers in Germany, an area which is split up into three customer segments. The contract customers of the predominantly stationary sales outlets and the no-frills customers generated solely via online channels jointly comprise the non-financial performance indicator known as customer ownership, which is used as an internal control parameter. In addition, there is the prepaid customer segment.

Group structure and acquisitions

In the financial year ended, the Group advanced its further strategic development by way of acquisitions. In January 2014, the Group completed the acquisition of the Jesta Digital Group and acquired all of the shares in the companies Jesta Digital GmbH, Jesta Digital Holdings, Inc. and Jesta Digital Group U.S. Holdings, Inc. In this way, the company was able to expand further its range of services in the dynamic growth area of digital lifestyle in accordance with changing customer requirements. In the second quarter of 2014, the Jesta Digital GmbH was renamed freenet digital GmbH.

In April 2014, GRAVIS concluded a contract for the acquisition of up to twelve stores belonging to the Apple premium reseller reStore. By taking this step, the freenet subsidiary is increasing its presence and selling power in sought-after premium locations in German cities; the acquisition has increased the number of GRAVIS stores from 34 to 45. Following an appropriate redesign of reStore's stores, their focus is now on the marketing of Apple products and digital lifestyle accessories.

Figure 6: **Material Group companies of freenet AG as at 31 December 2014**



Segment-specific disclosures

The organisation and management of freenet AG are not conducted along the lines of customer segments or geographical territories. In compliance with freenet AG's internal management, a distinction is drawn between the "Mobile Communications" segment and the "Other/Holding" segment, even though the latter has only minor significance for the assessment of freenet AG's net assets, financial position and results of operations.

Corporate strategy

In the financial year 2014, as in the previous year, freenet AG essentially maintained its market position as a service provider—as measured by its revenue in the mobile communications segment—in a saturated mobile communications market that is generally declining. The continuing trend towards consolidation shown by Europe's telecommunications companies also had an impact on the German market with the acquisition of E-Plus by Telefónica Deutschland. The acquisition, which was approved by the European Commission in the summer, was tied to a number of regulatory stipulations designed to strengthen the competitive position of mobile communications providers without their own network infrastructure.

In the financial year ended, the German consumer market for mobile communications and mobile internet was characterised in particular by the increasing data-based use of smartphones and other high-performance mobile terminals in different spheres of life. The providers of telecommunications services have made appropriate strategic adjustments to their business models in order to benefit from the diverse new sources of added value inherent in permanent interconnectedness.

The freenet Group positioned itself at an early stage as a digital lifestyle provider that focuses on its core competencies in this newly emerging market segment for private consumers in Germany. In the substantial selling power of the shops and distribution outlets operated under the main brand mobilcom-debitel, the premium brand GRAVIS and a well-balanced bundle of online sales brands and channels, the freenet Group has a critical mass at its disposal for the successful placement of innovative products and services on the digital lifestyle market. In addition, the acquisition of Jesta Digital (now freenet digital) has led to an acceleration in the provision and market launch of innovative applications for mobile use to meet demand.

The Executive Board has enhanced its strategy in this environment in order to increase the freenet Group's added value as an independent service provider by means of additional commercial activities relating to all aspects of mobile communications and mobile internet. These included, in particular, the further stabilisation of the customer base in the high-quality customer segments of contract customers and no-frills customers (together: customer ownership), while aggregate customer numbers continued to decline as a result of the ongoing derecognition of inactive prepaid cards. Another strategic focus was the profit-oriented expansion of stationary sales outlets. Besides the further optimisation of the shops operated under the main brand mobilcom-debitel in respect of location, product and service portfolio and sales support, the further development of the GRAVIS stores as a premium supplier of digital lifestyle products from a variety of manufacturers is particularly noteworthy in this context. The intention is to make systematic strategic use of the cross-selling potential that results from this. Finally, the successful launch of the click-and-collect system set a strategic course for the further expansion of multichannel sales.

In the medium term, the freenet Group is going to expand not only its basic mobile communications business and the retailing of products covering all aspects of mobile communications, but also its product and service portfolio in the digital lifestyle segment—depending on the future demand patterns shown by private users. With no in-house products being developed, marketing activities are increasingly focused on partnerships with innovative manufacturers. The further development of business in this area will depend very strongly on the future dynamics of this still very young, often highly fragmented market segment. However, the increasingly noticeable change in social living to a comprehensively interconnected way of life, summed up by the term the "Internet of Things" remains the firm foundation for the future value-oriented expansion of this business segment. The freenet Group uses this cross-selling potential within the customer-ownership customer base, particularly through its increasing marketing of integrated lifestyle product landscapes.

Against this backdrop, freenet AG is going to continue with and further refine its strategic alignment, also in the financial years ahead. In addition, the freenet Group is going to evaluate additional strategic fields of activity while applying strictly defined profitability and investment standards.

In implementing its strategy, freenet AG devotes equal attention to the varied requirements and expectations of all interest groups. While the shareholders expect a reasonable and reliable overall return on their invested capital, the company's creditors are mainly concerned not just with an attractive interest rate on borrowed capital that is commensurate with the risks involved, but also with lasting assurance of adequate capacity for debt repayment. The freenet Group's customers are interested in up-to-date services and products with specific additional benefits, plus expert advice. The employees expect far-sighted management that enables long-term job security with reasonable working conditions. That is why the freenet Group attaches special strategic importance to an open, respectful and appreciative corporate culture in the competition for qualified employees.

Management system

In its operational and strategic alignment, the freenet Group orients itself towards the interests of all stakeholders. To implement this, a standardised management system is used at the highest Group level and in the freenet Group's individual companies, where it draws on financial and non-financial control parameters. The financial and non-financial performance indicators are of particular relevance for the control function.

Taking account of the continuous expansion of our digital lifestyle activities in line with our key corporate strategy, we constantly check the composition of all our internal control parameters and will adjust these whenever a relevant necessity is identified. Compared to the previous year, only clarifying adjustments were carried out, with the performance indicator "customer ownership" being reported henceforth as a non-financial performance indicator. This did not lead to an adjustment in the management system.

Financial performance indicators

In order to measure the short-, medium- and long-term success of our strategic alignment and its operational implementation, we currently use the following key financial performance indicators:

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

Revenue

The freenet Group's traditional field of business is determined by products and services covering all aspects of mobile communications and mobile internet. The revenue generated here is shown in the mobile communications segment. The German mobile communications market is saturated and characterised by a small number of providers. As a result, there has long been a situation of predatory competition on the market with increasing pressure on prices, which tends to lead to a decrease in revenue.

In this environment, the Executive Board's strategy is geared towards the generation of additional sources of income to complement the mobile communications segment. This means that the revenue generated with digital lifestyle activities in the freenet Group has become more significant as a financial control parameter. In addition to EBITDA, the success of digital lifestyle activities will be reflected primarily in the company's future revenue trend.

EBITDA

EBITDA corresponds to the Group result before interest, taxes on income, depreciation and amortisation and generally constitutes a company's operational performance. EBITDA is therefore regarded as a key financial performance indicator both in the assessment of corporate developments over a number of periods and when comparing companies in the same market segment with one another.

While the mobile communications network operators post high capital expenditures every year for the expansion and maintenance of their networks, the freenet Group restricted itself in the past to annual investments of just over 20 million euros in the area of mobile communications within the scope of its corporate planning and management. As EBITDA focuses on the operating efficiency ascertained by the accounting process, however, this performance indicator makes comparability possible even independently of the different capital costs in the respective business models. Accordingly, EBITDA is also used for valuation purposes within the framework of corporate acquisitions and disposals.

Free cash flow

freenet AG defines free cash flow as cash flow from current operating activities, less the investments in property, plant and equipment and intangible assets impacting cash flow, plus the cash inflows from disposals of intangible assets and property, plant and equipment. This liquidity-oriented key performance indicator is an important supplement to the results-oriented assessment of a company's performance.

The free cash flow is of equal importance for the procurement of equity and borrowed capital. While the Annual General Meeting decides on the amount of the dividend distribution as part of freenet AG's retained profits in accordance with the German Commercial Code, the dividend payout ratio is disclosed in relation to the free cash flow. This creates a direct link to the cash inflow that was actually generated in the respective period. To improve shareholder orientation, the Executive Board has determined a distribution corridor of currently 50 to 75 per cent of free cash flow within the framework of its corporate management.

At the same time, the free cash flow is significant for providers of outside capital because it contains all of a company's operational payment obligations and as such is a benchmark for potential interest and redemption payments.

Postpaid ARPU

We refer to the monthly average revenue per contract customer as postpaid ARPU. ARPU generally depicts the readiness of customers to pay appropriate remuneration for the respective mobile communications services. Therefore, the revenue generated via the "mobile option" from the sale of handsets and/or smartphones does not flow into ARPU. Changes in the market and competitive situation in Germany have a significant impact on the development of ARPU. Due to the saturated German market and the consequently high level of competitive pressure, postpaid ARPU remains on a downward trend.

As the proportion of other valuable revenues increases, however, the significance of this key performance indicator for internal control will decline in the future.

Non-financial performance indicator

Given the company's strategic position as a digital lifestyle provider, both the financial performance indicators and customer ownership as a key non-financial performance indicator are used for control purposes in the freenet Group.

Customer ownership

The measurement of customer ownership, consisting of the valuable postpaid and no-frills segments, is particularly significant for medium- and long-term corporate management. In the mobile communications segment, customer ownership in combination with the average revenue generated per user (ARPU) is a significant pillar of business. In addition, customer ownership makes it possible to address customers in an individualised way with a view to cross-selling and up-selling. The media disruptions that result from multichannel selling are being overcome thanks to a variety of marketing measures. The successful launch of the click-and-collect system, in other words the payment and picking up of online orders in mobilcom-debitel shops, must likewise be seen against this background.

In the interests of its strategic commercial alignment as a digital lifestyle provider, freenet focuses on high-quality customer relations when acquiring new customers and managing existing customers.

Other control parameters

As well as key financial and non-financial performance indicators, other control parameters are used in the Group's management. These other control parameters are of minor significance compared with the financial and non-financial performance indicators. The following other control parameters, in particular, are used as indicators for controlling purposes and as benchmarks for the further development of the freenet Group:

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

Product brands, new products

In its traditional business segment of mobile communications and mobile internet, freenet AG puts its faith in a multi-brand strategy so that it can serve all segments of this market in a target-group-specific manner. Under its main brand mobilcom-debitel, the company markets the postpaid and prepaid tariffs for all four German mobile communications networks, focusing on high-calibre contractual relationships. The brand's key strength is its demand-oriented, network-independent customer advice on mobile communications products and services while providing the best possible customer proximity; this is guaranteed by 570 shops operated under the main brand mobilcom-debitel, a presence in around 400 large electronics goods stores and a multiplicity of further stationary distribution outlets.

In addition, freenet AG addresses the no-frills market segment with the discount brands klarmobil, freenetmobile, callmobile and debitel light: customers in this segment are interested primarily in inexpensive tariffs and to a lesser extent in subsidised terminals or special services; the discount tariffs are sold largely over the internet.

For a number of years now, mobile data services have been among the most growth-intensive fields in telecommunications, and in this respect they have been a focal point for freenet AG, too, in the marketing of its product and service portfolio. In this area, the company supplemented its existing portfolio of tariffs in the financial year 2014 by adding further flat rates for smartphones and data tariffs. The existing tariff portfolio marketed by mobilcom-debitel and its discount subsidiaries was upgraded again in the course of the year with additional services and/or price reductions within the framework of numerous marketing and seasonal campaigns; most of these special promotional activities were managed via the company's own online sales platform *www.crash-tarife.de*.

In the digital lifestyle segment, mobilcom-debitel further expanded its range of innovative applications and products in the financial year 2014—with Home Automation & Security, Data Security and Entertainment as the focal points.

Sales activities

With its acquisitions in the financial years 2013 and 2014, freenet AG has again strengthened its competitive position as the largest network-independent sales platform for digital lifestyle products in Germany—as already described; it now encompasses

- 570 shops operated under the main brand mobilcom-debitel and 45 stores operated under the premium brand GRAVIS,
- around 400 Media-Saturn electronic goods stores,
- a multiplicity of other sales outlets in specialised stores
- a wide-ranging online and direct sales system.

Furthermore, as in previous years, the company has worked on the continuous improvement of its selling power during the course of the year with numerous internal investments and measures. One of the top priorities in this area was the expansion of services in stationary retail outlets and of online product and service offerings.

Partnerships

Collaborations, joint activities and strategic partnerships are becoming increasingly significant for the freenet Group. In August, freenet AG agreed on a collaboration with the publisher Axel Springer Verlag. This will enable customers to select content from Bild+, including the reports from the football Bundesliga, as an additional option in line with their respective tariffs. At the same time, the freenet discount subsidiary klarmobil.de launched the Bild-Fan Flat. In return for a monthly basic charge of 19.95 euros, the new data tariff optimised for tablets offers 1,000 MB high-speed volume with a maximum of 7.2 Mbit/s downstream—including Samsung Galaxy Tab 4 and Bild+ at a special price in the first year of the contractual term; in the second year, the monthly charge will increase to 27.95 euros.

This was followed in September by a collaboration with car2go, the world's largest app-based car-sharing service. In conjunction with this, around 100 mobilcom-debitel shops and twelve GRAVIS stores are handling the mandatory driving licence validation for car2go users in seven German cities—Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart; shop employees can also install the required app on their smartphone and provide tips on usage. Once registered, the smartphone indicates where there are car2go vehicles nearby and users can simply click to reserve their desired Smart for the next 30 minutes before picking it up.

In November, GRAVIS agreed on a collaboration with shopkick. The pioneer and US market leader for mobile shopping increases customer frequency in stores by granting non-cash points via an appropriate app for registered visits to associated shops and for looking at and trying out the products available there; it also gives users of the application made-to-measure shopping tips.

mobilcom-debitel simultaneously entered into a sales partnership with maxdome,the supplier of over 50,000 feature films, series, comedies and documentaries for internet-enabled TVs, PCs, laptops and smartphones. Customers of mobilcom-debitel can use this opportunity to acquire a subscription option for the online video store at their respective call and data tariffs for a monthly charge of 7.99 euros.

This was followed in December by two further collaborations with the payment service providers Paymorrow and Barzahlen.de. These are aimed at customers who, despite ordering online, still prefer paying for their purchased goods in retail stores.

Research and development

freenet AG operates as a network-independent service provider in the mobile communications, mobile internet and digital lifestyle segments. In its traditional business segment of mobile communications and mobile internet, the company markets the aforementioned mobile communications services of network operators in Germany as well as their own mobile communications offerings, including the appropriate hardware.

The company does not have its own research and development department. In view of the rapid technological progress being made in telecommunications and in mobile voice and data services, however, it does concern itself intensively with current developments in this area. The company's objective is to establish itself in this dynamic competitive environment in the long term. It was against this backdrop that in the financial year 2014, freenet AG addressed the constantly changing market and customer requirements by launching its own product and service portfolio covering all aspects of mobile communications and mobile internet.

In the growing digital lifestyle market, too, the freenet Group launched new products during the course of 2014; these were concentrated largely in the areas of Home Automation & Security, Entertainment and Data Security. In order to structure these innovative products and services in the most customer-friendly manner possible, the company involved itself to some extent in the final phase of their development; in this respect, the company's added value, too, increased during the marketing of the respective products.

In connection with the implementation of IT and strategy projects, investments affecting cash flows were made in the field of internally developed software by the freenet Group in the amount of 13.3 million euros in 2014 (previous year: 10.8 million euros).

Employees

freenet AG again registered a high level of interest on the labour market in the financial year 2014. As a result, around 21,500 applications were received for some 630 job offers during the course of the year. In order to increase motivation, responsibility, identification with the company and team spirit, the company offers a variety of initiatives and incentives.

In addition, the company continuously trains its own specialists, thereby meeting the need for urgently required specialists and qualified young talent—while simultaneously fulfilling its social responsibility as a large and successful company. During the course of 2014, the freenet Group engaged a total of 94 apprentices to be trained as, among other things, IT management assistants, IT specialists, retail salespersons, and specialists in dialogue marketing and warehouse logistics. In addition, the company offers three different dual study programmes leading to Bachelor of Science or Bachelor of Arts degrees at universities of cooperative education.

Another additional offering, along with the classic company car, is a company vehicle from the "employee vehicle model": all permanent staff members can receive a vehicle for private and occupational use on attractive terms in return for a salary concession. In providing this service, freenet AG attaches importance to environmentally friendly vehicles and new models from German manufacturers.

freenet carries out needs-specific training measures for its employees and managers, which are often tailor made. In 2014, 892 permanent employees took part in a personnel development scheme which included specialised training activities as well as training for methodical approaches and team developments. Based on the leadership training programmes already carried out in the preceding years, leadership culture and instruments were further refined and upcoming projects prepared.

The nature of the freenet Group's core business means that it is characterised by acquisitions and disposals. The changes have led to the challenge of specifying the attributes that the freenet Group represents as an employer.

Financial management

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

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

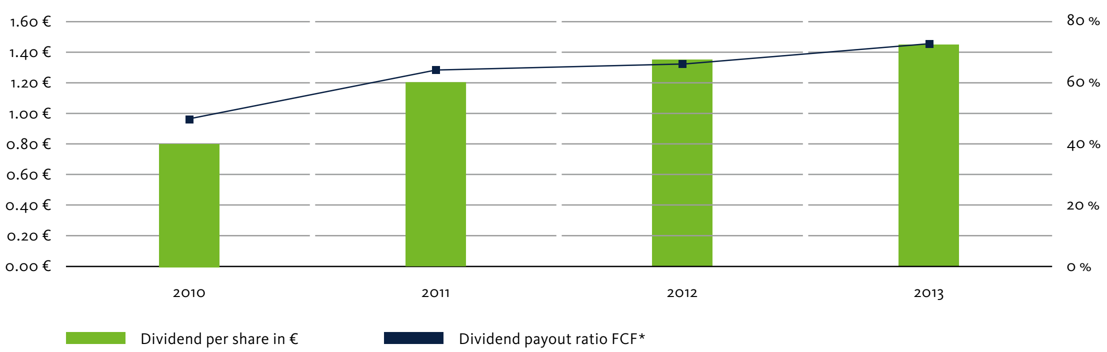
Table 3: **Financial management KPIs**

	2013	Target 2014/15	2014	Target 2015/16
Debt ratio	1.2	1.0—2.5	1.2	1.0—2.5
Interest Cover	8.3	>5	9.0	>5
Equity ratio as percentage	50.0	>50	51.8	>50

Gearing indicates how much of the current operating result (EBITDA) would be needed to pay off the company's net debt (borrowing less cash and cash equivalents). As the freenet Group's business model as a service provider in the mobile communications segment—unlike that of the network operators—does not require substantial investments and generates a stable cash inflow, its gearing is relatively low and within the range of 1 to 2.5 that has been declared as the target. The capital structure is optimised continuously within the framework of risk-oriented management. At the same time, however, the realisation of the corporate strategy requires a liquidity reserve that is always adequate and, in view of the company's current volume of business, is quantified at around 100 million euros. This also allows for the possibility of ongoing liquidity procurement from internal and outside funds. As low gearing is attractive for providers of outside capital in particular, the cost of procuring outside capital can be optimised further in this way in the future. The development of interest cover, too, must be seen against this background (ratio of EBITDA to interest balance). In the process, observing an equity ratio of more than 50 per cent serves as an additional benchmark for effectively allocating corporate funding.

Finally, the Executive Board has defined a dividend policy that makes an attractive dividend yield possible for freenet's shareholders, without endangering the risk profile of freenet AG.

Figure 7: **Dividend policy KPIs**



* Free cash flow (FCF) is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets from the disposal of property, plant and equipment and intangible assets.

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

ECONOMIC REPORT

Macroeconomic conditions

The International Monetary Fund (IMF) was already referring to increased risks for the global economic climate in the world economic outlook that it published[1] in October 2014. In January 2015, taking account of the latest developments in oil prices and exchange rates, it used the current economic situation in the world's most important economies as an opportune occasion to update its forecast[2] for global growth to 3.5 per cent in 2015 and 3.7 per cent in 2016.

For the eurozone, the IMF is currently anticipating 0.8 per cent growth in the financial year ended and 1.2 per cent in 2015. Both figures were likewise reduced substantially. The economic trend in Italy and France is regarded as particularly problematic. The economic conditions also deteriorated for Germany in the second half of the year, however, with the result that an economic output of a mere 1.5 per cent is being assumed for 2014 as a whole and 1.3 per cent for the current financial year.

Despite the increasingly difficult global economic environment, the German economy showed itself to be largely stable in the financial year ended. According to information from the German Federal Statistical Office (Destatis)[3], gross domestic product (BIP) increased by 0.7 per cent in the fourth quarter of 2014 after adjustment for price, seasonal and calendar-related effects, following an increase of 0.1 per cent in the third quarter. GDP decreased slightly (−0.1 per cent) in the second quarter of 2014 after the German economy had started the year with a great deal of momentum (first quarter of 2014: +0.8 per cent).

Private consumer spending contributed to the positive stimuli in the fourth quarter in particular with adjusted growth of 1.0 per cent, compared with 0.6 per cent the third quarter, 0.4 per cent in the second quarter, and 0.5 per cent in the first quarter.

Development of the telecommunications market in 2014

As well as the general economic factors, the telecommunications market was again influenced by structural changes in particular during the reporting year. For example, a dynamic market consolidation among the network operators and a persistent trend towards a convergence of their product ranges in the fields of landline, mobile communications, broadband/internet and television could be observed at European level. According to a report[4] published in August 2014 by Mergermarket, the European telecommunications sector dominated, attaining a total of 422 corporate acquisitions in the first half of the past financial year alone with an aggregate value of 65.1 billion euros and a 19.5 per cent share of the

1 http://bit.ly/1tT1Qyu
2 http://bit.ly/1wo7Nob
3 http://bit.ly/1Fni9uw
4 http://bit.ly/1Mfz2fS

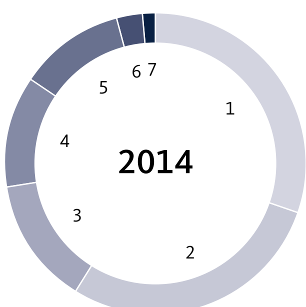
entire European M&A market across all branches of economic activity. This development was supported decisively by the European Commission's regulatory endeavours to create a uniform European internal market for telecommunications. As in the previous year, the overarching consolidation goals of the European telecommunications suppliers lay in increasing efficiency and leveraging cost synergies, their aim being to strengthen their own competitiveness in a sustainable manner with an efficient infrastructure for mobile communications.

In the reporting year, the German telecommunications market was shaped significantly by the acquisition of the German KPN subsidiary E-Plus by Telefónica Deutschland that was completed during the course of the year. The European Commission gave its final approval for the deal in the summer, subject to certain requirements in the interests of a consumer-oriented competition policy. These regulatory requirements are, to a certain degree, designed to strengthen the position of network-independent mobile communications providers in order to reduce the risk of the three remaining network operators exploiting market-dominating positions.

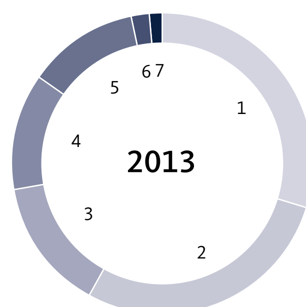
According to the analytical publication TK-Marktanalyse Deutschland 2014[5] that was published in October 2014 by the telecoms providers' association Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e. V. (VATM) in collaboration with Dialog Consult GmbH (Dialog Consult), the market volume of telecommunications services in Germany has decreased slightly. The publication stated that the aggregate market volume declined by 1.2 per cent to 58.3 billion euros in the reporting year, a development which is being attributed to the negative trend in the sub-markets for landline and mobile communications. On the other hand, the market volume for broadband cable networks expanded slightly.

The VATM figures indicate that the overall German telecommunications market is currently divided into 57.5 per cent (previous year: 58.0 per cent) of business with landline connections and 42.5 per cent (previous year: 42.0 per cent) of mobile communications business. The cumulative volume of the German mobile telecommunications market, in other words including the commercial activities of mobile communications providers without their own networks, is estimated by VATM for the reporting year at 24.8 billion euros (previous year: 25.1 billion euros). The report still attributes a 30.3 per cent (previous year: 29.8 per cent) market share to the dominant Deutsche Telekom, followed by Vodafone with 28.6 per cent (previous year: 28.3 per cent) and Telefónica Deutschland with 13.7 per cent (previous year: 14.3 per cent) as well as E-Plus with 12.1 per cent (previous year: 12.4 per cent). This indicates that the O2 and E-Plus networks account for a joint market share of 25.8 per cent (previous year: 26.7 per cent). The cumulative market share of network-independent providers is put at 15.3 per cent (previous year: 15.2 per cent), of which, according to estimations, 11.3 per cent (previous year: 12.0 per cent) is accounted for by the freenet Group, 2.8 per cent (previous year: 2.0 per cent) by United Internet and 1.2 per cent (previous year: 1.2 per cent) by Drillisch.

Figure 8: **Market shares in the cumulative German mobile communications market**



2014		2013
30.30 %	1 – Deutsche Telekom	**29.80 %**
28.60 %	2 – Vodafone	**28.30 %**
13.70 %	3 – Telefónica Deutschland	**14.30 %**
12.10 %	4 – E-Plus	**12.40 %**
11.30 %	5 – freenet	**12.00 %**
2.80 %	6 – United Internet	**2.00 %**
1.20 %	7 – Drillisch	**1.20 %**



Source: Dialog Consult/VATM—TK-Marktanalysen Deutschland 2014 and 2013.

5 http://bit.ly/1EeiHlU

While data revenue in the reporting year, according to VATM estimations, accounted for around 38 per cent of the market volume at 9.5 billion euros (previous year: 35 per cent), the proportion of data volume accounted for by revenue generated with text messages decreased significantly from 2.1 billion euros to 1.3 billion euros. At the same time, the increase in revenue from mobile internet connections is estimated at 1.5 billion euros by VATM, resulting in a total of 8.2 billion euros. Accordingly, as per the estimates published in the report, the average monthly data volume consumed per user increased by 45 per cent over the previous year and totalled 283 MB.

In the publication[6] "The Mobile Internet Economy in Europe" from December 2014, the consulting firm Boston Consulting Group (BCG) refers to the changing user behaviour of the approximately 530 million European mobile communications customers by pointing out that the consumers' focus is shifting from buying to sharing and from there to social networking ("socialising"), which requires permanent online accessibility. With a penetration rate in the European population of around 1.33 mobile communications contracts and a smartphone share of over 50 per cent, this trend will also have a significant impact on the future demand patterns of mobile communications customers. In the financial year ended, this prompted most of the German telecommunications providers to adjust their business models proactively. In the mobile communications networks segment, providers are going to focus increasingly on the provision of high-speed data connections with increasing data volumes at market prices.

The high level of market dynamism in business operations with mobile internet access is shown clearly by the fact that, according to the BCG survey, the sums spent by European market participants on the development of apps for mobile use exceeded the threshold of 15 billion US dollars between June 2013 and July 2014. The increasing availability and use of high-performance mobile terminals with a broader range of applications, together with the associated increased data usage, will therefore remain the key factors for German mobile communications users, too, in 2014. As regards mobile internet usage, not only smartphones will be used, but also portable computers such as laptops, netbooks and tablets by means of a mobile communications network or a wireless network.

Table 4: **Percentage of internet users who also use mobile internet (first quarter of the year in each case)**

In percent or as specified	2014	2013	Change in percentage points
Persons aged from 10 years overall	63	51	12
thereof at the age from …			
… 10 to 15 years	64	47	17
… 16 to 24 years	90	81	9
… 25 to 44 years	77	62	15
… 45 to 64 years	50	37	13
… 65 years or older	32	22	10

Source: Destatis press release no. 457 from 17.12.2014.

The findings of Destatis[7] indicate that in the 10 to 15 age group, mobile internet use in Germany showed a disproportionate increase. At the same time, the dominance of mobile internet use was shown most clearly by the 16 to 24 age group with a user share of 90 per cent. Also notable is that nearly a third of users in the over-65 age group access the internet by mobile means.

All in all, according to the data gathered by Destatis, 82 per cent of all individuals who used the internet in the first quarter of 2014 were online almost every day, 13 per cent were online at least once a week and only 5 per cent were online less than once a week. Participation in social networks on the internet was regarded as online activity in half of all cases.

6 http://on.bcg.com/1w6rS3c
7 http://bit.ly/16X2xCx

Business performance

The Group can draw a positive conclusion from the financial year 2014: we were able to achieve or exceed the targets that we had set ourselves at the beginning of the financial year in February 2014 regarding the key performance indicators postpaid ARPU, Group EBITDA, customer ownership and free cash flow. During the year, we corrected the forecast for slightly increasing Group revenue.

The Group EBITDA generated in 2014 amounted to 365.6 million euros. In comparison with the previous year (357.4 million euros), it increased by 2.3 per cent, thereby slightly exceeding our target (365.0 million euros). A significant contribution to this was made by the 6.4 per cent increase in gross profit to 778.1 million euros.

The other key earnings figures were increased over the previous year without exception during the reporting period: after deduction of depreciation and amortisation, for example, EBIT remains approx. constant at 301.2 million euros (previous year: 301.3 million euros). At 260.6 million euros, earnings before taxes on income (EBT) increased by 0.8 per cent compared with the previous year (258.4 million euros). The Group result for the financial year 2014 is reported at 248.2 million euros, an increase of 3.9 per cent compared with the previous year.

The free cash flow, one of the most important key performance indicators in the Group, amounted to 266.6 million euros in the reporting period (previous year: 256.2 million euros) and thereby slightly exceeded the forecast figure of 265.0 million euros. Net financial debt decreased from 427.2 million euros at the end of the financial year 2013 to the current figure of 426.6 million euros.

The customer portfolio in the key contract customer segment (postpaid) increased by around 150,000 from 5.86 million customers to 6.01 million customers compared with the end of 2013. In conjunction with the slight increase in the no-frills customer portfolio, this has led to a customer-ownership customer portfolio of 8.92 million as at the end of 2014, corresponding to an increase of around 160,000 compared with the previous year. In this way, the target of a slight increase in customer ownership was achieved. The average monthly revenue per contract customer (postpaid ARPU) was 21.4 euros in the reporting year, slightly less than the previous year's level (22.3 euros) as expected, but comparatively resistant compared with the market as a whole.

Table 5: **Key performance indicators in 2014**

	Forecast 2014		
In EUR million/as indicated	2013	Q3/2014	2014
Revenue	Slight increase	Decrease of 5 %—8 %	3,040.6
EBITDA	365.0	365.0	365.6
Free cash flow	265.0	265.0	266.6
Postpaid customers in million	Slight increase	Slight increase	8.92
Postpaid-ARPU in EUR	Slight decrease	Slight decrease	21.4

These results confirm the company's strategic alignment as a digital lifestyle provider covering the mobile communications and mobile internet segment and constitute a sound basis for continuing freenet AG's successful course over the coming months and years.

8 Updated in the interim report as at 30 June 2014 from the original "slight increase" to "slight decrease" and put in more concrete terms in the interim report as at 30 September 2014.

Key factors influencing business performance

Customer base development

Table 6: **Customer base development in the Mobile Communications segment**

In '000s	31.12.2014	31.12.2013	Change in %
Mobile Communications customers	12,727	13,294	–4.3
Therof customer ownership	8,922	8,760	1.9
Thereof postpaid customers	6,012	5,862	2.6
Thereof no-frills customers	2,910	2,898	0.4
Thereof prepaid cards	3,805	4,534	–16.1

In the financial year 2014, the number of postpaid customers again exceeded six million. As at the end of the reporting year, this customer group with 24-month contracts comprised 6.01 million customers (previous year: 5.86 million). The growth in numbers compared with that achieved as at 31 December 2013 more than doubled due to the variety of newly launched data-based smartphone tariffs and amounts to some 150,000 customers (previous year: around 80,000). Also because the cancellation rate ("churn rate") fell significantly. This development was underpinned by a targeted approach to customers through all sales channels in stationary retailing and on the mobilcom-debitel website, as well as through an overall improvement in the freenet Group's customer management.

The number of customers in the no-frills segment increased by around 10,000 in the reporting year. This segment consists mainly of contracts with terms of between 1 and 24 months concluded primarily over the internet, plus prepaid cards. As at the end of 2014, the customer portfolio in this customer group amounted to 2.91 million, compared with 2.90 million in the previous year.

The customer ownership portfolio, which comprises the sum total of the defined contract and no-frills customer groups, has thereby increased by some 160,000 customers from 8.76 million to 8.92 million. This important key non-financial indicator was thus again improved significantly in the reporting year.

The number of prepaid cards issued in the financial year ended, on the other hand, again decreased and amounted to 3.81 million as at the end of the year (previous year: 4.53 million). This trend was influenced by the ongoing derecognition of inactive SIM cards by network operators.

As a result, the aggregate number of mobile communications customers at the end of December 2014 was 12.73 million, compared with 13.29 million as at the end of 2013. This represents a decline of some 570,000 mobile communications customers.

Monthly revenue per user in the mobile communications segment (ARPU)

The average monthly revenue per contract customer (postpaid ARPU) decreased as expected in the financial year 2014 and is now 0.9 euros down at 21.4 euros. This resulted in particular from the increased readiness of existing customers within the freenet Group to switch to more attractive tariff offers, while ARPU with new customers remained comparatively stable.

No-frills ARPU decreased by 0.6 euros to 2.8 euros compared with the previous year. The pressure on prices in the discount market segment, in which the freenet Group is active predominantly through a multitude of online sales channels, intensified further in the reporting period. The main factor in this area was the increased demand for attractive data-based smartphone tariffs without the acquisition of new terminals. The average monthly revenue per prepaid customer (prepaid ARPU) remained almost at its previous year's level in the financial year 2014 at 2.9 euros (previous year: 3.0 euros).

Table 7: **Average monthly revenue per user (ARPU)**

In EUR	2014	2013
Postpaid customers	21.4	22.3
No-frills customers	2.8	3.4
Prepaid cards	2.9	3.0

Digital lifestyle

In addition to optimising its core business of mobile communications, since 2012, the freenet Group has increasingly been concentrating its business activities on the young growth sector of internet-based mobile applications for private customers. For the freenet Group, digital lifestyle encompasses telecommunications, the internet and energy, plus all the services, applications and devices that are connected to the internet by way of a mobile terminal or can be controlled through such a terminal.

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

freenet is positioning itself in this growth market by means of partnerships and does not carry out any development work of its own. At the same time, the Group is enlarging and optimising its digital lifestyle sales territory, in particular via its own stores in premium locations which are operated under the premium brand GRAVIS and through the company freenet digital GmbH (formerly Jesta Digital GmbH), which was acquired in the financial year ended and markets modern, digital entertainment formats and services.

Assets, earnings and financial position

Revenue and earnings position

Table 8: **The Group's key performance indicators**

In EUR '000s	2014	2013	Change
Revenue	3,040,585	3,193,329	–152,744
Gross profit	778,057	731,246	46,811
EBITDA	365,607	357,399	8,208
EBIT	301,194	301,307	-113
EBT	260,633	258,443	2,190
Group result	**248,163**	**238,940**	**9,223**

GROUP REVENUE fell by 4.8 per cent compared with the previous year from 3,193.3 million euros to 3,040.6 million euros. Among other factors, lower revenue from low-margin business (primarily hardware sales to sales partners and distributors and from the prepaid segment) and the decline in postpaid ARPU by an average of EUR 0.9 per customer had a negative impact on revenue.

The **GROSS MARGIN** widened by 2.7 percentage points to 25.6 per cent, a development which was attributable primarily to the significant decline in low-margin business mentioned above. **GROSS PROFIT** was 46.8 million euros up on the previous year's total at 778.1 million euros—due mainly to the group of consolidated companies being enlarged with the addition of freenet digital Group.

OTHER OPERATING INCOME declined compared with the previous year 2013 by 5.3 million euros to 64.5 million euros. This downturn resulted primarily from the fact that in the previous year, non-recurring amounts from the disposal of freeXmedia amounting to 4.0 million euros were included in this item.

The **OTHER OWN WORK CAPITALISED** resulted, as in the previous year, mainly from internally generated software in connection with IT projects and increased by 2.6 million euros to 13.3 million euros. The increase of 25.6 million euros in **PERSONNEL EXPENSES** to 199.7 million euros was caused primarily by the increase in the average number of employees in the Group from 4,492 in the previous year to 4,908 in 2014, which in turn resulted mainly from the acquisition of freenet digital Group.

The year-on-year increase of 10.4 million euros in **OTHER OPERATING EXPENSES** to 290.9 million euros, adjusted for the first-time inclusion of GRAVIS and MOTION TM, constitutes a slight reduction in overhead costs. This is largely a consequence of lower marketing expenditure and further improvements in the efficiency of overhead cost management.

As a result of the effects referred to above, **GROUP EBITDA** totalled 365.6 million euros, 8.2 million euros more than its previous year's level of 357.4 million euros.

DEPRECIATION AND AMORTISATION increased by 8.3 million euros to 64.4 million euros compared with the previous year. This is attributable largely to the acquisition of freenet digital Group, which led to amortisations of the corresponding purchase price allocation totalling 5.0 million euros, but also to higher ongoing amortisations.

NET INTEREST INCOME as the balance of interest income and interest expenses improved from −42.9 million euros in the previous year to −40.6 million euros, which corresponds to the slightly lower average level of net financial debt during the year in comparison with the previous year.

This led in 2014 to **PRE-TAX GROUP EARNINGS** of 260.6 million euros generated solely from continued business operations—an increase of 2.2 million euros compared with the previous year (258.4 million euros).

INCOME TAX EXPENSES decreased by 7.0 million euros compared with 2013 to 12.5 million euros. Current tax expenses decreased compared with the previous year by 4.9 million euros to 29.3 million euros, mainly as a result of tax refunds for previous years. In addition, income from deferred taxes amounting to 16.8 million euros (previous year: 14.7 million euros) was netted out under this item—as in the previous year, this is accounted for primarily by write-ups of deferred income tax assets in connection with tax loss carryforwards.

As a consequence, **GROUP EARNINGS** after tax increased by 3.9 per cent, or 9.2 million euros, from the 238.9 million euros generated in the previous year to 248.2 million euros in the financial year 2014.

Assets and financial position

Table 9: **Selected Group balance sheet figures**

In EUR million	31.12.2014
Non-current assets	1,872.2
Current assets	626.1
Total assets	**2,498.3**

In EUR million	31.12.2014
Shareholder's equity	1,293.6
Non-current and current liabilities	1,204.7
Total equity and liabilities	**2,498.3**

In EUR million	31.12.2013
Non-current assets	1,836.1
Current assets	641.1
Total assets	**2,477.2**

In EUR million	31.12.2013
Shareholder's equity	1,239.6
Non-current and current liabilities	1,237.6
Total equity and liabilities	**2,477.2**

As at 31 December 2014, the Group's **BALANCE SHEET TOTAL** amounted to 2,498.3 million euros, 0.9 per cent higher than the balance sheet total at the end of the previous year (31 December 2013: 2,477.2 million euros).

NON-CURRENT ASSETS increased by 36.0 million euros to 1,872.2 million euros (31 December 2013: 1,836.1 million euros).

As in the previous year, this item was dominated by intangible assets and goodwill. The increase in non-current assets is attributable mainly to the increase of 31.2 million euros in goodwill to 1,153.3 million euros that resulted from the acquisition of freenet digital Group and the asset deal with reStore GmbH to enter into tenancy agreements for new shop locations for the subsidiary GRAVIS.

Intangible assets decreased by 7.2 million euros to 390.1 million euros compared with the previous year. In connection with this, the increase resulting from the intangible assets estimated within the framework of the purchase price allocation occasioned by the acquisition of freenet digital Group were overcompensated for by a reduction in the item due to the scheduled amortisations on the exclusive right of sale with Media-Saturn Deutschland GmbH.

Property, plant and equipment are reported at 34.3 million euros as at 31 December 2014, almost the same level as in the previous year.

The increase of 12.9 million euros in deferred income tax assets compared with last year's balance sheet date, bringing their total to 199.9 million euros, is essentially the result of write-ups on deferred income tax claims to loss carryforwards. This balance sheet item also includes the net deferred tax liabilities on temporary differences between the fiscal values and the carrying amounts of the assets and liabilities.

The non-current part of the trade receivables, which were reported at 79.6 million euros as at 31 December 2014, almost the same as their previous year's level, result mainly from the mobile option—namely the offer made to our end customers enabling them to choose higher-value terminals in return for an additional monthly fee. These receivables reflect those payment claims from the mobile communications contract that are allocated to the "higher-value mobile communications terminal" component and are operated by the customers during the term of the contract.

CURRENT ASSETS decreased by 14.9 million euros to 626.1 million euros (31 December 2013: 641.1 million euros).

As in the preceding years, the dominant balance sheet item within current assets is trade receivables. The receivables are owed largely by end customers, network operators, traders and distributors and amount to 408.5 million euros as at 31 December 2014, 14.6 million euros below the previous year's figure. This is attributable mainly to the quarterly sales of mobile option receivables, as a result of which receivables with a nominal value of 49.6 million euros had been sold and derecognised, but not yet paid, as at 31 December 2014. This was partly offset by an increase in the receivables owed by network operators from bonuses compared with the previous year's balance sheet date.

Inventories increased by 10.2 million euros to 80.0 million euros compared with 31 December 2013 as a reflection of robust pre-Christmas business. They consisted mainly of mobile phones and smartphones, computers and accessories.

Liquid funds are reported as at 31 December 2014 in the amount of 111.9 million euros (31 December 2013: 110.8 million euros). While the Group reported a cash inflow from operating activities amounting to 294.5 million euros in 2014, it had cash outflows of 70.4 million euros for investing activities and 222.9 million euros for financing activities, of which 185.6 million euros was accounted for by dividend payments.

On the liabilities side, there was an increase in **SHAREHOLDERS' EQUITY**: as at 31 December 2014, shareholders' equity totalled 1,293.6 million euros (31 December 2013: 1,239.6 million euros). The increase of 54.0 million euros essentially resulted in the amount of 248.2 million euros from the Group's net income for the financial year 2014 and in the amount of −185.6 million euros from the dividends for the financial year 2013 that were paid out in 2014.

As a result, the equity ratio increased by 1.8 percentage points to 51.8 per cent, compared to 50.0 per cent as at the end of the previous year.

The aggregate **NON-CURRENT AND CURRENT LIABILITIES** were down by 32.9 million euros, from 1,237.6 million euros (as at 31 December 2013) to 1,204.7 million euros as at 31 December 2014.

At the same time, financial liabilities remained the largest item within the non-current and current liabilities at 538.6 million euros as at 31 December 2014, almost unchanged in comparison with the previous year (538.0 million euros) because in contrast to the financial year 2013, no more scheduled redemption payments had to be made. The Group's **NET DEBT** as at 31 December 2014, too, was at around its previous year's level at 426.6 million euros (31 December

2013: 427.2 million euros). Accordingly, the debt ratio, expressed as the ratio of net debt to EBITDA, posted a further slight decrease of 1.20 in 2013 to 1.17 in 2014. In this context, please refer to the statements in the chapter “Financial management” in this Group management report.

Trade payables, other liabilities and accruals, and other provisions are reported at an aggregate amount of 568.0 million euros as at 31 December 2014 (31 December 2013: 611.8 million euros) and were therefore down by 43.8 million euros compared with the previous year. This resulted to a significant extent from the reduction of 29.8 million euros in the liabilities from the prolongation of the exclusive sales collaboration with Media-Saturn Deutschland GmbH that was effected in 2013.

Pension provisions increased by 15.0 million euros compared with the previous year to 59.3 million euros as at 31 December 2014, thanks mainly to the substantial reduction in the discount rate.

Cash flow

Table 10: **The Group’s key cash flow indicators**

In EUR million	2014	2013	Change
Cash flow from operating activities	294.5	278.4	16.1
Cash flow from investing activities	–70.4	–35.4	–35.0
Cash flow from financing activities	–222.9	–339.6	116.6
Change in cash and cash equivalents	**1.2**	**–96.6**	**97.8**
Free cash flow[9]	266.6	256.2	10.4

Compared with the corresponding period last year, **CASH FLOW FROM OPERATING ACTIVITIES** increased by 16.1 million euros to 294.5 million euros. Also compared with the previous year, EBITDA increased by 12.2 million euros after adjustment for the proceeds from the disposal of subsidiaries and associated companies. Net working capital increased in 2014 by 29.0 million euros, compared with an increase of 50.1 million euros in the previous year. The increase of 29.0 million euros in net working capital in 2014 can be attributed essentially to the scheduled reduction of 25.0 million euros in liabilities and accruals vis-à-vis distribution partners arising from distribution rights impacting cash flows. In addition, there were net cash outflows in the financial year 2014 amounting to 40.4 million euros (previous year: 23.5 million euros) that resulted from income tax payments and refunds.

In the financial year 2014, **CASH FLOW FROM INVESTING ACTIVITIES** amounted to –70.4 million euros compared with –35.4 million euros in the previous year. This resulted primarily from the cash outflow of 44.6 million euros in the financial year ended for the acquisition of the shares in the freenet digital Group, as well as the acquisition of retail outlets belonging to reStore. For more information, please refer to note 36 (“Corporate acquisitions”) in the notes to the consolidated financial statements. In the previous year, the cash outflows for corporate acquisitions amounted to –13.2 million euros—for the acquisition of the subsidiaries GRAVIS and MOTION TM.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets, increased in 2014 by 5.7 million euros over the previous year from 22.2 million euros to 27.9 million euros. The investments with an impact on cash flows were financed entirely from our own resources and, as in the previous year, largely concerned internally generated software in connection with the further development of our IT systems, the renovation and enhancement of the fittings and furnishings in our mobile communications shops, and investment in IT hardware.

9 Free cash flow is defined as cash flow from current operating activities, less investments in property, plant and equipment and intangible assets, plus the cash inflows from disposals of intangible assets and property, plant and equipment.

The cash inflows from interest reported within the cash flow from investment activities remained constant compared with the previous year at 1.3 million euros.

CASH FLOW FROM FINANCING ACTIVITIES improved by 116.6 million euros to –222.9 million euros, compared with –339.6 million euros in the same period last year. Compared with the previous year, redemption payments on financial liabilities decreased by 124.7 million euros from 125.0 million euros to 0.3 million euros. In the previous year, the redemption payments went almost entirely towards the full redemption of the amortisation loan within the scope of the revolving credit line.

As at 31 December 2014 and 31 December 2013, the Group had a revolving credit line amounting to 300.0 million euros that was not utilised. In the financial year 2014, the variable tranche of the promissory note bond in the nominal amount of 120.0 million euros was regrouped on grounds of the improved market environment. The margin was reduced by one percentage point for a 55.0 million euro portion of the variable tranche totalling 56.0 million euros. At the same time, the term was extended from five to seven years for 45.0 million euros from this tranche.

Dividend payments burdened the cash flow from financing activities in the financial year ended in the amount of 185.6 million euros (previous year: 172.8 million euros).

In addition, interest payments amounting to 37.0 million euros, largely on long-term bank loans, arose in 2014, representing an increase of 0.3 million euros compared with the previous year.

Furthermore, in 2013, the Group had a cash outflow amounting to 5.0 million euros as a result of the acquisition of the remaining 49 per cent of the shares in MFE Energie GmbH.

FREE CASH FLOW, defined as cash flow from current operating activities, less investments in property, plant and equipment and intangible assets, plus the cash inflows from disposals of intangible assets and property, plant and equipment, amounted to 266.6 million euros in the financial year 2014. It increased by 10.4 million euros compared with 2013.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No events of material significance to the freenet Group occurred after the balance sheet date.

OPPORTUNITIES AND RISK REPORT

Opportunities

In order to manage and monitor its ongoing business activities, the Executive Board has established an extensive monthly reporting system that covers both the financial and non-financial performance indicators in the Group. In regular meetings with all of the relevant business segments and units, the Executive Board informs itself in a timely manner about operational developments. At these meetings, not only current themes, but also future internal and external developments, measures and potential opportunities are discussed. The identification, analysis and communication of the opportunities, as well as their exploitation, is a commercial (management) task that is performed by the Executive Board, the responsible managers in the individual business segments and units, and the relevant decision-makers in a process of permanent communication.

In 2014, freenet AG and its subsidiaries continued systematically with their strategy as a digital lifestyle provider by focusing on mobile voice and data services and on the marketing of digital lifestyle products. In the marketing of smartphones and flat-rate tariffs, the focus of commercial activity was mainly on customer quality and the stabilisation of the contract customer base. Over and above this, a great deal of emphasis continued to be put on the digital lifestyle business. In addition to the integration of freenet digital into the freenet Group, the marketing of Smart Home products and digital lifestyle options, such as md Cloud, mload Plus or Norton Mobile Security, was strengthened. As the largest network-independent digital lifestyle provider, the freenet Group is going to continue along this successful path and make use of opportunities against the backdrop of a strict orientation towards stakeholder value.

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

- Increasing readiness of customers to pay for mobile communications terminals
- Trend towards mobile internet and data usage via smartphones and tablet PCs
- Trend towards more expensive terminals (smartphones) and concomitant increased use, and/or associated selling of flat-rate products
- Trend towards the interconnection of products (“Internet of Things”, “integrated product landscapes”)

The continuing trend towards paying for mobile communications terminals and the expansion of mobile internet and data usage, the increasing prevalence of smartphones, and the interconnection of products could have a positive impact on the anticipated development of revenue, EBITDA and the free cash flow. Furthermore, the effects of the trend towards mobile internet and data usage and the associated trend towards expensive flat-rate products could lead to a more positive increase in customer ownership than expected, although overall, the latter tends to be regarded as rather improbable.

Internal opportunities for freenet AG could emerge in particular from:

- the assessment and implementation of strategic options in the field of mobile communications and digital lifestyle,
- the continuous intensification of business relationships with suppliers for the stabilisation of existing and the development of new condition models,
- the consolidation and further development of IT systems to achieve a further improvement in customer satisfaction,

- the enhancement of our selling power through the expansion of existing sales channels (multichannel approach) and the use of existing and new sales collaborations and partnerships,
- a further improvement in shop performance, also by marketing additional products,
- the implementation and marketing of new products in the digital lifestyle segment,
- the intensified establishment of the brands klarmobil, freenetmobile, callmobile and debitel light in the steadily growing discount market, with the aim of participating even more actively in this growth market,
- and the continuous improvement of processes and quality for a lasting reduction in cost structures.

The internal opportunities outlined above, in particular, result from freenet AG's operational activities as a still network-independent mobile communications service provider and from its strategic commercial orientation towards becoming a genuine digital lifestyle provider.

The assessment and implementation of strategic options in both the mobile communications and digital lifestyle areas, the implementation and marketing of new, innovative products and the enhancement of our own selling power could have a positive effect on the anticipated revenue, EBITDA and free cash flow and hence exceed our expectations. A greater improvement in our selling power and customer satisfaction could, as it were, lead to a more positive trend in customer ownership than had been forecast. The likelihood of this happening, however, is regarded as rather low.

In addition to the established main brand mobilcom-debitel, the discount brands klarmobil, freenetmobile, callmobile and debitel light in particular, as well as others, could establish themselves more firmly on the market, possibly leading to a higher rate of market penetration. If the brands perform stronger than expected on the steadily growing discount market, this could lead to higher revenue and to improved results and higher free cash flow than had been forecast.

The strategic collaboration of mobile communications services and the digital lifestyle business was accelerated further in 2014. This Group-level orientation of business activities will be pursued consistently in the future as well, as the trend towards the continuing digitalisation and interconnection of products and services will carry on into the future ("Internet of Things", "integrated product landscapes"). Against this backdrop, growth opportunities, synergy potential and the chance to establish new strategic partnerships are still being discerned in relation to the rendering of services in the digital lifestyle segment, especially Home Automation & Security, Data Security and Entertainment. In the future, this could lead to more positive contributions to revenue, EBITDA and free cash flow than had hitherto been expected. The significance of the strategic transformation from a mobile communications specialist pure and simple to a digital lifestyle provider will increase against this background.

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

Overall evaluation of the opportunities situation

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

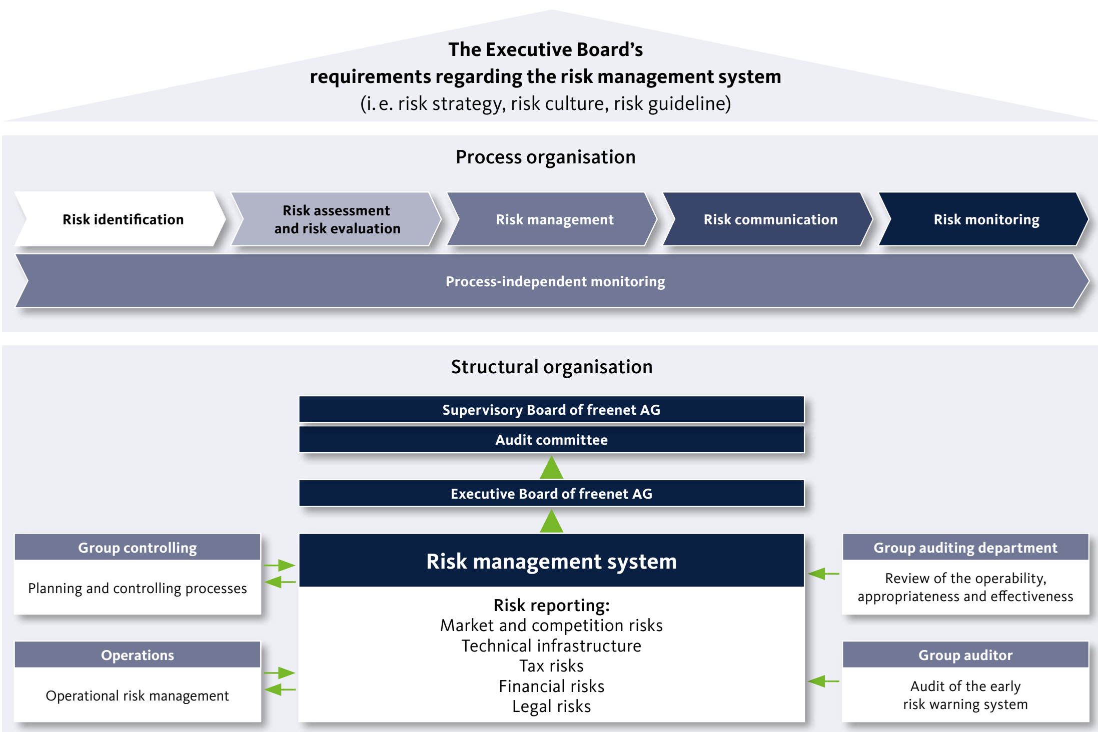
At the end of the financial year 2014, both external and internal opportunities that had basically remained the same since the previous year were identified. The significance of the opportunities shown and the resulting positive effects on the forecast financial and non-financial performance indicators, and therefore on the development of the freenet Group as a whole, are collectively rated as low. The management is therefore expecting the positive trend in business performance that was forecast in the outlook.

Risk management system

An effective risk management system is essential for safeguarding the continued existence of freenet AG in the long term. freenet AG's risk management system is applied solely to risks, not opportunities. It is designed to ensure that any risks to the company's future development are identified at an early stage by all of our managers and communicated in a systematic, understandable manner to the responsible decision-makers in the company. The timely communication of risks to the responsible decision-makers is designed to ensure that appropriate steps are taken to deal with the identified risks, thereby averting damage to our company, our employees and our customers.

To this end, the freenet AG Executive Board has set up an efficient early warning, monitoring and management system within the Group that also covers the subsidiaries. As part of the statutory audit assignment for the annual and consolidated financial statements, this system is examined by the auditor for its suitability for identifying at an early stage any developments that endanger the company's continued existence. The early warning system for risks conforms with statutory requirements. The systems and methods of the risk management system are an integral part of the overall organisation of freenet AG's structure and processes.

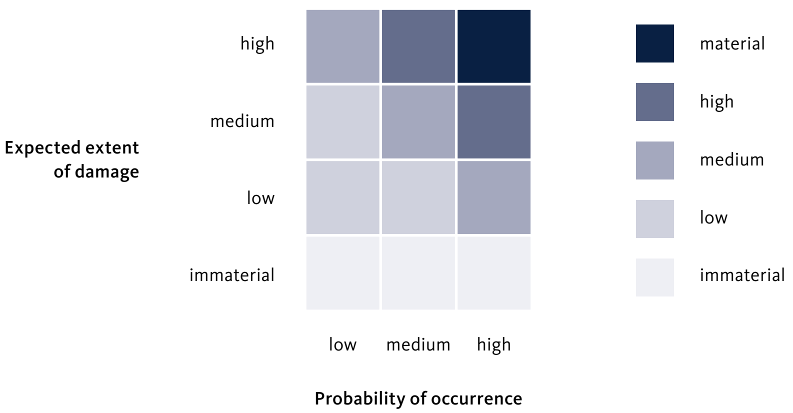
Figure 9: **Process and structural organisation of freenet AG's risk management system**



At least every six months, freenet AG's individual departments and subsidiaries identify or update existing and new risks that exceed a defined materiality threshold in formalised risk reports (risk identification). The risk reports describe the specific risks and investigate 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 the freenet Group are assessed in accordance with the net principle, by which the risk is observed in conjunction with the reducing influence of any countermeasures that were implemented. The criteria "probability of occurrence" and "anticipated extent of damage" are used to assess the risks. In the process, risks with an up to low (<50 per cent), medium (50-75 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[10] 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 10: **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 react appropriately to the identified risks (risk control and risk monitoring). The individual risk reports are consolidated into an overall Group risk report and reported to the Executive Board. Between the standard reporting times, too, risks are recorded, analysed, evaluated and controlled immediately after their identification and, if they are of sufficient magnitude, reported immediately to the Executive Board and the Supervisory Board (risk communication).

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

The methods and systems of risk management are continuously being examined, enhanced and adjusted. In the process, freenet AG's internal auditing department plays a supporting role, with the regular audits of the risk reports being the main focus. The Supervisory Board, in particular freenet AG's audit committee, monitors the effectiveness of the risk management system from the standpoint of German stock corporation law. The Supervisory Board is integrated by means of regular reporting and, if nec-

10 In relation to EBITDA and/or free cashflow.

essary, 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 segments and units, the Executive Board informs itself in a timely manner about operational developments. Current topics and future measures are also discussed at these scheduled meetings (part of risk communication).

Risks

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

The mobile communications segment is by far the most significant segment in the freenet Group in terms of both revenue and earnings. Accordingly, the major market risks originate from this segment. The estimation of risk for the other categories basically applies for both segments. Material differences between the segments in relation to the estimation of risk are specified as such separately.

Market risks

Highly competitive markets

The telecommunications markets continue to be characterised by intense competition. This can lead to shortfalls in revenue, loss of market shares and pressure on margins in the respective business segments and/or can make it more difficult to gain market shares. Vigorous competition can also lead to higher costs for new customer acquisitions, accompanied by falling revenue and a great readiness of customers to switch. As a result, the forecast revenue-based key performance indicators, earnings indicators and free cash flow could develop in a slightly more negative fashion than had previously been expected. In order to prevail against this competition, freenet AG must design its products attractively, market them successfully and carry out customer retention activities. In addition, freenet AG must respond to the development of the competition's business and anticipate new customer requirements. This involves a medium risk for the achievement of the company's goals.

Network operators

A reduction in network operator premiums can lead to a higher capital commitment and marketing risk. Furthermore, the margins in the mobile communications service provider business are determined predominantly by the network operators and their structuring of the tariff models, thereby constituting a medium risk for freenet AG. freenet AG is trying to minimise this risk by negotiating flexible purchasing terms and by continuously monitoring goal attainment for premium payments and renegotiating as and when necessary.

In its post-2016 reallocation of the mobile communications frequencies used until now, the German Federal Network Agency can no longer oblige the mobile communications network operators to treat service providers equally without discrimination. There is a medium risk that the discontinuation of the obligation regarding equal treatment of service providers might lead to an annual cancellation of the service provider contracts by the mobile communications network operators insofar as no long-term contracts have yet been concluded with the network operator in question. Without a service provider contract, marketing mobile communications products as a service provider for this mobile communications network operator would no longer be possible. freenet AG counters this risk by concluding long-term service provider contracts with the respective mobile communications network operators and by participating actively in the ongoing frequency allocation procedures with the objective of receiving the obligation regarding equal treatment of service providers.

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. freenet AG concludes long-term contracts with key distribution partners and offers them attractive incentives (e. g. airtime models). Acquiring additional franchise partners is another possible way of gaining and/or expanding distribution channels and therefore keeping the risk low.

The merger of the two mobile communications network operators O_2 and E-Plus could lead to restrictions in competition between the remaining operators. This could lead to a weakening of the service provider model. In order to counter this development, freenet AG is endeavouring to safeguard the conditions models with all of the network operators or to conduct negotiations about alternative conditions models. As no weakening of the service provider model can be discerned at present, there is a slight risk in this area.

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

Acquisition of companies

Quite recently, freenet AG has made corporate acquisitions with the aim of strengthening its digital lifestyle strategy. In connection with this, there is a medium risk that the operating activities of these new investments will not develop as expected and that consequently, growth will remain below expectations and therefore below the forecast results and free cash flows. In the management report, the company's development is monitored regularly with the objective of initiating countermeasures immediately whenever there is a deviation from the plan.

Termination charges

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

Laws and regulation

Legislative changes, interventions by regulators or even landmark judicial decisions can have repercussions for the tariff structure and for the possibility of claiming receivables from customers. This can have a negative impact on the forecast revenues and on the amount of free cash flows. The effects of individual decisions or legislative changes cannot 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.

IT risks

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

Tax risks

Loss carryforwards

If, within five years, 25 per cent or more 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 whole or in part, in accordance with section 8c of the German Corporation Tax Act (KStG). Shares are considered to be united in a single shareholder if they are transferred to a buyer, to persons close to the buyer, or to a group of buyers with parallel interests.

The company has no influence on the occurrence of this risk, as the (perhaps partial) elimination of any negative income (corporation and trade tax loss 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, 25 per cent or more of the shares could be united under a single shareholder. The same medium risk exists if 25 per cent or more of the shares or voting rights are first united through other measures under a single shareholder or several shareholders with parallel interests. The legal consequences described above apply mutatis mutandis.

VAT risk on “remuneration from third party”

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

Other tax risks

In the case of assessment periods that have not been audited conclusively, there might in principle be changes that result in subsequent tax payments or changes in the loss carryforwards if the tax authorities, within the framework of external tax audits, come to divergent interpretations of tax regulations or divergent 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 divergent interpretations and assessments of circumstances applies in particular to corporate restructuring processes under company law. It cannot therefore be ruled out entirely that as a result of contributions of assets, other conversion procedures, new capital injections and changes in the shareholding structure, the corporate income and trade tax carryforwards declared by the corporations in the freenet Group and hitherto ascertained separately by the tax authorities might be reduced or discontinued. All in all, this is regarded as a low risk.

Financial risks

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

Bad debt losses

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

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

There is an agreement between the Group and a bank on the sale of receivables from mobile options. This sale of receivables without recourse represents genuine factoring. The relevant risks, such as the risk of default in particular, and opportunities are transferred to the bank. Although of minor significance, the late payment risk shall be completely retained by the freenet Group.

Impairment of the assets

In freenet AG's consolidated balance sheet, both goodwill and intangible assets such as customer relationships and trademark rights are reported in their intrinsic amounts. There is a medium risk that impairment tests in the subsequent periods might lead to substantial diminutions in value.

freenet AG's assets are checked both regularly and otherwise as and when appropriate if there are potential indicators of lasting impairment. Such an indicator could be, for example, changes in the economic or regulatory environment. A diminution in value that might result from an impairment test has no effect on the cash flows and therefore remains without impact on the central control parameters.

Liquidity

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

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

We use a variety of financial instruments to reduce the general liquidity risk. The liabilities to banks shown under borrowings result from a fixed-interest corporate bond (reported as at 31 December 2014: 418.4 million euros) which was issued as part of the refinancing in April 2011, and from the promissory note bond signed in December 2012 (reported as at 31 December 2014 with a balance totalling 119.6 million euros—comprising 55.8 million euros in three separate variable-interest tranches and 63.8 million euros in two separate fixed-interest tranches). The Group also has a revolving credit line amounting to 300.0 million euros that had not been drawn on by the end of the year.

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

Capital risk management

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

Interest rate risk

As regards variable-interest financial debt, our company is subject to interest rate risks related largely to the EURIBOR. The company counters these minor risks by having a mix of fixed- and variable-interest financial debt. Although the interest rate risks are not explicitly secured, the cash holdings, which are invested mainly at variable interest rates based on EONIA or EURIBOR, serve as a natural hedge and accordingly mitigate interest rate risks arising from the variable-interest financial debts.

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

The company continuously monitors the various opportunities available for investing the liquid assets on the basis of the day-to-day liquidity planning at its disposal as well as the various options available for scheduling the debt. Changes in market interest rates could have an impact on the net interest income from originally variable-interest financial instruments and are included in the calculation process for results-related sensitivities.

Other financial risks

The company feels that other financial risks, such as those relating to foreign currency or changes in exchange rates, can be classified as immaterial and need not be mentioned separately in this Group management report.

Legal risks

Mediation proceedings

Former shareholders of mobilcom AG and freenet.de AG have applied for a judicial review, in accordance with section 15 of the German Reorganisation Act (UmwG), of the share exchange ratio applied in the 2007 merger of mobilcom AG and freenet.de AG into what is now freenet AG. If the court decrees that the exchange rate was inappropriate, there is a medium risk that the difference will be settled in cash. The cash settlement will have to be paid to all shareholders affected, even if they were not among the plaintiffs in the compensation proceedings.

The company is assuming, however, that the share exchange ratio was appropriate and that there will be no cash adjustments, as the exchange ratio was determined with care and was audited and confirmed by the court-appointed merger auditors.

The company regards its assessment as validated by Kiel District Court, which rejected the lawsuits filed by both groups of shareholders. Some applicants have appealed against this decision at Schleswig-Holstein Higher Regional Court ("OLG Schleswig"). By resolution of 29 January 2015, Schleswig Higher Regional Court dismissed the objections of all applicants.

Settlement agreement with France Telecom

mobilcom AG, as the company's legal predecessor, and a number of other former mobilcom group companies signed a settlement agreement with France Telecom and associated companies in November 2002. The validity of this settlement agreement is being challenged by a number of individual shareholders.

The company regards the settlement in question as valid and has not received any indication that France Telecom does not feel bound by it. Should the opinion of these shareholders be legally upheld, however, there would be a medium risk for freenet AG that France Telecom will claim from the company the sum of 7.1 billion euros, which it had waived as part of the settlement agreement, and will contest the grounds and amounts of any counterclaims the company might put forward.

Capital increase through contribution in kind

Some shareholders take the view that the capital increase through contribution in kind by mobilcom AG, the company's legal predecessor, in November 2000 was flawed and/or that the contribution in kind rendered was not of any value, with the consequence that on the one hand the company would still be entitled to compensation claims against France Telecom running into billions and, furthermore, that the shares issued to France Telecom would have had no voting rights. freenet AG regards these circumstances as a medium risk and is assuming that the capital increase through contribution in kind was carried out in a valid manner. The company is therefore also assuming that this, too, will have no impact on the arbitration proceedings.

Overall assessment of the risk position

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

Risks	Probability of occurrence	Expected extent of damage	Risk	Tendency
Market risks				
Highly competitive markets	medium	medium	medium	→
Network operator				
Bonuses and margins	medium	medium	medium	→
Servie provider obligation	low	high	medium	→
Shift to direct	medium	low	low	→
O_2 and E-Plus	low	low	low	↗
Acquisition of companies	medium	medium	medium	→
Termination charges	low	medium	low	→
Laws and regulation	low	low	low	→
IT risks	low	medium	low	→
Tax risks				
Loss carryforwards	low	high	medium	→
VAT risk on remuneration of a third party	low	medium	low	↗
Other tax risks	low	medium	low	→
Financial risks				
Bad debt losses	high	low	medium	→
Impairment of the assets	low	high	medium	→
Liquidity				
General liquidity risk	low	high	medium	→
Constraint of financial leeway	low	medium	low	→
Capital risk management	low	high	medium	→
Interest rate risk	low	medium	low	→
Other financial risks	low	immaterial	immaterial	→
Legal risks				
Arbitration proceedings	low	high	medium	→
Settlement agreement with France Telecom	low	high	medium	→
Capital increase by way of contribution in kind	low	high	medium	→

Thanks to the risk management process that has been implemented and the monthly reporting system, the Executive Board has a good overall view of the risk situation presented here. Individual risks have changed only slightly compared with the previous year as far as their probability of occurrence or their impact are concerned. All in all, it can be assumed that the risks have no impact on the continued existence of the freenet Group. The Executive Board is convinced that if the risk management approach used to date is continued with, freenet AG will again be in a position to identify relevant risks in a timely manner and initiate suitable countermeasures to tackle them in the coming financial year.

Market and IT risks as well as tax, financial and legal risks were identified at the end of 2014. Their potential effects on the general future development of the freenet Group and its financial and non-financial performance indicators are classified by the management in overall terms as low. The management is therefore expecting that the positive trend forecast will not be compromised significantly short of as a result of the aforementioned risks.

Key features of the internal control and risk management system in relation to the Group accounting process (section 315 (2) no. 5 HGB)

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

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

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

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

The key elements of the freenet Group's internal control system are based on automated IT control processes with alarm thresholds on the one hand, and on manual process controls to check the plausibility of the automatically aggregated results on the other. The risk management system is linked to the internal control system and covers not only operational risk management, but also the systematic early identification, control and monitoring of risks throughout the Group. For further explanatory notes about the risk management system, please refer to the "Risk management system" section of the risk report.

Structure of the Group accounting process

The accounting processes for the individual financial statements of freenet AG's subsidiaries are basically recorded by local accounting systems manufactured by SAP. freenet AG uses SAP's "EC-CS" module as its consolidation system at the uppermost Group level. For the preparation of the consolidated balance sheet, the consolidated income statement, the consolidated statement of cash flows, and the execution of the capital, debt, and expenses and income consolidation, etc., the data reported by the subsidiaries is entered into the consolidation system in a variety of ways—mostly automatically using the SAP module "FI", and in isolated cases also manually by entering the reported data. The individual disclosures in the Group management report and the notes to the consolidated financial statements are each generated from standardised reporting packages and institutionalised coordination processes as part of the internal control system; these processes are handled using MS Excel among others. The aforementioned information for the notes, too, is consolidated using MS Excel.

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

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

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

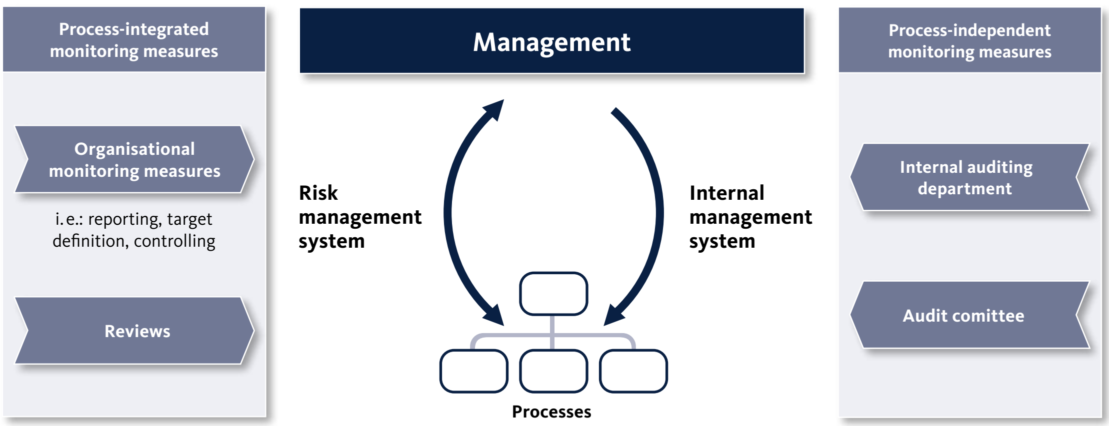
The regular elements in the Group's internal control system are aimed at achieving the extensive automation of the formation and cross-checking of all relevant data, from raw accounting data and customer invoicing to valuation allowances, accruals, depreciation and amortisation. These automated controls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

The Group internal audit department's annual review of the internal control system in 2014 showed that potential improvements ascertained in the departments audited in previous years have been implemented. On the one hand, the department has intensified its proven controlling activities continuously and increased the frequency of internal audits, and on the other hand, it has increased the level of automation within the controlling activities. The results are used to systematically derive measures and monitor their success.

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

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

Figure 11: **Key features of the internal control system at freenet AG**



CORPORATE GOVERNANCE

In this section, the Executive Board reports—also on behalf of the Supervisory Board—on the Corporate Governance in the freenet Group in accordance with clause 3.10 of the German Corporate Governance Code. The chapter also includes the corporate management statement issued in accordance with section 289a HGB.

freenet AG and its management and supervisory bodies are committed to the principles of good and responsible corporate management; they identify with the objectives of the German Corporate Governance Code and with the principles of transparent, responsible and value-appreciation-oriented management and supervision for the company. The Executive Board and the Supervisory Board, together with all managers and employees in the freenet Group, are obliged to pursue these objectives.

At its meeting on 5 December 2014, the Supervisory Board concerned itself with the provisions of the German Corporate Governance Code. The focal point of the discussions concerned the model tables for disclosing the Executive Board remuneration which were due to be applied for the first time. Following an in-depth discussion, the Supervisory Board and the Executive Board jointly decided not to use the model tables. The reason for this was that, in the estimation of the Supervisory Board, maximum sums for particular constellations would have to be included in the model tables, which in turn might lead to a depiction of the remuneration situation that was unrealistic and would require more detailed explanations.

When it prolonged the Executive Board appointments in February 2014, the Supervisory Board was guided by the principle that continuity in the Executive Board should take precedence over selecting new Executive Board members as per the criteria contained in clause 5.1.2 of the Code. The Supervisory Board had explained this intention as early as the declaration of compliance from December 2013. Accordingly, the relevant divergence from the Code can also be found in the current declaration of compliance. In February 2014, in the course of the prolongation of the Executive Board's employment contracts, the Supervisory Board paid particular attention to compliance with the Code's other relevant recommendations.

The other divergences that were declared and the reasons for them were continued from the previous years. The declaration of compliance from 5 December 2014 is included in the following corporate management statement and has been made permanently accessible on the company's website.

Corporate management statement

In the corporate management statement in accordance with section 289a 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 methods of the Executive and Supervisory Boards are described and the composition and working methods of the Supervisory Board's committees are disclosed. freenet AG made the following corporate management statement in accordance with section 289a HGB which is simultaneously a part of its management report for the financial year 2014.

Declaration in accordance with section 161 AktG

In the period between the publication of the last declaration of compliance on 5 December 2013 and 30 September 2014, freenet AG has followed the recommendations of the German Corporate Governance Code ("Code") as amended on 13 May 2013 and since 30 September 2014 has followed the recommendations of the Code as amended on 24 June 2014 with the following exceptions. In the absence of any other declarations by the company below, it will continue to comply with the recommendations of the Code as amended on 24 June 2014 until further notice.

1. The company has taken out D&O insurance for its board members. No retention agreement has been signed with Supervisory Board members because it is not evident that this would represent an advantage for the company. It is taken for granted that all Supervisory Board members carry out their duties responsibly. In order to treat all the Supervisory Board members equally, moreover, any retention would have to be set at a uniform level, even though the members' personal financial backgrounds vary. A standard retention would therefore constitute different burdens for the individual Supervisory Board members. As their responsibilities are the same, this does not seem appropriate. (Code clause 3.8 (3))
2. The company has a strong commitment to transparent reporting. This also applies to the remuneration of the Executive Board members, the separate components of which are disclosed and discussed individually in the remuneration report. Nonetheless, the Executive Board and Supervisory Board have decided not to use the model tables in the remuneration report to depict 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 remuneration components creates an impression which is inconsistent with the actual assumptions for the performance of the share price. (Code clause 4.2.5 sentence 5 and 6)
3. The Supervisory Board considers the current Executive Board to be a success and is therefore striving for continuity on the Executive Board. In the opinion of the Supervisory Board, the selection of Executive Board members according to the criteria defined in 5.1.2 (1) of the Code is of secondary importance. These criteria were therefore not applied when the appointments of the Executive Board members were renewed in February 2014. (Code clause 5.1.2 (1))
4. No age limit has been set for members of the Executive Board and the Supervisory Board. It is not evident why qualified individuals with relevant professional and other experience should not be considered as candidates solely on the grounds of their age. (Code clause 5.1.2 sentence 7 and 5.4.1 sentence 2)
5. The Supervisory Board does not specify any concrete targets for its composition, as defined in clause 5.4.1 (2) and 5.4.2 sentence 1. It can therefore not follow the recommendations made in clause 5.4.1 (3). When proposing new members for election, the Supervisory Board has so far been guided solely by their suitability. The Supervisory Board is convinced that this has proven to be effective. It therefore sees no need to change the procedure. (Code clauses 5.4.1 (2), (3) and 5.4.2 sentence 1)
6. Clause 5.4.6 (2) of the Code recommends aligning performance-related pay for Supervisory Board members with the sustained performance of the company. The Supervisory Board's variable remuneration is set according to the dividend for the past financial year, in line with section 11 (5) of the company's articles of association. This form of variable remuneration has proven its worth in the past. Furthermore, the company's dividend policy as communicated to financial markets, which is based on free cash flow, is aligned with the company's sustained performance. Linking variable remuneration to this dividend strategy therefore also serves the company's sustained performance. For this reason, there is no intention of changing the Supervisory Board's variable remuneration. (Code clause 5.4.6 (2))

Relevant disclosures on corporate management practices

freenet AG has a Group-wide compliance organisation that is continuously expanded and enhanced. The freenet Group's chief compliance officer reports directly to the Executive Board. He helps the Executive Board to highlight the legal requirements that are relevant for freenet AG and to implement them accordingly within the freenet Group, as well as to adapt the compliance system to changing requirements. The chief compliance officer also reports regularly to the Supervisory Board's audit committee.

The chief compliance officer informs the Supervisory Board whenever risks arise which endanger the continued existence of the freenet Group.

The freenet Group is wholeheartedly 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 violations of compliance, such as fraud, corruption and anti-competitive practices, do not arise in the first place. As soon as misconduct and infringements of compliance become evident, these are brought to light and tackled decisively.

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

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

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

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

The aim is to enable the company to take systematic and appropriate action immediately when compliance is violated and thereby to avert damage to the freenet Group. In order to ensure the proper, swift handling of tip-offs in accordance with the whistle-blower process, the freenet Group has set up a whistle-blower committee. Permanent members of the whistle-blower committee are the chief compliance officer, the head of internal auditing and the head of fraud management. The whistle-blower committee is responsible for the operational implementation of the whistle-blower process.

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

The significance of data protection has increased continuously in recent years. The freenet Group is aware of its special responsibility with regard to the handling of the personal data of our customers, suppliers, contractual partners and employees. That is why we regard it as important to protect such data from unauthorised access and to give transparent reports on how we are dealing with the data entrusted to us. Operational responsibility for data protection resides with the Compliance department.

In a variety of training measures, moreover, the compliance organisation has expounded the most significant statutory provisions in this field, as well as the in-house guidelines that it had previously developed. It has also instilled the necessary sense of security in the employees and created the appropriate degree of transparency about themes of crucial importance for the freenet Group. As well as training measures requiring personal attendance, we are developing e-learning programs to help us inform and train a large number of employees efficiently in the crucial areas of compliance.

Working methods 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.

The Executive Board, as the parent company's management body, is obliged to serve the interests of the company and currently consists of three 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 his own sphere of business. The Executive Board members work together in a spirit of cooperation and inform one another in an ongoing fashion about facts and developments in their respective spheres of business at regular Executive Board meetings. In addition, the Executive Board members attend regular meetings of the specialist departments. As part of a distribution-of-business plan, the Supervisory Board determines the individual Executive Board members' areas of responsibility.

The Supervisory Board is convened at least twice in each calendar half-year. It generally makes its decisions at meetings requiring personal attendance, but also by way of commonly used means of communication in exceptional cases. The Supervisory Board regularly advises the Executive Board when the latter is making its decisions about the company's management and also supervises its management activities. The Executive Board includes the Supervisory Board in all decisions of a fundamental nature relating to the company's management and reports regularly about the business performance, the corporate planning, the strategic development and the situation of the company. The Supervisory Board conducts a detailed examination of all deviations of business performance from the plans and targets and discusses these with the Executive Board. It also conducts detailed checks on commercial transactions of significance for the company on the basis of Executive Board reports, takes counsel on such matters 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 methods of committees

The Executive Board has not constituted any committees.

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

Steering committee

The steering committee discusses central themes 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: Dr. Hartmut Schenk (Chairman), Prof. Dr. Helmut Thoma, Birgit Geffke, 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 scrutiny 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: Dr Hartmut Schenk (Chairman), Thorsten Kraemer, Claudia Anderleit, Birgit Geffke

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 financial statements auditing, in the latter case especially with regard to the auditor's independence and the additional services rendered by the auditor. It also concerns itself with compliance-related issues.

Members: Robert Weidinger (Chairman), Marc Tüngler, Ronny Minak, Michael Stephan

Mediation committee

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

Members: Dr Hartmut Schenk (Chairman), Thorsten Kraemer, Knut Mackeprang, Gesine Thomas

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: Dr Hartmut Schenk (Chairman), Marc Tüngler, Achim Weiss

Information required under takeover law according to section 315 (4) HGB

Composition of the subscribed capital

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

Restrictions 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 participations exceeding 10 per cent of the voting rights

As at 31 December 2014, there were no equity participations exceeding 10 per cent of the voting rights at freenet AG.

Shares with special rights and controlling powers

There are no shares with special rights that confer controlling powers.

Type of voting rights control when employees hold an interest in share capital

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

Appointment and dismissal of the members of the Executive Board, changes in the articles of association

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

Powers of the Executive Board to issue shares

The Executive Board, with the approval of the Supervisory Board, is authorised by a resolution of the Annual General Meeting from 23 May 2013 to increase the capital stock by issuing new shares against contributions in cash or kind up to a maximum sum of 12,800,000.00 euros until 5 June 2018 (Authorised Capital 2013).

Furthermore, the Executive Board is authorised by a resolution of the Annual General Meeting from 13 May 2014, likewise with the approval of the Supervisory Board, to increase the capital stock by issuing new shares up to a maximum sum of 12,800,000.00 euros until 12 May 2019 (Conditional Capital 2014). The purpose of the conditional capital increase is to enable no-par-value bearer shares to be granted to the holders or creditors of convertible and/or option bonds which are issued on the basis of the authorisation as adopted by the Annual General Meeting of 13 May 2014 under Agenda item 8, letter A) and which provides a conversion or option right in relation to the no-par-value registered shares of the company or which establishes a conversion or option obligation in relation to these shares.

Powers of the Executive Board to repurchase shares

The Executive Board was authorised by a resolution of the Annual General Meeting from 13 May 2014 to acquire treasury stock up to 10 per cent of the current capital stock until 12 May 2019. 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 stock 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).

Change of control

The bank liabilities that the freenet Group utilises under the syndicated loan agreement can, under certain circumstances, be called in either wholly or partly. A right to call them in can arise if particular contractual restrictions and conditions to which freenet submitted itself when it took on the syndicated loan are violated. To some extent, freenet has no influence on the circumstances under which a right to call in the loan can accrue to the syndicate banks.

This applies in particular for the right to call in a loan in the event of a change in control at the company. Such a change of control comes about, provided that there is an obligation to submit a takeover bid, as soon as one or more persons acting in unison has acquired a majority at the Annual General Meeting. In the event of the syndicated loan agreement being terminated, freenet will bear the risk that subsequent financing for the redemption of the agreement will come about either on less favourable terms or not at all.

Declaration in accordance with section 289a HGB

The declaration in accordance with section 289a HGB is published on the company's website at www.freenet-group.de/en in the Investor Relations/Corporate Governance section.

Compensation report for the Executive Board and Supervisory Board

Executive Board compensation in accordance with HGB

The compensation paid to the members of the Executive Board consists of annual fixed compensation, annual variable compensation, and variable compensation with a long-term incentive effect. There are also pension commitments. The annual variable compensation sums each result from an annual agreement on objectives in which regularly determined figures indicating the freenet Group's significant financial and non-financial performance indicators are defined as individual objectives. In the financial year 2011, a compensation programme with a long-term incentive effect, known as the "LTI programme" (hereinafter also referred to as the "LTIP Programme 1"), was set up for members of the Executive Board. On 26 February 2014, agreements concerning the contracts of employment that grant new LTIPs (hereinafter also referred to as the "LTIP Programme 2") were concluded with the members of the Executive Board.

In the LTIP programmes, an LTIP account is maintained for each member of the Executive Board; in each financial year, depending on the extent to which particular objectives for the financial year in question have been attained, credit or debit entries are made in the accounts in the form of virtual shares. Then, within a predetermined period of time, cash payouts less taxes and duties can be made for each financial year, depending on the balance in the respective LTIP account. The magnitude of these payments is dependent on, among other things, the relevant share price at the time of the payout.

The compensation for the members of the company's Executive Board was broken down as follows in the reporting year and the preceding year; the tables used show the Executive Board compensation as defined in section 314 (1) no. 6a HGB in conjunction with DRS 17. They contain the compensation awarded in the financial year under review. Changes in the value of the LTIP programmes that were not caused by a change in the exercise conditions are, in accordance with section 314 (1) no. 6a HGB, not disclosed.

Table 11: **Executive Board Compensation for financial year 2014 according to HGB**

In EUR '000s	Fixed compensation	Variable cash compensation	Total cash compensation	Granted compensation with long-term incentive effect	Total compensation in accordance with HGB
Christoph Vilanek	767	659	1,426	5,545	6,971
Joachm Preisig	432	540	972	2,912	3,884
Stephan Esch	442	162	604	1,942	2,546
Total	**1,641**	**1,361**	**3,002**	**10,399**	**13,401**

Table 12: **Executive Board Compensation for financial year 2013 according to HGB**

In EUR '000s	Fixed compensation	Variable cash compensation	Total cash compensation	Granted compensation with long-term incentive effect	Total compensation in accordance with HGB
Christoph Vilanek	621	504	1,125	0	1,125
Joachm Preisig	440	504	944	0	944
Stephan Esch	444	151	595	0	595
Total	**1,505**	**1,159**	**2,664**	**0**	**2,664**

In the financial year 2014, the Executive Board compensation in accordance with section 314 (1) no. 6a HGB amounted to 13,401 thousand euros (previous year: 2,664 thousand euros). The increase compared with the previous year is attributable largely to the LTIP programme 2 that was newly awarded in 2014. On the date of its being awarded, 26 February 2014, the fair value of the complete LTIP programme 2 was 10,399 thousand euros in all, of which 5,545 thousand euros were for Mr Vilanek, 2,912 thousand euros for Mr Preisig and 1,942 thousand euros for Mr Esch. For the previous year 2013, on the other hand, there was no compensation with a long-term incentive effect, as such elements had already been disclosed in 2011, the financial year in which the LTIP programme 1 was granted.

In the financial year 2014, there were cash payouts from the LTIP programmes in the amount of 2,847 thousand euros (previous year: 797 thousand euros), with Mr Vilanek receiving 2,280 thousand euros (previous year: 405 thousand euros), Mr Preisig receiving 391 thousand euros (previous year: 270 thousand euros) and Mr Esch receiving 176 thousand euros (previous year: 122 thousand euros). With regard to the cash payouts made to Mr Vilanek, it must be borne in mind that these constituted the full replacement of his previous LTIP programme (goal attainment years 2011 to 2013)—the new LTIP programme for Mr Vilanek takes account of the goal attainment years 2014 to 2018. Mr Preisig and Mr Esch are still in the previous LTIP as at the balance sheet date 31 December 2014 (with the goal attainment years 2011 to 2014); their new LTIP programme will apply during the goal attainment years 2015 to 2019.

As at 31 December 2014, the provision in accordance with HGB for Mr Vilanek's LTIP programme was 1,077 thousand euros (previous year: 1,853 thousand euros), with Mr Preisig receiving 1,551 thousand euros (previous year: 1,236 thousand euros) and Mr Esch receiving 698 thousand euros (previous year: 556 thousand 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 at 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as at 1 September 2008. In February 2014, adjustments were made to all three Executive Board members' pension commitments. For further details, see the section "Compensation rules in the event of a cessation of employment".

As at 31 December 2014, the defined benefit obligation (DBO) relating to commercial law for Mr Vilanek amounted to 1,290 thousand euros (previous year: 698 thousand euros), the DBO for Mr Preisig totalled 1,814 thousand euros (previous year: 613 thousand euros) and Mr Esch's DBO came to 1,345 thousand euros (previous year: 957 thousand euros). The values of obligation for Messrs Spoerr, Krieger and Berger, as former Executive Board members, totalled 4,232 thousand euros as at 31 December 2014 (previous year: 3,702 thousand euros).

Ongoing service costs amounting to 541 thousand euros were reported under personnel expenses for the Executive Board members from the pension commitments (previous year: 515 thousand euros). Of these, 146 thousand euros for 2014 (previous year: 142 thousand euros) were accounted for by Mr Vilanek, 296 thousand euros (previous year: 276 thousand euros) by Mr Preisig and 99 thousand euros (previous year: 97 thousand euros) by Mr Esch. Furthermore, past service costs amounting to 1,375 thousand euros were reported under personnel expenses for the Executive Board members from the pension commitments (previous year: 0), of which 306 thousand euros were accounted for by Mr Vilanek, 941 thousand euros by Mr Preisig and 128 thousand euros by Mr Esch.

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 compensation in accordance with DCGK

Within the meaning of clause 4.2.5 of the German Corporate Governance Code (DCGK), we hereby make the following disclosures about the compensation awarded to the members of the Executive Board for the financial year 2014 and the previous year, and about the compensation from actual payments to the members of the Executive Board in the financial year 2014 and the previous year.

Table 13: **Compensation awarded to the Executive Board for the financial year 2014 in accordance with DCGK**

In EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Total
Fixed compensation	750	418	430	1,598
Fringe benefits	17	14	12	43
Total	**767**	**432**	**442**	**1,641**
Annual variable compensation	500	400	120	1,020
Perennial variable compensation				
LTIP-programme 1	427	706	318	1,451
LTIP-programme 2	1,142	474	316	1,932
Total	**2,069**	**1,580**	**754**	**4,403**
Pension expense				
Current service cost	238	126	167	531
Past service cost	501	1,422	213	2,136
Total	**739**	**1,548**	**380**	**2,667**
Total compensation	**3,575**	**3,560**	**1,576**	**8,711**

Table 14: **Compensation awarded to the Executive Board for the financial year 2013 in accordance with DCGK**

In EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Total
Fixed compensation	600	418	430	1,448
Fringe benefits	21	22	14	57
Total	**621**	**440**	**444**	**1,505**
Annual variable compensation	400	400	120	920
Perennial variable compensation				
LTIP-programme 1	972	649	292	1,913
LTIP-programme 2	0	0	0	0
Total	**1,372**	**1,049**	**412**	**2,833**
Pension expense				
Current service cost	250	125	174	549
Past service cost	0	0	0	0
Total	**250**	**125**	**174**	**549**
Total compensation	**2,243**	**1,614**	**1,030**	**4,887**

Table 15: **Compensation from actual payments to the Executive Board in the financial year 2014 in accordance with DCGK**

In EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Total
Fixed compensation	750	418	430	1,598
Fringe benefits	17	14	12	43
Total	**767**	**432**	**442**	**1,641**
Annual variable compensation	659	540	162	1,361
Perennial variable compensation				
LTIP-programme 1	2,280	391	176	2,847
LTIP-programme 2	0	0	0	0
Total	**2,939**	**931**	**338**	**4,208**
Pension expense				
Current service cost	238	126	167	531
Past service cost	501	1,422	213	2,136
Total	**739**	**1,548**	**380**	**2,667**
Total compensation	**4,445**	**2,911**	**1,160**	**8,516**

Table 16: **Compensation from actual payments to the Executive Board in the financial year 2013 in accordance with DCGK**

Flowed compensation 2013 in EUR '000s	Christoph Vilanek	Joachim Preisig	Stephan Esch	Total
Fixed compensation	600	418	430	1,448
Fringe benefits	21	22	14	57
Total	**621**	**440**	**444**	**1,505**
Annual variable compensation	504	504	151	1,159
Perennial variable compensation				
LTIP-programme 1	405	270	122	797
LTIP-programme 2	0	0	0	0
Total	**909**	**774**	**273**	**1,956**
Pension expense				
Current service cost	250	125	174	549
Past service cost	0	0	0	0
Total	**250**	**125**	**174**	**549**
Total compensation	**1,780**	**1,339**	**891**	**4,010**

Compensation rules in the event of a cessation of employment

The compensation rules in the event of the premature termination of Executive Board members' contracts of employment, and for retirement pension arrangements, are regulated as follows:

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

- On reaching the age of 60, the aforementioned Executive Board members shall receive a retirement pension in the amount of 2.5 per cent of their last annual fixed salary for each year of their Executive Board duties or part thereof for the company or its legal predecessor, freenet.de AG, but no more than one-third of the last annual fixed salary (guaranteed pension).
- Surviving dependants' pension for the spouse or domestic partner and orphan's allowance for any children up until the end of their school education or occupational training, but no later than the age of 27, as an aggregate amount no higher than the guaranteed pension.

The following rules apply for Christoph Vilanek, chairman of the Executive Board, for the period from 1 June 2011 to 31 December 2013:

- On reaching the age of 60, Mr Vilanek shall receive a retirement pension in the amount of 2.5 per cent of his last annual fixed salary for each year of his Executive Board duties or part thereof for the company, but no more than one-third of the last annual fixed salary (maximum pension).
- Surviving dependants' pension for the spouse or domestic partner and orphan's allowance for any children up until the end of their school education or occupational training, but no later than the age of 27, as an aggregate amount no higher than the last retirement pension paid or the value of the pension expectancy reached by the time Mr Vilanek passed away.
- An agreement on objectives was concluded for four years. If his contract of employment comes to an end as a result of the passage of time, termination, annulment or in some other way, or if his Executive Board position comes to an end on grounds of recall, Mr Vilanek shall be entitled to the disbursal of the long-term incentive account as of the time of termination, provided that a positive balance is contained therein. Unless there are important grounds for the company to terminate the contract of employment in accordance with section 626 of the German Civil Code (BGB) or unless the revocation of the Executive Board position is in connection with the termination

of the contract of employment by the company, for which important grounds in accordance with section 626 BGB apply, the number of the virtual shares in the long-term incentive account shall be added to the number of shares that arises for the current financial year as a result of Group EBITDA.

The following rules applied for Executive Board member Stephan Esch for the period from 1 January 2011 to 31 December 2014:

- On reaching the age of 60, Mr Esch shall receive a retirement pension in the amount of 2.5 per cent of his last annual fixed salary for each year of his Executive Board duties or part thereof for the company or its legal predecessor, freenet.de AG, but no more than one-third of the last annual fixed salary (guaranteed pension).
- Surviving dependants' pension for the spouse or domestic partner and orphan's allowance for any children up until the end of their school education or occupational training, but no later than the age of 27, as an aggregate amount no higher than the guaranteed pension.
- An agreement on objectives was concluded for four years. If his contract of employment comes to an end as a result of the passage of time, termination, annulment or in some other way, or if his Executive Board position comes to an end on grounds of recall, Mr Esch shall be entitled to the disbursal of the long-term incentive account as of the time of termination, provided that a positive balance is contained therein. Unless there are important grounds for the company to terminate the contract of employment in accordance with section 626 BGB or unless the revocation of the Executive Board position is in connection with the termination of the contract of employment by the company, for which important grounds in accordance with section 626 BGB apply, the number of the virtual shares in the long-term incentive account shall be added to the number of shares that arises for the current financial year as a result of Group EBITDA.

The following rules applied for Executive Board member Joachim Preisig for the period from 1 June 2011 to 31 December 2014:

- Upon his departure on reaching the age of 60, Mr Joachim Preisig shall receive a retirement pension amounting to 9,333.00 euros (monthly retirement pension commitment). In the event of a premature departure, Mr Preisig shall, upon reaching the age of 60, receive a retirement pension calculated in accordance with the statutory requirements, with the pension commitment corresponding to his actual length of service at the company.
- Surviving dependants' pension for the spouse and orphan's allowance for the children subject to parental custody rights based on the retirement pension commitment for Joachim Preisig. Widows' and orphans' allowances combined may not exceed 90 per cent of the retirement pension to which Mr Preisig had a claim or an expectancy at the time of his death. When orphans reach the age of 18, their claim to the ongoing monthly orphan's allowance shall expire. At this point in time, a single lump sum amounting to 24 times the monthly orphan's allowance shall be paid.
- An agreement on objectives was concluded for four years. If his contract of employment comes to an end as a result of the passage of time, termination, annulment or in some other way, or if his Executive Board position comes to an end on grounds of recall, Mr Preisig shall be entitled to the disbursal of the long-term incentive account as of the time of termination, provided that a positive balance is contained therein. Unless there are important grounds for the company to terminate the contract of employment in accordance with section 626 BGB or unless the revocation of the Executive Board position is in connection with the termination of the contract of employment by the company, for which important grounds in accordance with section 626 BGB apply, the number of the virtual shares in the long-term incentive account shall be added to the number of shares that arises for the current financial year as a result of Group EBITDA.

The following rules have applied for Christoph Vilanek, chairman of the Executive Board, since 1 January 2014:

- On reaching the age of 60, Mr Vilanek shall receive a retirement pension in the amount of 2.7 per cent of his last annual fixed salary for each year of his Executive Board duties or part thereof for the company, but no more than one-third of the last annual fixed salary (guaranteed pension).
- Surviving dependants' pension for the spouse or domestic partner and orphan's allowance for any children up until the end of their school education or occupational training, but no later than the age of 27, as an aggregate amount no higher than the last retirement pension paid or the value of the pension expectancy reached by the time Mr Vilanek passed away.
- An agreement on objectives was concluded for five years. If his contract of employment comes to an end as a result of the passage of time, ter-

mination, annulment or in some other way, or if his Executive Board position comes to an end on grounds of recall, Mr Vilanek shall be entitled to the disbursal of the long-term incentive account as of the time of termination, provided that a positive balance is contained therein. Unless there are important grounds for the company to terminate the contract of employment in accordance with section 626 BGB or unless the revocation of the Executive Board position is in connection with the termination of the contract of employment by the company, for which important grounds in accordance with section 626 BGB apply, the number of the virtual shares in the long-term incentive account shall be added to the number of shares that arises for the current financial year as a result of Group EBITDA.

The following rules have applied for Executive Board member Stephan Esch since 1 January 2015 (agreement dated 26 February 2014):

- On reaching the age of 60, Mr Esch shall receive a retirement pension in the amount of 2.5 per cent of his last annual fixed salary for each year of his Executive Board duties or part thereof for the company or its legal predecessor, freenet.de AG, but no more than 40% of the last annual fixed salary (guaranteed pension).
- Surviving dependants' pension for the spouse or domestic partner and orphan's allowance for any children up until the end of their school education or occupational training, but no later than the age of 27, as an aggregate amount no higher than the guaranteed pension.
- An agreement on objectives was concluded for five years. If his contract of employment comes to an end as a result of the passage of time, termination, annulment or in some other way, or if his Executive Board position comes to an end on grounds of recall, Mr Esch shall be entitled to the disbursal of the long-term incentive account as of the time of termination, provided that a positive balance is contained therein. Unless there are important grounds for the company to terminate the contract of employment in accordance with section 626 BGB or unless the revocation of the Executive Board position is in connection with the termination of the contract of employment by the company, for which important grounds in accordance with section 626 BGB apply, the number of the virtual shares in the long-term incentive account shall be added to the number of shares that arises for the current financial year as a result of Group EBITDA.

The following rules have applied for Executive Board member Joachim Preisig since 1 January 2015 (agreement dated 26 February 2014):

- On reaching the age of 60, Mr Preisig shall receive a retirement pension in the amount of 2.5 per cent of his last annual fixed salary for each year of his Executive Board duties or part thereof for the company, and/or previously at Debitel AG, but no more than one-third of the last annual fixed salary (guaranteed pension).
- Surviving dependants' pension for the spouse or domestic partner and orphan's allowance for any children up until the end of their school education or occupational training, but no later than the age of 27, as an aggregate amount no higher than the guaranteed pension.
- Upon his departure on reaching the age of 60, Mr Preisig shall receive a retirement pension amounting to 9,333.00 euros (monthly retirement pension commitment) from the Debitel pension fund. In the event of a premature departure, Mr Preisig shall, upon reaching the age of 60, receive a retirement pension calculated in accordance with the statutory requirements, with the pension commitment corresponding to his actual length of service at the company. 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 current contract of employment.
- Surviving dependants' pension for the spouse and orphan's allowance for the children subject to parental custody rights based on the retirement pension commitment for Joachim Preisig. Widows' and orphans' allowances combined may not exceed 90 per cent of the retirement pension to which Mr Preisig had a claim or an expectancy at the time of his death. When orphans reach the age of 18, their claim to the ongoing monthly orphan's allowance shall expire. At this point in time, a single lump sum amounting to 24 times the monthly orphan's allowance shall be paid.
- An agreement on objectives was concluded for five years. If his contract of employment comes to an end as a result of the passage of time, termination, annulment or in some other way, or if his Executive Board position comes to an end on grounds of recall, Mr Preisig shall be entitled to the disbursal of the long-term incentive account as of the time of termination, provided that a positive balance is contained therein. Unless there are important grounds for the company to terminate the contract of employment in accordance with

section 626 BGB or unless the revocation of the Executive Board position is in connection with the termination of the contract of employment by the company, for which important grounds in accordance with section 626 BGB apply, the number of the virtual shares in the long-term incentive account shall be added to the number of shares that arises for the current financial year as a result of Group EBITDA.

There are no contracts of employment with subsidiaries of freenet AG.

Compensation for the Supervisory Board

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

- Basic compensation
- Attendance fees
- Performance-linked compensation

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

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

In addition, every Supervisory Board member receives an attendance fee of 1,000 euros for each Supervisory Board meeting that he/she attends. Supervisory Board members who belong to 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 in addition an attendance fee of 1,000 euros for each meeting of the respective committee that they attend. The committee chairperson receives double this amount.

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

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

For their activities during the financial year 2014, the members of the company's Supervisory Board received fixed compensation of 405 thousand euros plus attendance fees amounting to 84 thousand euros. In addition, performance-linked compensation of 405 thousand euros was recorded as an expense. The extent to which this performance-based compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2014. The aggregate compensation paid for Supervisory Board activities thereby amounted to 894 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 17: **Compensation for financal year 2014**

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr. Hartmut Schenk	60.0	12.0	60.0	132.0
Knut Mackeprang[11]	45.0	6.0	45.0	96.0
Claudia Anderleit[11]	30.0	6.0	30.0	66.0
Birgit Geffke[11]	30.0	8.0	30.0	68.0
Thorsten Kraemer	30.0	5.0	30.0	65.0
Ronny Minak[11]	30.0	8.0	30.0	68.0
Michael Stephan[11]	30.0	7.0	30.0	67.0
Prof. Dr. Helmut Thoma	30.0	5.0	30.0	65.0
Gesine Thomas[11]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	8.0	30.0	68.0
Robert Weidinger	30.0	11.0	30.0	71.0
Achim Weiss	30.0	4.0	30.0	64.0
Total	**405.0**	**84.0**	**405.0**	**894.0**

Table 18: **Compensation for financial year 2013**

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr. Hartmut Schenk	60.0	12.0	60.0	132.0
Knut Mackeprang[11]	27.3	4.0	27.5	58.8
Claudia Anderleit[11]	30.0	5.0	30.0	65.0
Birgit Geffke[11]	18.2	6.0	18.3	42.5
Thorsten Kraemer	30.0	7.0	30.0	67.0
Ronny Minak[11]	18.2	5.0	18.3	41.5
Michael Stephan[11]	18.2	5.0	18.3	41.5
Prof. Dr. Helmut Thoma	30.0	5.0	30.0	65.0
Gesine Thomas[11]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	8.0	30.0	68.0
Robert Weidinger	30.0	12.0	30.0	72.0
Achim Weiss	30.0	4.0	30.0	64.0
	351.9	**77.0**	**352.4**	**781.3**
Former members				
Nicole Engenhardt-Gille[11]	17.7	1.0	17.6	36.3
Joachim Halefeld[11]	11.9	4.0	11.8	27.7
Steffen Vodel[11]	11.9	3.0	11.8	26.7
Angela Witzmann[11]	11.9	1.0	11.8	24.7
	53.4	**9.0**	**53.0**	**115.4**
Total	**405.3**	**86.0**	**405.4**	**896.7**

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

FORECAST

The market in 2015

In January 2015, the International Monetary Fund (IMF) reduced its forecast[12] for economic growth in the eurozone in the current financial year to 1.2 per cent. This step took account of the latest developments in oil prices and exchange rates to the same extent as the general geopolitical risks for the European economy. The behaviour of private consumers, which is highly significant for the freenet Group's commercial activities, is substantially dependent on future price expectations. The trend in consumer confidence is thus a suitable macroeconomic indicator of the economic climate's influence on market developments.

The GFK consumer climate study[13] for Germany for January 2015 recently recorded a considerably increased readiness to consume, which is attributed to the low rate of price increases in the eurozone and, in particular, an increase in actual disposal income as a result of reduced energy costs. Accordingly, the savings ratio in private households has decreased significantly since the beginning of last year. On the other hand, deflation risks and a possible financial squeeze affecting retirement pension provision played a subordinate role in consumers' perceptions at the beginning of the year.

The industry association VATM[14] estimates that the cumulative volume of the German telecommunications market will decrease by 1.5 to 2 per cent in the current year. It believes that the anticipated growth in mobile data usage will again be eaten up by falling voice revenue and decreasing domestic and EU-wide roaming charges. VATM is assuming that end-customer prices in the mobile communications segment will fall by around 0.7 per cent. As well as further market consolidation, the trends regarded as the most important on the German telecommunications market are the ongoing expansion of infrastructure in high-performance networks and the topic of mobile payment. All in all, against a backdrop of increasing global interconnection and an intensification of international competition, there is perceived pressure on German telecommunications providers to innovate, develop new business models and open up sources of added value.

Reference to the global trend towards the transformation of the entire economic value creation process into mobile business models has also been made by the consulting firm Boston Consulting Group (BCG) in its publication[15] "The Mobile Revolution" from January 2015. While according to this interpretation, Germany's entire mobile economy—in the fields of telecommunications services, terminals, accessories and mobile content and applications—contributed around 1.8 per cent to overall gross domestic value added in the financial year 2014, the average annual growth rate for this mobile part of the German economy in the years 2009 to 2014 was 9.1 per cent. In an international comparison of growth momentum, Germany is behind South Korea (18.3 per cent), China (17.7 per cent), the USA (15.4 per cent), India (12.4 per cent) and Brazil (11.7 per cent). However, German consumers spent the highest proportion of their disposable household incomes, around 13 per cent, on

12 http://bit.ly/1wo7Nob
13 http://bit.ly/1ton7Ge
14 http://bit.ly/1owU6vk
15 http://on.bcg.com/1zegzMm

mobile technologies in the period surveyed. Not only technological innovations, but also the fundamental issue of saving time and/or money as a result of the respective mobile applications are of crucial significance for the private internet-based use of mobile devices.

In connection with this, the publication[16] by the industry association BITKOM and the consulting firm Deloitte entitled “Before the Boom—Market Prospects for Smart Home” on the occasion of the national IT summit in Hamburg referred as early as October 2014 to the significant year-on-year improvement in the market prospects for the interconnected private home. While it will be 2015 at the earliest before the threshold of 500 thousand households is reached, it is estimated that at least one million households in Germany will be interconnected by 2020. The special growth momentum in this specific market segment is shown clearly by the average annual growth rate of 18 per cent for the years 2013 to 2020. In addition to the overarching factors of the general market environment, technological innovations, social trends and the German energy transition, the following factors in particular are regarded as Smart Home growth drivers: portfolio broadening by established providers, enhancement of after-sales service, price reductions for hardware and services, low barriers to market entry, greater transparency for consumers, cross-sector collaborations, availability of efficient broadband access.

As a result, the following assumptions in particular are seen as material for the derivation of forecasts for the freenet Group:

- Increased readiness of private households to consume digital lifestyle products
- Continuing slight decrease in cumulative market volume for telecommunications
- Increase in the marketing of integrated product offers from the network operators (landline, mobile communications, broadband, television)
- Slight decrease in end-customer prices in mobile communications accompanied by continued high intensity of competition and growing importance of data tariffs
- High growth rates in new market segments associated with digital lifestyle, especially in the Smart Home segment.

freenet Group

In the mobile communications business segment, the freenet Group operates on a saturated market characterised by high intensity of competition. The slightly declining cumulative market volume is still under pressure to consolidate from the supplier side and influenced by falling aggregate consumer figures on the consumer side. In addition, the freenet Group is increasingly positioning itself with products and services in the digital lifestyle field, also in young markets. These market segments—such as Smart Home—have great growth potential. At the same time, these business segments—measured against aggregate Group revenue—currently constitute only a relatively small part of the freenet Group’s aggregate volume of business.

The business outlook for the freenet Group that was forecast with the help of the defined performance indicators in the Group management report accompanying the consolidated financial statements for the financial year 2013 has proved to be accurate in overall terms. Only the estimate by the Executive Board regarding the development of Group revenue was updated and made more specific during the course of the year. This was significantly caused by the change in procurement management at a large distribution partner for particular devices that were previously obtained from the freenet Group. As a result, part of the hardware revenue with low trading margins expired during the course of the year. Against the backdrop of the multi-branding strategy, both the systematic expansion of distribution channels and the launching of new products in a planned way have helped to consolidate our market position as a leading digital lifestyle provider. Beyond that, the slight decline in the volume of business from the traditional field of mobile communications was largely compensated for by a broadening of the portfolio by means of acquisitions and partnerships.

16 http://bit.ly/10xT5xO

In the future, too, the freenet Group is going to concentrate on the retention and acquisition of valuable mobile communications customers (customer ownership) in order to use the resultant cross-selling potential for the further expansion of its digital lifestyle business. For this purpose, in-house organisational requirements are being put in place so that customers, in the fast-growing and in some ways highly fragmented new market segments, can be presented with offers tailored to their individual needs in all of the relevant distribution channels. The freenet Group's declared objective is to grow more quickly than the market in these areas. The company's early positioning as a digital lifestyle provider, together with its existing multichannel sales activities, provide a good starting position for achieving that objective.

Table 19: **Development of the key performance indicators**

	Forecast of 2013[17]				Current Forecast	
In EUR million/as inidcated	2014	2015	2013	Change in %	2015	2016
Financial performance indicators						
Group revenue	slight increase	slight increase[18]	3,040.6	–4.8	stable	slight increase
Group EBITDA	365	370	365.6	2.3	370	375
Free cash flow[19]	265	280	266.6	4.1	280	285
Postpaid ARPU (in EUR)	slight decrease	stable	21.4	–4.1	stable	stable
Non-financial performance indicators						
Customer Ownership	slight increase	slight increase	8.92	1.9	slight increase	slight increase

For both 2015 and 2016, freenet AG is expecting a slight increase in the number of customers in the customer-ownership customer portfolio (postpaid and no-frills). freenet AG is still trying to counter the sustained fall in prices on the mobile communications market and the concomitant general decline in ARPU with a qualitative improvement in its customer base and intensified marketing of data tariffs in conjunction with increased demand for smartphones and mobile digital lifestyle applications.

In the financial year 2014, freenet AG effectively countered the decline in prices that has generally applied on the telecommunications market (decrease in postpaid ARPU). Recent positive developments in the area of new customers, in conjunction with existing tariff models, led in the financial year 2014 to a slowdown in the decline of ARPU. Based on this, freenet AG assumes that there will be a further stabilisation of postpaid ARPU for the financial years 2015 and 2016.

freenet AG expects to see a stabilisation in Group revenue in the financial year 2015 and a slight increase in the financial year 2016. The company's optimism is based not only on the aforementioned expectations regarding the development of customer ownership and postpaid ARPU in the core business segment of mobile communications, but also the increasing cultivation of revenue sources from the sale of devices, accessories and services for mobile applications covering various aspects of digital lifestyle.

In line with the developments described above, freenet AG aims to achieve a Group EBIDTA of around 370 million euros for the financial year 2015 and around 375 million euros for the financial year 2016.

17 In accordance with the Group management report accompanying the consolidated financial statements for 2013.
18 Updated in the interim report as at 30 June 2014 from the original "slight increase" to "slight decrease" and put in more concrete terms in the interim report as at 30 September 2014.
19 Free cash flow is defined as cash flow from current operating activities, less investments in property, plant and equipment and intangible assets, plus the cash inflows from disposals of intangible assets and property, plant and equipment.

freenet AG also aims to achieve free cash flow for the freenet Group, defined as cash flow from current operating activities, less investments in property, plant and equipment and intangible assets, plus the cash inflows from disposals of intangible assets and property, plant and equipment in the amount of approx. 280 million euros in the financial year 2015 and approx. 285 million euros in the financial year 2016.

Further statements about the future development of performance indicators without control-specific relevance can be found in the economic report.

Overall guidance of the Group's expected development

The Executive Board of freenet AG expects to see a positive overall development for the company based on the stabilisation – initiated as early as 2011 – of the customer-ownership customer portfolio in the valuable customer segments of postpaid and no-frills and on the further expansion of the digital lifestyle spectrum in the course of the financial year ended. The company will maintain its fundamental orientation towards valuable customer relationships in all business segments in order to further safeguard its established position in the mobile communications market, while simultaneously exploiting growth potential in the young, fast-growing market segments associated with the digital lifestyle segment.

The key elements of this commercial orientation are the safeguarding and strengthening of sustainable profitability and a healthy cash flow. Beyond that, the company is keen to open up additional fields of activity by organic and inorganic means with a view to broadening the company's portfolio and expanding distribution channels, while remaining close to its core business and adhering to strict profitability and investment guidelines.

Büdelsdorf, (date) 3 March 2015
The Executive Board

Christoph Vilanek | Joachim Preisig | Stephan Esch

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the period from 1 January to 31 December 2014

In EUR '000s or as indicated	Note	1.1.2014 –31.12.2014	1.1.2013 –31.12.2013
Revenue	4	3,040,585	3,193,329
Other operating income	5	64,527	69,785
Pother own work capitalised	6	13,338	10,752
Cost of materials	7	−2,262,528	−2,462,083
Personnel expenses	8	−199,677	−174,127
Depreciation and impairment write-downs	9	−64,413	−56,092
Other operating expenses	10	−290,911	−280,477
Operating result		**300,921**	**301,087**
Share of results of associates	17	273	220
Interest receivable and similar income	11	1,715	1,769
Interest payable and similar expenses	12	−42,276	−44,633
Result before taxes on income		**260,633**	**258,443**
Taxes on income	13	−12,470	−19,503
Group result from continued operations		**248,163**	**238,940**
Group result from discontinued operations		**0**	**0**
Group result		**248,163**	**238,940**
Group result attributable to shareholders of freenet AG		247,465	238,943
Group result attributable to non-controlling interest		698	−3
Earnings per share in EUR (undiluted)	14.1	**1.93**	**1.87**
Earnings per share in EUR (diluted)	14.2	**1.93**	**1.87**
Earnings per share from continued operations in EUR (undiluted)	14.1	1.93	1.87
Earnings per share from continued operations in EUR (diluted)	14.2	1.93	1.87
Earnings per share from discontinued operations in EUR (undiluted)	14.1	0.00	0.00
Earnings per share from discontinued operations in EUR (diluted)	14.2	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)		128,011	128,011
Weighted average of shares outstanding in thousand (diluted)		128,011	128,011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2014

In EUR '000s	1.1.2014 —31.12.2014	1.1.2013 —31.12.2013
Group result	**248,163**	**238,940**
Change in fair value of available-for-sale financial instruments	–43	–80
Currency difference	353	0
Income tax recognised in other comprehensive income	–93	24
Other comprehensive income/to be reclassified to the income statement in the following periods	**217**	**–56**
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011)	–12,475	809
Income tax recognised in other comprehensive income	3,749	–242
Other comprehensive income/not to be reclassified to the income statement in the following periods	**–8,726**	**567**
Change in value recognised directly in equity	**–8,509**	**511**
Consolidated comprehensive income	**239,654**	**239,451**
Consolidated comprehensive income attributable to shareholders of freenet AG	238,956	239,454
Consolidated comprehensive income attributable to non-controlling interest	698	–3

CONSOLIDATED BALANCE SHEET

as of 31 December 2014

Assets

In EUR '000s	Note	31.12.2014	31.12.2013
Non-current assets			
Intangible assets	15, 16	390,137	397,331
Goodwill	15, 16	1,153,298	1,122,112
Property, plant and equipment	15, 16	34,307	33,752
Investments in associates	17	1,519	1,395
Other investments	18	1,534	1,540
Deferred income tax assets	19	199,853	186,947
Trade accounts receivable	21	79,581	78,508
Other receivable and other assets	21	11,950	14,549
		1,872,179	**1,836,134**
Current assets			
Inventories	20	79,996	69,802
Current income tax assets	23	1,826	2,326
Trade accounts receivable	21	408,482	423,121
Other receivables and other assets	21	23,879	35,049
Cash and cash equivalents	22	111,944	110,766
		626,127	**641,064**
		2,498,306	**2,477,198**

Consolidated financial statements

Shareholders' equity and liabilities

In EUR '000s	Note	31.12.2014	31.12.2013
Shareholders' equity			
Share capital	25.1	128,061	128,061
Capital reserve	25.2	737,536	737,536
Cumulative other comprehensive income		–21,295	–12,786
Retained earnings	25.3	445,625	383,776
Capital and reserves attributable to shareholders of freenet AG		**1,289,927**	**1,236,587**
Capital and reserves attributable to non-controlling interest		3,693	2,995
		1,293,620	**1,239,582**
Non-current liabilities			
Trade accounts payable	27	540	0
Other payables	27	38,351	65,894
Borrowings	29	518,223	517,599
Deferred income tax liabilities	19	123	157
Pension provisions	30	59,346	44,369
Other provisions	31	9,097	9,512
		625,680	**637,531**
Current liabilities			
Trade accounts payable	27	369,931	401,970
Other payables	27	124,318	113,520
Current income tax liabilities	28	38,663	43,276
Borrowings	29	20,333	20,413
Other provisions	31	25,761	20,906
		579,006	**600,085**
		2,498,306	**2,477,198**

Consolidated financial statements

SCHEDULE OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2014

In EUR '000s	Share capital	Capital reserve	Cumulative other comprehensive income: Revaluation reserve	Cumulative other comprehensive income: Actuarial valuation reserve in accordance with IAS 19	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1.1.2013	**128,061**	**737,536**	**–13**	**–13,284**	**324,883**	**1,177,183**	**370**	**1,177,553**
Initial consolidation of subsidiaries	0	0	0	0	0	0	2,994	2,994
Dividend payment	0	0	0	0	–172,815	–172,815	0	–172,815
Acquisition of additional shares in subsidiaries	0	0	0	0	366	366	–366	0
Recognition of stock option liabilities connected to company acquisitions	0	0	0	0	–7,601	–7,601	0	–7,601
Group result	0	0	0	0	238,943	238,943	–3	238,940
Change in fair value of available-for-sale financial instruments	0	0	–56	0	0	–56	0	–56
Recognition of actuarial losses acc. IAS 19 (2011)	0	0	0	567	0	567	0	567
Sub-total: Consolidated comprehensive income	0	0	–56	567	238,943	239,454	–3	239,451
As of 31.12.2013	**128,061**	**737,536**	**–69**	**–12,717**	**383,776**	**1,236,587**	**2,995**	**1,239,582**

In EUR '000s	Share capital	Capital reserve	Cumulative other comprehensive income: Revaluation reserve	Cumulative other comprehensive income: Differences in currency translation	Cumulative other comprehensive income: Actuarial valuation reserve in accordance with IAS 19	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1.1.2014	**128,061**	**737,536**	**–69**	**0**	**–12,717**	**383,776**	**1,236,587**	**2,995**	**1,239,582**
Dividend payment	0	0	0	0	0	–185,616	–185,616	0	–185,616
Group result	0	0	0	0	0	247,465	247,465	698	248,163
Recognition of actuarial gains and losses acc. IAS 19 (011)	0	0	0	0	–8,726	0	–8,726	0	–8,726
Change in fair value of available-for-sale financial instruments	0	0	–30	0	0	0	–30	0	–30
Foreign currenvy translation	0	0	0	247	0	0	247	0	247
Sub-total: Consolidated comprehensive income	0	0	–30	247	–8,726	247,465	238,956	698	239,654
As of 31.12.2014	**128,061**	**737,536**	**–99**	**247**	**–21,443**	**445,625**	**1,289,927**	**3,693**	**1,293,620**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period from 1 January to 31 December 2014

In EUR '000s	Note	1.1.2014 –31.12.2014	1.1.2013 –31.12.2013
Result from continued and discontinued operations before interest and taxes (EBIT)		**301,194**	**301,307**
Adjustments			
Depreciation and impairment on items of fixed assets	9	64,413	56,092
Share of results of associates	17	–273	–220
Income from the sale of subsidiaries	24	0	–4,009
Loss on disposals of fixed assets		–393	–1,131
Increase in net working capital not attributed to investing or financing activities	20, 21, 27, 30, 31, 33.1	–29,047	–50,096
Other non-cash components		–1,000	0
Income taxes paid	13, 19	–40,407	–23,545
Cash flow from operating activities	33.1	**294,487**	**278,398**
Investments in property, plant and equipment and intangible assets		–28,768	–22,323
Proceeds from the disposal of property, plant and equipment and intangible assets		832	90
Purchase of subsidiaries	36.1, 36.2	–44,587	–13,176
Proceeds from the sale of subsidiaries	24	640	1,140
Outflow of funds from deconsolidation		0	–2,734
Return of capital from associates	17	150	250
Interest received		1,347	1,318
Cash flow from investing activities	33.2	**–70,386**	**–35,435**
Dividend payment		–185,616	–172,815
Payments for the acquisition of minority interests		0	–5,000
Cash repayments of borrowings	29	–315	–125,020
Interest paid		–36,992	–36,715
Cash flow from financing activities	33.3	**–222,923**	**–339,550**
Cash-effective change in cash and cash equivalents		**1,178**	**–96,587**
Cash and cash equivalents 1.1.		**110,766**	**207,353**
Cash and cash equivalents 31.12.		**111,944**	**110,766**

Composition of cash and cash equivalents Figures in EUR '000s	31.12.2014	31.12.2013
Cash and cash equivalents of continued operations	111,944	110,766
	111,944	**110,766**

Composition of free cash flow Figures in EUR '000s	31.12.2014	31.12.2013
Cash flow from operating activities	294,487	278,398
Investments in property, plant and equipment and intangible assets	–28,768	–22,323
Proceeds from the disposal of property, plant and equipment and intangible assets	832	90
Free cash flow (FCF)	**266,551**	**256,165**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF FREENET AG FOR THE FINANCIAL YEAR 2014

1. General information

1.1 Business activity and accounting standards

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

The consolidated financial statements for the financial year 2014 were prepared in accordance with the IFRS accounting standards promulgated by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC) as applicable in the European Union as at 31 December 2014. The provisions of German commercial law to be applied in accordance with section 315a HGB were additionally taken into consideration.

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 are subject to uniform accounting and valuation principles. They have been prepared as at the same balance sheet date as the consolidated financial statements.

The consolidated financial statements are submitted to the electronic Federal Gazette.

The following table shows the new or modified standards (IAS/IFRS) and interpretations (IFRIC) whose application is mandatory from 1 January 2014 and their respective impact on the Group:

Standard/ interpretation		**Mandatory application**	**Adoption by EU Commission**	**Effects**
IFRS 10	Consolidated Financial Statements	1.1.2014[1]	11.12.2012	Depending on the nature and type of future transactions
IFRS 11	Joint Arrangements	1.1.2014[1]	11.12.2012	No material effects
IFRS 12	Disclosures of Interests in Other Entities	1.1.2014[1]	11.12.2012	Disclosures in notes for interests in companies, incl. subsidiaries
IFRS 10, IFRS 11 and IFRS 12	Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance for the Adoption of the Standards	1.1.2014[1]	4.4.2013	No material effects
IFRS 10, IFRS 12 and IAS 27	Amendments to IFRS 10, IFRS 12 and IAS 27: Exception from the Obligation to Consolidate Investment Entities	1.1.2014	20.11.2013	None
IAS 27	Separate Financial Statements	1.1.2014[1]	11.12.2012	None
IAS 28	Investments in Associates and Joint Ventures	1.1.2014[1]	11.12.2012	No material effects
IAS 32	Amendment to IAS 32, Financial Instruments Presentation: Offsetting Financial Assets and Financial Liabilities	1.1.2014	13.12.2012	Disclosures in notes to balance financial assets and liabilities
IAS 36	Amendment to IAS 36, Impairment of Assets: Measurement of Recoverable Amount	1.1.2014	19.12.2013	Disclosures in notes on recoverable amount
IAS 39	Amendment to IAS 39, Financial Instruments: Recognition of Measurement: Novation of Derivatives and Continuation of Hedge Relationships	1.1.2014	19.12.2013	None

1 Mandatory adoption in the EU detailed at this point from the IASB requirements.

The following table shows the new or modified standards (IAS/IFRS) and interpretations (IFRIC) whose application was not yet mandatory in the 2014 financial year and their respective impact on the Group:

Standard/ interpretation		Mandatory application	Adoption by EU Commission	Effects
Diverse	Annual Improvements Project 2010 to 2012 - Improvements of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38)	1.7.2014	17.12.2014	No material effects
Diverse	Annual Improvements Project 2011 to 2013—Improvements of IFRS (IFRS 1, IFRS 3, IFRS 13, IAS 40)	1.7.2014	18.12.2014	No material effects
IAS 19	Amendment to IAS 19, Employee Benefits	1.7.2014	17.12.2014	No material effects
Diverse	Annual Improvements Project 2012 to 2014—Improvements of IFRS (IFRS 7, IFRS 15, IAS 19, IAS 34)	1.1.2016	Pending	No material effects
IFRS 14	Regulatory Deferral Accounts	1.1.2016	Pending	None
IFRS 11	Amendment to IFRS 11: Balancing an aquisition of shares in Joint Operations	1.1.2016	Pending	Depending on the nature and type of future transactions
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1.1.2016	Pending	None
IAS 16 and IAS 41	Amendments to IAS 16 and IAS 41: Bearer Plant	1.1.2016	Pending	None
IFRS 10 and IAS 28	Amendments to IFRS 10 and IAS 28: Sales or contributions of assets between an investor and its associate/ Joint Venture	1.1.2016	Pending	None
IFRS 10, IFRS 12 and IAS 28	Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception	1.1.2016	Pending	None
IAS 27	Amendment to IAS 27: Equity method in seperate financial statements	1.1.2016	Pending	None
IAS 1	Amendment to IAS 1: Disclosure-Initiative	1.1.2016	Pending	No material effects
IFRS 15	IFRS 15, Revenue from contracts with customers	1.1.2017	Pending	Subject to audit by management
IFRS 9	IFRS 9, Financial Instruments (July 2014)	1.1.2018	Pending	No material effects
IFRIC 21	Levies: Recognition of Obligations for Paying Public Levies	1.1.2014	17.6.2014	None

The Group applied all of the accounting standards which have been mandatory since 1 January 2014. Their application had no material impact on the consolidated financial statements. The standards whose application was to be mandatory as from 1 January 2014, namely IAS 27 (Seperate Financial Statements), IAS 28 (Investments in Associates and Joint Ventures), IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements) and IFRS 12 (Disclosure of Interests in Other Entities) were already applied voluntarily as at 1 January of the previous year.

On 28 May 2014, IASB published the standard IFRS 15 (Revenue from Contracts with Customers). IFRS 15 provides a standard body of rules for all questions arising from the reporting of revenue from contracts with customers. The requirements stipulated in IFRS 15 must be applied in a standardised manner for different transactions and across all sectors, thereby improving the global comparability of revenue-related disclosures made by companies. The only exceptions are contracts covered within the scope of IAS 17 (Leases), IFRS 4 (Insurance Contracts) and IFRS 9 (Financial Instruments). IFRS 15 replaces the previous standards and interpretations for the reporting of revenue, and therefore IAS 11 (Construction Contracts), IAS 18 (Revenue), IFRIC 13 (Customer Loyalty Programmes), IFRIC 15 (Agreements for the Construction of Real Estate), IFRIC 18 (Transfers of Assets from Customers) and SIC-31 (Revenue—Barter Transactions Involving Advertising Services). The first-time application must generally be retrospective, although Appendix C contains a number of simplifications for the transition to IFRS 15.

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

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

On the basis of this new balance sheet accounting, enhanced disclosures in the Notes will also be required. Among other things, expositions concerning the times when the various types of performance obligations are fulfilled and concerning the contractually agreed payment plans will be required. Outstanding performance obligations must be explained with regard to the transaction price still to be allocated to them and the outstanding fulfilment period.

1.2 Consolidated companies

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 315a HGB in note 37.

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

Associated companies are defined as companies over which the Group exerts a significant influence but which are not controlled by the Group; this usually involves a share of between 20 and 50 per cent in their voting rights.

The companies 01019 Telefondienste GmbH, 01024 Telefondienste GmbH, freenet.de GmbH, freenet Cityline GmbH, freenet Datenkommunikations GmbH, 01050.com GmbH, tellfon GmbH, 01083.com GmbH, new directions GmbH, freenet Direkt GmbH, mobilcom-debitel GmbH, MobilCom Multimedia GmbH, mobilcom-debitel Shop GmbH, Stanniol GmbH für IT & PR, Gravis—Computervertriebsgesellschaft mbH, MFE Energie GmbH, freenet digital GmbH, iLove GmbH, Quaid Media GmbH (former Lorena GmbH), Motility GmbH, klarmobil GmbH and callmobile 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 2014.

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 is able to exercise control over the entity in which it holds an equity interest, is exposed to fluctuating returns from that holding, and can influence the level of returns as a result of its control. 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. Non-controlling interests are disclosed separaretly on the balance sheet.

The purchase method was applied to the capital consolidation.

The acquisition cost of a business combination is determined by the sum of the fair values of the assets assigned, 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 shares in the acquired company which are not controllable 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, how the options are recognised depends on how opportunities and risks arising from these shares are assigned. 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 which is 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 is recognised to the disadvantage of the equity attributable to the shareholders of freenet AG. The financial liability is initially valued 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 from 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 that portion of the asset value at the time of acquisition, as determined in the initial valuation, which is in excess of the purchaser's share of the net fair value of the acquired company's identifiable assets, liabilities and contingent liabilities. Any excess in the share of the net fair value of the acquired company over the acquisition costs is recognised immediately as income.

Investments in associates as well as joint ventures are disclosed in the consolidated financial statements using the equity method, with the recognised values of the shareholdings being increased or reduced annually by the proportion of the changes in equity at the respective company which is 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 from the time when the associate is acquired. Goodwill arising from the acquisition of associates and joint ventures is not disclosed separately. If the Group's share of the losses of an associate or a joint venture is equal to or higher than the value of its shareholding in that company, the Group does not recognise any further proportional losses. After the amount recognised for the shareholding is reduced to zero, additional losses are recognised as a liability only to the extent that the company has entered into legal or constructive obligations or has made payments for the associate or joint venture.

If the Group loses control over a company, its remaining share is revalued at fair value and the resulting difference is recognised as 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 immediately disposed of the corresponding assets and liabilities. This means that a profit or loss that had previously been recognised in other comprehensive income is no longer recognised in equity, instead being shown under earnings.

Intra-Group profits and losses, revenue, expenses and income as well as receivables and liabilities between the consolidated companies are eliminated. The elimination of intra-Group results is also applicable for joint ventures and associates.

2. Accounting and valuation methods

The following accounting and valuation methods were applied during the preparation of these consolidated financial statements. The accounting and valuation methods have basically been used continuously since last year. Regarding the changes, please refer to notes 1.1 and 2.18 of these notes.

2.1 Recognition of revenue and expenses

The Group largely 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 and cash discounts. Revenue comprises the fair value of the consideration that has been, or will be, received for the sale of products and services within the framework of normal business activity.

The bulk 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 division of business sectors consult note 3, Segment reporting) :

Revenue in the mobile communications segment is generated by the spectrum 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.

Customer acquisition costs, which consist mainly of the costs incurred in acquiring the mobile devices and the dealer commissions, are usually recognised immediately as expenses when customers have signed up. 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 partially as expenses in the income statement rather than being recognised in full at the point where the customers are acquired. The remaining costs are recognised over the life of each new customer's contract. The amount recognised immediately as expenditure in the income statement at the point when the customer is acquired depends on the extent of the service rendered by the dealer at the point where the customer is acquired in relation to the dealer's entire service over the customer's contractual life.

Certain end user contracts in the mobile communications segment are multiple-component contracts within the meaning of IAS 18.13. The "relative fair value method" is used for revenue generated with multiple-component contracts. The Group applies the US-GAAP guideline ASC 605-25 (formerly EITF 00-21) in accordance with IAS 8.10 et seq. The price for the entire multiple-component business is broken down over the various valuation entities on the basis of the proportional fair values. The amount of revenue to be recognised in relation to the elements that have already been supplied is limited to the level of revenue that is not dependent on services to be provided in the future (known as "cash restriction").

The Group receives commission revenue from the operators of mobile communications networks in particular for newly acquired customers and for contract extensions. Commission revenue for new customers is recognised as soon as a new customer is provided with network access by a network provider. The commission claims are based on contractually defined qualitative and quantitative characteristics such as the number of new customers per quarter or the average revenue per customer. In addition, market development funds for individual advertising campaigns are also provided by the network operators and, if the granting of the funds is linked to the activation of new customers, these are recognised in revenue. Insofar as claims extend beyond the period in which the services were rendered, commission revenue is accrued accordingly.

2.2 Borrowing costs, interest expenses and interest income

Borrowing costs are capitalised if a qualified asset is on hand. In the financial year 2014, as in the previous year, no borrowing costs capable of being capitalised were incurred. Other borrowing costs are recognised as expenses in the period of their occurence.

2.3 Intangible assets

Goodwill is tested for impairment at least once a year as well as with indications of impairment and is shown at 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 merger that gave rise to the goodwill. With regard to the specific allocation, please refer to note 15, Intangible assets, property, plant and equipment, and goodwill, and note 16, Impairment test for non-monetary assets.

One trademark with a substantial residual carrying amount is an asset with an indefinite useful economic life, which is not depreciated but rather subject to an impairment test once a year or if there are any indications of impairment. An indefinite useful life has been chosen because no steady loss of value is discernible in relation to this asset and no time limit could be applied to its useful life.

The other trademarks, on the other hand, have definable lifespans. These trademarks are carried at their historical cost and are amortised on a scheduled straight-line basis over their anticipated useful economic lives of 36 to 90 months. On the balance sheet date 31 December 2014, the remaining useful life of these trademarks was between 13 and 39 months.

Licences and software are shown at historical cost and are amortised on a scheduled straight-line basis over their expected useful economic life, 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 recognised as expenses 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 capitalised as intangible assets in the category "internally generated software". The development costs are not capitalised until the point in time when the product`s technical and economic feasibility can be proven. 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 protion of relevant overheads. Capitalised software development costs are subject to straight-line depreciation over the duration of their likely useful lives of three to five years.

Customer relationships are amortised on a scheduled straight-line basis over a period of 36 to 60 months. On the balance sheet date 31 December 2014, the remaining useful life of the customer relationships recognised in the balance sheet was between 13 and 49 months.

Distribution rights are amortised on a scheduled straight-line basis over the expected duration of the underlying agreements. On the balance sheet date 31 December 2014, the remaining useful life of the distribution rights recognised in the balance sheet was between 1 and 36 months.

2.4 Property, plant and equipment

Property, plant and equipment are valued at their acquisition or production cost less scheduled straight-line depreciation and, if applicable, impairments. The useful economic 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.

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

Asset	Useful life
Buildings	25 to 33 years
Technical equipment and machinery	3 to 8 years
Motor vehicles	5 to 6 years
IT equipment	3 years
Telecommunications equipment and hardware	2 to 5 years
Leasehold improvements	3 to 10 years

2.5 Impairment of non-monetary assets

Non-monetary assets are always impaired if the carrying amount exceeds the recoverable amount. The recoverable amount is defined as the higher of the fair value of the asset, less selling costs, 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 value is written up to a figure not exceeding the amortised cost. This is not applicable for goodwill, as no write-up is permissible.

2.6 Leases

2.6.1 The Group as lessee

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

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

In accordance with IAS 17, the leased assets which are attributable to the Group as the beneficial owner under finance leases are capitalised at the lower of fair value of the leased asset and the present value of the minimum lease payments, and are depreciated over the shorter of their normal useful life and the term of the lease. Accordingly, the liability arising from the lease is classified as a liability and reduced by the repayment portion of the lease instalments that have already been paid. The interest portion of the lease instalments is recognised under expenses. As at the balance sheet date 31 December 2014, one agreement was classified as a finance lease comparable to the former balance sheet—the agreement concerns the leasing of various items of software and hardware for our shops.

2.6.2 The Group as lessor in finance leases

When the beneficial ownership of an asset is transferred to the contractual partner or customer, the Group reports a receivable due from the lessee in accordance with IAS 17. The receivable is shown in the amount of the net investment value as of the time when the contract is concluded. Lease instalments which are received are split into an interest component, which is recognised in the income statement, and a redemption component. The interest components are recognised as financial income spread over the relevant periods. As at the closing date 31 December 2014, comparable to the closing date 2013, there are no contracts in which the Group is classified as the lessor in finance leases.

2.7 Investments in associates and joint ventures

Ongoing equity investments in associates and joint ventures are recognised through an individual financial statement prepared for the respective associates or joint ventures in accordance with IFRS and the Group's accounting and valuation methods. With regard to the principles of consolidation using the equity method, please refer to note 1.3.

2.8 Financial instruments

2.8.1 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 basically broken down into the following categories:

- Financial assets measured at fair value through profit or loss
- Loans and receivables
- Held-to-maturity financial assets
- Available-for-sale financial assets
- Financial liabilities, measured at amortised costs.

The category "Financial liabilities, measured at fair value through profit or loss" will not be discussed any further due to its lack of relevance to the Group.

How the financial assets and financial liabilities are classified depends on the individual purposes for which they were acquired. The management determines how the financial assets and financial liabilities are to be classified upon initial recognition.

2.8.2 Financial assets measured at fair value through profit or loss

This category comprises two subcategories: Financial assets which are classified as "held for trading" right from the outset and financial assets which are classified as "measured at fair value through profit or loss" from the outset. A financial asset is assigned to this category if it is basically acquired with the intention of being sold in the near future or if the financial asset is designated accordingly by management. Derivatives are likewise included in this category.

As at the balance sheet date, there are no financial assets measured at fair value through profit or loss.

2.8.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. They arise if the Group provides money, commodities or services directly to a debtor without any intention of trading the receivables. 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 shown under non-current assets. Loans and receivables are shown in the balance sheet under trade receivables, other receivables and other assets, and cash and cash equivalents.

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

Loans and receivables also include services which have been rendered but which have not yet been billed, although a contractual claim exists for them.

2.8.4 Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed terms on the basis of which the Group management intends, and is able to, hold them until their maturity. Held-to-maturity financial assets—with the exception of those that fall due within twelve months of the balance sheet date and are correspondingly shown as current assets—must be shown under non-current assets.

At present, the Group does not classify any financial instruments as held-to-maturity.

2.8.5 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which either have to be classified under this category or have not been classified under any of the other categories shown. They are classified under non-current assets if management does not intend to sell them within 12 months of the balance sheet date.

This category includes shares in affiliated companies, investments and securities. The available-for-sale financial assets that existed on the balance sheet date are shown under other financial assets and under other receivables and other assets.

2.8.6 Financial liabilities, measured at amortised costs

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 at the balance sheet date are disclosed under trade payables, financial debt, and other liabilities and deferred items.

2.8.7 Measurement of financial instruments

Regular purchases and sales of financial assets are shown as of the trade date, i.e. the day on which the Group enters into an obligation to buy or sell the asset. Financial assets that do not belong to the “measured at fair value through profit or loss” category are initially shown at their fair value plus transaction costs.

Financial assets that belong to the “measured at fair value through profit or loss” category are initially shown at their fair value; associated transaction costs are expensed in the income statement.

Financial assets measured at fair value through profit or loss are subsequently measured at fair value. Any profit or loss resulting from the subsequent measurement of financial assets held for trading is recognised in the income statement. After initial recognition, loans and receivables are shown at amortised cost using the effective interest rate method less valuation allowances for impairment. Profits and losses are recognised in the result for the period if the loans and receivables are derecognised, impaired or amortised. After initial recognition, held-to-maturity investments are shown at fair value plus transaction costs. Profits and losses are recognised in the result for the period if the held-to-maturity investments are derecognised, impaired or amortised.

After initial recognition, available-for-sale financial assets are shown at their fair value, with unrealised profits or losses being recognised directly in other comprehensive income, under the revaluation reserve. Dividends due on available-for-sale equity instruments must be shown in the income statement as other income at the point when the Group's legal claim for payment arises.

Shares in affiliated companies, investments and securities are generally shown at acquisition costs, unless it is possible to determine their fair values reliably. The shares are not listed and there is no active market for them; neither is there any intention to sell them at present. If there are indications that fair values are lower, these are used.

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 shown at amortised cost using the effective interest rate method. Profits and losses are recognised in the income statement when the liabilities are derecognised or amortised. Non-current liabilities are shown in the balance sheet at amortised cost. Any differences between historical cost and the repayment amount are recognised in accordance with the effective interest rate method. Current liabilities are shown in the amount due for repayment or fulfilment. 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 12 months after the balance sheet date. Derivative financial instruments are measured on the basis of future cash flows. Accordingly, derivative financial instruments can also be shown as financial liabilities. Financial liabilities arising from finance leases are shown at the present value of the minimum lease payments.

2.8.8 Impairment of financial assets

As at every balance sheet date, a check is carried out to determine whether there are any objective indications of impairment affecting a financial asset or a group of financial assets. In the case of equity instruments that are classified as available-for-sale financial assets, a significant and permanent decline in their fair value to a level below the cost of these equity instruments is regarded as an indication that the equity instruments are impaired. If there is such an indication with regard to available-for sale assets, the cumulative loss—measured as the difference between the carrying amount and the present value of the estimated future cash flows—is derecognised from equity and shown in the income statement. Once impairments of equity instruments have been recognised in the income statement, they are not subsequently reversed.

Unlisted shares which are classified as available-for-sale are an example of the equity instruments described in the previous paragraph. In the case of such shares, any significant or continuing reduction in the fair value of the securities to a level below the purchase price of the shares must be regarded as an objective indication of impairment. If no market prices are available, other methods, e. g. the DCF method, are used to determine any need for impairment.

Impairment of trade receivables is recognised if there are objective indications that the amounts due are not fully recoverable. Considerable financial difficulties faced by a debtor, an increased probability that the debtor will become bankrupt or will have to go through some other restructuring process, as well as any breach of contract, e. g. default or late payment of interest or redemption payments, are regarded as indications of the existence of impairment.

With some categories of financial assets, for example trade receivables, assets for which no impairment has been determined on an individual basis are tested for impairment on a portfolio basis. Examples of objective indications of impairment affecting a portfolio of receivables are the Group's experience with payment inflows in the past, an increase in the frequency of default on payment within the portfolio over the average duration of a loan, and evident changes in the national or local economic climate that are associated with defaults on receivables.

The carrying amount of the receivable is reduced by using an impairment account. If a receivable has become irrecoverable, it is derecognised from the impairment account. Subsequent payment inflows onto previously derecognised amounts are shown in the income statement under impairments of trade receivables.

2.8.9 Derecognition of financial assets

The Group derecognises a financial asset only if the contractual rights to cash flows attributable to a financial asset expire or if it transfers the financial asset, and essentially all the risks and opportunities associated with ownership of the asset, to a third party.

2.8.10 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 it is intended that the position will be settled on a net basis or that the associated liability will be settled simultaneously with the realisation of the asset.

2.9 Inventories

Inventories are shown at the lower of purchase and production cost and the net realisable value on the balance sheet date. The net realisable value is defined as the estimated recoverable proceeds less costs to be incurred.

2.10 Foreign currency transactions

The items included in the annual financial statements of each Group company are valued on the basis of 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 constitute the reporting currency of freenet AG.

Foreign currency transactions are translated into the functional currency using the exchange rates applicable on the date of the transaction. Profits and losses that result from the fulfilment of such transactions, and also from the process of converting monetary assets and liabilities denominated in foreign currency as at the reference date, are recognised in the income statement. The volumes of foreign currency transactions in the financial year 2014 were negligible.

The earnings and balance sheet items of all Group companies that have a functional currency other than the euro are converted into euros using the modified reference date method. Thereof resulting currency translation differences are recognised in equity until the disposal of the subsidiary and reported as a separate component of equity.

2.11 Shareholders' equity

Ordinary shares, capital reserves, revaluation reserves, retained earnings and minority interests are shown as shareholders' equity. After the deduction of applicable current taxes, costs of capital increases are recognised directly in shareholders' equity under capital reserves.

2.12 Pension provisions

Pension provisions are recognised and measured in accordance with IAS 19 (2011). 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 interests known on the balance sheet date; it also includes anticipated future increases in pensions and salaries.

Actuarial gains and losses which are based on experience-related adjustments and changes to actuarial assumptions are shown in equity under other comprehensive income in the period in which they arise.

Past service cost is recognised immediately in the income statement. The service cost is shown under personnel expenses and the interest portion of the addition to provisions is shown in financial results.

Contributions to defined-contribution benefit plans are recognised in the income statement in the year in which they occur.

2.13 Other provisions

Provisions are formed 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 valued 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 several similar obligations, the probability of an asset charge based on this group of obligations is ascertained. A provision is classified as a liability even if there is only a minor probability of an asset charge in relation to individual obligations included in this group.

Restructuring provisions basically comprise severance payments to employees. Provisions for contingent losses mainly concern vacancy costs, negative-margin tariffs and payments for the premature termination of rental agreements.

IAS 16 stipulates that the anticipated costs of restoration obligations for leasehold improvements are included in the acquisition costs of the leasehold improvements. In accordance with IAS 37, a provision is therefore created to cover the present value of these obligations if an outflow of resources is likely; this provision is created at the point at which the obligations arise. Changes in the value of the existing provision, in other words changes in the fulfilment amount and/or the discount rate, are recognised by means of an adjustment to the carrying amount of the leasehold improvements (upper limit: recoverable amount; lower limit: zero).

2.14 Employee participation programmes

The following employee participation programmes existed, or still exist, in the Group in the financial year 2014:
- freenet AG stock appreciation rights
- freenet AG Long-Term Incentive Programme (“LTIP programme”)

The accounting and valuation methods of the individual employee participation programmes are described below:

2.14.1 freenet AG stock appreciation rights

The freenet AG stock appreciation rights programme that still existed as at 31 December 2013 expired due to passage of time on 1 April 2014. For details, please refer to our explanations pertaining to note 26.1, freenet AG stock appreciation rights.

2.14.2 LTIP programme

In the financial year 2011, a new compensation programme with a long-term incentive effect, known as the "LTIP programme" was set up for the members of the Executive Board. On 26 February 2014, agreements concerning the contracts of employment that grant new LTIPs were concluded with the members of the Executive Board.

In the LTIP programmes, an LTIP account is maintained for each member of the Executive Board; in each financial year, depending on the extent to which particular objectives for the financial year in question have been attained, credit or debit entries are made in the accounts in the form of virtual shares. Then, within a predetermined period of time, cash payouts less taxes and duties can be made for each financial year, depending on the balance in the respective LTIP account. The magnitude of these payments is dependent on, among other things, the relevant share price at the time of the payout. The provision is measured at the fair value of the virtual shares that will probably become vested. For details, please refer to our explanations pertaining to note 26.2, freenet AG LTIP programmes.

2.15 Deferred and current taxes on income

Deferred taxes are recognised for tax loss carryforwards and, using the liability method, for all temporary differences between the tax balance sheet values and the carrying amounts of assets and liabilities as well as tax loss carryforwards. Deferred taxes are measured at the tax rates, and under the tax laws, that apply as at the balance sheet date or have essentially been enacted and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets in relation to allowable temporary differences are recognised to the extent that deferred tax liabilities are still in existence. If the amount of the deferred tax assets in relation to allowable temporary differences exceeds this figure, the deferred tax assets are recognised only to the extent that it is likely that the deferred tax assets will be utilised by future profits. Deferred tax assets in relation to any tax loss carryforwards, too, are capitalised only to the extent that it is likely that they will be utilised by future profits. The profits expected for the future are based on the company's forecast for pre-tax earnings applicable as at the balance sheet date.

Deferred tax liabilities that result from temporary differences in connection with shareholdings in subsidiaries and associates are recognised unless the time when the temporary differences are reversed can be determined by the Group and it is likely that the temporary differences will not be reversed in the foreseeable future due to this influencing factor.

Current tax expenses are calculated in accordance with the German tax regulations which are applicable as at the balance sheet date or which will be applicable in the near future. The management regularly reviews tax declarations, particularly with regard to issues that are subject to interpretation, and, if appropriate, forms provisions based on the amounts that will probably have to be paid to the fiscal authorities.

2.16 Judgements, forward-looking assumptions and estimates

The presentation of the net assets, financial position and results of operations in the consolidated financial statements depends on the recognition and valuation methods used and on forward-looking assumptions and estimates. The actual amounts may diverge from the estimates. The significant estimates and associated assumptions set out below, as well as any uncertainties with regard to the chosen accounting and valuation methods, 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 valuation of property, plant and equipment and intangible assets involves estimates for determining the fair value at the time of acquisition if the assets were acquired as part of a business combination. The anticipated useful life of such assets must also be estimated.

With regard to the forward-looking assumptions made within the framework of the tests for potential goodwill impairments (carrying amount as at 31 December 2014: 1,153.3 million euros, previous year: 1,122.1 million euros) as well as impairments of intangible assets with an indefinite useful economic life (carrying amount as at 31 December 2014: 293.2 million euros, previous year: 293.2 million euros), please refer to note 16, Test for impairment of non-monetary assets.

A sensitivity analysis regarding the impairment tests for the assets allocated to the cash-generating unit (CGU) “Mobile Communications” has established that the fair value less selling costs would decline by approximately 249 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 296 million euros if the WACC were to decline by 0.5 percentage points, and that, if earnings before interest and taxes (EBIT) were to be reduced or increased by 10 per cent in the planning period, the fair value less selling costs would decrease by approximately 563 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 666 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.

A sensitivity analysis regarding the impairment tests for the assets allocated to the cash-generating unit “freenet digital” has established that the fair value less selling costs would decline by approximately 5 million euros if the WACC were to be increased by 0.5 percentage points and would increase by 6 million euros if the WACC were to decline by 0.5 percentage points, and that, if earnings before interest and taxes (EBIT) were to be reduced or increased by 10 per cent in the planning period, the fair value less selling costs would decrease by approximately 12 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 13 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.

An assessment of the value of the receivables and other assets was carried out in order to determine suitable valuation allowances for trade receivables and other assets. These assessments were based largely on past experience, as well as on the age structure and status of receivables in the dunning and collection process.

With regard to the trade receivables arising from multiple-component agreements in relation to the offer for end customers to select more valuable mobile devices in return for an additional monthly payment (mobile option), and in order to determine the fair value of those receivables, assumptions were made about the duration and risk-adjusted interest rate to determine the present value of the anticipated future payment flows arising from these agreements. This interest rate takes the maturities of these interest rates into account, as well as their default risk. A sensitivity analysis in relation to this interest rate has established that these receivables would have been 1.0 million euros lower if the interest rate had increased by 0.5 percentage points and would have been 1.0 million euros higher if the interest rate had decreased by 0.5 percentage points.

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.

In the case of particular agency services provided by dealers, for whom the amount of sales commissions 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 partially as expenses in the income statement rather than being recognised in full at the point where the customers are acquired. The remaining costs are recognised over the life of each new customer's contract. The amount recognised immediately as expenditure in the income statement at the point when the customer is acquired depends on the extent of the service rendered by the dealer at the point where the customer is acquired in relation to the dealer's entire service over the customer's contractual life. The amount which is recognised in this way is essentially an assessment of the future average revenue of the Group generated with the end users acquired by this dealer and also based on cost estimates of the value of that part of the dealer's consideration that is generated during the contractual life of the customer whom the dealer acquired.

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

Regarding the formation of the provision for contingent losses for any vacancy of rented shops and/or office buildings, assumptions were made in respect of the possibility of these premises being sublet in the future. With regard to the valuation of the provision for contingent losses for reducing the landline/internet network, an assumption was basically made concerning the residual terms of particular rental agreements and therefore the extent of future losses in this field. With regard to the formation of provisions for contingent losses in relation to anticipated losses from negative-margin tariffs, assumptions were made largely in respect of how long customers will spend in these tariffs in the future.

With regard to the assumptions and estimates made in the valuation model used for determining the provision for the LTIP programme as at 31 December 2014, please refer to note 26, Employee participation programmes.

With regard to pension provisions and similar obligations, note 30 describes how forward-looking assumptions were made for the valuation 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 11,926 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 16,034 thousand euros. With regard to further sensitivity analyses pertaining to the pension obligations, please refer to note 30 of these notes to the consolidated financial statements.

There are commercial transactions for which it is not possible to determine the definitive taxation during the normal course of business. The Group determines the amount of the provisions for anticipated tax audits on the basis of estimates as to whether, and if so to what extent, additional taxes on income 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 taxes on income 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 amount of the capitalised deferred taxes on loss carryforwards and to the amount of the loss carryforwards in relation to which no deferred tax assets were recognised, please refer to note 19, Deferred tax assets and deferred tax liabilities. A sensitivity analysis carried out for the deferred tax assets has established that the deferred tax assets would increase by approximately 19.8 million euros if the trade income or corporation tax income were to increase by 10 per cent in the relevant planning period, and that they would decrease by approximately 19.8 million euros if the trade income or corporation tax income were to decrease by 10 per cent in the relevant planning period.

2.17 Discontinued operations and available-for-sale non-current assets

Discontinued operations and available-for-sale non-current assets, which are classified under IFRS 5 as available-for-sale, are shown at the lower of carrying amount and fair value less selling costs if it is generally more likely that their carrying amount can be realised by way of a sale than by further use. At the time of reclassification to the discontinued operations and available-for-sale non-current assets, there is no further scheduled depreciation of the assets in question.

The available-for-sale assets or the available-for-sale group of assets are reclassified as continued 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 scheduled depreciation or revaluations 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 revaluation of the group of assets are shown in the income statement as part of continued operations.

2.18 Comparative figures

Compared with the previous year, the group of consolidated companies has changed due to the acquisition of freenet digital Group (initial consolidation from 15 January 2014). Contrary to the previous year, GRAVIS (in 2013 for 11 months) and MOTION TM Vertriebs GmbH "MOTION TM" (in 2013 for 9 months and 11 days) were fully integrated in the consolidated financial statements for 2014. Beyond that, comparability with the consolidated financial statements as at 31 December 2013 is not significantly impaired with regard to the net assets, financial position and results of operations.

3. Segment reporting

IFRS 8 stipulates that by means of internal management, operating segments must be distinguished from Group segments 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, it has no organisation and management based on geographical regions. The Group was active in the following operating segments in the financial year 2014:

- Mobile Communications:
  - Activities as a mobile communications service provider—marketing of mobile communications services (voice and data services) from the mobile communications network operators T-Mobile, Vodafone, E-Plus and O_2 in Germany
  - Based on the network operator agreements concluded with these network operators, a range of the company’s own network-independent services and tariffs as well as a range of network operator tariffs
  - Distribution and sale of mobile communications devices as well as additional services in the fields of mobile data communications and digital lifestyle
  - Rendering of sales services

- 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) and of payment services for end customers
  - Development of communication solutions, IT solutions and other services for corporate customers
  - Range of narrowband voice services (call-by-call, preselection) and data services
  - Varied range of digital products and entertainment formats to download and/or for display and use on mobile communications devices (freenet digital Group)
  - Rendering of sales services

The “Other/Holding” segment includes other business activities in addition to the aforementioned operating activities. These primarily include freenet AG’s activities as a holding company (with the provision of intra-Group services in central divisions such as Legal, HR and Finance), as well as other accounting entries that cannot be clearly allocated. The segment revenue of 81.2 million euros (previous year: 48.7 million euros) reported for the “Other/Holding” segment in 2014 is attributable to operating activities 76.7 million euros (previous year: 44.6 million euros) and other business activities with 4.5 million euros (previous year: 4.1 million euros). The gross profit of 55.8 million euros reported for the “Other/Holding” segment in 2014 (previous year: 25.9 million euros) is attributable to operating activities in the amount of 56.6 million euros (previous year: 26.1 million euros) and to other business activities in the amount of –0.8 million euros (previous year: –0.2 million euros). The EBITDA of –12.9 million euros reported for the “Other/Holding” segment in 2014 (previous year: –7.7 million euros) was accounted for by operating activities to the extent of 9.3 million euros (previous year: 11.1 million euros) and by other business activities with –22.2 million euros (previous year: –18.8 million euros). The EBIT of –23.3 million euros reported for the “Other/Holding” segment in 2014 (previous year: –11.4 million euros) is accounted for by operating activities to the extent of 4.6 million euros (previous year: 8.2 million euros) and by other business activities in the amount of –27.9 million euros (previous year: –19.6 million euros).

The decline in EBITDA and EBIT generated by the operating activities of the “Other/Holding” segment compared with last year is attributable among other things to the fact that the figures for 2013 included gains of 4.0 million euros from the disposal of freeXmedia GmbH.

Each of the two segments provides, or used to provide, services to the other segment. These services were charged on the basis of transaction prices which are customary on the market.

Income and expenses are allocated to the segments on the basis of selected criteria and commercial relevance. For purposes of segment reporting, the values and measurements shown for the assigned expenses and income do not differ from the values and measurements shown 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. 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 1 January to 31 December 2014

In EUR '000s	Mobile communications	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**2,981,084**	**59,501**	**0**	**3,040,585**
Intersegment revenue	7,576	21,687	–29,263	0
Revenue, total	2,988,660	81,188	–29,263	3,040,585
Cost of materials, third party	**–2,243,818**	**–18,710**	**0**	**–2,262,528**
Intersegment cost of materials	–13,088	–6,709	19,797	0
Cost of materials, total	–2,256,906	–25,419	19,797	–2,262,528
Segment gross profit	**731,754**	**55,769**	**–9,466**	**778,057**
Other operating income	58,744	10,186	–4,403	64,527
Other own work capitalised	9,928	3,410	0	13,338
Personnel expenses	–150,635	–49,042	0	–199,677
Other operating expenses	–271,250	–33,530	13,869	–290,911
Share of result in associates	0	273	0	273
Segment EBITDA	**378,541**	**–12,934**	**0**	**365,607**
Depreciation and impairment write-downs	–54,009	–10,404	0	–64,413
Segment EBIT	**324,532**	**–23,338**	**0**	**301,194**
Group financial result				–40,561
Taxes on income				–12,470
Group result from continued operations				**248,163**
Group result from discontinued operations				**0**
Group result				**248,163**
Group result attributable to shareholders of freenet AG				247,465
Group result attributable to non-controlling interest				698
Investments in continued operations	**23,701**	**5,067**		**28,768**

Segment report 1 January to 31 December 2013

In EUR '000s	Mobile communications	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**3,154,949**	**38,380**	**0**	**3,193,329**
Intersegment revenue	5,439	10,274	–15,713	0
Revenue, total	3,160,388	48,654	–15,713	3,193,329
Cost of materials, third party	**–2,444,618**	**–17,465**	**0**	**–2,462,083**
Intersegment cost of materials	–4,923	–5,322	10,245	0
Cost of materials, total	–2,449,541	–22,787	10,245	–2,462,083
Segment gross profit	**710,847**	**25,867**	**–5,468**	**731,246**
Other operating income	63,823	9,727	–3,765	69,785
Other own work capitalised	10,045	707	0	10,752
Personnel expenses	–150,707	–23,420	0	–174,127
Other operating expenses	–268,894	–20,816	9,233	–280,477
Share of result in associates	0	220	0	220
Segment EBITDA	**365,114**	**–7,715**	**0**	**375,399**
Depreciation and impairment write-downs	–52,367	–3,725	0	–56,092
Segment EBIT	**312,747**	**–11,440**	**0**	**301,307**
Group financial result				–42,864
Taxes on income				–19,503
Group result from continued operations				**238,940**
Group result from discontinued operations				**0**
Group result				**238,940**
Group result attributable to shareholders of freenet AG				238,943
Group result attributable to non-controlling interest				–3
Investments in continued operations	**19,078**	**3,245**		**22,323**

4. Revenue

A classification of the revenue totalling 3,041 million euros (previous year: 3,193 million euros) by segment is set out in note 3, Segment reporting.

Of the external revenue generated in the mobile communications segment, 1,729 million euros (previous year: 1,812 million euros) was basically accounted for by rentals and fees, 596 million euros (previous year: 555 million euros) by fees for premiums and commissions and 615 million euros (previous year: 750 million euros) by revenue from the sale of mobile communications devices, computers/IT products and accessories.

5. Other operating income

Other operating income consists mainly of income from dunning charges and charges for reversing direct debits, market development funds (insofar as not linked to new customer activation) and income from charging employees fees for the use of company cars. In addition, other operating income in the financial year 2014 includes a sum of 3.9 million euros from the derecognition of a contingent purchase price liability arising from the acquisition of freenet digital Group (please refer to note 36.1 of these notes).

6. Other own work capitalised

Other own work capitalised is accounted for mainly by the development of software in the mobile communications segment. This work is connected almost entirely with strategic projects.

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

7. Cost of materials

The cost of materials is broken down as follows:

In EUR '000s	2014	2013
Costs of purchased goods	671,548	792,732
Costs of purchased services	1,590,980	1,669,351
Total	**2,262,528**	**2,462,083**

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.

8. Personnel expenses

Personnel expenses are broken down as follows:

In EUR '000s	2014	2013
Wages and salaries	168,082	147,807
Social contributions and expenses for retirement pensions	31,595	26,320
Total	**199,677**	**174,127**

An average of 4,908 persons were employed in the Group in the financial year 2014 (previous year: 4,492). At the end of the financial year, the Group employed 4,826 persons (previous year: 4,576). Thereof were 33 (previous year: 34) executive employees and 323 (previous year: 292) apprentices resp. students of the vocational academy.

The company's employee participation programmes resulted in personnel expenses as per IFRS 2 amounting to 3,313 thousand euros (previous year: 2,538 thousand euros).

For an explanation of the employee participation programmes, please refer to the statements in notes 2.14 and 26, Employee participation programmes.

Personnel expenses also contain an expense for defined benefit plans amounting to 2,749 thousand euros (previous year: 646 thousand euros), cf. also note 30, Pension provisions and similar obligations.

Personnel expenses additionally include expenses amounting to 14,002 thousand euros for the employer's social insurance contribution towards costs of defined contribution plans (previous year: 12,338 thousand euros).

9. Depreciation and amortisation

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

In EUR '000s	2014	2013
Amortisation on intangible assets	52,641	46,491
Impairment write-downs on intangible assets	368	0
Depreciation on property, plant and equipment	11,404	9,601
Total	**64,413**	**56,092**

The increase in amortisation of intangible assets is attributable primarily to the purchase price allocation at freenet digital Group.

The impairments of intangible assets concern a software product that is no longer used.

10. Other operating expenses

Other operating expenses consist mainly of marketing costs (93,591 thousand euros in 2014 compared with 91,269 thousand euros in 2013), legal and consulting costs, administration costs (e. g. rents and ancillary costs at the shops and administrative buildings), impairment costs and default on receivables, as well as costs of billing, outsourcing and postage.

In the financial year, costs of valuation allowances and the write-off of receivables totalling 37,748 thousand euros (previous year: 33,885 thousand euros) were incurred. These expenses were attributable almost exclusively to trade receivables.

A total of 35,271 thousand euros was recognised in the income statement in connection with rental agreements and leases (previous year: 33,734 thousand euros).

11. Interest and similar income

Interest and similar income consists of the following items:

In EUR '000s	2014	2013
Interest receivable from banks, debt collection and similar income	1,224	1,769
Interest of tax fund	491	0
Total	**1,715**	**1,769**

12. Interest and similar expenses

Interest and similar expenses are broken down as follows:

In EUR '000s	2014	2013
Interest payable and similar costs	35,091	37,855
Compounding of liabilities	4,405	4,777
Interest on pension obligations	1,309	1,302
Interest expense of additional tax payments	818	492
Other	653	207
Total	**42,276**	**44,633**

Of the interest expenses shown for 2014 as a result of the compounding of liabilities, the sum of 4,255 thousand euros is attributable to the compounding of trade payables, other liabilities and current income tax liabilities, while 150 thousand euros are attributable to the compounding of other provisions.

13. Taxes on income

Taxes on income comprise paid and outstanding taxes on income, plus deferred taxes.

In EUR '000s	2014	2013
Current tax expenses for the financial year	–33,305	–31,805
Tax income (previous year: tax expense) for previous years	4,018	–2,394
Deferred tax income due to the write-up of deferred tax assets	12,165	10,831
Deferred tax income due to temporary differences	3,181	1,136
Deferred tax expenses attributable to rate changes	1,471	2,729
Total	**–12,470**	**–19,503**

For further disclosures concerning deferred taxes, please refer to note 19, Deferred tax assets and liabilities.

Applying the average tax rate of the consolidated companies to the Group result before taxes on income would result in anticipated tax expenses of 78.3 million euros (previous year: 77.1 million euros). The difference between this amount and the actual tax expense of 12.5 million euros (previous year: 19.5 million euros) is shown in the following reconciliation:

In EUR '000s	2014	2013
Results from continued and discontinued operations before taxes on income	260,633	258,443
Expected tax expense applying a tax rate of 30.05 % (previous year: 29.85 %)	–78,320	–77,145
Change in the allowance for deferred tax assets and non-recognised deferred tax assets in relation to losses carried forward	61,707	59,118
Tax effect on non-deductible expenses and tax-free income	–1,346	–1,811
Effects due to changes in tax rate	1,471	2,729
Tax income (previous year: tax expense) for previous years	4,018	–2,394
Actual tax expense	**–12,470**	**–19,503**
Effective tax rate in %	4.78	7.55

For the Group companies, a corporation tax rate of 15.0 per cent was used in the financial year 2014 for calculating the current and deferred taxes on income (previous year: 15.0 per cent). A solidarity surcharge of 5.5 per cent in relation to the corporation tax and an average trade tax assessment rate of 406.88 per cent (previous year: 400.70 per cent) were also applied. The deferred taxes in the financial year 2014 were calculated using an average rate of 30.05 per cent (previous year: 29.85 per cent). This enhancement to the average tax rate of 0.20 percentage points is due to the mentioned increase of the average trade tax assessment rate, which is related to the instigation of new shop locations of mobilcom-debitel GmbH and GRAVIS, as well as to the acquisition of the freenet digital Group.

14. Earnings per share

14.1 Basic earnings per share

Basic earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation during the financial year. In the future, it is possible that the basic earnings per share may decrease as a result of the possible utilisation of conditional capital. For more information, please refer to the statements in note 25.5, Conditional capital.

	2014	2013
Group result attributable to shareholders of freenet AG in EUR '000s	247,465	238,943
Weighted average of shares outstanding	128,011,016	128,011,016
Earnings per share in EUR (undiluted)	**1.93**	**1.87**
Thereof from continued operations in EUR	1.93	1.87
Thereof from discontinued operations in EUR	0.00	0.00

14.2 Diluted earnings per share

Diluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation increased by potentially diluting shares.

As at 31 December 2014, there are neither actual nor potential dilution effects.

	2014	2013
Group result attributable to shareholders of freenet AG in '000s	247,465	238,943
Weighted average of shares outstanding	128,011,016	128,011,016
Weighted average of shares outstanding plus number of diluting shares	128,011,016	128,011,016
Earnings per share in EUR (diluted)	**1.93**	**1.87**
Thereof from continued operations in EUR	1.93	1.87
Thereof from discontinued operations in EUR	0.00	0.00

15. Intangible assets, property, plant and equipment and goodwill

Movements in property, plant and equipment and intangible assets are shown in the statement of changes in fixed assets.

The most significant carrying amount in the intangible assets is for trademark rights arising from the purchase price allocation on the occasion of the acquisition of the debitel Group in the financial year 2008.

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

In EUR '000s	31.12.2014	31.12.2013
Trademarks	302,886	305,218
Customer relations	13,015	5,530
Software	7,382	0
Total	**323,283**	**310,748**

In addition to the intangible assets from the diverse purchase price acquisitions, further intangible assets amounting to 66.9million euros are shown as at 31 December 2014 (31 December 2013: 86.6 million euros), including distribution rights amounting to 39.5 million euros (previous year: 61.9 million euros).

The recapitalisation of the exclusive distribution right with Media Saturn Deutschland GmbH, which became effective in 2013, had resulted in a carrying amount of 37.4 million euros as at 31 December 2014.

No impaired intangible assets were in existence as at 31 December 2014.

The goodwill in the balance sheet apportioned to CGUs is shown below:

In EUR '000s	31.12.2014	31.12.2013
Mobile Communications	1,119,396	1,117,372
freenet digital Group	29,162	0
Other	4,740	4,740
Total	**1,153,298**	**1,122,112**

The increase of 2,024 thousand euros for mobile communications is attributable to the purchase price allocations resulting from the asset deal by reStore GmbH. In connection with this, please refer also to the statements in note 36 of these notes.

The further increase of 29,162 thousand euros results from the purchase price allocation arising from the acquisition of the shares in freenet digital Group. In connection with this, please refer also to the statements in note 36 of these notes.

The CGU "Others" is allocated to the segment "Others/Holding".

No research and development costs were recognised in the income statement.

16. Impairment test for non-monetary assets

In accordance with the provisions of IAS 36, we hereby provide the following disclosures on asset impairment testing:

Goodwill of 1,119,397 thousand euros (previous year: 1,117,372 thousand euros) was allocated to the "Mobile Communications" CGU, which belongs to the mobile communications segment, and a trademark right as an intangible asset with an undefined useful economic life in the amount of 293,204 thousand euros (previous year: 293,204 thousand euros).

The fair value less selling costs has been used as the recoverable amount of the "Mobile Communications" CGU. Planning that covers the period up to and including 2018 and was approved by management was used to calculate the fair value. The detailed planning phase was extrapolated in perpetuity. This is equivalent to level 3 of the fair value hierarchy in accordance with IFRS 13.

Planning is based on detailed assumptions derived from previous experience and future expectations in relation to the main result and value drivers. In principle, the gross profit of the "Mobile Communications" CGU can be broken down into two earnings flows: the contribution made to earnings by new customers, and customer retention. On the other side are the costs for purchased services, particularly with regard to mobile network operators. The costs of acquiring and retaining customers dominate the contribution to earnings made by new customers and customer loyalty. On the other side are costs for procuring hardware and for dealer commissions to be paid to sales partners as a result of the acquisition or loyalty programmes. In the planning period, the freenet Group is assuming slightly reduced customer acquisition costs, slightly increasing customer retention costs, a stabilisation in revenue in 2015 and a slight increase in 2016, continuing modest savings in overheads, and a stabilisation of postpaid ARPU in 2015 and 2016. The Group is also assuming that 2015 and 2016 will bring slight growth in its customer base in the area of customer ownership (postpaid and no-frills). For 2015 and 2016, the freenet Group is aiming for Group EBITDA of 370 and 375 million euros respectively and free cash flow of 280 and 285 million euros respectively. Group EBITDA and free cash flow will be generated predominantly within the "Mobile Communications" CGU.

The WACC after tax derived in relation to the specific risk structure of the “Mobile Communications” CGU on the basis of market data and used in the course of determining the fair value is 6.37 per cent (previous year: 6.35 per cent). With regard to the capitalisation rate in the subsequent phase (as from 2019), a discount of 0.5 per cent has been assumed as a result of growth assumptions (previous year: 0.5 per cent).

The impairment test carried out in 2014 in relation to the “Mobile Communications” CGU confirmed that no impairment has to be recognised in relation to the goodwill allocated or to the trademark right with an undefined useful life.

Goodwill amounting to 29,162 thousand euros was allocated to the “freenet digital” CGU, which in turn is allocated to freenet digital Group, acquired in 2014. The “freenet digital” CGU is part of the “Other/Holding” segment. The fair value less selling costs was used as the recoverable amount of the “freenet digital” CGU. Planning that covers the period up to and including 2016 and was approved by management was used to calculate the fair value. The detailed planning phase was extrapolated in perpetuity. This is equivalent to level 3 of the fair value hierarchy in accordance with IFRS 13.

Planning for the “freenet digital” CGU is based on detailed assumptions derived from previous experience and future expectations in relation to the main result and value drivers. These are essentially the revenue and gross profits generated by the individual end products, differentiated in accordance with the respective sales markets. The freenet Group is assuming that the “freenet digital” CGU will generate increasing revenue, gross profits and contributions to EBITDA in the planning period.

The WACC after tax derived in relation to the specific risk structure of the “freenet digital” CGU on the basis of market data and used in the course of determining the fair value is 8.30 per cent. With regard to the capitalisation rate in the subsequent phase (as from 2017), a discount of 1.0 per cent has been assumed as a result of growth assumptions.

The impairment test carried out in 2014 in relation to the “freenet digital” CGU confirmed that no impairment is required for the goodwill allocated.

The consolidated financial statements as at 31 December 2014 include other goodwill for various CGUs in the amount of 4,740 thousand euros, all of which is allocated to the “Other/Holding” segment.

All in all, the impairment of non-monetary assets in the Group in the financial year 2014 amounted to 0.4 million euros (previous year: 0). This concerns internally developed software that is no longer used.

17. Companies included using the equity method

No associates are included in the consolidated financial statements for the period ending on 31 December 2014.

In the consolidated financial statements as at 31 December 2014, FunDorado GmbH, Hamburg (FunDorado), including its subsidiaries and investments, is included as a joint venture. The freenet Group holds 50.0 per cent of the shares in FunDorado (previous year: 50.0 per cent). FunDorado operates a fee-based internet portal. In 2006, FunDorado had acquired a 50 per cent stake in Net Con Media s.r.o., based in Hlučín in the Czech Republic (NetCon). The company produces content that is designed for use primarily in FunDorado’s fee-based internet portal. NetCon in turn holds 100 per cent of its distribution company siXXup new Media GmbH, Pulheim, Germany (siXXup).

In 2013, FunDorado acquired a 50 per cent stake in Funview GmbH, Hamburg.

FunDorado is included in the consolidated financial statements using the equity method. In 2014, FunDorado, including its subsidiaries and investments, generated earnings of 273 thousand euros (previous year: 220 thousand euros). These are solely earnings from continuing operations shown in the income statement; the companies therefore did not generate any other results from changes in value recognised directly in equity.

The carrying amount of the Group's investment in FunDorado, including its subsidiaries and investments, was 1,519 thousand euros as at 31 December 2014 (previous year: 1,395 thousand euros). With profit shares reported at 273 thousand euros, the increase of 124 thousand euros results from the fact that a dividend payment of 149 thousand euros was received from FunDorado in 2014; this sum had to be treated as a reduction in the carrying amount.

As at 31 December 2014, there were no contingent liabilities or capital commitments in connection with the Group interests in these joint ventures.

18. Other financial assets

The other financial assets recognised as at the balance sheet date mainly comprise fixed-income bonds with long-term maturities of 1,031 thousand euros (previous year: 1,037 thousand euros); these serve as rental security for shops and are measured at fair value. In addition, there is a dormant holding with an unchanged carrying amount of 500 thousand euros which has been measured at its acquisition cost in light of an absent market.

An impairment of 100 per cent was recognised in the financial year 2011 in relation to the investment in Pocketfilm Media Entertainment GmbH, Frechen, Germany, in view of its significantly poor earnings prospects—this assessment has not changed as at 31 December 2014. This investment's historical cost amounts to 398 thousand euros.

As at the balance sheet date, no impairments had been carried out for the other financial assets—with the exception of the impairment pertaining to Pocketfilm Media Entertainment GmbH in 2011.

The other financial assets are broken down as follows:

In EUR '000s	31.12.2014	31.12.2013
Dormant holding	500	500
Other holding	3	3
Other financial assets, measured at cost of purchase	**503**	**503**
Fixed-income bonds	1,031	1,037
Other financial assets, in equity measured at fair value	**1,031**	**1,037**
Total	**1,534**	**1,540**

19. Deferred tax assets and liabilities

The deferred tax assets and liabilities, taking account of the temporary differences in accordance with the liability method, were taxed at an overall rate of 30.05 per cent (previous year: 29.85 per cent).

The following amounts are shown in the consolidated balance sheet:

In EUR '000s	31.12.2014	31.12.2013
Deferred tax assets	199,853	186,947
Deferred tax liabilities	–123	–157
Total	**199,730**	**186,790**

The overhang of deferred tax assets for the corporation tax and trade tax group of freenet AG which are recognised and amount to 199.7 million euros (previous year: 186.8 million euros) is classified as short-term in the amount of 44.5 million euros (previous year: 42.1 million euros) and as long-term in the amount of 155.2 million euros as a result of the anticipated use of tax carryforwards (previous year: 144.7 million euros).

Changes in the deferred income tax assets and liabilities in the financial year 2014 are shown in the following table:

In EUR '000s	1.1.2014	Change in group of consolidated companies	Shown directly in other result	Expenses and income from taxes on income	31.12.2014
Property, plant and equipment	1,746	0	0	179	1,925
Intangible assets	–111,806	–7,521	0	59	–119,268
Financial assets	–9	0	0	–2	–11
Loss carry-forwards	271,612	0	0	14,101	285,713
Pension provisions	5,921	0	3,749	441	10,111
Other provisions	4,796	0	0	–748	4,048
Other liabilities	–47	0	0	–460	–507
Borrowings	–570	0	0	907	337
Other assets and liabilities	15,147	0	–105	2,340	17,382
Total	**186,790**	**–7,521**	**3,644**	**16,817**	**199,730**

The expenses and income from income tax amounting to 16,817 thousand euros (previous year: 14,696 thousand euros) are shown in the consolidated income statement as deferred income taxes under “Taxes on income”. They basically correspond to the sum of the deferred taxes on income attributable to continued and discontinued operations. As in the previous year, income tax expenses and income in 2014 were attributable solely to continued operations.

The deferred tax assets and deferred tax liabilities developed as follows in the financial year 2013:

In EUR '000s	1.1.2013	Change in group of consolidated companies	Shown directly in other result	Income and expenses from taxes on income	31.12.2013
Property, plant and equipment	1,670	0	0	76	1,746
Intangible assets	–107,116	–3,192	0	–1,498	–111,806
Financial assets	5	0	0	–14	–9
Loss carry-forwards	256,711	0	0	14,901	271,612
Provisions	6,120	0	–242	43	5,921
Other provisions	5,630	0	0	–834	4,796
Other liabilities	–134	0	0	87	–47
Borrowings	–872	0	0	302	–570
Other assets and liabilities	13,514	0	0	1,633	15,147
Total	**175,528**	**–3,192**	**–242**	**14,696**	**186,790**

The summarised net development of deferred taxes is shown below:

In EUR '000s	2014	2013
As of 1.1.	186,790	175,528
Change in group of consolidated companies	–7,521	–3,192
Shown directly in other result	3,644	–242
Tax income	16,817	14,696
As of 31.12.	**199,730**	**186,790**

The existing tax loss carryforwards that can be carried forward without any restrictions exceed the sum of the forecast cumulative results 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 results are based on the company's forecast for pre-tax earnings applicable as at the balance sheet date. As at 31 December 2014, deferred tax assets amounting to 285,713 thousand euros had been created in relation to loss carryforwards (previous year: 271,612 thousand euros). Of this figure, 148,047 thousand euros (previous year: 141,425 thousand euros) is attributable to corporation tax carryforwards and 137,666 thousand euros (previous year: 130,187 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 created in the consolidated balance sheet, 1.4 billion euros are accounted for by corporation tax and 0.9 billion euros by trade tax (previous year: 1.6 billion euros corporation tax and 1.1 billion euros trade tax). As was the case on the previous year's balance sheet date, there were no unreported interest carryforwards as per section 4h (1) sentence 2 of the German Income Tax Act (EStG).

As at 31 December 2014, there are temporary outside basis differences (net shareholders' equity in accordance with IFRS is higher than the corresponding carrying amounts of investments shown for tax purposes) of approximately 29.0 million euros (previous year: approximately 36.6 million euros). No deferred taxes have been recorded in connection with these differences because they are not expected to reverse in the fiscal planning period.

20. Inventories

The inventories are broken down as follows:

In EUR '000s	31.12.2014	31.12.2013
Mobile phones/accessories	47,079	36,801
Computers/IT products	21,395	19,460
SIM cards	7,937	9,344
Bundles and vouchers	125	1,101
Other	3,460	3,096
Total	**79,996**	**69,802**

Impairment of 4,223 thousand euros (previous year: 3,668 thousand euros) has been recognised in relation to the year-end inventories.

21. Receivables and other assets

Receivables and other assets are broken down as follows:

In EUR '000s	31.12.2014	31.12.2013
Trade accounts receivable	488,063	501,629
Other non-derivate financial assets	25,069	26,462
	513,132	**528,091**
Available-for-sale financial assets	2,843	2,897
Financial assets	**515,975**	**530,988**
Other assets	4,701	8,452
Advance payments	3,216	11,787
Non-financial assets	**7,917**	**20,239**
Total	**523,892**	**551,227**

Trade receivables 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 receivables and other non-derivative financial assets, less valuation allowances that had been recognised, amounted to 513,132 thousand euros as at 31 December 2014 (previous year: 528,091 thousand euros). For more information, please refer to the statements in note 34, Additional information concerning financial instruments. In the freenet Group, trade receivables are the most significant item in this category. These are due mainly from end customers, and to a lesser extent from corporate customers, dealers and sales partners. Other assets and advance payments of 10,760 thousand euros (previous year: 23,136 thousand euros) consist of available-for-sale financal assets and non-financial assets as at 31 December 2014.

Invoices in the mobile communications segment are issued by the Group itself. In the "Other/Holding" segment, invoices are partially 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.

In the previous year, no renegotiations concerning existing receivables were held in the case of trade receivables that were not impaired and not overdue.

As at 31 December 2014, trade receivables and other non-derivative financial assets in the amount of 444,464 thousand euros (31 December 2013: 463,959 thousand euros) were neither impaired nor overdue.

Trade receivables and other non-derivative financial assets in the amount of 17,155 thousand euros (31 December 2013: 8,087 thousand euros) are overdue but not impaired. These receivables are due from various customers who have not defaulted in the past.

The balanced other receivables and other assets result from other non-derivate financial assets, available-for-sale financial assets, other assets and advanced payments.

The maximum default risk as at the balance sheet date corresponds to the carrying amount of the aforementioned trade receivables.

The Group has not received any collateral.

In the course of the financial year, income of 384 thousand euros (previous year: 1,449 thousand euros) was generated from the sale of receivables. All significant opportunities and risks associated with the ownership of these receivables was transferred to the buyer.

The following information concerns the age structure of this category of trade receivables and non-derivative financial assets:

In EUR '000s	Carrying amount 31.12.2014	Thereof: on closing date neither impaired nor overdue	Thereof: On closing date not impaired and in following periods overdue		
			less than 90 days	between 91 and 180 days	more than 180 days
Trade accounts receivable	488,063	422,338	6,518	1,115	7,124
Other non-derivative financial assets	25,069	22,126	1,652	253	493
Total	**513,132**	**444,464**	**8,170**	**1,368**	**7,617**

In EUR '000s	Carrying amount 31.12.2013	Thereof: on closing date neither impaired nor overdue	Thereof: On closing date not impaired and in following periods not overdue		
			less than 90 days	between 91 and 180 days	more than 180 days
Trade accounts receivable	501,629	438,464	5,535	939	1,272
Other non-derivative financial assets	26,462	25,495	308	7	26
Total	**528,091**	**463,959**	**5,843**	**946**	**1,298**

The following information concerns the trend in impairments for the category of trade receivables and non-derivative financial assets:

In EUR '000s	
Allowances recorded as of 31 December 2013	102,082
Allowances recorded as of 31 December 2014	99,061
Net reductions to impairments	**–3,021**

In EUR '000s adjusted	
Allowances recorded as of 31 December 2012	132,645
Allowances recorded as of 31 December 2013	102,082
Net reductions to impairments	**–30,563**

The valuation allowances formed as at the balance sheet date were attributable to the following categories of receivables:

In EUR '000s	31.12.2014	31.12.2013
Global individual allowances according to time buckets		
Thereof for receivables not past due	2,138	1,278
Thereof for receivables overdue for < 90 days	4,658	5,211
Thereof for receivables overdue between 90 and 180 days	6,188	6,231
Thereof for receivables overdue for > 180 days	80,087	85,560
	93,071	**98,280**
Individual allowances	**5,990**	**3,802**
Total allowances	**99,061**	**102,082**

As at the two reference dates, the global individual allowances concerned receivables due from end customers, whereas most of the individual allowances were formed in connection with receivables due from corporate customers, mainly distribution partners.

The following overview shows the development in individual allowances.

In EUR '000s	2014	2013
Development in individual allowances relating to trade accounts receivable		
As of 1.1.	3,458	4,422
Additions, initial consolidation	2,122	88
Allocation	3,844	484
Utilisation	1,632	1,193
Reversal	2,519	343
As of 31.12.	**5,273**	**3,458**
Development in individual allowances relating to other non-derivative assets		
As of 1.1.	344	328
Additions First-time consolidation	364	0
Allocation	9	16
As of 31.12.	**717**	**344**
Total individual allowances	**5,990**	**3,802**

22. Liquid funds

Liquid funds are broken down as follows:

In EUR '000s	31.12.2014	31.12.2013
Cash in hand and cash at banks	111,944	110,766
Total	**111,944**	**110,766**

The following is a reconciliation of liquid funds with cash and cash equivalents in accordance with IAS 7, consisting of cash in banks, cash at hand, cheques and current money market instruments that can be liquidated at any time, and current financial liabilities with an original term of up to three months:

In EUR '000s	31.12.2014	31.12.2013
Liquid assets of continued operations	111,944	110,766
Liabilities as part of current finance scheduling due to banks	0	0
Total	**111,944**	**110,766**

23. Current income tax assets

The current income tax assets consist mainly of receivables from corporation tax netting credit balances from previous years.

24. Non-current assets availabl e for sale, discontinued operations and disposal of subsidiaries

There were no discontinued operations in the Group as at 31 December 2014, as was also the case on the previous year's reference date.

By way of the purchase agreement dated 3 December 2012 and with effect from 31 December 2012, the Group had sold its 100 per cent holding in 4Players GmbH, Hamburg (4Players), to Computec Media AG, Fürth, Germany. 4Players essentially operated editorial games websites and rendered server-related services. The purchase price, which is not subjected to any subsequent adjustments, was agreed at 400 thousand euros, from which sums of 100 thousand euros were paid and recognised in cash flow in each of the financial years 2012, 2013 and 2014. The remaining 100 thousand euros will be paid, and recognised in cash flow, in 2015. 4Players was deconsolidated as at 31 December 2012. By way of the purchase agreement dated 4 December 2012 and with effect from 1 January 2013, the Group sold its 100 per cent holding in freeXmedia GmbH, Hamburg (freeXmedia), to Media Ventures GmbH, Cologne. Operating in the online marketing segment, freeXmedia concentrated on the key focal points of automotive, digital entertainment, sport and active living, the general-interest portal freenet.de and social media. The purchase price, which is not subjected to any subsequent adjustments, was agreed at 4,080 thousand euros, of which 500 thousand euros were paid and recognised in cash flow in the financial year 2012. In the financial year 2013, the Group received a total of 1,040 thousand euros and a sum of 1,000 thousand euros was recognised as non-cash-effective and netted with liabilities due to the purchaser. In the financial year 2014, a further 540 thousand euros were received and 1,000 thousand euros were netted (non-cash-effective). freeXmedia was deconsolidated as at 1 January 2013.

The disposals of 4Players and freeXmedia were carried out by way of the continuation of our strategic portfolio streamlining process and concentration on our core business segments mobile communications/mobile internet in conjunction with digital lifestyle.

25. Shareholders' equity

In regard to the following notes we also refer to the schedule of changes in equity.

25.1 Share capital

The company's issued share capital amounts to 128,061 thousand euros. The share capital consists of 128,061,016 registered no-par-value shares, each with a notional nominal value of 1.00 euro. The entire share capital is fully paid in. All shares have been issued with equal rights. 50,000 of these shares are held by mobilcom-debitel Logistik GmbH, Schleswig, Germany, which in turn is wholly owned by the company. 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 (AktG), the Executive Board is authorised by the Annual General Meeting of 13 May 2014 to purchase treasury shares amounting to a total of 10 per cent of the share capital existing at the time of the resolution on 13 May 2014 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 12 May 2019.

In addition to the authorisation pursuant to section 71 (1) no. 8 AktG, the Executive Board may additionally use equity derivatives to acquire treasury 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 treasury shares.

The full wording of these authorisation resolutions was published under agenda items 6 and 7 of the invitation to the 2014 Annual General Meeting in the electronic Federal Gazette.

25.2 Additional paid-in capital

Major components of the additional paid-in capital reported as at 31 December 2014 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 shares in the former freenet.de AG (134.7 million euros).

25.3 Retained earnings

The Group's retained earnings for the financial year 2014 comprise the cumulative Group results attributable to the freenet AG shareholders, less the dividend payments. In 2014, a dividend of 1.45 euros per no-par-value share, making a total of 185.6 million euros, was paid out for the financial year 2013. In the financial year 2013, retained earnings were reduced additionally by 7.6 million euros due to the recognition of a liability arising from a put option for the acquisition of the remaining shares in MOTION TM, and were increased by 0.4 million euros as a result of the acquisition of the remaining shares in MFE Energie GmbH.

25.4 Authorised capital

New authorised capital was created at the ordinary Annual General Meeting held on 23 May 2013 (Authorised Capital 2013). According to these arrangements, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital up to 6 June 2018 by issuing new shares in return for payment in cash or kind on one or more occasions, but by no more than 12.8 million euros in all. The full wording of the Executive Board's authorisation was published in the Federal Gazette under agenda item 6 of the invitation to the 2013 Annual General Meeting.

25.5 Conditional Capital

In accordance with the resolution by the Annual General Meeting held on 13 May 2014, the company's share capital is subject to a contingent 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 2014). 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 option bonds which are issued on the basis of the authorisation as adopted by the Annual General Meeting of 13 May 2014 under agenda item 8, letter A) and which provides a conversion or option right or the right to delivery of shares in relation to the registered no-par-value shares of the company or which establishes a conversion or option obligation in relation to these shares.

The issue amount for the new registered no-par-value shares complies with the rules stipulated in section 4 (8) 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 stipulate all further details pertaining to the implementation of the conditional capital increase.

The Conditional Capital 2009 that existed before the aforementioned Annual General Meeting resolution from 13 May 2014 was annulled.

26. Employee participation programmes

The Group provides the following employee participation programmes:
- freenet AG stock appreciation rights
- freenet AG LTIP programme

26.1 freenet AG stock appreciation rights

During the financial year 2006, freenet AG launched a "stock appreciation programme" by issuing a total of 5,145,000 stock appreciation rights (SARs) to senior executives, including the former members of the Executive Board ("Programme 1"). SARs were issued in two further programmes in the financial year 2008: in Programme 2, 720,000 SARs were issued to senior executives as at 1 April 2008; 400,000 SARs were granted to Mr Joachim Preisig as at 30 September 2008 on the occasion of his appointment to freenet AG's Executive Board (Programme 3). In the financial year 2009, 400,000 SARs were issued to Mr Christoph Vilanek as at 1 May 2009 on the occasion of his appointment to freenet AG's Executive Board (Programme 4). In the financial year 2011, and with effect from 1 January 2011, the term of the still outstanding 300,000 SARs that had been granted to Mr Stephan Esch as part of Programme 1 was extended until 31 December 2014. For the sake of simplicity, these SARs were reclassified from Programme 1 to a separate Programme 5.

As at 31 December 2012, all units from Programmes 1, 3, 4 and 5 had either been exercised, disposed of or had expired, with the result that only stock appreciation rights from Programme 2 still existed. The following disclosures refer to Programme 2.

The programme provided for no authorisation to subscribe to shares; instead specifying a cash payment for each SAR equivalent to the difference between the exercise price and a base price, with a cap being imposed on the exercise price in the individual tranches of the programme. The exercise price is the company's average share price over the last 30 stock exchange trading days prior to the exercise. The individual caps and the base price for each programme are set out in the following table.

The value of dividend payments to the shareholders and other benefits for the shareholders were each deducted from the base price in accordance with recognised methods for the total shareholder return approach. Subject to the condition that the employee is still employed by the company, the waiting period for the programme for 20 per cent of the SARs to which a beneficiary is entitled ends on 1 April of each year, starting with 1 April 2009 for the first tranche, provided that certain targets have been attained.

For the first tranche of the programme, the relevant target is that the price of the company's shares must exceed the base price (applying the total shareholder return approach) by at least 10 per cent at least on one occasion in the period starting immediately when the corresponding SARs become exercisable and ending with the expiry of the programme (on 1 April 2014). For the SARs in tranches 2 to 5, the percentage increased by 10 per cent per tranche, up to a 50 per cent increase in relation to the base price for tranche 5.

The period commencing 31 stock exchange trading days on the Frankfurt Stock Exchange after the end of the company's first ordinary Annual General Meeting since the expiry of the corresponding shut-out period until the end of the term was the respective exercise period.

Details about the development of the SARs during the financial year 2014 are set out in the following table:

Programme 2	Strike price EUR	Target price EUR	Cap EUR	Maturity	Balance SARs 31.12.2013	Issued	Exer-cised	Dis-posals	Expiry	Balance SARs 31.12.2014	Provisions 31.12.2014 in EUR '000s
Tranche 1	7.78	8.56	21.00	1.4.2014	3,000	0	0	0	3,000	0	
Tranche 2	7.78	9.34	21.00	1.4.2014	4,000	0	1,000	0	3,000	0	
Tranche 3	7.78	10.11	21.00	1.4.2014	8,000	0	5,000	0	3,000	0	
Tranche 4	7.78	10.89	21.00	1.4.2014	8,500	0	5,500	0	3,000	0	
Tranche 5	7.78	11.67	21.00	1.4.2014	13,000	0	10,000	0	3,000	0	
Total					**36,500**	**0**	**21,500**	**0**	**15,000**	**0**	**0**

On 31 December 2014, Programme 2 became the last of the aforementioned five stock appreciation programmes to come to an end due to the passage of time, with the result that there were no longer any obligations from the stock appreciation programmes. In the financial year 2014, Programme 2 led to a reduction of 199 thousand euros in personnel expenses: provisions existing as at 31 December 2013 amounting to 483 thousand euros were reduced by payouts amounting to 284 thousand euros. The payouts made in 2014 as a result of the exercising of rights were made at an average exercise price of 21.00 euros.

No new SARs were granted in 2014.

26.2 freenet AG LTIP programme

26.2.1 Programme 1

In the financial year 2011, agreements concerning the contracts of employment that grant new long-term variable salary components (LTIPs) were concluded with the members of the Executive Board. The programme thus granted in 2011 is hereinafter referred to as "Programme 1". In addition to the annual agreement, this involved a four-year target agreement designating Group EBITDA as the target parameter over the four subsequent financial years on the basis of the business plan and starting with the financial year 2011. 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 when new shares are issued. A basic amount has been defined in each beneficiary's employment contract for this component of compensation; as described below, and in accordance with the target attainment in each financial year, this basic amount is recorded as a positive or negative amount in a virtual account belonging to the respective Executive Board member and is paid out in annual instalments depending on the future development in its value, assuming that a credit balance is shown. Basic amounts totalling 590 thousand euros in each case have been defined 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. If the 120 per cent target is exceeded, only 200 per cent of the basic amount is 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 max. 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. The respective amount in the virtual account is converted into virtual shares. The basis for this calculation is 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 approved.

Starting with the end of the second financial year after the introduction of this component of compensation, in each case after a (positive or negative) amount for the financial year ended has been credited to the virtual account, 25 per cent of the account balance is paid out annually if the account shows a credit balance. For this purpose, the respective balance of virtual 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 approved. The increase in the share price is recognised only up to a price of 25.00 euros (cap). For the purpose of conversion into virtual 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 where 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 in accordance with IFRS 2 with the help of a recognised valuation model. The main parameters included in this valuation model are the freenet AG share price as at the balance sheet date, the estimate of the target attainment percentage for the respective financial year ended, the estimate of future share prices, the estimate of future payments out of the virtual accounts (derived from the two aforementioned estimates) and the estimate of the discount rate.

The development of the holdings in the virtual accounts for each Executive Board member is shown in the following table:

Programme 1	Number of virtual shares 31.12.2013	Additions	Disposal of payout	Number of virtual shares 31.12.2014	Provisions 31.12.2014 in EUR '000s
Christoph Vilanek	62,878	24,824	87,702	0	0
Joachim Preisig	41,919	16,549	14,617	43,851	1,551
Stephan Esch	18,863	7,448	6,578	19,733	698
Total	**123,660**	**48,821**	**108,897**	**63,584**	**2,249**

The actual target established for 2013 is 120 per cent, with the result that 200 per cent of the basic amount, equivalent to a total of 1,180 thousand euros, has been paid into the virtual accounts for the members of the Executive Board. After the consolidated financial statements for 2013 had been approved, this amount was converted into virtual shares for the financial year 2013 based on an average share price of 24.17 euros, with the result that a total of 48,821 virtual shares was credited to the virtual accounts. The payouts from Programme 1 in 2014 led to sums of 2,280 thousand euros for Mr Vilanek, 391 thousand euros for Mr Preisig and 176 thousand euros for Mr Esch. With regard to Mr Vilanek, it must be borne in mind that this payout in 2014 contained all of his virtual shares from Programme 1 and therefore brought Programme 1 to an end for Mr Vilanek. For Mr Preisig and Mr Esch, Programme 1 will come to an end in 2015 with the payout of the entire accumulated holdings of virtual shares, now that virtual shares for the financial year 2014 have been credited. Target attainment for the financial year ended 2014 will be 120 per cent.

In the financial year 2014, Programme 1 resulted in personnel expenses of 1,451 thousand euros, consisting of payouts amounting to 2,847 thousand euros less the reduction of 1,396 thousand euros in the provision to 2,249 thousand euros compared with 31 December 2013.

26.2.2 Programme 2

On 26 February 2014, agreements concerning the contracts of employment that grant new LTIPs (hereinafter referred to as “Programme 2”) were concluded with the members of the Executive Board.

Again in addition to the annual target agreement, a five-year target agreement was concluded in which EBITDA in the financial years 2014 to 2018 (for Mr Vilanek) and EBITDA in the 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 when new shares are issued. A basic amount has been defined in each beneficiary’s employment contract for this component of compensation; as described below, and in accordance with the target attainment in each financial year, this basic amount is recorded as a positive or negative amount in a virtual account belonging to the respective Executive Board member and is paid out in annual instalments depending on the future development in its value, assuming that a credit balance is shown. Basic amounts totalling 1,050 thousand euros in each case have been defined 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. If the 120 per cent target is exceeded, basically only 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 max. 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 virtual 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 virtual shares. This calculation is based on the reference value used for the 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 20 stock exchange 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 virtual 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 recognised 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 virtual 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 virtual 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 where 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 in accordance with IFRS 2 with the help of a recognised valuation model. The main parameters included in this valuation model are the freenet AG share price as at the balance sheet date, the estimate of the target attainment percentage for the respective financial year ended, the estimate of future share prices, the estimate of future payments out of the virtual accounts (derived from the two aforementioned estimates) and the estimate of the discount rate.

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 virtual shares 31.12.2013	Additions	Disposal of payout	Number of virtual shares 31.12.2014	Provisions 31.12.2014 in EUR '000s
Christoph Vilanek	0	0	0	0	1,205
Joachim Preisig	0	0	0	0	514
Stephan Esch	0	0	0	0	342
Total	**0**	**0**	**0**	**0**	**2,061**

Target attainment for the financial year ended 2014 will be 120 per cent.

Programme 2 resulted in personnel expenses of 2,061 thousand euros in the financial year 2014. As there have not yet been any payouts from this programme, the provision formed as at 31 December 2014 amounts to 2,061 thousand euros.

Expenses in 2014 were reported not only for Mr Vilanek, whose first target attainment year for Programme 2 is 2014. For Mr Preisig and Mr Esch, too, expenses have already been recorded for Programme 2 in 2014, although their first target attainment year is 2015. This occurred in compliance with the graded vesting method, according to which the personnel expenses come into being as from the time when a programme is granted, i. e. in this case as from 26 February 2014.

27. Trade payables, other liabilities and accruals

Trade payables as well as sundry liabilities and accruals are broken down as follows:

In EUR '000s	31.12.2014	31.12.2013
Trade accounts payable	**370,471**	**401,970**
Advance payments received	66,148	68,116
Other liabilities and accruals	96,521	111,298
Sundry liabilities and accruals	**162,669**	**179,414**
Total	**533,140**	**581,384**

For the purposes of the above table, the balance sheet item "Sundry liabilities and accruals" has been broken down into advance payments received and other liabilities and accruals. As at 31 December 2014, compared to the previous year, there are no liabilities vis-à-vis related parties; please refer to note 35, Transactions with related parties.

Of the liabilities, 494,249 thousand euros (previous year: 515,490 thousand euros) are due within the next twelve months. Liabilities amounting to 30,361 thousand euros (previous year: 57,882 thousand euros) have a maturity of between one year and five years; liabilities of 8,530 thousand euros (previous year: 8,012 thousand euros) are due in more than five years. The advance payments received are shown in the balance sheet under sundry liabilities and accruals.

For long-term sundry liabilities and accruals, the market value is approximately equivalent to the recognised carrying amount as a result of the discounting.

The maturities of those liabilities which are shown in the categories trade payables and non-derivative financial sundry liabilities and accruals are as follows: 419,647 thousand euros (previous year: 445,488 thousand euros) is due within one year, 30,361 thousand euros (previous year: 57,882 thousand euros) is due between one year and five years, and 8,530 thousand euros (previous year: 8,012 thousand euros) is due more than five years after the balance sheet date.

28. Current income tax liabilities

Current income tax liabilities consist mainly of anticipated additional corporation tax and trade tax payments for previous financial years.

29. Financial debt

Financial debt is structured as follows:

In EUR '000s	31.12.2014	31.12.2013
Non-Current		
Liabilities from corporate bonds	398,515	397,483
Liabilities from promissory notes	119,526	119,680
Liabilities due to banks	182	255
Liabilities from finance leasing	0	181
Total	**518,223**	**517,599**
Current		
Liabilities from corporate bonds	19,911	19,911
Liabilities from promissory notes	115	139
Liabilities due to banks	126	131
Liabilities from finance leasing	181	232
Total	**20,333**	**20,413**

Of the figure shown for long-term financial debt in the Group as at 31 December 2014, 398.5 million euros (previous year: 397.5 million euros) is attributable to the five-year corporate bond issued in April 2011 with a nominal value of 400.0 million euros The difference of 1.5 million euros between the nominal value and the carrying amount results from the one-off charges incurred when the bond was issued, which (for the first time in the amount of 3.5 million euros as at 31 December 2012) are deducted from the debt and compounded over the life of the bond using the effective interest rate method. The promissory note bond that was taken out in December 2012 with a nominal amount of 120.0 million euros, less non-recurring costs of 0.5 million euros (previous year: 0.3 million euros), is shown in long-term financial debt as at 31 December 2014 in the amount of 119.5 million euros. The promissory note bond is a non-callable financing instrument originally divided into a five-year fixed tranche of 44.5 million euros, a seven-year fixed tranche of 19.5 million euros and a five-year fixed tranche of 56.0 million euros. In the financial year, the improved market environment made it possible to regroup the variable tranche. The margin was reduced by one percentage point for a portion amounting to 55.0 million euros. At the same time, the term was extended from five to seven years for 45.0 million euros from this tranche.

Of the figure shown for short-term financial debt in the Group as at 31 December 2014, 19.9 million euros (previous year: 19.9 million euros) relates to the cumulative interest for the corporate bond which had not become cash-effective in the previous financial year. The revolving credit line for a maximum of 300.0 million euros had, as in the previous year, not been utilised as at the balance sheet date.

Netted with liquid assets, net financial debt of 426.6 million euros is reported in the Group as at 31 December 2014 (previous year: 427.2 million euros).

The finance lease liabilities shown as at the balance sheet date relate to a lease-purchase agreement for various items of hardware and software for equipping our chain of shops.

As at 31 December 2014, the carrying amounts of the fixed assets under finance leases amounted to 74 thousand euros (previous year: 172 thousand euros) for software and 95 thousand euros (previous year: 223 thousand euros) for IT hardware.

The minimum lease payments will become due as follows:

In EUR '000s	2014	2013
Within one year	184	245
Between one and five years	0	184
More than five years	0	0
	184	**429**
Interest component of future leasing payments		
Within one year	–3	–13
Between one and five years	0	–3
More than five years	0	0
Present values of the total liabilities from finance leasing	**181**	**413**

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

In EUR '000s	31.12.2014	31.12.2013
Within one year	181	232
Between one and five years	0	181
More than five years	0	0
Total	**181**	**413**

The balance sheet value is equivalent to the present value of the contractual minimum lease payments. The interest rate for the balance sheet recognition of the resulting finance lease liabilities is 4.3 per cent.

30. Pension provisions and similar obligations

Pension obligations are based on indirect and direct pension commitments. 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 benevolent fund. All pension commitments are always determined by the salary amount and the length of service at the company.

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

In EUR '000s	31.12.2014	31.12.2013
Present value of funded obligations	17,461	9,920
Present value of unfunded obligations	47,529	38,751
Sub-total present value of obligation	**64,990**	**48,671**
Fair value of plan assets	–5,644	–4,302
Provision shown in balance sheet	**59,346**	**44,369**

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 non-funded obligations:

In EUR '000s	2014	2013
As of 1.1.	**48,671**	**48,880**
Current service costs	613	646
Past service costs	2,136	0
Interest expense	1,452	1,446
Employees' contributions	26	28
Actuarial losses		
Thereof due to experience adjustments	45	95
Thereof due to changes in demographic assumptions	0	0
Thereof due to changes in financial assumptions	12,942	–1,289
Sub-total actuarial losses	**12,987**	**–1,194**
Benefit payments	–895	–1,135
As of 31.12.	**64,990**	**48,671**

Recognizable past service cost arose in 2014 due to the retroactive alignment of the pension plan for the members of the Executive Board.

The weighted average remaining term of the obligations as at 31 December 2014 amounted to 28.4 years for the freenet programme (previous year: 28.3 years) and 18.9 years for the debitel programmes (previous year: 18.0 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	2014	2013	2012	2011	2010
Present value of funded obligations	17,461	9,920	9,777	5,768	4,642
Present value of unfunded obligations	47,529	38,751	39,103	29,154	27,187
Fair value of plan assets	–5,644	–4,302	–3,894	–3,017	–2,294
Net deficit of defined benefit plans	**59,346**	**44,369**	**44,986**	**31,905**	**29,535**
Experience-based adjustments of the liabilities of the plan	45	95	35	25	9
Experience-based adjustments of the assets of the plan	512	–383	51	–21	230

The plan assets consist of several reinsurance policies concluded by the benefit fund set up for this purpose with an aggregate fair value of 5,644 thousand euros (31 December 2013: 4,302 thousand euros) and are invested in equity funds or shares for which there is an active market. The development of fair value is set out in the table below:

In EUR '000s	2014	2013
As of 1. 1.	**4,302**	**3,894**
Expected income from plan assets (recognised in income statement)	138	126
Difference between expected and actual income from plan assets (recognised in other comprehensive income)	512	–383
Employer's contribution to plan assets	692	665
As of 31. 12.	**5,644**	**4,302**

The actual income from the plan assets amounts to 650 thousand euros (2013: –257 thousand euros) and is calculated as the sum of the expected income from the plan assets and the actuarial gains or losses.

For the financial year 2015, freenet is expecting payments of 664 thousand euros into the plan assets and payments of 775 thousand euros out of the plan assets for pensions.

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

In EUR '000s	2014	2013
As of 1. 1.	**44,369**	**44,986**
Current service costs	613	646
Past service costs	2,136	0
Interest expense	1,314	1,320
Sub-total consolidated comprehensive expense	**4,063**	**1,966**
Remeasurements		
Experience-based profits (-)/losses (+)	45	95
Profits(-)/losses(+) due to changes in demographic parameters	0	0
Profits(-)/losses(-) due to changes in financial parameters	12,942	–1,289
Income(-)/Expense(+) from plan assets not contained in interest result	–512	383
Sub-total remeasurements recognised in other comprehensive income	**12,475**	**–811**
Benefit payments	–895	–1,135
Employer's contribution to plan assets	–692	–665
Employees' contributions	26	28
As of 31. 12.	**59,346**	**44,369**

The main actuarial assumptions were as follows:

In %	31.12.2014	31.12.2013
Discount rate	1.90	3.00
Future salary increases (programme debitel)	1.50	1.50
Future salary increases (programme freenet)	0.00	0.00
Future pension increases (programme debitel)	1.50	1.50
Future pension increases (programme freenet)	1.50	1.50

The RT 2005G mortality tables devised by Dr Klaus Heubeck have been used as the biometric basis.

Our disclosures relating to the sensitivities of the present value of the funded and unfunded obligations, which are calculated on the basis of actuarial reports, are as follows.

	Change in present value	
In EUR '000s	Increase	Decrease
Increase of 1.0 percentage points in discount rate		11,926
Reduction of 1.0 percentage points in discount rate	16,034	
Increase of 0.5 percentage points in future salary increases	1,046	
Increase of 0.25 percentage points in future pension increases	1,431	
Reduction of 0.25 percentage points in future pension increases		1,361
Life expectancy: Age shift +2 years	3,080	

31. Other provisions

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

In EUR '000s	1.1.2014	Addition initial consolidation	Consumption	Reversal	Compounding	Allocation	Reclassification	31.12.2014
Contingent losses	12,808	0	1,826	4,032	89	1,999	0	9,038
Litigation risks	7,718	0	588	1,108	0	1,533	0	7,555
Dismantling obligations	2,464	388	56	14	34	485	0	3,301
Employee incentive programmes	4,129	0	3,131	199	0	3,512	0	4,311
Service anniversaries	1,348	0	227	0	0	310	0	1,431
Restructuring	0	0	0	0	0	1,305	0	1,305
Warranty/guarantee	1,404	0	355	29	4	556	0	1,580
Storage costs	401	0	0	0	23	24	0	448
License costs	0	3,032	77	277	0	114	2,270	5,062
Other	146	351	157	33	0	520	0	827
Total	**30,418**	**3,771**	**6,417**	**5,692**	**150**	**10,358**	**2,270**	**34,858**

The provisions for contingent losses relate to pending services in connection with the Group's landline activities amounting to 932 thousand euros, with the outflow of assets being expected to take place in the amount of 283 thousand euros in 2015 and in the amount of 649 thousand euros between 2016 and 2018. A rate of 0.50 per cent has been used for compounding purposes.

Provisions for contingent losses have also been created for vacancy costs incurred with rented shops and office buildings (5,341 thousand euros); the outflow of assets is expected to be 3,050 thousand euros in 2015 and 2,291 thousand euros in the years from 2016 to 2018—the rate used for compounding purposes in this case was 0.5 per cent. Finally, the provisions for contingent losses include a sum of 2,765 thousand euros for losses expected from negative-margin tariffs, for which the likely outflow of assets is expected in 2015.

The amount stated as the provision for dismantling obligations relates to obligations for the dismantling of leasehold improvements and a variety of the Group's technical and administrative locations. Following the probable expiry of the underlying rental agreements, the outflow of funds is expected to be 1,260 thousand euros in 2015 and 2,041 thousand euros in the years from 2016 to 2024.

Provisions for service anniversaries have been formed; the outflow of assets for 2015 is expected to be 725 thousand euros and the outflow of assets for the years 2016 to 2034 is expected to be 706 thousand euros. A discount rate of 1.18 per cent and an average period of eight years between the balance sheet and the actual payment have been assumed as the basis for calculation.

The provision for litigation relates to the expected costs of various lawsuits against Group companies as well as other outstanding disputes with third parties. Most of these provisions were in relation to litigation with former trade partners and customers as well as issues of competition law. The Group expects that the majority of the disputed issues will be settled before the end of the financial year 2014. To avoid disclosing prematurely, and therefore endangering, the legal and negotiation position, we shall refrain from giving further information at this juncture.

Other provisions are balanced 9,097 thousand euros in the long term and 25,761 thousand euros in the short term.

Further details concerning the formation of provisions for employee participation programmes are documented under note 26, Employee participation programmes.

32. Other financial obligations, contingencies and collateral for loans

As at the end of the financial year, there are operating lease obligations (which cannot be terminated) from rental and lease agreements, maintenance, support and other obligations as well as order commitments in the following amounts:

In EUR '000s	31.12.2014	31.12.2013 adjusted
Rent and leasing obligations		
Due within one year	42,664	39,560
Due within one and five years	81,112	90,026
Due term greater than five years	13,351	8,053
	137,127	**137,639**
Thereof already recognised as provision for contingent losses	6,272	5,038
	130,855	**132,601**
Maintenance, support and other obligations		
Due within one year	10,309	5,357
Due within one and five years	1,182	446
Due term greater than five years	0	0
	11,491	**5,803**
Order commitments		
Regarding intangible assets	88	117
Regarding property, plant and equipment	130	1,316
Regarding inventories, expenses and services	8,506	6,105
	8,724	**7,538**
Total	**151,070**	**145,942**

The obligations from rental and lease agreements are derived mainly from the rental of office buildings and shops, plus hardware leasing. On the other hand, the revenue expected from subletting arrangements amounts to 10,629 thousand euros (previous year: 11,700 thousand euros). As at the balance sheet date, there were options for extending the majority of rental and lease agreements. The conditions of these extension options are in all cases freely negotiable or identical to the currently valid conditions in the agreements. The obligations arising from maintenance, support and other agreements relate predominantly to agreements for the maintenance of IT hardware and databases, building services engineering and the network infrastructure.

The order commitments as at the end of the financial year amounted to 8,724 thousand euros (previous year: 7,538 thousand euros). Of this sum, 218 thousand euros (previous year: 1,433 thousand euros) is attributable to the procurement of fixed assets. Further order commitments amounting to 8,506 thousand euros (previous year: 6,105 thousand euros) are attributable largely to services in connection with ongoing projects as well as products purchased for resale, e.g. mobile communications devices and accessories. This item also includes financial obligations arising from data centre services.

Other liability obligations have arisen as a result of letters of comfort and rental guarantees, their aggregate total as at the balance sheet date being 14,335 thousand euros (previous year: 17,322 thousand euros).

The following contingent liability exists as at 31 December 2014: In a letter from the Federal Ministry of Finance dated 4 December 2014 and a simultaneous addendum to the VAT application decree, the fiscal authority issued the following rule: If the intermediary in a mobile communications contract supplies the customer in the intermediary's own name with a mobile communications device or some other electronic article, and if the mobile communications company grants the intermediary a commission dependent on the supply of the mobile communications device or other electronic articles on the basis of a contractual agreement, or part of a commission dependent on the above, such a commission or part of a commission shall not be regarded as remuneration for an intermediary brokering role vis-à-vis the mobile communications company, but rather as remuneration from a third party as defined by section 10 (1) sentence 3 of the German VAT Act (UStG) for the supply of the mobile communications device or the other electronic article. This applies irrespective of the amount of any additional payment to be made by the customer. The future application of this rule as from 1 January 2015 will not involve any reportable risks for the company. As for the revenue generated before 1 January 2015, the company regards it as very likely indeed that the rule specified above will have no significant negative effects for freenet AG under VAT law. For revenue generated in the assessment periods not yet conclusively audited before 1 January 2015, however, there remains a risk that freenet AG might have to repay some corresponding input tax to the revenue authorities, which in turn might have a negative impact on the company's net assets, financial position and results of operations.

33. Notes to the consolidated cash flow statement

In the consolidated cash flow statement, the figures are reported for the Group as a whole (continued and discontinued operations). In the financial year 2014, as in the previous year, the cash flows were attributable solely to continued operations.

Cash and cash equivalents 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 and cash equivalents do not include any liquid funds from discontinued operations.

The payment flows are broken down into operating activities, investing activities and financing activities. The indirect presentation method has been used to present cash flow from operating activities.

The item "Increase in net working capital, if not attributable to investing or financing activities" contains the change in the balance sheet items "Trade receivables", "Other receivables and other assets", "Inventories", "Trade payables", "Sundry liabilities and accruals", "Other provisions", and the change in other assets and liabilities if not attributable to investing or financing activities.

33.1 Cash flow from operating activities

Compared with the corresponding period last year, cash flow from operating activities increased by 16.1 million euros to 294.5 million euros. Also compared with the previous year, EBITDA increased by 12.2 million euros after adjustment for the proceeds from the disposal of subsidiaries and associated companies. Net working capital increased in 2014 by 29.0 million euros, compared with an increase of 50.1 million euros in the previous year. The increase of 29.0 million euros in net working capital in 2014 can be attributed essentially to the scheduled reduction of 25.0 million euros in liabilities and accruals vis-à-vis distribution partners arising from distribution rights impacting cash flows. In addition, there were net cash outflows in the financial year 2014 amounting to 40.4 million euros (previous year: 23.5 million euros) that resulted from income tax payments and refunds.

33.2 Cash flow from investing activities

In the financial year 2014, cash flow from investing activities amounted to –70.4 million euros compared with –35.4 million euros in the previous year. This resulted primarily from the cash outflow of 44.6 million euros in the financial year ended for the acquisition of the shares in the freenet digital Group as well as the takeover of shops belonging to reStore GmbH. For more information, please refer to note 36, Corporate acquisitions, in the notes to the consolidated financial statements. In the previous year, the cash outflows for corporate acquisitions amounted to –13.2 million euros—for the acquisition of the subsidiaries GRAVIS and MOTION TM.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets, increased in 2014 by 5.7 million euros over the previous year from 22.2 million euros to 27.9 million euros. The investments with an impact on cash flows were financed entirely from our own resources and, as in the previous year, largely concerned internally generated software in connection with the further development of our IT systems, the renovation and enhancement of the fittings and furnishings in our mobile communications shops, and investment in IT hardware.

The cash inflows from interest reported within the cash flow from investment activities remained constant compared with the previous year at 1.3 million euros.

33.3 Cash flow from financing activities

Cash flow from financing activities improved by 116.6 million euros to –222.9 million euros, compared with –339.6 million euros in the same period last year. Compared with the previous year, redemption payments on financial liabilities decreased by 124.7 million euros from 125.0 million euros to 0.3 million euros. In the previous year, the redemption payments went almost entirely towards the full redemption of the amortisation loan within the scope of the revolving credit line.

Dividend payments burdened the cash flow from financing activities in the financial year ended in the amount of 185.6 million euros (previous year: 172.8 million euros).

In addition, interest payments amounting to 37.0 million euros, largely on long-term bank loans, arose in 2014, representing an increase of 0.3 million euros compared with the previous year.

Furthermore, in 2013, the Group had a cash outflow amounting to 5.0 million euros as a result of the acquisition of the remaining 49 per cent of the shares in MFE Energie GmbH.

33.4 Calculating the underlying figure for the consolidated cash flow statement

The underlying figure for the cash flow statement is the earnings generated by ongoing and discontinued operations before interest and income taxes (EBIT). The following shows the way in which this EBIT figure is derived from the consolidated income statement.

In EUR '000s	2014	2013
Earnings before taxes of continued operations	260,633	258,443
Interest payable and similar expenses of continued operations	42,276	44,633
Interest receivable and similar income of continued operations	–1,715	–1,769
Earnings before interest and taxes (EBIT) of continued and discontinued operations	**301,194**	**301,307**

34. Additional information concerning financial instruments

34.1 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 which contain financial instruments.

We are setting out the following information for the purpose of presenting the financial instruments in the Group as at 31 December 2014 and 31 December 2013, their allocation to categories and the reconciliation with the corresponding valuation categories under IAS 39 (see tables on next double page):

Financial instruments according to classes as of 31 December 2014

In EUR '000s	Valuation category according to IAS 39	Carrying amount 31.12.2014	Approach				Fair Value 31.12.2014
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	111,944	111,944				111,944
Total cash and cash equivalents		**111,944**	**111,944**				**111,944**
Other financial assets (measured at cost of purchase)	AFS	503		503			
Other financial assets (measured at fair value)	AFS	1,031				1,031	1,031
Total other financial assets		**1,534**					
Trade accounts receivable	LR	**488,063**	**488,063**				**488,415**
Other non-derivative financial assets	LR	25,069	25,069				25,069
Available-for-sale financial assets	AFS	2,843				2,843	2,843
Non-financial assets		7,917					
Sum of receivables and other assets		**35,829**					
Liabilities							
Trade accounts payable	FLAC	**370,471**	**370,471**				**370,471**
Financial debt	FLAC	538,556	538,375				571,159
Sum of financial liabilities within the scope of IFRS 7		**538,556**					**571,159**
Other non-derivative financial liabilities	FLAC	88,067	88,067				88,067
Non-financial liabilities		74,602					
Sum of liabilities and deferrals		**162,669**					
Financial instruments not covered by the scope of IFRS 7							
Pension provisions according to IAS 19		59,346					59,346
Provisions for employee participation programmes according to IFRS 2		4,311					4,311
Sum of financial instruments not covered by the scope of IFRS 7		**63,657**					
Thereof aggregated by valuation categories according to IAS 39							
Available-for-sale financial assets	AFS	4,377		503		3,874	3,874
Loans and receivables	LR	625,076	625,076				625,428
Financial liabilities measured at amortised cost of purchase	FLAC	–997,094	–996,913				–1,029,697

Financial instruments according to classes as of 31 December 2013 adjusted

In EUR '000s	Valuation category according to IAS 39	Carrying amount 31.12.2013	Approach				Fair value 31.12.2013
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	110,766	110,766				110,766
Total cash and cash equivalents		**110,766**	**110,766**				**110,766**
Other financial assets (measured at cost of purchase)	AFS	503		503			
Other financial assets (measured at fair value)	AFS	1,037				1,037	1,037
Total other financial assets		**1,540**					
Trade accounts receivable	LR	**501,629**	**501,629**				**501,781**
Other non-derivative financial assets	LR	26,462	26,462				26,462
Available-for-sale financial assets	AFS	2,897				2,897	2,897
Non-financial assets		20,239					
Sum of receivables and other assets		**49,598**					
Liabilities							
Trade accounts payable	FLAC	**401,970**	**401,970**				**401,970**
Financial debt	FLAC	538,012	537,599				587,007
Sum of financial liabilities within the scope of IFRS 7		**538,012**					**587,007**
Other non-derivative financial liabilities measured at cost of purchase	FLAC	109,412	109,412				109,412
Non-financial liabilities		70,002					
Sum of liabilities and deferrals		**179,414**					
Financial instruments not covered by the scope of IFRS 7							
Pension provisions according to IAS 19		44,369					44,369
Provisions for employee participation programmes according to IFRS 2		4,129					4,129
Sum of financial instruments not covered by the scope of IFRS 7		**48,498**					
Thereof aggregated by valuation categories according to IAS 39							
Available-for-sale financial assets	AFS	4,437		503		3,934	3,934
Loans and receivables	LR	638,857	638,857				639,009
Financial liabilities measured at amortised cost of purchase	FLAC	–1,049,394	–1,048,981				–1,098,389

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 that part of the balance sheet item “Sundry liabilities and accruals” which is not covered by the scope of IFRS 7.

The fair value of cash and cash equivalents, trade receivables, other current financial assets, trade payables 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 receivables 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. Thanks to discounting using the effective interest rate method, there are only minor differences between the carrying amounts of these financial instruments and the fair values.

For those financial instruments measured at fair value, the Group uses the price in an active market as a fair value.

Other financial assets are measured at fair value. Wherever a reliable estimate of fair value is not possible, the asset is valued at its cost of acquisition. The shares are not listed publicly and there is no active market for them. Furthermore, a sale is not currently planned. If there are indications that fair values are lower, these are used.

For the available-for-sale financial assets, the Group defines the fair value as the price in an active market.

Due to the maturity involved, the fair value of the current financial debt corresponds to the carrying amount. The fair value of the non-current financial liabilities exceeds their carrying amount by 32,604 thousand euros as at 31 December 2014. 28,717 thousand euros of this difference is accounted for by the valuation of the corporate bond and was ascertained on the basis of this corporate bond’s stock market price as at the balance sheet date. There was also a difference of 3,887 thousand euros from the valuation of the promissory note loan at fair value; this was ascertained as at the valuation date using up-to-date estimates of the company’s own credit risk and the interest rate level.

The fair value of the derivative financial 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 to the closing date. The market value confirmations obtained from the external partners are periodically compared with the market values that have been calculated internally. The Group had no derivative financial instruments as at 31 December 2014.

Trade payables and other financial liabilities and accruals regularly have short residual terms; the amounts recognised are therefore roughly equivalent to the fair value. This also applies to the earn-out obligations, whose fair values were determined at 31 December 2014. For the earn-out also see note 36, Company accquisitions.

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 reported 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.
- Level 2:
  Use of input factors which are not the listed prices recognised in Level 1, but which are directly (i.e. in the form of a price) or indirectly (i.e. derived from prices) observable for the financial asset or the financial liability.
- Level 3:
  Use of input factors which are not based on observable market data for measuring the financial asset or the financial liability (input factors not based on observable market data).

Fair value hierarchy 2014

In EUR '000s	Total	Level 1	Level 2	Level 3
Available-for-sale financial assets	2,843	2,843	0	0
Other financial assets	1,031	1,031	0	0
Trade accounts receivable	79,249	0	0	79,249
Borrowings	550,646	427,232	0	123,414
Total	**–467,523**	**–423,358**	**0**	**–44,165**

Fair value hierarchy 2013

In EUR '000s	Total	Level 1	Level 2	Level 3
Available-for-sale financial assets	2,897	2,897	0	0
Other financial assets	1,037	1,037	0	0
Trade accounts receivable	77,987	0	0	77,987
Borrowings	566,159	445,224	0	120,935
Total	**–484,238**	**–441,290**	**0**	**–42,948**

For the individual categories of financial instruments in accordance with IAS 39, the following net results were shown in the financial year 2014 and in the previous year:

Net result by valuation categories 2014

		From subsequent measurement				
In EUR '000s	From Interest	At fair value (income statement)	At fair value through other comprehensive income	Impairment/ receivables losses	From disposals	Net result
Available-for-sale financial instruments (AFS)	0	0	–43	0	0	–43
Loans and receivables (LR)	1,298	0	0	–39,436	384	–37,754
Financial instruments measured at fair value through proft or loss (FIPL)	0	–518	0	0	0	–518
Financial liabilities measured at amortised cost (FLAC)	–35,091	0	0	0	0	–35,091
Total	**–33,793**	**–518**	**–43**	**–39,436**	**384**	**–73,406**

Net result by valuation categories 2013 adjusted

In EUR '000s	From Interest	From subsequent measurement: At fair value (income statement)	At fair value through other comprehensive income	Impairment/ receivables losses	From disposals	Net result
Available-for-sale financial instruments (AFS)	0	0	–80	0	0	–80
Loans and receivables (LR)	1,769	0	0	–35,334	1,449	–32,116
Financial instruments measured at fair value through proft or loss (FIPL)	0	0	–7,601	0	0	–7,601
Financial liabilities measured at amortised cost (FLAC)	–37,855	0	0	0	0	–37,855
Total	**–36,086**	**0**	**–7,681**	**–35,334**	**1,449**	**–77,652**

Net gains and losses from loans and receivables include changes in the valuation allowances, gains and losses from derecognition, and cash inflows and write-ups of previously written-off loans and receivables.

Net gains or losses attributable to the category of financial instruments measured at fair value through profit or loss include the income and expenses from the measurement of the financial liability from the put option in connection with the acquisition of MOTION TM (previous year: included the income and expenses from the market valuation of the interest cap).

Net gains and losses from the category of available-for-sale financial instruments include impairments.

Net gains or losses from financial liabilities measured at amortised cost consist of interest expenses.

Disclosures concerning interest income and interest expenses 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.

Netting of financial assets and liabilities as of 31 December 2014

In EUR '000s	Gross amount before balance	Balance amounts	Net amount in balance	Fair Value of financial securities	Total net amount
Financial assets					
Trade accounts receivable	494,063	6,000	488,063	0	488,063
Total	**494,063**	**6,000**	**488,063**	**0**	**488,063**
Financial liabilities					
Trade accounts payable	376,471	6,000	370,471	4,000	366,471
Total	**376,471**	**6,000**	**370,471**	**4,000**	**366,471**

Netting of financial assets and liabilities as of 31 December 2013

In EUR '000s	Gross amount before balance	Balance amounts	Net amount in balance	Fair value of financial securities	Total net amount
Financial assets					
Trade accounts receivable	507,029	5,400	501,629	0	501,629
Total	**507,029**	**5,400**	**501,629**	**0**	**501,629**
Financial liabilities					
Trade accounts payable	407,370	5,400	401,970	4,000	397,970
Total	**407,370**	**5,400**	**401,970**	**4,000**	**397,970**

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 netted out on the balance sheet date and settled in the subsequent month.

34.2 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 for the business segments and coordinates access to the financial markets. It also monitors and manages the market and liquidity risks associated with the Group's business segments 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 risk minimisation; another important objective is to optimise net interest income. Prudent liquidity management controlled by the Group Treasury department involves holding an adequate reserve of cash and cash equivalents, the possibility of obtaining finance by way of adequate commitments from credit lines, 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 shareholders' 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 main financial covenants are defined in relation to the Group's equity ratio and the debt factor (ratio of Group net debt to Group EBITDA). For further information, please refer to the statements in the chapter "Financial management" in the Group management report. All covenants are fulfilled as at the balance sheet date.

The ratio of Group net debt to Group equity (gearing) is another parameter of capital risk management. Gearing was 0.33 as at the balance sheet date (previous year: 0.34).

In order to actively manage the capital structure, the management is permitted to sell assets to reduce debt, as well as being entitled to implement measures such as issuing new shares.

The following disclosures about the individual risks is based on information presented to the Executive Board.

34.3 Market risk

Our Group's activities are primarily exposed to financial risks resulting from changes in interest rates and currency exchange rates.

34.3.1 Interest rate risk

The liabilities shown under financial debt result from a fixed-interest corporate bond (reported as at 31 December 2014: 418.4 million euros) which was issued as part of the refinancing in April 2011, and from the promissory note bond signed in December 2012 (reported as at 31 December 2014 with a balance totalling 119.6 million euros—comprising 55.8 million euros in three separate variable-interest tranches and 63.8 million euros in two separate fixed-interest tranches). The Group also has a revolving credit line amounting to 300.0 million euros that had not been drawn on by the end of the year.

As at 31 December 2014, the Group reported variable-interest financial liabilities amounting to –55.8 million euros. In this respect, the Group is exposed to interest rate risks. Although the interest rate risks are not explicitly secured, the cash holdings (which are invested mainly at variable interest rates based on EONIA or EURIBOR) serve as a natural hedge and accordingly mitigate interest rate risks arising from the variable-interest financial debts.

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 the debt. Changes in market interest rates could have an impact on the net interest income from originally variable-interest financial instruments and are included in the calculation process for results-related sensitivities.

In order to depict the market risks, the Group uses a sensitivity analysis that shows the effects of changes in interest rates on earnings and on shareholders' equity.

The periodic effects are determined by relating the theoretical changes in the risk variables to the holdings of financial instruments as at the closing date.

In the balance sheet, liabilities of 538.5 million euros are shown under short-term and long-term financial debt as at 31 December 2014, 55.8 million euros of which have variable interest rates. The variable-interest liabilities to banks as at the closing date were charged interest of 1.7 per cent. The corporate bond comes with a coupon of 7.1 per cent.

Of the aggregate amount shown for financial debt as at 31 December 2014, 20.3 million euros are shown as current debt. There is no mandatory repayment of principal in 2015—on the contrary, the sum of 20.3 million euros relates to expected payments of cumulative interest. On the basis of market estimates, the expected interest for variable-interest loans for 2015 is in a corridor between 1.7 and 2.7 per cent. This means that the cash outflows for the entire financial debt in 2015 would amount to 31.7 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 30 thousand euros on the result after tax (previous year: 84 thousand euros), while a downward shift of 50 basis points in the interest rate curve would have an impact of –30 thousand euros on the result after tax (previous year: –84 thousand 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

135 thousand euros (previous year: 138 thousand euros) on shareholders' equity, while a downward shift of 5 per cent would have an impact of –135 thousand euros (previous year: –138 thousand euros) on shareholders' equity.

For the other interest-bearing assets and liabilities, the risk represented by changes in interest rates is negligible.

Changes in interest rates have an impact on fixed-income financial instruments only if they are recognised at fair value. freenet's financial liabilities are therefore not exposed to an interest rate risk because they are recognised at amortised cost.

34.3.2 Foreign currency risk

Commercial transactions in foreign currencies are conducted to an insignificant degree in the Group. The foreign currency risk is generally hedged by concluding currency futures, or, if necessary, by way of cash holdings denominated in foreign currency.

All in all, the Group regards the foreign currency risk as negligible.

34.4 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 financial debts, the payment of purchasing obligations and the obligations from lease agreements.

Extensive financial planning instruments are used throughout the Group to monitor and control liquidity. Different planning horizons of up to one year are considered in connection with this. The 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 carried out for maturity profiles of the financial assets and liabilities. The Group uses a wide range of different financing instruments to reduce the liquidity risk.

The need for and investment of liquid funds in the Group is controlled centrally on the basis of several existing internal Group cash pooling agreements in which the significant companies in the freenet Group participate.

The Group 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 the revolving credit line of 300.0 million euros which had been provided. There are stringent restrictions on the company raising loans outside of these credit agreements, e. g. in order to finance future strategic investments.

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 holdings. If it became necessary to sell these holdings, their sale at short notice might possibly be more difficult because there is no organised capital market for these shareholdings.

The Group's financial and operational scope is restricted by certain regulations in 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 shareholdings. The following tables show the contractually agreed undiscounted interest and redemption payments on the Group's original financial liabilities at the end of the financial years 2014 and 2013:

Financial liabilities

In EUR '000s	Carrying amount 31.12.2014	Cash flows 2015			Cash flows 2016			Cash flows 2017 and later		
		Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment
Trade accounts payable	370,471			369,931			540			
Debt (liabilities due to banks)	538,556	30,775	963	20,333	30,769	966	398,588	3,881	2,462	119,635
Other non-derivative financial liabilities	88,067			49,716			29,821			8,530

Financial liabilities

In EUR '000s	Carrying amount 31.12.2013	Cash flows 2014			Cash flows 2015			Cash flows 2016 and later		
		Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment
Trade accounts payable	401,970			401,970						
Debt (liabilities due to banks)	538,012	30,788	1,671	20,413	30,775	1,680	254	34,579	3,861	517,345
Other non-derivative financial liabilities	109,412			43,518			36,557			29,337

34.5 Credit default risk

A credit default risk consists of the unexpected loss of cash and cash equivalents or revenue as a result of the partial or complete default on receivables owed. This risk materialises if the contractual partner is unable to meet their obligations within the agreed period.

The assessment of the risk of default in the freenet Group is focused primarily on trade receivables owed by end customers. For more information, please refer to the statements in note 21, Receivables and other 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 segments, credit assessments are carried out for the customers before the contract is signed.

In the ongoing contractual relationship, the implementation of a swift and regular reminder and debt collection process involving a number of debt collection companies in the benchmarking area, together with long-term debt collection monitoring and high-spender monitoring, are essential measures for the minimisation of the default risk in our Group.

An ongoing reminder and debt collection process is likewise used for receivables owed by retailers and franchise partners. In a similar vein, credit limits are established and monitored. Where appropriate, a delivery block is imposed when the limit is reached.

Commercial credit insurance, moreover, safeguards us against significant credit default risks vis-à-vis major customers (traders and distributors in the mobile communications segment). In order to minimise the credit 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 commercial relationship will not come into being. Default risks vis-à-vis end customers have not been hedged.

In order to determine the intrinsic value of trade receivables, 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 there are no correlations.

The appropriate formation of valuation allowances takes the risks of default 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.

With regard to those trade receivables that are neither impaired nor overdue for payment, there are no indications as at the balance sheet date that the debtors will not meet their payment obligations.

With regard to the Group's other financial assets, such as cash and cash equivalents and available-for-sale financial assets, the maximum credit risk in the case of counterparty default is equivalent to the carrying amount of these instruments.

34.6 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 recognised 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 receivables has climbed continuously. For the freenet Group, this means that tied-up capital 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 background, the Group concluded a factoring agreement with a bank in the reporting year. The agreement is a master agreement with an indefinite term. The sale of mobile phone option receivables is possible on a quarterly basis. The bank purchases the receivables with a defined del credere discount and it also bills freenet for interest and fees. The relevant risks (such as the risk of default 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").

Of the sales carried out on a quarterly basis in the reporting year (nominal volume 131.4 million euros), a total of 1.7 million euros was posted to expenses. 1.3 million euros of this sum concerns the credit default risk taken on from the bank (del credere deduction and charges) and 0.4 million euros are accounted for by interest expenses from the late payment risk. As at the balance sheet date, receivables amounting to 49.6 million euros have been sold and derecognised but not yet paid for. The expenses of 7 thousand euros to be anticipated from the late payment risk and the servicing will be realised over the residual term of the receivables (9 months). The maximum risk of loss for the Group is 495 thousand 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 receivables default or the freenet Group's liquidity.

35. Related-party transactions

35.1 Overview

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

In EUR '000s	2014	2013
Sales and income attributable to services		
Joint Ventures		
FunDorado GmbH, Hamburg	316	446
Companies with a major influence on freenet AG		
b2c.de GmbH, Munich (Drillisch AG Group)	n. a.	286
Total	**316**	**732**
Purchased services and onward charging		
Companies with a major influence on freenet AG		
eteleon e-solutions AG, Munich (Drillisch AG Group)	n. a.	24
b2c.de GmbH, Munich (Drillisch AG Group)	n. a.	3,029
Total	**0**	**3,053**

The following major receivables due from and liabilities due to related parties existed as at 31 December 2014:

In EUR '000s	31.12.2014	31.12.2013
Receivables from regular transactions		
Joint ventures		
FunDorado GmbH, Hamburg	38	63
Total	**38**	**63**

All transactions were at market rates. There are no securities.

If the parties were not classified as related parties under IAS 24, no details were provided (n. a.).

According to the voting rights notification dated 25 March 2013, Drillisch AG held 10.43 per cent of the voting rights, including the shares of MSP Holding GmbH, on 20 March 2013. Since 20 March 2013, Drillisch AG has not been able to exercise a controlling influence on the freenet Group, with the result that since that time, Drillisch AG and the companies affiliated with it have no longer been classified as related parties. Consequently, in 2013, transactions with companies in the Drillisch Group were reported as transactions with related parties only if they took place before 20 March 2013.

35.2 Executive Board compensation

The compensation paid to the members of the Executive Board consists of annual fixed compensation, annual variable compensation, and variable compensation with a long-term incentive effect. There are also pension commitments. The annual variable compensation sums each result from an annual agreement on objectives in which regularly determined figures indicating the freenet Group's significant financial and non-financial performance indicators are defined as individual objectives. With regard to the compensation with long-term incentive effect, we refer to the statements made in relation to the LTIP programmes in notes 26.2.1 and 26.2.2 of these notes.

The compensation for the members of the company's Executive Board was as follows in the reporting year and in the previous year:

Executive Board compensation 2014

In EUR '000s	Fixed compensation	Variable compensation	Sub-total cash compensation	Variable compensation with long-term incentive effect[2]	Total compensation
Christoph Vilanek	767	659	1,426	1,632	3,058
Joachm Preisig	432	540	972	1,220	2,192
Stephan Esch	442	162	604	660	1,264
Total	**1,641**	**1,361**	**3,002**	**3,512**	**6,514**

Executive Board compensation 2013

In EUR '000s	Fixed compensation	Variable compensation	Sub-total cash compensation	Variable compensation with long-term incentive effect[2]	Total compensation
Christoph Vilanek	621	504	1,125	972	2,097
Joachm Preisig	440	504	944	649	1,593
Stephan Esch	444	151	595	292	887
Total	**1,505**	**1,159**	**2,664**	**1,913**	**4,577**

2 This is variable compensation from the LTIP programme, including payments which were not cash-effective in the financial year and which were measured in accordance with IFRS 2.

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

Variable compensation with long-term incentive effect 2014

In EUR '000s	LTIP programme compensation from change in provision (non-cash-effective)	LTIP programme compensation from actual payments	Total variable compensation with long-term incentive effect
Christoph Vilanek	–648	2,280	1,632
Joachim Preisig	829	391	1,220
Stephan Esch	484	176	660
Total	**665**	**2,847**	**3,512**

Variable compensation with long-term incentive effect 2013

In EUR '000s	LTIP programme compensation from change in provision (non-cash-effective)	LTIP programme compensation from actual payments	Total variable compensation with long-term incentive effect
Christoph Vilanek	567	405	972
Joachim Preisig	379	270	649
Stephan Esch	170	122	292
Total	**1,116**	**797**	**1,913**

On 26 February 2014, agreements concerning the contracts of employment that grant new long-term variable compensation components (LTIPs) were concluded with the members of the Executive Board. In connection with this, we refer to note 26.2.2 of these notes.

The members of the Executive Board were granted an LTIP programme for the first time in 2011. We refer to note 26.2.1 of these notes.

In the financial year 2014, there were cash payouts from the LTIP programmes in the amount of 2,847 thousand euros (previous year: 797 thousand euros), with Mr Vilanek receiving 2,280 thousand euros (previous year: 405 thousand euros), Mr Preisig receiving 391 thousand euros (previous year: 270 thousand euros) and Mr Esch receiving 176 thousand euros (previous year: 122 thousand euros). With regard to the cash payouts made to Mr Vilanek, it must be borne in mind that these constituted the full replacement of his previous LTIP programme (goal attainment years 2011 to 2013)—the new LTIP programme for Mr Vilanek takes account of the goal attainment years 2014 to 2018. Mr Preisig and Mr Esch are still in the previous LTIP as at the balance sheet date 31 December 2014 (with the goal attainment years 2011 to 2014); their new LTIP programme will apply during the goal attainment years 2015 to 2019.

As at 31 December 2014, the provision for Mr Vilanek's LTIP programme was 1,205 thousand euros (previous year: 1,853 thousand euros), with Mr Preisig receiving 2,065 thousand euros (previous year: 1,236 thousand euros) and Mr Esch receiving 1,040 thousand euros (previous year: 556 thousand euros).

All in all, the Executive Board compensation in 2014 as defined by section 314 (1) no. 6a HGB/German Accounting Standard No. 17 (DRS 17) amounted to 13,401 thousand euros (previous year: 2,664 thousand euros). The total for the previous year contains no compensation with long-term incentive effect, as such components had already been disclosed in the financial years in which the compensation instruments had been granted in accordance with HGB. In the financial year 2014, not only the subtotal of fixed components and other variable compensation amounting to 3,002 thousand euros, but also the fair value of the entire LTIP programme as at the time of being granted on 26 February 2014, hence 10,399 thousand euros (of which 5,545 thousand euros is attributable to Mr Vilanek, 2,912 thousand euros to Mr Preisig and 1,942 thousand euros to Mr Esch), are accounted for in these compensation elements.

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 at 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as at 1 September 2008. In February 2014, adjustments were made to all three Executive Board members' pension commitments. For further details, see the section "Compensation rules in the event of a cessation of employment" in the Executive Board remuneration report within the Group management report.

As at 31 December 2014, the defined benefit obligation (DBO) for Mr Vilanek amounted to 2,641 thousand euros (previous year: 1,165 thousand euros), with Mr Preisig receiving 3,214 thousand euros (previous year: 893 thousand euros) and Mr Esch receiving 2,826 thousand euros (previous year: 1,627 thousand euros). The DBOs for Messrs Spoerr, Krieger and Berger, as former Executive Board members, totalled 8,779 thousand euros as at 31 December 2014 (previous year: 6,236 thousand euros).

Ongoing service costs amounting to 531 thousand euros were reported under personnel expenses for the Executive Board members from the pension commitments (previous year: 549 thousand euros). Of these, 238 thousand euros for 2014 (previous year: 250 thousand euros) were accounted for by Mr Vilanek, 126 thousand euros (previous year: 125 thousand euros) by Mr Preisig and 167 thousand euros (previous year: 174 thousand euros) by Mr Esch.

In addition recognisable past service costs amounting to 2,136 thousand euros were reported under personnel expenses for the Executive Board members from pension commitments (previous year: 0). Of these, 501 thousand euros were accounted for by Mr Vilanek, 1,422 thousand euros by Mr Preisig and 213 thousand euros by Mr Esch.

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

35.3 Compensation for the Supervisory Board

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

- Basic compensation
- Attendance fees
- Performance-linked compensation

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

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

In addition, every Supervisory Board member receives an attendance fee of 1,000 euros for each Supervisory Board meeting that he/she attends. Supervisory Board members who belong to 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 in addition an attendance fee of 1,000 euros for each meeting of the respective committee that they attend. The committee chairperson receives double this amount.

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

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

For their activities during the financial year 2014, the members of the company's Supervisory Board received fixed compensation of 405 thousand euros plus attendance fees amounting to 84 thousand euros. In addition, performance-linked compensation of 405 thousand euros was recorded as an expense. The extent to which this performance-based compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2014. The aggregate compensation paid for Supervisory Board activities thereby amounted to 894 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.

Compensation for the financial year 2014

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr. Hartmut Schenk	60.0	12.0	60.0	132.0
Knut Mackeprang[3]	45.0	6.0	45.0	96.0
Claudia Anderleit[3]	30.0	6.0	30.0	66.0
Birgit Geffke[3]	30.0	8.0	30.0	68.0
Thorsten Kraemer	30.0	5.0	30.0	65.0
Ronny Minak[3]	30.0	8.0	30.0	68.0
Michael Stephan[3]	30.0	7.0	30.0	67.0
Prof. Dr. Helmut Thoma	30.0	5.0	30.0	65.0
Gesine Thomas[3]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	8.0	30.0	68.0
Robert Weidinger	30.0	11.0	30.0	71.0
Achim Weiss	30.0	4.0	30.0	64.0
Total	**405.0**	**84.0**	**405.0**	**894.0**

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

Compensation for the financial year 2013

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr. Hartmut Schenk	60.0	12.0	60.0	132.0
Knut Mackeprang[4]	27.3	4.0	27.5	58.8
Claudia Anderleit[4]	30.0	5.0	30.0	65.0
Birgit Geffke[4]	18.2	6.0	18.3	42.5
Thorsten Kraemer	30.0	7.0	30.0	67.0
Ronny Minak[4]	18.2	5.0	18.3	41.5
Michael Stephan[4]	18.2	5.0	18.3	41.5
Prof. Dr. Helmut Thoma	30.0	5.0	30.0	65.0
Gesine Thomas[4]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	8.0	30.0	68.0
Robert Weidinger	30.0	12.0	30.0	72.0
Achim Weiss	30.0	4.0	30.0	64.0
	351.9	**77.0**	**352.4**	**781.3**
Former members				
Nicole Engenhardt-Gille[4]	17.7	1.0	17.6	36.3
Joachim Halefeld[4]	11.9	4.0	11.8	27.7
Steffen Vodel[4]	11.9	3.0	11.8	26.7
Angela Witzmann[4]	11.9	1.0	11.8	24.7
	53.4	**9.0**	**53.0**	**115.4**
Total	**405.3**	**86.0**	**405.4**	**896.7**

36. Company acquisitions

36.1 Acquisition of Jesta Digital Group

On 16 December 2013, the Group concluded a purchase agreement to acquire all of the shares and voting rights in the companies Jesta Digital GmbH, now renamed as freenet digital GmbH, based in Berlin; Jesta Digital Holdings, Inc., now renamed as freenet digital Holdings, Inc., based in Wilmington, USA; and Jesta Digital Group U. S. Holdings, Inc., based in Wilmington, USA (these companies and their subsidiaries are hereinafter referred to as "freenet digital Group"). Following approval from the anti-trust authorities and after having met other conditions, the takeover was completed effective 15 January 2014, which gave the Group control over this subsidiary. With offices in Berlin and Los Angeles, as well as around 300 employees, freenet digital Group is one of the world's leading providers of modern digital entertainment formats and services for users of digital applications.

A cash price of USD 72.18 million was agreed. The cash purchase price was subject to adjustments depending on the net working capital, cash and cash equivalents, and financial liabilities of the purchased group of companies. These purchase price adjustments were established with binding effect in July 2014. The final cash purchase price is the equivalent of 45,897 thousand euros, of which 50,125 thousand euros was paid in Q1 2014 as the provisional cash price and 4,228 thousand euros was paid to the Group in Q3 2014 as the final purchase price adjustment.

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

In addition, there may be a first earn-out ranging between USD 0 and USD 10.0 million; the exact amount of this earn-out is based on the gross profit of freenet digital Group for the 2014 calendar year. A verification of freenet digital Group's individual financial statements as at 31 December 2014 prepared under German commercial law had not yet taken place by the time these consolidated financial statements were prepared, although in view of the prepared individual financial statements, it can be assumed that the lower fluctuation margin was missed and therefore no earn-out is to be paid. The liability from the earn-out that was compounded as at the time of initial consolidation in the amount of 3,655 thousand euros and during the financial year 2014 up to 3,871 thousand euros was therefore derecognised through profit or loss as at 31 December 2014.

There may also be a second earn-out. This depends on whether freenet digital Group or significant parts thereof are sold within the first 60 months of being acquired or within the first 96 months if a certain EBITDA level is achieved. Under certain conditions, a defined share of the proceeds from the sale would fall due as an additional purchase price, for which no upper limit has been set. As at 31 December 2014 no liability for the second earn-out was assessed.

The purchase price allocation carried out in accordance with IFRS 3 for the acquisition of freenet digital Group is final and conclusive.

The following overview provides details of the assets and liabilities of freenet digital Group acquired at fair value at the time of the initial consolidation:

Assets and liabilities of freenet digital Group measured at fair value as at 15 January 2014

In EUR '000s	15.1.2014	In EUR '000s	15.1.2014
Non-current assets		**Equity**	
Intangible assets	26,873	Deferred income tax liabilities	7,523
Property, plant and equipment	29,162		
Goodwill	660		
Other receivables and other assets	202		
	56,897		**7,523**
Current assets		**Current liabilities**	
Current tax assets	1,415	Trade accounts payable	10,249
Trade accounts receivable	18,141	Other liabilities and deferrals	3,982
Other accounts receivable	2,710	Current tax liabilities	8,307
Liquid assets	3,833	Other provisions	3,383
	26,099		**25,921**
	82,996		**33,444**

The difference of 49,552 thousand euros between the assets and liabilities represents the expected total purchase price as at the time of initial consolidation (final cash price of 45,897 thousand euros plus the expected first earn-out at the time of acquisition of 3,655 thousand euros). The purchase price allocation results in goodwill of 29,162 thousand euros, which is attributable mainly to freenet digital Group's ability to continue acquiring new customers in the future, as well as the company's workforce which cannot be recognised separately on the balance sheet. The goodwill was attributed to the cash-generating unit "freenet digital Group". The acquired intangible assets mainly comprise customer relationships worth 12,189 thousand euros, technology (in excess of the sum already reported in freenet digital Group's financial statements in the purchase price allocation) in the amount of 9,132 thousand euros and trademark rights totalling 3,879 thousand euros, which were recognised as a result of the purchase price allocation. Due to the subsequent amortisation of the intangible assets recognised in the course of the purchase price allocation over a useful life of 48 to 60 months, amortisation amounting to 1,309 thousand euros per quarter will be recognised in the first four years following the acquisition date and 1,066 thousand euros per quarter in the fifth year following the acquisition date. No contingent debts were recognised in the purchase price allocation. The fair value of the acquired receivables is 21,053 thousand euros. Value adjustment allowances amounting to 2,122 thousand euros were set aside for gross trade receivables of 20,263 thousand euros as at the acquisition date. We have not identified any transactions which have to be shown separately from the acquisition of the assets and liabilities. A budgeting plan based on the DCF procedure and with valuation relevance was made available for the purchase price allocation. This covered a detailed period of three years and a rough planning period of a further three years. The royalty relief method was used to determine the fair values of the technology and the trademark rights. The fair value of the customer relationships was established using a capital-value-oriented procedure based on the residual value method.

The ongoing spread of smartphones and tablet PCs together with data-friendly mobile phone tariffs are fuelling increasing demand for mobile digital lifestyle applications. With its acquisition of freenet digital Group, freenet plans to press ahead with its growth course in the digital lifestyle segment.

For the purpose of the freenet AG Group's segment reporting, freenet digital Group was allocated to the "Other/Holding" segment.

During the financial year 2014, freenet digital Group contributed a total of 23.9 million euros to Group revenue with third parties following its first-time consolidation. If this transaction had taken place on 1 January 2014, freenet digital Group's contribution to Group revenue in the financial year 2014 would have been 24.3 million euros. freenet digital Group contributed a negative after-tax result to the Group result in 2014, which was of insignificant magnitude when the effects arising at Group level (liquidation of earn-out) are taken into account. This would still have been the case had the transaction taken place on 1 January 2014.

36.2 Acquisition of reStore GmbH's shop locations

In the reporting year 2014, the Group acquired from reStore GmbH, Düsseldorf, by way of the subsidiary GRAVIS and an asset deal, the right to be specified in the rental agreements as the new shop tenant for the particular shop locations previously operated by reStore GmbH, or to conclude these rental agreements anew with the landlord. This right applied for up to twelve locations that were acquired step by step in the period from June to November 2014. The reStore locations were taken over as part of our strategy of further increasing the number of our directly controllable shops, and therefore our proximity to customers.

The purchase price allocation carried out in accordance with IFRS 3 in respect of this acquisition, for which payments amounting to 2,523 thousand euros were made up until the balance sheet date, is final. The provisional purchase price allocation dealt with the acquired assets as follows: 620 thousand euros was allocated to the right to take over the rental agreements or conclude them anew, 263 thousand euros was allocated to the factory and office equipment acquired and 387 thousand euros was allocated to dismantling obligations. Furthermore, deferred income tax assets totalling 3 thousand euros were recognised. The remaining 2,024 thousand euros have been recognised as goodwill and are largely attributable to the shops' drop-in customers, as well as the low coverage of the workforce not accounted for on the balance sheet.

The right of acquisition and/or the right to conclude the rental agreements anew, along with the factory and office equipment that was acquired, were assessed using a cost-oriented procedure. The dismantling obligations were assessed using the cash method.

In the freenet AG Group's segment reporting, the locations acquired were allocated to the mobile communications segment as part of the subsidiary GRAVIS. The goodwill accounted for by this transaction was allocated to the cash-generating unit "Mobile Communications".

The revenues and results from the acquired shop locations cannot be ascertained separately, as they were integrated into the existing business after their acquisition. The locations' contribution to the Group's revenue with third parties and to the Group's earnings during the reporting year 2014 as from the time of their initial consolidation were also of insignificant magnitude. This would still have been the case had these transactions taken place on 1 January 2014.

37. Declaration in accordance with section 315a HGB

The average number of employees in the Group (section 314 (1) no. 4 HGB) has been shown in note 8, Personnel expenses, of these notes.

With regard to the disclosures concerning the compensation paid to the company's management bodies (section 314 (1) no. 6 HGB), please refer to note 35, Transactions with related parties.

In accordance with section 314 (1) no. 8 HGB, we hereby declare that the declaration of conformity in accordance with section 161 AktG was submitted by the company's Executive Board and Supervisory Board in December 2014. It has been made permanently available to shareholders on the internet at the address

www.freenet-group.de/investor-relations/corporate-governance/statementofcompliance.html

A total of 1,886 thousand euros in fees was paid to the auditor as defined by section 314 (1) no. 9 HGB for the financial year. Of this sum, 34 thousand euros are accounted for by RBS RoeverBroennerSusat GmbH, 27 thousand euros of which were for financial statements auditing services and 7 thousand euros of which were for other services. A further 1,852 thousand euros were paid to PricewaterhouseCoopers Aktiengesellschaft. Of this sum, 696 thousand euros was accounted for by financial statements auditing services, 60 thousand euros by tax consulting services and 1,096 thousand euros by other services. No other certification services were provided.

In accordance with section 313 (2) to (3) HGB, we provide the following overview of the companies included in the consolidated financial statements:

	Holding
Fully consolidated companies	
freenet Cityline GmbH, Kiel	100 %
freenet.de GmbH, Hamburg	100 %
01019 Telefondienste GmbH, Hamburg	100 %
010124 Telefondienste GmbH, Kiel	100 %
01050.com GmbH, Hamburg	100 %
freenet Datenkommunikations GmbH, Hamburg	100 %
tellfon GmbH, Hamburg	100 %
01083.com GmbH, Hamburg	100 %
mobilcom-debitel GmbH, Büdelsdorf	100 %
mobilcom-debitel Logistik GmbH, Schleswig	100 %
MobilCom Multimedia GmbH, Schleswig	100 %
klarmobil GmbH, Hamburg	100 %
new directions GmbH, Hamburg	100 %
freenet Direkt GmbH, Hamburg	100 %
MFE Energie GmbH, Berlin	100 %
Stanniol GmbH für IT & PR, Oberkrämer	100 %
mobilcom-debitel Shop GmbH, Oberkrämer	100 %
callmobile GmbH, Hamburg	100 %
Gravis-Computervertriebsgesellschaft mbH, Berlin	100 %
MOTION TM Vertriebs GmbH, Troisdorf	51 %
freenet digital GmbH, Berlin	100%
iLove GmbH, Berlin	100%
Quaid Media GmbH, Berlin (former Lorena Medienagentur GmbH)	100%
freenet digital Espana S. L., Barcelona (Spain)	100%
freenet digital Entretentimendo do Brasil Ltda., Sao Paulo (Brazil)	100%
Jamba Mobilnye Razvlecheniya 000, Moskau (Russian Federation)	100%
Motility GmbH, Berlin	100%
freenet digital Holdings Inc., Wilmington (U.S.)	100%
freenet digital Entertainment Inc., Los Angeles (U.S.)	100%
freenet digital LLC, Wilmington (U.S.)	100%
freenet digital North America Inc. Wilmington (U.S.)	100%
freenet digital Studios LLC, Wilmington (U.S.)	100%
Aldine Productions LLC, Wilmington (U.S.)	100%
Seedling Productions LLC, Los Angeles (U.S.)	100%
freenet digital Group US Holdings Inc., Wilmington (U.S.)	100%
freenet digital USA LLC, Los Angeles (U.S.)	100%
Motility Ads LLC, Los Angeles (U.S.)	100%
At equity valued companies	
FunDorado GmbH, Hamburg	50 %

38. Major events after the balance sheet date

There were no reportable events after the balance sheet date.

39. Consolidated statement of movements in non-current assets

Tables on the following pages.

Consolidated statement of movements in non-current assets as at 31 December 2014

	Cost of purchase or production						
In EUR '000s	1.1.2014	Change in companies included in consolidation	Additions	Transfers	Disposals	Foreign currency	31.12.2014
Intangible assets							
Internally-generated software	72,137	1,464	12,745	–7	368	25	85,996
Software and licenses	166,936	9,961	5,677	15	46,555	0	136,034
Trademarks	338,273	3,879	0	0	5,800	0	336,352
Customer relationships	494,365	12,189	0	0	472,808	0	33,746
Goodwill	1,122,112	31,186	0	0	0	0	1,153,298
	2,193,823	**58,679**	**18,422**	**8**	**525,531**	**25**	**1,745,426**
Property, plant and equipment							
Land, facilities on land and buildings	15,965	0	63	0	0	0	16,028
Switches and networks	4,506	0	0	0	0	0	4,506
Technical equipment and machinery	20,620	0	671	0	103	0	21,188
Other office equipment	96,648	923	10,484	345	3,838	1	104,563
Payments on account and assets under construction	384	0	128	–353	17	0	142
	138,123	**923**	**11,346**	**–8**	**3,958**	**1**	**146,427**
	2,331,946	**59,602**	**29,768**	**0**	**529,489**	**26**	**1,891,853**

Consolidated statement of movements in non-current assets as at 31 December 2013

	Cost of purchase or production					
In EUR '000s	1.1.2013	Change in companies included in consolidaton	Additions	Transfers	Disposals	31.12.2013
Intangible assets						
Internally-generated software	62,221	0	9,931	0	15	72,137
Software and licenses	223,481	1,110	74,395	52	132,102	166,936
Trademarks	334,906	3,367	0	0	0	338,273
Customer relationships	485,960	7,527	0	0	–878	494,365
Goodwill	1,116,616	5,497	0	0	1	1,122,112
	2,223,184	**17,501**	**84,326**	**52**	**131,240**	**2,193,823**
Property, plant and equipment						
Land, facilities on loan and buildings	15,299	560	106	0	0	15,965
Switches and networks	49,593	0	259	0	45,346	4,506
Technical equipment and machinery	18,917	0	1,943	0	240	20,620
Other office equipment	87,774	5,803	5,701	621	3,251	96,648
Payments on account and assets under construction	290	0	767	–673	0	384
	171,873	**6,363**	**8,776**	**–52**	**48,837**	**138,123**
	2,395,057	**23,864**	**93,102**	**0**	**180,077**	**2,331,946**

Depreciation and impairment write-downs								Net book amounts	
1.1.2014	Change in companies included in consolidation	Additions	Impairment write-downs	Transfers	Disposals	Foreign currency	31.12.2014	31.12.2014	1.1.2014
53,911	0	10,898	368	–3	368	–3	64,803	21,193	18,226
98,859	0	30,643	0	–3	46,413	0	83,086	52,948	68,077
32,995	0	6,220	0	0	5,800	0	33,415	302,937	305,278
488,615	0	4,880	0	0	472,808	0	20,687	13,059	5,750
0	0	0	0	0	0	0	0	1,153,298	1,122,112
674,380	**0**	**52,641**	**368**	**–6**	**525,389**	**–3**	**201,991**	**1,543,435**	**1,519,443**
8,157	0	629	0	0	0	0	8,786	7,242	7,808
4,275	0	52	0	0	0	0	4,327	179	231
15,388	0	1,466	0	0	103	0	16,751	4,437	5,232
76,551	0	9,257	0	6	3,558	0	82,256	22,307	20,097
0	0	0	0	0	0	0	0	142	384
104,371	**0**	**11,404**	**0**	**6**	**3,661**	**0**	**112,120**	**34,307**	**33,752**
778,751	**0**	**64,045**	**368**	**0**	**529,050**	**–3**	**314,111**	**1,577,742**	**1,553,195**

Depreciation and impairment write-downs							Net book amounts	
1.1.2013	Change in companies included in consolidation	Additions	Impairment write-downs	Transfers	Disposals	31.12.2013	31.12.2013	1.1.2013
43,618	0	10,308	0	0	15	53,911	18,226	18,603
195,477	0	26,391	0	48	123,057	98,859	68,077	28,004
27,551	0	5,444	0	0	0	32,995	305,278	307,355
483,389	0	4,348	0	0	–878	488,615	5,750	2,571
0	0	0	0	0	0	0	1,122,112	1,116,616
750,035	**0**	**46,491**	**0**	**48**	**122,194**	**674,380**	**1,519,443**	**1,473,149**
7,533	0	624	0	0	0	8,157	7,808	7,766
49,585	0	36	0	0	45,346	4,275	231	8
14,301	0	1,328	0	0	241	15,388	5,232	4,616
72,138	0	7,613	0	–48	3,152	76,551	20,097	15,636
0	0	0	0	0	0	0	384	290
143,557	**0**	**9,601**	**0**	**–48**	**48,739**	**104,371**	**33,752**	**28,316**
893,592	**0**	**56,092**	**0**	**0**	**170,933**	**778,751**	**1,553,195**	**1,501,465**

Büdelsdorf, 3 March 2015
freenet AG
The Executive Board

Christoph Vilanek | Joachim Preisig | Stephan Esch

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the freenet AG, Büdelsdorf, comprising the statement of financial position, the income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2014. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, March 4, 2015

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

signed:

Dr. Andreas Focke
Wirtschaftsprüfer
(German Public Auditor)

signed:

ppa. Vinzent Graf
Wirtschaftsprüfer
(German Public Auditor)

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Büdelsdorf, 3 March 2015
freenet AG
The Executive Board

Christoph Vilanek   Joachim Preisig   Stephan Esch

FURTHER INFORMATION

FINANCIAL CALENDAR

26 March 2015	Publication of Consolidated Financial Statements/Annual Report 2014
16 April 2015[1]	Bankhaus Lampe Deutschlandkonferenz, Baden-Baden, Germany
7 May 2015[1]	Publication of interim report as of 31 March 2015—1. quarter 2015
21 May 2015[1]	Annual General Meeting
27 May 2015[1]	Berenberg TMT Conference, Zurich, Switzerland
18 June 2015[1]	dbAccess German, Swiss & Austrian Conference, Berlin, Germany
6 August 2015[1]	Publication of interim report as of 30 June 2015—2. quarter 2015
3—4 September 2015[1]	dbAccess European TMT Conference, London, Great Britain
9 September 2015[1]	Commerzbank TMT and Consumer Conference, Frankfurt, Germany
17 September 2015[1]	ESN European Conference, Frankfurt, Germany
21—22 September 2015[1]	Berenberg and Goldman Sachs German Corporate Conference, Munich, Germany
6 November 2015[1]	Publication of interim report as of 30 September 2015—3. quarter 2015
11—13 November 2015[1]	Morgan Stanley TMT Conference, Barcelona, Spain
23—25 November 2015[1]	Eigenkapitalforum, Frankfurt, Germany
2 December 2015[1]	Berenberg European Conference, Surrey Heath, Great Britain

1 All dates are subject to change.

IMPRINT, CONTACT, PUBLICATION

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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 convenient translation oft he German version oft he 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 recoginition software on your smartphone, you will be directed to the freenet Group homepage by scanning this code.

GLOSSARY

AFS Available-for-sale financial instruments.

AktG German: Aktiengesetz; English: German Stock Corporation Act.

App The short form of "application".

ARPU Average revenue per user.

Audio streaming It is a data transmission method in which the data is already viewed or listened to during transmission, not only after the complete transmission and storage of data. Audio data is continuously transmitted over the internet.

Browser game It is a computer game that uses a Web browser as an interface and therefore generally be used without prior installation or download.

B2B Business with business customers (B2B = Business to Business).

B2C Business with consumers (B2C = Business to Consumer).

CGU Cash generating unit; a cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cloud computing It describes the dynamic, demand-oriented offering, using and billing of IT services via a network. The services offered as part of cloud computing cover the entire range of information technology and include among others infrastructure (i. e. computing power, storage space), platforms and software.

Consumer electronics Originally a category that was intended for radio and television, the consumer electronics is now moving more and more into the digital domain and is holistic in its claim. This happens mainly due to the integration into the "Internet of Things".

Convenience (digital lifestyle) Identifies smart devices and applications which focus on facilitating processes and actions for the user.

COSO Committee of Sponsoring Organizations of the Treadway Commission; a voluntary private-sector organization in the US, dedicated to improving the quality of financial reporting on the basis of ethical behaviour, effective internal controls and good corporate governance.

Customer ownership Includes the postpaid and no-frills segments.

D&O insurance Directors' and Officers' Liability Insurance; insurance payable to the directors and officers of a company, or to the corporation itself, to cover damages or defense costs in the event they are sued for wrongful acts while they were with that company.

DBO Defined Benefit Obligation.

Dialog Consult Dialog Consult GmbH; management consultancy company with international project experience in the areas of corporate, competitive and market entry strategy; Industry focus on telecommunication among others .

Digital lifestyle Describes simplification of everyday life via technical equipment based on internet and/or smartphones.

Diluted earnings per share Diluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares outstanding increased by potentially diluting shares. The number of potentially diluting shares is calculated as the difference between the potential ordinary shares attributable to employee stock option programmes valued at the subscription price and the ordinary shares issuable at fair value.

DTAG Deutsche Telekom AG.

Earnings per share This ratio specifies the portion of consolidated net profit or loss which is attributable to an individual share. It is calculated by dividing the consolidated net profit/net loss by the weighted average number of issued shares.

EBIT Earnings before interest and taxes.

EBITDA Earnings before interest, taxes, depreciation and amortisation.

EBT Earnings before taxes.

E-book (electronic book) is a book in digital form that can be read on electronic devices.

Federal Network Agency Federal Network Agency for Electricity, Gas, Telecommunication, Posts and Railways (German: Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen).

FIPL Financial instruments measured at fair value through profit and loss.

Fitness tracker Accessory that acts as a training partner and sports motivator—counts steps, calories burned and monitors personal activity patterns

FLAC Financial liabilities measured at amortised cost.

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

GewStG German: Gewerbesteuergesetz; English: German Trade Tax Act.

Gross profit Revenue minus cost of materials.

HGB German: Handelsgesetzbuch; English: German Commercial Code.

Home Automation Home Automation summarises the networked, sensing, control and optimisation of devices together in a private home. Home automation is a part of “Smart Home” and comprises mainly the areas of security/alarm systems, heating, lighting and control of windows and shutters.

IFRS International Financial Reporting Standards; a collection of standards for the external reporting of companies.

Internet of Things (IoT) IoT describes the increasing network of physical objects that employ digital technology to communicate—increasing comfort, security and energy savings in the process.

ISIN International Securities Identification Number.

IT Information Technology; describes any technology that helps to produce, store and communicate information with the use of electronic computers and computer software.

KStG German: Körperschaftsteuergesetz; English: German Corporation Tax Act.

Long-Term Incentive Account See also LTIP.

LR Loans and receivables.

LTE Long Term Evolution; a new mobile communications standard and future successor of UMTS providing significantly higher transfer speeds in mobile communications with up to 300 megabit per second.

LTIP Long Term Incentive Programme; compensation programme with long-term incentive effect .

Merger & Acquisitions (M&A) Describes all processes concerning the transfer and the encumbrance of ownership in a company.

MitbestG German: Mitbestimmungsgesetz; English: German Codetermination Act.

Mobile service provider Provider of mobile communications services without their own mobile network; they sell mobile telephony minutes, SIM cards and mobile telephones as well as value added services, such as SMS, in their own name and for their own account.

Mobile Wallet (digital wallet) to pay virtually quick and easy through the smartphone.

Multi-channel payment The opportunity to make a payment in a variety of ways. The conventional methods (e.g. EC-Credit Card, COD, Prepayment, Cash) and increasingly Internet-based channels (e.g. PayPal, Yapital, Paymorrow), to allow customers a more convenient shopping experience.

Mystery shopping A procedure to assess service quality, in which trained observers, so-called mystery shoppers, act like normal customers and perceive real customers situations.

Narrowband Analogue or digital data transmission with a speed of up to 128 kbps.

No frills Basic services and necessities without any additional features.

Pay services Pay services describes the offering and provisioning of digital services in digital media subject to a charge.

Portal Central web site which generally comprises a comprehensive range of navigation functions, aggregated content and additional services, such as e-mail.

Prime standard Stock market segment of the Frankfurt stock exchange with particularly high transparency requirements.

Roaming A feature in wireless telecommunications, which ensures the extension of connectivity service in a location different from the home location . Roaming can also reach to similar networks of various network operators (national roaming) as well as to international network operators (international roaming).

Routing It refers to setting message flows in the communication; or the transmission of messages over communication networks.

SAR Stock appreciation rights.

SIM card Subscriber Identity Module; chip card with a processor and memory for mobile devices, storing various information, including the user number allocated by the network operator, and which identifies the user in the mobile network.

Social Media Websites and other online means of communication that are used by large groups of people to share information and to develop social and professional contacts.

Smart energy This is understood to be integrated into the electricity or water heating systems use of the house. Examples include smart electricity meters, thermostats, heating and water controls.

Smart home Automatization and interconnection of inhouse electricity (light, shutters etc.), electric appliances (washing machines, fridges etc .) and entertainment electronics (TV, radio and audio system etc.).

Smart Organizer By merging various digital solutions, such as the integration of memos, calendar and email clients, Smart Organizers allow an improved view on the data. For example appointments taken directly from an email to the calendar.

Smartphone Mobile device with touch and/or qwertz keyboard and feature set for easy internet access and/or e-mail transfer (for example push e-mail).

Smart sleep system Measures by different sensors the temperature, light and sleep movements and evaluates those over time to improve sleep patterns.

Smartwatch A watch that is linked with the smartphone and can quickly provide an overview of important news. Often the device is able to record data such as heart rate, blood pressure and general movements.

Station Domination Meaning the complete takeover of all advertising space on a spatially restricted transit station—airport terminal or similar. A very effective advertising mean, leaving a lasting expression.

SMS Short message service.

Undiluted earnings per share Undiluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares outstanding during the financial year.

VATM German: Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e.V.; English: The association of telecommunications and value added service provider.

WACC Weighted average cost of capital; the rate that a company is expected to pay on average to all its security holders to finance its assets.

Wearables The term wearables contains—not least fashionable—accessories that complement the smartphone or tablet. The device has to be worn directly like a watch or a necklet/bracelet. Examples are smartwatches or fitness trackers, which transfer data to the smartphone or tablet device.

Workload distribution Identifies the possibility to increase efficiency and avoid under- or over-exposure by effective time and project management.

WKN German: Wertpapierkennnummer; English: securities identification number.

WpHG German: Wertpapierhandelsgesetz; English: German Securities Trading Act.