H1/2019

HALF-YEAR REPORT AS OF 30 JUNE 2019

freenet GROUP

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

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OVERVIEW OF KEY FINANCIALS[1]

OPERATIONS

In EUR million/as indicated	H1/2019	H1/2018[2]	Q2/2019	Q1/2019	Q2/2018[2]
Revenue	1,389.0	1,386.2	699.1	689.9	696.6
Gross profit	446.7	445.8	219.4	227.3	222.2
EBITDA	215.5	204.9	107.5	107.9	108.1
EBIT	138.2	138.1	68.8	69.3	77.9
EBT	123.1	125.1	62.0	61.1	70.8
Consolidated profit	111.6	108.0	55.5	56.2	61.3
Earnings per share in EUR (basic and diluted)	0.91	0.89	0.45	0.47	0.50

BALANCE SHEET

In EUR million/as indicated	30.6.2019	30.6.2018	30.6.2019	31.3.2019	30.6.2018
Total equity and liabilities	4,911.6	4,495.8	4,911.6	4,986.3	4,495.8
Equity	1,242.0	1,327.0	1,242.0	1,381.4	1,327.0
Equity ratio in %	25.3	29.5	25.3	27.7	29.5

FINANCES AND INVESTMENTS

In EUR million	H1/2019	H1/2018[2]	Q2/2019	Q1/2019	Q2/2018[2]
Free cash flow	126.7	135.1	81.5	45.3	96.8
Depreciation, amortisation and impairment	77.3	66.8	38.7	38.6	30.2
Net investments (CAPEX)	15.6	23.5	8.7	6.8	12.5
Net debt	2,175.1	1,699.6	2,175.1	2,053.6	1,699.6
Adjusted net debt	1,272.1	928.7	1,272.1	1,155.4	928.7

SHARE

	30.6.2019	30.6.2018	30.6.2019	31.3.2019	30.6.2018
Closing price Xetra in EUR	17.60	22.69	17.60	19.16	22.69
Number of issued shares in '000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation in EUR million	2,253.2	2,905.7	2,253.2	2,453.0	2,905.7

EMPLOYEES

	30.6.2019	30.6.2018	30.6.2019	31.3.2019	30.6.2018
Employees	4,141	4,078	4,141	4,199	4,078

OVERVIEW OF KEY FINANCIALS[1]
MOBILE COMMUNICATIONS SEGMENT

CUSTOMER FIGURES

In million	H1/2019	H1/2018	Q2/2019	Q1/2019	Q2/2018
Postpaid[3]	6.834	6.828	6.834	6.862	6.828
Net change, postpaid	–0.062	0.117	–0.028	–0.034	0.058
freenet FUNK	0.020	—	0.020	—	—
Net change, freenet FUNK	0.020	—	0.020	—	—

OPERATIONS

In EUR million	H1/2019	H1/2018[2]	Q2/2019	Q1/2019	Q2/2018[2]
Revenue	1,256.0	1,238.2	631.3	624.7	617.2
Gross profit	348.5	354.8	168.9	179.6	175.7
EBITDA	186.9	181.8	90.4	96.5	91.5

MONTHLY AVERAGE REVENUE PER USER (ARPU)

In EUR	H1/2019	H1/2018[2]	Q2/2019	Q1/2019	Q2/2018[2]
Postpaid without hardware (IFRS 15)	18.8	19.0	18.8	18.8	19.0

OVERVIEW OF KEY FINANCIALS[1]

TV AND MEDIA SEGMENT

CUSTOMER FIGURES[3]

In '000s	H1/2019	H1/2018[2]	Q2/2019	Q1/2019	Q2/2018[2]
freenet TV subscribers (RGU)	1,037.5	1,000.6	1,037.5	1,020.2	1,000.6
Net change, freenet TV subscribers (RGU)	23.2	98.6	17.3	5.9	55.5
waipu.tv subscribers	331.9	174.3	331.9	286.3	174.3
Net change, waipu.tv subscribers	80.1	72.0	45.6	34.6	41.2

OPERATIONS

In EUR million	H1/2019	H1/2018	Q2/2019	Q1/2019	Q2/2018
Revenue	123.9	148.7	62.9	61.0	77.3
Gross profit	79.8	72.2	40.7	39.1	34.7
EBITDA	33.2	28.0	18.9	14.3	20.3

[1] Unless indicated otherwise, we refer to the section "Calculation of alternative performance measures" for the definition of the key financials.
[2] The comparative figures were adjusted due to the refocusing of the internal management system effective from 2019 and the associated redefinition of various performance measures. For information on the changes, see the sections "Internal management system" and "Alternative performance measures" in the 2018 Annual Report.
[3] At the end of the period.

THE EXECUTIVE BOARD OF FREENET AG

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

H1/2019

TO OUR SHAREHOLDERS

OF FREENET AG

REPORT OF THE EXECUTIVE BOARD

Dear shareholders, business partners, customers and friends of the freenet Group,

“Turning the mobile phone market upside down”, “a seismic shift”, and “a revolution in Mobile Communications” from “Germany’s most exciting mobile phone tariff” that “could put competitors under some serious pressure”. These were just some of the reactions triggered in the trade and business press by freenet FUNK – the new mobile phone tariff we launched at the start of May. With the help of an app, users can adjust the tariff to suit their individual usage behaviour, terminate their contract or take a break for up to 14 days at any time in just a few seconds. The offer also stands out for its genuine, unrestricted flat-rate data tariff of 30 euros per month – including calls and text messages.

With freenet FUNK, we are once again sending out a message to a Mobile Communications market that has continued to face significant challenges in recent months. The market saturation that has prevailed for many years has now been joined by uncertainty and reluctance among consumers. A similar trend is evident in other sectors and is likely due not least to the initial effects of the looming global trade war, with several market-relevant device manufacturers – including very active competitors in our segment – already facing barriers to their businesses. It is an unfortunate development, even for our company, which has actively and successfully taken on the competition throughout its more than 25-year history with a blend of innovation, continuity, determination and a consistent focus on customers.

We have succeeded in counteracting the saturation in the Mobile Communications market by concentrating on profitable high-quality relationships with postpaid customers and thus generating steady growth for the past seven years. Yet all success has its limits, even for the freenet Group – as we have seen since the start of the year with the first fall in customer numbers in this segment. As of 30 June, this figure stood at 6.834 million – a slight increase of around 6,000 compared to the first half of 2018, but a decrease of just under 62,000 compared with the year-end figure. This makes the fact that we are leading the way with freenet FUNK even more important. In the first seven weeks after the tariff’s launch, we motivated around 20,000 users to sign up for this “unorthodox” offering, somewhat offsetting the decline in postpaid customers.

Both of our products in the TV and Media segments are also proving popular, with a steady rise in the number of users. freenet TV, which offers traditional linear full HD television via antenna, reported 1.037 million RGUs, or Revenue Generating Units, at the end of the first half of 2019. Meanwhile, our IPTV service waipu.tv passed the 300,000 registered customers mark in the second quarter to reach 332,000 by the end of the period – almost double the number reported in Q2 2018.

These results and the support of our third business area, digital lifestyle, have enabled us to generate a solid set of half-yearly figures.

- Our subscriber base across all business areas and segments totalled 8.224 million at the end of June – an increase of more than 220,000 subscriptions compared to the first half of 2018. Of this figure, 6.834 million were postpaid customers in the Mobile Communications segment.
- Postpaid ARPU excluding hardware remained stable at 18.8 euros, after 19.0 euros in the same period of 2018 and 18.8 euros in the first quarter of 2019.
- Revenue rose slightly compared to the first half of 2018 to 1.39 billion euros.
- Gross profit was also slightly above the previous year’s figure at 446.7 million euros, with a stable gross profit margin of 32.2 per cent.
- At 215.5 million euros, EBITDA was slightly up on the prior-year figure of 204.9 million euros – but includes an IFRS 16 effect of 22.3 million euros.
- Adjusted for regulatory effects (IFRS 16, international calls/roaming and sale of analogue radio), gross profit and EBITDA remained almost stable.
- Free cash flow was 126.7 million euros, reaching the target range of 110 to 130 million euros due to lower investments in Media Broadcast.
- Overall, the forecast full-year target remains ambitious yet achievable.

As in previous years, our shareholders also participated in the freenet Group’s quality and profitability-driven strategy. In May, they received 1.65 euros per eligible share or a total of 211.2 million euros in dividends for the 2018 financial year, making our shares among the most attractive securities on the Deutsche Börse with a dividend yield of just under 9 per cent. As a result, we are full of confidence heading into the second half of the year and beyond, despite the challenges.

How can we afford to be so optimistic?

- In our core Mobile Communications business, the publication of the final award terms and the latest licence auctions for the new 5G standard set us on a positive course as a service provider. Firstly, network operators are now obliged to negotiate in a non-discriminatory and goal-oriented manner in relation to both existing and future technologies. This marks a clear improvement over the awarding of LTE contracts. Secondly, United Internet/1&1 Drillisch is likely to become the fourth operator on the market, which we believe will shake up the competition considerably. Both developments should help us to maintain our advantageous market position as a service provider with strong sales capabilities without having to make billions of euros of investments.
- Nevertheless, we are constantly working to improve our products and services. This is reflected not only by the feedback on freenet FUNK and the fact that our brands have come out on top in several tariff tests, but also in products such as “freenet Business” and two new mobile device management solutions that we launched during the first half of the year.
- In the TV and Media segment, we are in the fortunate position of being able to offer our customers the best of two worlds. Firstly, we provide traditional and still-indispensable linear antenna-based television in brilliant full HD quality for Germany’s major TV channels. As the operator of freenet TV, Media Broadcast completed a vital expansion of the transmitter network in 2018, making the new standard available via antenna to 62 million German residents or 75 per cent of the population.
- Experts also predict that streaming and Internet TV services such as those offered by waipu.tv in superb quality based on our own fibre network will grow rapidly, with one-third of television households likely to use IPTV as their primary broadcasting method for video content and linear television within five years. If our majority holding EXARING AG can maintain its previous growth rates, we will be moving towards customer figures numbering several million. When it comes to broadening our customer base, we are also working rigorously and consistently in other areas. We attract new content and sales partners almost on a weekly basis. Telefónica and its “O_2 TV – powered by waipu.tv” service is one excellent example in this area. This new sales collaboration alone has already delivered a five-figure increase in user numbers since it began at the start of May.
- Finally, the third mainstay of our operations, digital lifestyle, generates steady revenue in the hundreds of millions of euros year after year. This segment primarily focuses on digital services relating to entertainment and infotainment, home automation and security, as well as devices offered at competitive prices. Our marketing activities leverage our close-knit network of shops with their excellent proximity to our customers, our efficient e-commerce offering and an award-winning omni channel approach that allows for optimal links between our sales channels. This is yet another area in which we set new standards in our industry.

We operate in a sector where change is an everyday occurrence and innovation is essential – or at least it should be. We also live in a global political and economic environment where collaboration values such as reliability, predictability, fairness and honesty that were once a matter of course are beginning to erode. This makes it more important that the freenet Group continues to embody these values as if they were part of the company’s DNA. We practice them by ensuring the greatest possible continuity and expertise in our management of the company, by communicating our targets and results to the capital markets openly and transparently, and by acting fairly with our customers, business partners, and finally, our employees. We are convinced that these principles – underpinned by a coherent strategy and dedicated efforts – will ultimately pay off for all concerned. With this in mind, we will tackle the challenges of the next few months and quarters together as a company with great confidence.

Christoph Vilanek   Ingo Arnold   Stephan Esch

Antonius Fromme   Rickmann v. Platen

FREENET AG AND THE CAPITAL MARKETS

- Stock markets stabilise despite weakening economic growth
- The freenet share recovers part of its price losses from 2018
- End of 5G auction does not trigger the recovery rally hoped for in the telco sector

ECONOMIC GROWTH CONTINUES TO SLOW

Developments on the world's stock markets were driven by a series of geopolitical and economic events in the first six months of 2019. In particular, the smouldering trade conflict between the USA and China and weaker global demand have slowed economic development. Brexit remains one of the biggest risks to economic growth in the eurozone. The German economy is also suffering as a result of the lacklustre global economy and is expected to expand by just 1.0 per cent in 2019 (December 2018 estimate: 1.6 per cent) according to the latest estimates from the German Institute for Economic Research (DIW). The robust state of domestic consumption and the services sector are factors offsetting the decline in domestic industrial production.

STABILISATION ON THE STOCK MARKETS

After experiencing sharp losses during the 2018 financial year, stock markets around the world stabilised at the start of 2019. Speculation that US fiscal policy would react more flexibly to economic developments, as well as the favourable interest rate environment for refinancing, triggered a stock market recovery in the spring of 2019. The biggest stress factor for the markets during the period under review was the fear of a global recession. However, the publication of many companies' annual reports, including their forecasts for the current year, allayed fears of an imminent recessive phase. The German financial markets also performed positively across the board:

With Germany's leading index, the DAX, making gains of around 17 per cent in the first six months of the year and closing at 12,399 points on 28 June 2019.

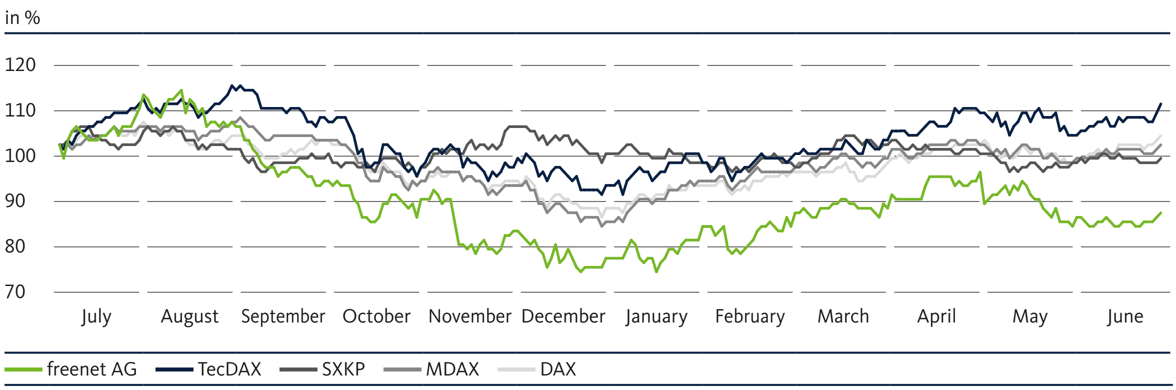
VOLATILE PERFORMANCE OF TELECOMMUNICATIONS STOCKS

Telecommunications stocks were largely unaffected this upward trend and continued to develop as they did in 2018. In short, this meant that the first half of 2019 was not an enjoyable one for the telecommunications sector, as most companies saw their share price decline. This was also reflected by the SXKP, a European share index for companies in the telecommunications industry, which lost around 13 per cent in 2018 and has mostly moved sideways since then.

Since the start of 2019, the freenet share has slightly improved on its performance for the whole of 2018. Private and institutional investors paid 15.59 euros for the share on 1 January. The share price increased until 2 May 2019, rising to 19.55 euros. The recovery rally came to a sudden halt the next day when the publication of a negative analyst's report had a direct adverse impact on the share price. The German 5G auction also came to an end on 12 June, and the associated announcement of again having four mobile network operators did not provide the expected boost to the communications sector. The share prices of freenet AG and its peers continued to react in a volatile way even at the end of the half-year, despite the positive feedback they had hoped for. Overall, the freenet share rose by 2.01 euros during the period under review (30 June closing price: 17.60 euros). The average daily Xetra closing price was 17.56 euros in the first six months of the year. Without the distribution of a dividend totalling 1.65 euros, the closing price at the end of the second quarter would have been 19.25 euros. freenet AG's shares outperformed the SXKP in the first half of 2019, notwithstanding the previous fall in value. While the SXKP ended the period down slightly by 2 per cent, the freenet share gained 13 per cent. As a result, the stock's rise was almost on a par with that of the primary benchmark index, the MDAX (+19 per cent) and the TecDAX (+17 per cent).

Figure 1: Performance of the freenet share in the past twelve months

(indexed; 100 = Xetra closing price on 29 June 2018)



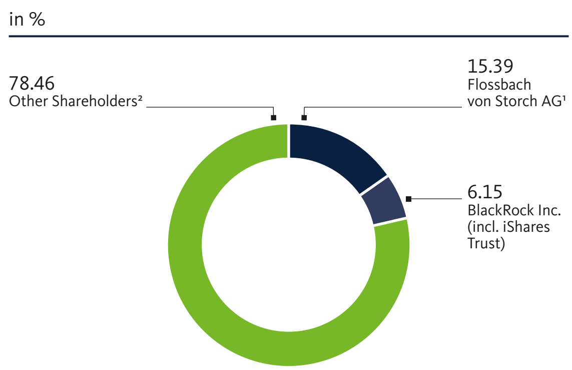
VOTING RIGHTS NOTIFICATIONS

Equity interests of more than 15 per cent were held by Flossbach von Storch AG, Cologne, at the end of the quarter. BlackRock Inc., Wilmington, USA, and iShares Trust, a subsidiary of BlackRock Inc., both exceeded the 5 and 3 per cent reporting thresholds on the same date. The latter announced that it exceeded a reporting threshold for the first time on 21 March 2019. In the second quarter, this and the 5 per cent reporting threshold were exceeded or fallen below several times. The aforementioned and previous voting rights notifications pursuant to Section 21 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) for the first half of 2019 have been published at www.freenet-group.de/investor-relations.

SHAREHOLDER STRUCTURE

The share capital of freenet AG amounts to 128,061,016 euros and is comprised of an equal number of registered no-par-value shares. This means that the proportionate amount of share capital allocated to each no-par-value share is 1.00 euro. The percentage distribution of share capital has hardly changed compared to the end of 2018.

Figure 2: Current shareholder structure



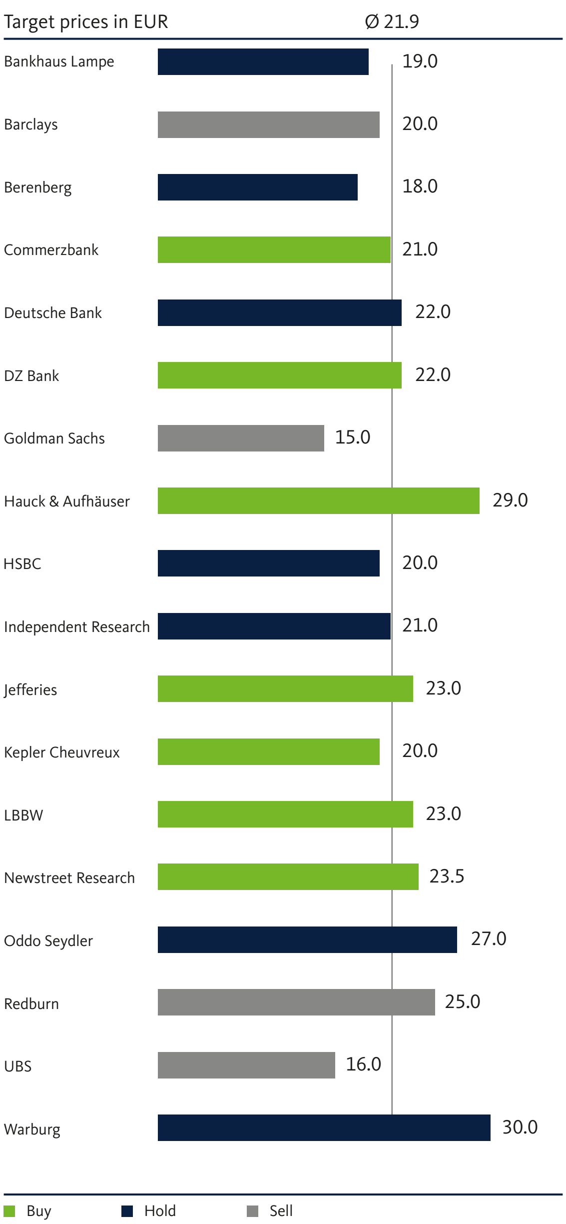
¹ incl. attributions according to the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG).
² The free float according to Deutsche Börse AG amounts to 78.46 per cent.

As a result of the voting rights notifications received during the quarter under review, the free float fell only marginally by 0.88 percentage points from 79.34 per cent since 31 December 2018 to 78.46 per cent.

ANALYSTS' RECOMMENDATIONS

The freenet share is regularly monitored and evaluated by 18 analysts representing different investment firms. In the first half of 2019, a total of seven buy recommendations, seven hold recommendations and four sell recommendations were issued. Target prices range from 15 to 30 euros per share, with an average of 21.9 euros.

Figure 3: Current recommendations for the freenet share[1]



[1] As per 30 June 2019.

2019 ANNUAL GENERAL MEETING

The Annual General Meeting of freenet AG for the 2018 financial year took place on 16 May 2019. Around 500 shareholders gathered at Messe Hamburg to hear the Supervisory Board and Executive Board's speeches in person and put their questions to management. All other interested parties had the opportunity to follow a (live) broadcast on the company's website.

Around 44.52 per cent of share capital was represented at the AGM, including postal votes received. All the agenda items proposed by management were adopted by the shareholders with the required majorities, while the proposal of the Executive and Supervisory Boards to distribute a dividend of 1.65 euros per eligible share for the 2018 financial year was adopted with 99.79 per cent of votes.

As part of the Group-wide digitalisation strategy in conjunction with the principle of acting responsibly and sustainably, the company introduced an online service for all shareholders at this year's AGM. More than 30 per cent of registered shareholders made direct use of the new digital access portal to complete tasks such as registering for the AGM and cancelling requests to receive future AGM documents by post and/or conserving resources by agreeing to receive invitations and admission tickets by email.

H1/2019

INTERIM GROUP MANAGEMENT REPORT

OF FREENET AG

PRINCIPLES OF INTERNAL MANAGEMENT

FINANCIAL AND NON-FINANCIAL KEY PERFORMANCE INDICATORS

To implement the operations and strategic objectives of the Group, a standardised and reliable management system is used at the highest Group level and in the freenet Group's individual companies. Performance is measured based on both financial and non-financial performance indicators. In order to align the management system more strongly with the strategic focus and management of the freenet Group, the financial and non-financial performance indicators were revised and refocused for the 2019 financial year (see also the "Alternative performance measures" section). These are summarised as follows:

Financial performance indicators
- Revenue
- EBITDA
- Free cash flow
- Postpaid ARPU

Non-financial performance indicators
- Postpaid customers
- TV customers:
  - freenet TV subscribers (RGU)
  - waipu.tv subscribers

The financial performance indicator free cash flow is not used for management purposes at the segment level; it is used exclusively at the Group level. Postpaid ARPU is only used in the Mobile Communications segment.

For a detailed discussion of the financial and non-financial performance indicators, see the section "Fundamental information about the Group" in the 2018 Annual Report. If a further need for adjustment is identified in future, we reserve the right to adjust the management system accordingly. A reconciliation of non-GAAP financial measures (also: alternative performance measures) such as EBITDA and free cash flow is done in the section "Calculation of alternative performance measures".

FINANCIAL MANAGEMENT

Strategic corporate management is further underpinned by financial management, which includes the capital structure and liquidity development as control parameters. The strategy is implemented and monitored by a comprehensive treasury management system enhanced by established controlling structures.

As part of the implementation of the financial reporting standards IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, management decided, starting with the 2019 financial year, to redesign the control system for both the capital structure and the target structure. The restatements became necessary due to the material effects of both financial reporting standards on the balance sheet structure (especially the presentation of assets and liabilities).

The debt ratio and the equity ratio will continue to be used to manage the capital structure. In addition, an adjusted debt factor is also shown, which considers the market values of equity investments in the debt capital structure. The last twelve months (July 2018 to June 2019 or July 2017 to June 2018 for the previous year) are used for the period-related parameter EBITDA.

Table 1: Key figures for financial management

	30.6.2018 restated[1]	31.12.2018 restated[1]	30.6.2019	Target
Debt ratio	4.0	4.2	4.6	<3.5
Adjusted debt ratio	2.2	2.0	2.7	–
Equity ratio in %	29.5	27.6	25.3	>25

[1] Due to a change in the definition of the control parameters, the previous year's figures were restated.

Due to the initial application of IFRS 16 Leases, the comparability of the debt ratio and adjusted debt ratio figures for the second quarter of 2019 with those of the prior-year period is limited. This limitation is mainly attributable to financial obligations under operating leases that have been recognised since the beginning of the 2019 financial year and are now part of net debt. As a result, the debt ratio as of 30 June 2019 was 4.6, which is above the long-term target value of less than 3.5. The year-on-year increase is mainly due to higher net lease liabilities (operating leases recognised as liabilities), which were up 226.3 million euros. To enhance the figure's informative value, EBITDA for July 2018 to June 2019 considers a linear extrapolation of the current IFRS 16 EBITDA effect of the first half of 2019. As at 30 June 2019, the equity ratio of 25.3 per cent was above the target level of 25 per cent.

The Executive Board continues to pursue its present financial strategy and thus also its financial management targets. A detailed reconciliation of the non-GAAP measures listed is provided in the following section.

CALCULATION OF ALTERNATIVE PERFORMANCE MEASURES

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

The alternative performance measures used by freenet AG are as follows:

- Gross profit and gross profit margin
- EBITDA and adjusted EBITDA
- EBIT
- Financial result
- Free cash flow
- Net debt, adjusted net debt and debt ratios derived from these
- Equity ratio

Special factors which affect the determination of some alternative performance measures result from the process of integrating and subsequently accounting for acquired operations.

GROSS PROFIT AND GROSS PROFIT MARGIN

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

Table 2: Calculation of gross profit

In EUR million/as indicated	Q2/2019	Q2/2018
Revenue	699.1	696.6
Cost of materials	–479.7	–474.4
Gross profit	**219.4**	**222.2**
Gross profit margin (in %)	**31.4**	**31.9**

EBITDA AND ADJUSTED EBITDA

EBITDA is a financial performance indicator of the freenet Group and is defined as EBIT (see "EBIT") plus depreciation, amortisation and impairment. In order to increase transparency, the freenet Group also reports EBITDA adjusted for one-time effects (adjusted EBITDA) for information purposes and to enable an undistorted assessment of operating earnings performance. One-time effects can represent both expenses and income. They relate to significant non-recurring, one-time and/or regulatory effects (e.g. restructuring expenses) which, based on the Executive Board's assessment, could impair a transparent presentation of the freenet Group's operating results.

Table 3: Calculation of EBITDA and adjusted EBITDA

In EUR million	Q2/2019	Q2/2018
EBIT	68.8	77.9
Depreciation, amortisation and impairment	38.7	30.2
EBITDA	**107.5**	**108.1**
Adjustments:		
One-off effects from sale of analogue radio infrastructure	0.0	–7.3
Adjusted EBITDA	**107.5**	**100.8**

EBITDA/adjusted EBITDA is a non-GAAP figure which management uses for evaluating the business performance and operational viability of the company. Both ratios are used for target/actual comparisons and for forecasting the financial performance indicator EBITDA.

EBIT

EBIT is defined as earnings before financial result (see "financial result") and taxes and similarly to EBITDA measures the short-term operating performance and success of the company.

Table 4: Calculation of EBIT

In EUR million	Q2/2019	Q2/2018
Earnings before taxes	62.0	70.8
Financial result	6.8	7.1
EBIT	**68.8**	**77.9**

FINANCIAL RESULT

The items profit or loss of equity-accounted investments, interest and similar income, interest and similar expenses and other financial result are combined under "financial result". The financial result is also shown as a separate subtotal ("financial result") in the consolidated income statement.

Table 5: Calculation of financial result

In EUR million	Q2/2019	Q2/2018
Profit or loss of equity-accounted investments	7.1	5.1
Interest and similar income	0.7	0.0
Interest and similar expenses	–14.8	–12.2
Other financial result	0.2	0.0
Financial result	**–6.8**	**–7.1**

FREE CASH FLOW

Free cash flow is a financial performance indicator of the freenet Group and is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets and (since the start of 2019) less cash repayments of lease liabilities.

Table 6: Calculation of free cash flow

In EUR million	Q2/2019	Q2/2018
Cash flows from operating activities	109.5	114.8
Payments to acquire property, plant and equipment and intangible assets	–10.4	–14.6
Proceeds from disposal of intangible assets and property, plant and equipment	1.7	2.1
Cash repayments of lease liabilities	–19.3	–5.4
Free cash flow	**81.5**	**96.8**

In addition to the presentation of EBITDA/adjusted EBITDA, this parameter is used as an indicator for showing the ability of the Group to generate cash that serves to distribute a dividend or repay borrowings, for example.

NET DEBT, ADJUSTED NET DEBT AND DEBT RATIOS DERIVED FROM THESE

Net debt is defined as long-term and short-term borrowings shown in the balance sheet, plus net lease liabilities (non-current and current lease liabilities shown in the balance sheet, less non-current and current lease assets) and less liquid assets. The Group also reports adjusted net debt, which represents net debt less the market value of the freenet Group's equity investments. These are currently the investments in Sunrise and CECONOMY. The market value of Sunrise is calculated by multiplying the closing price of its share on the Swiss stock exchange by the number of shares held by freenet (11,051,578) as of the relevant reference date. Swiss francs are translated into euros using an officially defined reference date rate based on data of Bloomberg. The same approach is used for CECONOMY.

Table 7: Calculation of net debt and adjusted net debt

In EUR million	30.6.2019	31.3.2019
Borrowings	1,831.2	1,736.4
Net lease liabilities	497.4	506.4
Liquid assets	–153.6	–189.7
Net debt	**2,175.1**	**2,053.6**
Equity investments (market value of Sunrise and CECONOMY)	–903.0	–898.2
Adjusted net debt	**1,272.1**	**1,155.4**

Net debt is a non-GAAP figure which is used by management for managing the financing structure of the Group. It is an integral part of Group-wide capital risk management and is included in the calculation of the debt ratio, which is calculated as the ratio between net debt and EBITDA generated in the last 12 months. This is also applicable to the adjusted debt ratio; however, in this case, adjusted net debt is used as the basis for calculating the ratio. Both ratios are reported additionally in order to show the maximum debt repayment potential from liquidating the equity investment and the respective effect on the capital structure.

The developments of the two debt ratios as well as the target range are detailed in the section "Financial management".

EQUITY RATIO

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

Table 8: Calculation of the equity ratio

In EUR million/as indicated	30.6.2019	31.3.2019
Equity	1,242.0	1,381.4
Total equity and liabilities	4,911.6	4,986.3
Equity ratio (in %)	**25.3**	**27.7**

COURSE OF BUSINESS

REVENUE PILLARS OF THE FREENET GROUP

As a digital lifestyle provider and the largest network-independent telecommunications provider in Germany, the freenet Group operates in three business areas:

- In the core Mobile Communications business, the main mobilcom-debitel brand primarily focuses on high-quality postpaid contractual relationships but also develops highly innovative, increasingly flexible tariffs such as freenet FUNK.
- The core business is supplemented by the digital lifestyle business, in which the company offers its customers solutions for digital living, such as entertainment, infotainment and data security products and services.
- The third key element of the product portfolio is modern, high-definition digital television in two technological variants: waipu.tv in the area of IPTV entertainment, and freenet TV for terrestrial television.

SOLID GROWTH IN THE TV AND MEDIA SEGMENT

Our work in the first half of 2019 centred around consistently expanding the scope and quality of our two TV products, waipu.tv and freenet TV.

One particularly significant development was EXARING's new sales collaboration with Telefónica Germany, with "O_2 TV – powered by waipu.tv" launching in May. Telefónica Germany offers three options for this streaming service. For just under 5 euros a month, the smallest "S" package includes around 80 channels and a virtual video recorder with 25 hours of recording capacity. For just under 9 euros a month, the number of channels increases to over 100, while the "L" package for around 10 euros a month enables customers to use the service via their mobile network while on the move or when travelling in Europe. What makes this collaboration special is the fact that it marks the first time in the long history of competition and partnership between the network operators and the freenet Group that one of the network operators has offered a freenet product.

EXARING also forged new partnerships with major media companies and hardware manufacturers in recent months, as well as Apple TV and Amazon. For example, BILD launched its own channel on waipu.tv in April, allowing customers to stream the best content from BILD, ComputerBild and AUTO BILD on their televisions or smartphones. FOCUS Online followed suit at the end of May. Similarly, the waipu.tv app has been available on Apple TV since May for Version 4 onwards. A new customer campaign was also launched via Amazon at the start of the second quarter, offering users the chance to sign up to waipu.tv and enjoy its programming for free for three months. In March, buyers of all Samsung TVs delivered in Germany from model year 2019 onwards received waipu.tv free of charge for six months in addition to their smart TV.

EXARING also introduced programmatic marketing of connected TV products and services during the first quarter. This gives advertising customers the opportunity to book their video commercials in high-calibre TV environments – with formats such as traditional TV spot integration in short advertising blocks or pre-roll videos.

Media Broadcast has also focused on improving the customer appeal of its product by enhancing the content on offer in recent months. One new addition is sports channel Ran Fighting, which offers viewers the best from the worlds of boxing, mixed martial arts, kickboxing and karate, all complemented by background information and interviews with the biggest names in these sports. freenet TV now includes five sports channels: Ran Fighting, Sportdigital, Kicker, Motorvision.TV and Sportdeutschland.TV.

In the B2B business, Media Broadcast towards the end of the first half of 2019 agreed to extend its collaboration with the ARD Sportschau for another two years. As part of this deal, the freenet subsidiary will transmit the TV signal for a total of 178 Bundesliga matches a year from the stadiums to the WDR broadcasting centre in Cologne for the next two seasons. Media Broadcast will use its fleet of outside broadcast vehicles for this collaboration.

Programmes such as Sportschau, but also traditional linear television in general, are popular with older viewers. To reach younger audiences, freenet TV launched an Instagram-based campaign in the first quarter starring actor and popular rapper Jimi Blue Ochsenknecht. At the end of the first half of 2019, freenet TV then began its summer season of television with a 360° campaign with the slogan "So entspannt kann

Fernsehen sein" ("This is how relaxing television can be"). The campaign showed how easy and convenient it is to use the service via prepaid cards.

waipu.tv also launched a national out-of-home campaign in the first half of the year. Using the motto "Ich sehe was" ("I see something") and with a total gross media volume of 10 million euros, it focused on mega lights, info screens, mall and station videos as well as on other digital channels.

These initiatives enabled both products to continue their solid user and customer growth from previous quarters and years during the first six months of 2019. In the second quarter, the number of waipu.tv subscribers passed the 300,000 mark to reach around 332,000 at the end of June – up 80,000 on the start of the year and within the target range for 2019. "O_2 TV – powered by waipu.tv", carefully launched by Telefónica in May, has already contributed a relevant number of new users.

The number of revenue-generating users (RGUs) of freenet TV also continued to increase slightly in line with our targets for the full year. The number of RGUs reached 1.037 million at the end of the first half of 2019, up 23,000 since the start of the year.

FREENET FUNK MARKS A REVOLUTION IN MOBILE COMMUNICATIONS

During a history stretching back over almost three decades, the Mobile Communications market has been dominated by two tariff models: contracts for postpaid customers, many of them with two-year fixed terms, and prepaid cards with call and data volumes paid for in advance.

Considering this, the new tariff that freenet began marketing at the start of May represents a genuine paradigm shift for the industry. freenet FUNK marks a fundamental innovation in every respect – from the ordering process and the completely flexible and very inexpensive digital usage to the option to pause or terminate the tariff at any time. There are no setup costs, minimum terms or notice periods. As a result, the maximum monthly cost is either 20.70 euros or 29.70 euros, calculated based on 30 days of actual usage each month.

Customers can only sign up for and manage freenet FUNK via the app. In Germany's major cities and metropolitan areas, a courier service delivers SIM cards free of charge within just a few hours that can also be activated via the app; the delivery process generally takes a little longer in rural areas. Billing is carried out on a calendar day basis. freenet FUNK generated a remarkable response from both the trade and business press as well as market players. As of the 30 June reporting date, this innovative and completely app-based product had more than 20,000 active cards or customer relationships not in pause mode.

mobilcom-debitel is also working on expanding its business customer segment. Near the end of the first quarter, freenet Business was launched as a separate division for business customers, in addition to two new mobile device management solutions accompanied by appropriate training from resellers. Going forward, freenet Business will provide companies with a range of cloud-based services such as Infrastructure as a Service, Platform as a Service and Software as a Service. The freenet Group will use the capacity of its own ISO 27001 certified data centre in Düsseldorf for this purpose.

The decline in postpaid customer business observed across the sector since the start of the year is relatively moderate for the freenet Group. This contraction also slowed in the second quarter compared to the first few months of the current year. The number of postpaid customers with a two-year contract was 6.834 million as of 30 June 2019, compared to 6.828 million at the end of the first half of 2018.

Postpaid ARPU excluding hardware remained comparatively stable compared to the prior-year period at 18.8 euros, after 18.8 euros in the previous quarter and 19.0 euros in the same period last year.

DIGITAL LIFESTYLE PORTFOLIO MAKING STEADY REVENUE CONTRIBUTIONS

Devices, products and services, particularly in the areas of entertainment, infotainment and security, represent another mainstay of the freenet Group under the digital lifestyle umbrella, supplementing the Mobile Communications and TV and Media segments. These products and services are generally offered via the main brand mobilcom-debitel as well as the GRAVIS subsidiary – in the various shops, by way of online sales and via a wide range of special promotions and activities.

In February, mobilcom-debitel also entered into a partnership with emporia. The Linz-based company produces a flip phone, the emporiaTOUCHsmart, aimed at the senior citizens market segment.

One of the key features of this phone is its simple, intuitive interface. It also combines the best of both worlds, boasting both a modern touchscreen and a foldable, conventional keyboard for dialling phone numbers. The touchscreen enables users to access various applications such as the WhatsApp messenger service.

As in previous quarters and years, the digital lifestyle business continues to make a steady contribution to the freenet Group's revenue and profit. The digital lifestyle business contributed revenue of 86.7 million euros in the first six months of 2019, slightly above the 85.0 million euros reported in the same period of 2018.

RELAUNCH OF THE FREENET.DE EMAIL SERVICE

At the start of the first half of 2019, freenet launched a completely redesigned version of its email service. "freenet.de" has already been available to users for around two decades, both as a free service and as part of fee-based packages, making it one of the most established email services in Germany.

SEGMENT-SPECIFIC COURSE OF BUSINESS

MOBILE COMMUNICATIONS

POSTPAID CUSTOMERS

The cornerstones of the freenet Group's core business are customer-centric tariffs and services aimed at further enhancing the quality of the customer base by increasing the number of customers with a two-year contract. As in the first quarter of 2019, the changes to the product portfolio required in order to achieve this led to a slight drop of around 28,000 in the number of contract customers to 6.834 million in the quarter under review. The postpaid customer base grew by around 6,000 contracts year-on-year. Approximately 20,000 customers of the freenet FUNK mobile communication product launched in May 2019 are not included in the postpaid customer base as of 30 June 2019.

Table 9: Development Postpaid customers

In million	30.6. 2019	31.3. 2019	31.12. 2018	30.9. 2018	30.6. 2018
Postpaid customers	6.834	6.862	6.896	6.869	6.828

MONTHLY AVERAGE REVENUE PER USER AND REVENUE FROM SERVICES

The intrinsic value of 24-month contracts is also evident in the stable development of postpaid ARPU excluding hardware, which was 18.8 euros in the first half of 2019 after reaching 19.0 euros in the same period last year. The associated revenue from services also remained stable at 772.5 million euros for the first half of 2019 (previous year: 770.4 million euros), highlighting the effectiveness of the measures implemented to improve the quality of the postpaid customer base. The corresponding revenue in the no-frills/prepaid segment is currently 67.2 million euros and is therefore slightly below the figure for the first half of 2018 (69.9 million euros) as expected.

Table 10: Postpaid ARPU and service revenue

In EUR/service revenue in EUR million	H1/ 2019	H1/ 2018	Q2/ 2019	Q1/ 2019	Q2/ 2018
Postpaid ARPU without hardware	18.8	19.0	18.8	18.8	19.0
Service revenue, postpaid	772.5	770.4	385.2	387.2	387.6
Service revenue, no-frills/ prepaid	67.2	69.9	33.8	33.4	35.3

DIGITAL LIFESTYLE

Devices, products and services in the areas of entertainment, security, smart home and e-health have complemented our offering in the Mobile Communications segment for several years in order to further drive organic growth in this business. In the first half of 2019, the freenet Group generated revenue of 86.7 million euros with the marketing of its digital lifestyle products, after 85.0 million euros in the same prior-year period.

Table 11: Digital lifestyle revenue

In EUR million	H1/ 2019	H1/ 2018	Q2/ 2019	Q1/ 2019	Q2/ 2018
Digital lifestyle revenue	86.7	85.0	44.6	42.1	42.4

TV AND MEDIA

CUSTOMER FIGURES IN THE TV AND MEDIA SEGMENT

As another important pillar of the freenet Group's business activities, the TV business complements the attractive digital lifestyle growth market. The impact of the measures implemented since the launch of the two main products, freenet TV und waipu.tv, to steadily enhance the appeal of these offerings is also evident in the continued upward trend in customer numbers.

Table 12: TV customers

In '000s	30.6. 2019	31.3. 2019	31.12. 2018	30.9. 2018	30.6. 2018
freenet TV subscribers (RGU)	1,037.5	1,020.2	1,014.2	901.5	1,000.6
waipu.tv subscribers	331.9	286.3	251.8	202.4	174.3

The number of revenue-generating freenet TV users rose by 37,000 over the course of the year to 1.037 million freenet TV subscribers (RGU) today. The product gained 17,000 subscribers in the second quarter and therefore performed in line with expectations.

The strong appeal of the IPTV product, waipu.tv, is underscored by the positive development in subscriber numbers. By the end of June 2019, 332,000 paying customers were already using the product, with 46,000 subscribers signing up to the service in the second quarter alone. Since June 2018, waipu.tv has gained an additional 158,000 subscribers in total, almost doubling its customer base over the past year.

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

REVENUE AND RESULTS OF OPERATIONS

Table 13: Key performance indicators for the Group

In EUR '000s	Q2/2019	Q2/2018[1]	Change
Revenue	699,112	696,629	2,483
Gross profit	219,420	222,225	–2,805
Overhead	–111,886	–114,131	2,245
EBITDA	107,534	108,094	–560
EBIT	68,826	77,876	–9,050
Financial result	–6,788	–7,068	280
EBT	62,038	70,808	–8,770
Consolidated profit	**55,455**	**61,349**	**–5,894**

[1] Due to the change in the definition of EBITDA and financial result, the previous year's figures were restated.

At 699.1 million euros, **revenue** in the second quarter of 2019 was on a level with the prior-year period. In the Mobile Communications segment, the number of strategically important postpaid customers (30 June 2019: 6.834 million customers, 30 June 2018: 6.828 million customers) and postpaid ARPU without hardware (Q2/2019: 18.8 euros, Q2/2018: 19.0 euros) remained stable year-on-year. Mobile Communications revenue reported for the second quarter of 2019 increased by 14.1 million euros to 631.3 million euros, primarily as a result of higher low-margin hardware revenue. Revenue in the TV and Media segment was down 62.9 million euros on the prior-year quarter (77.3 million euros), mainly due to the sale of the analogue radio business in the previous year. Revenue in the first half of 2019 came to 1,389.0 million euros, which is on a par with the same period of the previous year.

Gross profit in the reporting quarter amounts to 219.4 million euros, which is slightly down on the prior-year quarter (222.2 million euros). The gross profit margin fell by 0.5 percentage points to 31.4 per cent, mainly due to the increase in the hardware business mentioned previously. In the first half of 2019, gross profit came to 446.7 million euros and the gross profit margin to 32.2 percent – both on a par with the previous year.

Overhead costs as the difference between gross profit and EBITDA decreased by 2.2 million euros compared with the second quarter of 2018 to 111.9 million euros. The reduction in overhead costs is mainly attributable to IFRS 16, which was applied for the first time from 1 January 2019 and according to which operating lease expenses are no longer a component of other operating expenses, but must now be disclosed under depreciation and interest expense. Higher personnel expenses and lower other operating income have an offsetting effect. Compared with the first half of 2018, overhead costs decreased by 9.6 million euros to 231.3 million euros, mainly due to the new method of accounting for leases described above.

EBITDA amounted to 107.5 million euros during the reporting quarter, which is on a par with the prior-year quarter (108.1 million euros). The Mobile Communications segment contributed 90.4 million euros to EBITDA (Q2/2018: 91.5 million euros), the TV & Media segment 18.9 million euros (Q2/2018: 20.3 million euros) and the Other/Holding segment –1.8 million euros (Q2/2018: –3.7 million euros). Compared to the first half of 2018, the Group's EBITDA increased by 10.5 million euros to 215.5 million euros, mainly as a result of the application of IFRS 16.

Depreciation, amortisation and impairment losses increased by 8.5 million euros year-on-year to 38.7 million euros, primarily due to the deprecation of lease assets triggered by the initial application of IFRS 16.

The **financial result** in the period under review amounted to –6.8 million euros (Q2/2018: –7.1 million euros). The changes in interest expense (Q2/2019: –14.8 million euros, Q2/2018: –12.2 million euros) and interest income (Q2/2019: 0.7 million euros, Q2/2018: 0.0 million euros) included in the financial result are largely attributable to the new method of accounting for leases as well as the interest expense arising from financing the CECONOMY shares. The profit of equity-accounted investments improved by 2.1 million euros to 7.1 million euros.

Due to the effects explained above, **earnings before tax (EBT)** amounted to 62.0 million euros, a decrease of 8.8 million euros year-on-year. At 123.1 million euros, consolidated earnings before tax for the first half of 2019 was on a par with the same period of the previous year (first half of 2018: 125.1 million euros).

Income tax expenses of 6.6 million euros (Q2/2018: 9.5 million euros) were reported in the quarter under review. Current tax expenses of 9.6 million euros (Q2/2018: 9.9 million euros) and deferred tax income of 3.0 million euros (Q2/2018: 0.4 million euros) were recognised. Deferred tax income is mainly attributable to the write-up of deferred tax assets on tax loss carry forwards.

As in the prior-year period, **consolidated profit** is attributable exclusively to continuing operations and adds up to 55.5 million euros, down by 5.9 million euros compared with the same period of the previous year (Q2/2018: 61.3 million euros). Consolidated profit for the first half of 2019 was 111.6 million euros, after 108.0 million euros in the same period in 2018.

NET ASSETS AND FINANCIAL POSITION

Table 14: Group balance sheet figures (condensed)

Assets

In EUR million	30.6.2019
Non-current assets	4,204.4
Current assets	707.2
Total assets	**4,911.6**

In EUR million	31.3.2019
Non-current assets	4,278.8
Current assets	707.4
Total assets	**4,986.3**

Equity and liabilities

In EUR million	30.6.2019
Equity	1,242.0
Non-current and current liabilities	3,669.6
Total equity and liabilities	**4,911.6**

In EUR million	31.3.2019
Equity	1,381.4
Non-current and current liabilities	3,604.9
Total equity and liabilities	**4,986.3**

Total assets/total equity and liabilities amounted to 4,911.6 million euros as of 30 June 2019, a decrease of 74.6 million euros, or 1.5 per cent, compared with the first quarter of 2019 (4,986.3 million euros).

On the **assets side**, non-current assets fell by 74.4 million euros to 4,204.4 million euros. This is primarily due to a 37.0 million euro decline in equity-accounted investments to 782.2 million euros resulting predominantly from the dividend of 41.5 million euros received from Sunrise. For further details on this point, please refer to note 4 of the selected explanatory notes. The slight drop in lease assets of 11.1 million euros to 481.5 million euros is primarily attributable to depreciation.

In current assets, the decrease in liquid assets of 36.1 million euros to 153.6 million euros is particularly noteworthy. The development of liquid assets primarily resulted from the dividend of 211.2 million euros paid out in the second quarter of 2019, the free cash flow of 81.5 million euros, and the utilisation of an additional 95.0 million euros of the revolving credit facility (30 June 2019: 125.0 million euros, 31 March 2019: 30.0 million euros). Trade accounts receivable rose by 36.9 million euros to 216.1 million euros at the balance sheet date.

The **liabilities side** was dominated by equity amounting to 1,242.0 million euros (31 March 2019: 1,381.4 million euros) and borrowings in the amount of 1,831.2 million euros (31 March 2019: 1,736.4 million euros).

The equity ratio fell from 27.7 per cent at the end of March 2019 to 25.3 per cent at the end of June 2019, primarily due to the dividend paid out in the second quarter of 2019. The 94.9 million euro increase in borrowings to 1,831.2 million euros is predominantly caused by the 125.0 million euros drawn down from the revolving credit facility (31 March 2019: 30.0 million euros). For more information please refer to the comments in the section entitled "Financial management".

The 28.1 million euro reduction in other liabilities and deferrals to 516.5 million euros primarily resulted from the decline in deferrals of bonuses and premium rights received from network operators. Other financial liabilities fell by 24.3 million euros to 93.7 million euros; the 14.9 million euro decrease in liabilities associated with the exclusive sales collaboration with Media-Saturn Deutschland GmbH made a significant contribution to this change. The rise in trade accounts payable of 20.6 million euros to 426.8 million euros is mainly attributable to balance sheet date-related developments in connection with liabilities to dealers and distributors.

CASH FLOWS

Table 15: Key cash flow indicators of the Group

In EUR million	Q2/2019	Q2/2018	Change
Cash flows from operating activities	109.5	114.8	–5.3
Cash flows from investing activities	–8.8	–12.6	3.8
Cash flows from financing activities	–231.8	–216.7	–15.1
Net change in cash funds	**–131.1**	**–114.5**	**–16.6**
Free cash flow[1]	**81.5**	**96.8**	**–15.4**

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

The **cash flows from operating activities** decreased by 5.3 million euros to 109.5 million euros year-on-year (Q2/2018: 114.8 million euros). In addition to a 0.6 million euro reduction in EBITDA, the accelerated year-on-year increase in net working capital of 36.3 million euros also had a negative impact on cash flows from operating activities. Compared to the second quarter of 2018, this was primarily offset by the 10.5 million euro reduction in tax payments (income tax refunded in Q2/2019: 4.1 million euros, income tax paid in Q2/2018: 6.4 million euros), the decrease of 9.8 million euros in the capitalisation of contract acquisition costs (mainly sales commissions paid) due to the lower number of newly acquired customers, as well as the higher Sunrise dividend payment (Q2/2019: 41.5 million euros, Q2/2018: 36.9 million euros).

Cash flows from investing activities amounted to –8.8 million euros in the second quarter of 2019 compared to –12.6 million euros in the prior-year quarter. The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from the disposal of such assets, decreased by 3.8 million euros year-on-year to 8.7 million euros in the second quarter of 2019 – primarily as a result of lower investments in the TV and Media segment. The cash investments were financed entirely out of the company's retained earnings.

Cash flows from financing activities changed from –216.7 million euros in the prior-year quarter to –231.8 million euros in the period under review. This change was primarily due to higher cash repayments of lease liabilities resulting from the initial application of IFRS 16 (Q2/2019: –19.3 million euros, Q2/2018: –5.4 million euros). In the previous year, this item only included the finance lease with DFMG but now also includes repayments from the operating leases. A dividend of 211.2 million euros was also distributed in the second quarter of 2019; this figure was unchanged from the previous year.

Free cash flow of 81.5 million euros was generated in the second quarter of 2019 as a result of the effects, representing a decrease of 15.4 million euros compared with the same quarter of the previous year (96.8 million euros). Free cash flow for the first half of 2019 was 126.7 million euros (first half of 2018: 135.1 million euros), exactly in line with our expectations.

REPORT ON POST-BALANCE SHEET DATE EVENTS

No reportable events of material significance occurred after 30 June 2019.

REPORT ON OPPORTUNITIES AND RISKS

The freenet Group's report on opportunities and risks as of 30 June 2019 should be read in conjunction with the comments in the 2018 group management report (see pages 60 – 71). In addition to setting out the opportunity and risk management arrangements, this report also outlined the identified opportunities and risks that could impact the net assets, financial position and results of operations as well as the reputation of the freenet Group.

There were no material changes to the identified opportunities as of 30 June 2019. The significance of these opportunities and their resulting effects on the forecast financial and non-financial performance indicators, and therefore on the future development of the freenet Group, continue to be collectively rated as low.

The risk position remains unchanged as of 30 June 2019. No new risks were categorised as "high" or "material" in the first half of 2019. The following risks in the "medium" category were recorded in the risk inventory for the first time:

Media Broadcast GmbH is exposed to a project risk that the agreed minimum customer figures for the "freenet TV via Satellite" product cannot be achieved within the contract period (high probability of occurrence/low level of damage).

Revenue could also be lost in the freenet Group in the context of additional regulation regarding the billing of third-party vendor services (medium probability of occurrence/ medium level of damage).

For more information on developments in the Mobile Communications and the TV/video market, please refer to the comments in the "Course of business" section.

All other statements on risks made in the 2018 group management report remain valid. No risks have been identified which, either individually or in combination with other risks, could endanger the continued existence of the freenet Group. The potential effects of the identified market, IT, tax, financial, strategic and operating risks on the forecast financial and non-financial performance indicators, and therefore on the future development of the freenet Group, continue to be classified as low overall.

REPORT ON EXPECTED DEVELOPMENTS

Recent developments in the telecommunications and TV/motion picture markets do not trigger any significant changes compared to the market outlook presented in the 2018 Annual Report. The assumptions made for the forecast of the financial and non-financial performance indicators of the freenet Group are therefore still considered accurate.

The guidance thus has not changed compared to estimates presented in the 2018 Annual Report and is confirmed by management based on developments in the first six months. For 2019, the freenet Group thus continues to assume:

- stable revenue;
- EBITDA of between 420 and 440 million euros; and
- free cash flow of between 240 and 260 million euros.

A detailed explanation of the outlook for the current year can be found in the 2018 Annual Report (p. 100 et seq.).

Comparison of 2019 forecast and current development

In EUR millions/as indicated	Forecast for financial year 2019	Actual H1/2019	Change compared to previous forecast
Financial performance indicators			
Revenue	stable	1,389.0	▶
EBITDA	420 – 440	215.5	▶
Free cash flow	240 – 260	126.7	▶
Postpaid ARPU[1] (in EUR)	stabil	18.8	▶
Non-financial performance indicators			
Postpaid customers (in millions)	moderate increase	6.834	▶
freenet TV subscribers (RGU) (in millions)	> 1.000	1.037	▶
waipu.tv subscribers (in millions)	> 0.350	0.332	▶

[1] without hardware

▲ Arrow up: above previous guidance
▶ Horizontal arrow: unchanged from previous guidance
▼ Arrow down: below previous guidance

H1/2019

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

OF FREENET AG

SELECTED FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2019

In EUR '000s/as indicated	H1/2019 1.1.2019 – 30.6.2019	H1/2018 1.1.2018 – 30.6.2018	Q2/2019 1.4.2019 – 30.6.2019	Q2/2018 1.4.2018 – 30.6.2018
Revenue	1,389,045	1,386,237	699,122	696,629
Other operating income	32,586	34,395	18,816	21,713
Other own work capitalised	7,832	7,726	4,134	4,067
Cost of materials	–942,320	–940,471	–479,692	–474,404
Personnel expenses	–116,940	–106,620	–58,327	–51,753
Other operating expenses	–154,748	–176,354	–76,509	–88,158
Thereof loss allowances on financial assets and contract assets	–22,971	–25,609	–10,987	–11,138
Thereof without loss allowances on financial assets and contract assets	–131,777	–150,745	–65,522	–77,020
EBITDA	**215,455**	**204,913**	**107,534**	**108,094**
Depreciation, amortisation and impairment	–77,295	–66,790	–38,708	–30,218
EBIT	**138,160**	**138,123**	**68,826**	**77,876**
Profit or loss of equity-accounted investments	13,409	9,989	7,144	5,081
Thereof from share of profit or loss	23,231	19,517	12,055	9,845
Thereof from subsequent accounting from purchase price allocation	–9,822	–9,528	–4,911	–4,764
Interest and similar income	1,575	39	737	33
Interest and similar expenses	–30,450	–23,101	–14,844	–12,182
Other financial result	437	0	175	0
Financial result	**–15,029**	**–13,073**	**–6,788**	**–7,068**
Earnings before taxes	**123,131**	**125,050**	**62,038**	**70,808**
Income taxes	–11,494	–17,006	–6,583	–9,459
Consolidated profit	**111,637**	**108,044**	**55,455**	**61,349**
Consolidated profit attributable to shareholders of freenet AG	116,943	114,165	57,360	64,206
Consolidated profit attributable to non-controlling interests	–5,306	–6,121	–1,905	–2,857
Earnings per share in EUR (basic)	**0.91**	**0.89**	**0.45**	**0.50**
Earnings per share in EUR (diluted)	**0.91**	**0.89**	**0.45**	**0.50**
Weighted average number of shares outstanding in thousand (basic)	128,011	128,011	128,011	128,011
Weighted average number of shares outstanding in thousand (diluted)	128,011	128,011	128,011	128,011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2019

In EUR '000s	H1/2019 1.1.2019 – 30.6.2019	H1/2018 1.1.2018 – 30.6.2018	Q2/2019 1.4.2019 – 30.6.2019	Q2/2018 1.4.2018 – 30.6.2018
Consolidated profit	**111,637**	**108,044**	**55,455**	**61,349**
Currency translation differences	–14	607	–29	197
Currency translation differences from subsequent accounting for equity-accounted investments	–946	624	–2,055	2,331
Income tax recognised in other comprehensive income	14	–10	31	–34
Other comprehensive income/to be reclassified to the income statement in future periods	**–946**	**1,221**	**–2,053**	**2,494**
Change in fair value of investments in equity instruments	73,035	–5	22,715	–1
Recognition of actuarial gains and losses arising from the accounting for pension plans according to IAS 19 (2011)	–12,531	1,195	–4,694	–621
Other shares of the profit or loss of equity-accounted investments	–631	1,179	–631	1,179
Income tax recognised in other comprehensive income	2,709	–379	1,091	171
Other comprehensive income/not to be reclassified to the income statement in future periods	**62,582**	**1,990**	**18,481**	**728**
Other comprehensive income	**61,636**	**3,211**	**16,428**	**3,222**
Consolidated total comprehensive income	**173,273**	**111,255**	**71,883**	**64,571**
Consolidated total comprehensive income attributable to shareholders of freenet AG	178,579	117,376	73,788	67,428
Consolidated total comprehensive income attributable to non-controlling interests	–5,306	–6,121	–1,905	–2,857

CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2019

ASSETS			
In EUR '000s	30.6.2019	31.3.2019	31.12.2018
Non-current assets			
Intangible assets	516,783	523,985	525,355
Lease assets	481,534	492,646	0
Goodwill	1,385,621	1,386,389	1,380,056
Fixed assets	144,947	148,642	398,824
Equity-accounted investments	782,178	819,182	811,808
Deferred income tax assets	164,504	160,336	158,094
Trade accounts receivable	60,990	57,872	52,480
Other receivables and other assets	121,093	132,380	128,023
Other financial assets	266,866	265,957	126,218
Contract acquisition costs	279,921	291,457	304,238
	4,204,437	**4,278,846**	**3,885,096**
Current assets			
Inventories	89,082	104,083	105,965
Current income tax assets	2,106	2,115	2,046
Trade accounts receivable	216,097	179,154	253,914
Other receivables and other assets	194,102	194,718	226,394
Other financial assets	52,212	37,680	34,905
Liquid assets	153,588	189,675	126,332
	707,187	**707,425**	**749,556**
	4,911,624	**4,986,271**	**4,634,652**

EQUITY AND LIABILITIES

In EUR '000s	30.6.2019	31.3.2019	31.12.2018
Equity			
Share capital	128,061	128,061	128,061
Capital reserves	737,536	737,536	737,536
Cumulative other comprehensive income	−78,484	−94,912	−140,120
Consolidated net retained profits	440,075	593,933	535,124
Equity attributable to shareholders of freenet AG	**1,227,188**	**1,364,618**	**1,260,601**
Non-controlling interests in equity	14,846	16,751	20,152
	1,242,034	**1,381,369**	**1,280,753**
Non-current liabilities			
Lease liabilities	509,903	520,931	0
Other liabilities and deferrals	96,720	106,223	115,922
Other financial liabilities	55,062	72,902	306,638
Borrowings	1,650,943	1,701,265	1,699,424
Deferred income tax liabilities	691	692	0
Pension provisions	99,787	94,663	89,173
Other provisions	43,248	44,600	47,042
	2,456,354	**2,541,276**	**2,258,199**
Current liabilities			
Lease liabilities	71,013	79,487	0
Trade accounts payable	426,768	406,192	523,174
Other liabilities and deferrals	419,826	438,382	436,343
Other financial liabilities	38,596	45,039	51,167
Current income tax liabilities	49,791	35,030	34,722
Borrowings	180,279	35,085	23,476
Other provisions	26,963	24,411	26,818
	1,213,236	**1,063,626**	**1,095,700**
	4,911,624	**4,986,271**	**4,634,652**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2019

			Cumulative other comprehensive income									
In EUR '000s	Share capital	Capital reserves	Revaluation reserve	Currency translation differences	Currency translation differences from subsequent accounting for equity-accounted investments	Change in fair value of investments in equity instruments	Revaluation reserve in accordance with IAS 19	Other shares of the profit or loss of equity-accounted investments	Consolidated net retained profits	Equity attributable to shareholders of freenet AG	Non-controlling interests in equity	Equity
As of 1.1.2018 as reported	**128,061**	**737,536**	**−164**	**255**	**−11,956**	**0**	**−20,548**	**12,157**	**586,433**	**1,431,774**	**31,127**	**1,462,901**
Effects of the transition to IFRS 15 and IFRS 9 at freenet	0	0	0	0	0	0	0	0	−43,048	−43,048	0	−43,048
Effects of the transition to IFRS 15 and IFRS 9 at Sunrise	0	0	0	0	0	0	0	7,139	0	7,139	0	7,139
Reclassification	0	0	−164	0	0	−164	0	0	0	0	0	0
As of 1.1.2018 restated	**128,061**	**737,536**	**0**	**255**	**−11,956**	**−164**	**−20,548**	**19,296**	**543,385**	**1,395,865**	**31,127**	**1,426,992**
Dividend payment	0	0	0	0	0	0	0	0	−211,218	−211,218	0	−211,218
Consolidated profit	0	0	0	0	0	0	0	0	111,165	114,165	−6,121	108,044
Other shares of the profit or loss of equity-accounted investments[1]	0	0	0	0	0	0	0	0	0	0	0	0
Recognition of actuarial gains and losses according to IAS 19 (2011)[1]	0	0	0	0	0	−3	0	1,161	0	1,158	0	1,158
Change in fair value of financial instruments measured at fair value through other comprehensive income[1]	0	0	0	0	0	0	832	0	0	832	0	832
Foreign currency translation[1]	0	0	0	607	0	0	0	0	0	607	0	607
Foreign currency translation from subsequent accounting for equity-accounted investments[1]	0	0	0	0	614	0	0	0	0	614	0	614
Subtotal: Consolidated total comprehensive income	0	0	0	607	614	−3	832	1,161	114,165	117,376	−6,121	111,255
As of 30.6.2018	**128,061**	**737,536**	**0**	**862**	**−11,342**	**−167**	**−19,716**	**20,457**	**446,332**	**1,302,023**	**25,006**	**1,327,029**

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

In EUR '000s	Share capital	Capital reserves	Cumulative other comprehensive income					Consolidated net retained profits	Equity attributable to share-holders of freenet AG	Non-controlling interests in equity	Equity
			Currency translation differences	Currency translation differences from sub-sequent accounting for equity-accounted investments	Change in fair value of investments in equity instruments	Revaluation reserve in accordance with IAS 19	Other shares of the profit or loss of equity-accounted investments				
As of 1.1.2019 as reported	**128,061**	**737,536**	**943**	**–7,422**	**–125,512**	**–21,083**	**12,954**	**535,124**	**1,260,601**	**20,152**	**1,280,753**
Effects of the transition to IFRS 16 at freenet	0	0	0	0	0	0	0	–774	–774	0	–774
As of 1.1.2019 restated	**128,061**	**737,536**	**943**	**–7,422**	**–125,512**	**–21,083**	**12,954**	**534,350**	**1,259,827**	**20,152**	**1,279,979**
Dividend payment	0	0	0	0	0	0	0	–211,218	–211,218	0	–211,218
Consolidated profit	0	0	0	0	0	0	0	116,943	116,943	–5,306	111,637
Other shares of the profit or loss of equity-accounted investments[1]	0	0	0	0	71,924	0	0	0	71,924	0	71,924
Recognition of actuarial gains and losses according to IAS 19 (2011)[1]	0	0	0	0	0	0	–621	0	–621	0	–621
Change in fair value of financial instru-ments measured at fair value through other comprehensive income[1]	0	0	0	0	0	–8,721	0	0	–8,721	0	–8,721
Foreign currency translation[1]	0	0	–14	0	0	0	0	0	–14	0	–14
Foreign currency translation from sub-sequent accounting for equity-accounted investments[1]	0	0	0	–932	0	0	0	0	–932	0	–932
Subtotal: Consolidated total comprehensive income	0	0	–14	–932	71,924	–8,721	–621	116,943	178,579	–5,306	173,273
As of 30.6.2019	**128,061**	**737,536**	**929**	**–8,354**	**–53,588**	**–29,804**	**12,333**	**440,075**	**1,227,188**	**14,846**	**1,242,034**

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2019

In EUR '000s	H1/2019 1.1.2019 – 30.6.2019	H1/2018 1.1.2018 – 30.6.2018[1]
Earnings before financial result and taxes (EBIT)	**138,160**	**138,123**
Restatements		
Depreciation, amortisation and impairment of non-current assets	77,295	66,790
Dividends received from equity-accounted investments	41,462	36,912
Gain on disposal of non-current assets	–328	–7,248
Increase in net working capital not attributable to investing or financing activities	–75,159	–38,127
Proceeds from the cash repayment of financial assets under leases	6,374	0
Capitalisation of contract acquisition costs	–132,743	–148,069
Amortisation of contract acquisition costs	157,060	155,406
Tax payments	–3,522	–14,422
Income from interest and other financial result	1,165	20
Interest paid	–27,542	–19,865
Cash flows from operating activities	**182,222**	**169,520**
Payments to acquire property, plant and equipment and intangible assets	–18,231	–26,494
Proceeds from disposal of intangible assets and property, plant and equipment	2,679	2,976
Proceeds from the acquisition of subsidiaries	3,052	0
Payments into equity of equity-accounted investments	0	–75
Payments to acquire other equity investments	–100	–200
Cash flows from investing activities	**–12,600**	**–23,793**
Payments to company owners and minority shareholders	–211,218	–211,218
Cash repayments of borrowings	–15,000	0
Cash repayments of liabilities from finance lease	–39,928	–10,877
Payments of other financing costs	1,220	0
Cash flows from financing activities	**–267,366**	**–222,095**
Net change in cash funds	**–97,744**	**–76,368**
Cash funds at beginning of period	**126,332**	**322,816**
Cash funds at end of period	**28,588**	**246,448**

Composition of cash funds

In EUR '000s	30.6.2019	30.6.2018
Liquid assets of continuing operations	153,588	246,448
Liquid assets of discontinued operations	0	0
Liabilities to banks for short-term cash management	–125,000	0
	28,588	**246,448**

Composition of free cash flow

In EUR '000s	30.6.2019	30.6.2018
Cash flows from operating activities	182,222	169,520
Payments to acquire property, plant and equipment and intangible assets	–18,231	–26,494
Proceeds from disposal of intangible assets and property, plant and equipment	2,679	2,976
Cash repayments of lease liabilities	–39,928	–10,877
Free cash flow[2]	**126,742**	**135,125**

[1] Due to the change in the definition of free cash flow, the previous year's figures were restated.
[2] Free cash flow is a non-GAAP parameter. In this context please refer to the section "Calculation of alternative performance measures" in the Group interim management report.

SELECTED EXPLANATORY NOTES PURSUANT TO IAS 34

MATERIAL ACCOUNTING POLICIES AND CONSOLIDATION PRINCIPLES

1. These condensed consolidated interim financial statements have been prepared in accordance with Regulation 1606/2002 of the European Parliament and of the Council, International Financial Reporting Standards (IFRSs) adopted by the European Union and IAS 34. The Group has considered all IFRS that have been adopted by the EU and are mandatory. These interim consolidated financial statements have not been reviewed by an auditor.

2. The Group has adopted all accounting pronouncements required to be applied as of the reporting date. The following information is provided on the new financial reporting standard IFRS 16 (Leases):

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

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

In the freenet Group, the new requirements impact on the recognition and measurement of lessee arrangements that were classified as operating and finance leases in the previous years. The following categories of lease were identified: site leases, co-location leases, shop/store leases, TV and Media upfront expenditure, motor vehicles and other leased assets.

On initial application, the freenet Group elected to apply the modified retrospective approach in accordance with IFRS 16.C5(b), i.e. the right-of-use assets and lease liabilities as of 31 December 2018 were measured using the leases in effect as of 31 December 2018. As permitted by IFRS 16.C10(d), initial direct costs were excluded from the measurement of the right-of-use asset at the date of initial application. The discounting of the lease liability was generally determined by applying maturity-specific incremental borrowing rates of interest, as we cannot determine the interest rates on which the leases are based. As at 1 January 2019, the incremental borrowing rates used varied between 0.7 per cent and 2.5 per cent. In accordance with IFRS 16.C7, comparative information for financial year 2018 will not be restated in the 2019 consolidated financial statements. Under the option in IFRS 16.5, short-term leases with a term of no more than twelve months and leases for which the underlying asset is of low value were not recognised.

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

In addition, IFRS 16 had the following material effects on the consolidated balance sheet as of 1 January 2019:

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

Overall, the transition to IFRS 16 as of 1 January 2019 resulted in an increase in total assets/total equity and liabilities of 354.0 million euros.

IFRS 16 therefore increased EBITDA reported for the first half of 2019 by 22.3 million euros. Regarding the statement of cash flows, IFRS 16 did not have any effect on the amount of free cash flow.

All other financial reporting standards to be applied as of 1 January 2019 (Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures; Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement; Annual Improvements to IFRSs [2015 – 2017 cycle]) have no significant impact on the condensed interim consolidated financial statements of freenet AG.

SIGNIFICANT EVENTS AND TRANSACTIONS

3. As at 30 June 2019, receivables originating from the existing factoring agreement regarding receivables from the mobile phone upgrade option amounting to 80.9 million euros (30 June 2018: 93.7 million euros) were sold and derecognised but not yet paid.

4. On 18 April 2019, freenet AG received a dividend payment of 41.5 million euros as a result of the dividend payment of 4.20 CHF per share adopted by the Annual General Meeting of Sunrise Communications Group AG (“Sunrise”) on 10 April 2019.

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

In EUR ’000s	1.1.2019 – 30.6.2019	1.1.2018 – 30.6.2018
Revenue attributable to billing of services		
Joint ventures		
Jestoro GmbH, Hamburg	213	215
Total	**213**	**215**

In EUR ’000s	1.1.2019 – 30.6.2019	1.1.2018 – 30.6.2018
Expenses from the purchase of services		
Joint ventures		
Jestoro GmbH, Hamburg	2	20
Funview GmbH, Hamburg (subsidiary of Jestoro GmbH)	0	113
Check Tech Service GmbH, Hamburg (subsidiary of Jestoro GmbH)	25	44
Total	**27**	**177**

The following significant receivables from and liabilities to related parties existed as of 30 June 2019:

In EUR ’000s	30.6.2019	30.6.2018
Receivables from current service transactions		
Joint ventures		
Jestoro GmbH, Hamburg	43	59
Total	**43**	**59**

In EUR '000s	30.6.2019	30.6.2018
Liabilities from current service transactions		
Joint ventures		
Check Tech Service GmbH, Hamburg (subsidiary of Jestoro GmbH)	4	12
Total	**4**	**12**

All transactions were based on market prices. No collateral has been provided.

OTHER DISCLOSURES

6. The following section presents material financial information on the last interim report published by Sunrise as of 31 March 2019 and a reconciliation to the carrying amount of the Sunrise equity investment reported in freenet's consolidated financial statements.

Balance sheet[1]

In EUR '000s	31.3.2019	31.12.2018
Non-current assets	2,991,128	2,682,475
Thereof intangible assets	1,914,261	1,855,191
Current assets	795,595	801,138
Thereof cash	410,864	373,944
Total assets	**3,786,723**	**3,483,613**
Non-current liabilities	1,921,744	1,663,404
Thereof long-term borrowings	1,406,994	1,393,244
Current liabilities	508,702	504,331
Thereof trade accounts payable and other liabilities	454,300	445,103
Total liabilities	**3,786,723**	**2,167,735**

[1] The closing rate as of 31.3.2019 was 0.8958 CHF/EUR.

Income statement

In EUR '000s	1.1.2019 – 31.3.2019	1.1.2018 – 31.12.2018
Revenue	394,725	1,625,956
Gross profit	269,914	1,056,367
EBITDA	154,281	521,896
Depreciation, amortisation and impairment	−102,430	−368,862
Interest and similar expenses	−11,559	−43,981
Income taxes	−9,169	−31,431
Consolidated profit after tax	**31,150**	**92,644**

Other comprehensive income[2]

In EUR '000s	1.1.2019 – 31.3.2019	1.1.2018 – 31.12.2018
Consolidated profit after tax	**31,150**	**92,644**
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. to IAS 19 (2011)	−3,224	4,135
Income taxes	−655	−840
Other comprehensive income/ not to be reclassified to the income statement in future periods	**2,569**	**3,295**
Other comprehensive income	**28,581**	**451,708**

[2] The average exchange rate for the first quarter of 2019 was 0.8838 EUR/CHF.

The reconciliation to the carrying amount is as follows:

Reconciliation to the carrying amount

In EUR million	1.1.2019 – 30.6.2019	1.1.2018 – 31.12.2018
Carrying amount as of 1 January, as reported	**810.4**	**809.7**
Current profit share	23.0	44.3
Subsequent accounting from purchase price allocation	−9.8	−19.2
Other comprehensive income	−1.6	5.4
Dividend paid to freenet	−41.5	−36.9
Carrying amount as of 30 June	**780.5**	**810.4**

7. We provide the following information regarding fair values:

The following overview entitled "Fair value hierarchy as of 30 June 2019" shows the major parameters on which the measurement of financial instruments measured at fair value, and of the financial instruments measured at amortised cost whose fair value could be determined, is based. For the definition of the individual levels in accordance with IFRS 13, please refer to the notes to the consolidated financial statements of freenet AG as of 31 December 2018.

Financial instruments by category as of 30 June 2019

in EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement				Fair value of financial instruments
		30.6.2019	Amortised cost	Cost	Fair value through profit or loss	Fair value through other comprehensive income	30.6.2019
Assets							
Cash/liquid assets	AC	153,588	153,588				—[1]
Trade accounts receivable		277,087					
At amortised cost	AC	188,259	188,259				—[1]
Fair value through profit or loss	FVTPL	88,828			88,828		—[1]
Other financial assets		319,078					
Non-derivative financial assets							
At amortised cost	AC	112,497	112,497				—[1]
Other financial assets							
At amortised cost	AC	6,171	6,171				—[1]
Fair value through profit or loss	FVTPL	21,668			21,668		
Other equity instruments							
Fair value through profit or loss	FVTPL	754			754		—[1]
Fair value through other comprehensive income	FVOCI	177,988				177,988	177,988
Equity and liabilities							
Lease liabilities	AC	580,916	580,916				
Trade accounts payable	AC	426,768	426,768				
Borrowings		1,831,222	1,831,222				
Borrowings from promissory notes	AC	1,092,788	1,092,788				1,104,712
Other borrowings	AC	738,434	738,434				
Other financial liabilities	AC	93,658	93,658				
Thereof aggregated by IFRS 9 measurement category							
Assets							
At amortised cost	AC	460,515	460,515				—[1]
Fair value through profit or loss	FVTPL	111,250			111,250		—[1]
Fair value through other comprehensive income	FVOCI	177,988				177,988	177,988
Equity and liabilities							
At amortised cost	AC	2,932,564	2,932,564				1,104,712[1]

[1] No fair value has been determined for the items; however, the carrying amount is a reasonable approximation of the fair value. This means that the aggregate fair value for the measurement categories LR and FLAC are considerably lower than the corresponding aggregate carrying amounts in the balance sheet.

Fair value hierarchy as of 30 June 2019

in EUR '000s	Total	Level 1	Level 2	Level 3
Assets				
Trade accounts receivable, at fair value through profit or loss	88,828	0	0	88,828
Other financial assets, at fair value through profit or loss	21,668	0	0	21,668
Other equity instruments, at fair value through profit or loss	754	0	0	754
Other equity instruments, at fair value through other comprehensive income	177,988	177,988	0	0
Equity and liabilities				
Borrowings from promissory notes	1,104,712	0	0	1,104,712

There have been no changes regarding levels.

As a rule, "other financial assets" are measured at fair value. If their fair value cannot be reliably determined, they are measured at cost. The equity interests measured at cost are not listed on the stock exchange and there is no active market for them.

8. On 19 December 2018, the Group entered into a purchase agreement to acquire all shares and voting rights in The Cloud Networks Germany GmbH, Munich, and The Cloud Networks Nordics AB, Stockholm, Sweden (these companies are hereinafter referred to together as "The Cloud Group"). Once approved by the antitrust authorities, the takeover was completed on 1 January 2019 and the Group thus obtained control of this subsidiary. The date of its initial consolidation in the freenet Group was therefore 1 January 2019.

The Cloud Group's business activities consist mainly of setting up and operating a network of WiFi hotspots. The hotspots put into operation so far are primarily Internet access points in hotels, petrol stations, airports, catering outlets and other public buildings and spaces.

A fixed cash purchase price of 12,439 thousand euros was agreed. The Group may also pay an earn-out of between 0 and 10,000 thousand euros, the exact amount of which will be measured by reference to the attainment of defined targets for financial performance indicators in The Cloud Group for financial years 2019 to 2021.

The purchase price allocation carried out in accordance with IFRS 3 for the acquisition of The Cloud Group is preliminary, as the fair values of the identifiable assets and liabilities could only be determined provisionally. The following overview provides information on the assets and liabilities of The Cloud Group acquired at fair value at the time of initial consolidation:

Assets and liabilities of The Cloud Group at fair value as of 1 January 2019

in EUR '000	1.1.2019
Assets	
Non-current assets	
Intangible assets	8,817
Lease assets	579
Goodwill	5,564
Fixed assets	580
	15,540
Current assets	
Inventories	532
Current income tax assets	99
Trade accounts receivable	1,621
Other receivables and other assets	741
Other financial assets	2,467
Liquid assets	3,052
	8,512
	24,052

in EUR '000	1.1.2019
Equity and liabilities	
Non-current liabilities	
Lease liabilities	399
Deferred income tax liabilities	2,658
	3,057
Current liabilities	
Lease liabilities	180
Trade accounts payable	706
Other liabilities and deferrals	197
Other financial liabilities	71
Other provisions	832
	1,986
	5,043

The difference between assets and liabilities in the amount of 19,009 thousand euros represents the expected total purchase price at the time of initial consolidation (cash purchase price of 12,439 thousand euros plus the earn-out of 6,570 thousand euros expected at the time of acquisition). The preliminary purchase price allocation results in goodwill of 5,564 thousand euros that is attributable mainly to future earnings opportunities in connection with the expansion of the freenet Group's offering. This goodwill has been allocated to the "Mobile Communications" cash-generating unit. In our segment reporting, The Cloud Group was allocated to the Mobile Communications segment.

The preliminary purchase price allocation was based on a forecast relevant for valuation purposed using the DCF method which covered a detailed period of five years. The fair value of the intangible assets recognised as part of the preliminary purchase price allocation was determined using methods based on present value (income approach), specifically the multi-period excess earnings method for customer relationships and the relief-from-royalty method for software.

The Cloud Group's contribution to the Group's revenue, EBITDA and profit after tax was insignificant.

9. Pension provisions were remeasured based on updated interest rates (freenet, debitel programme: 1.51 percent, Media Broadcast Group programme: 1.02 percent), with premises remaining unchanged otherwise. The resulting actuarial loss of 12.5 million euros and the offsetting increase in deferred tax assets by 3.8 million euros were recognised in the statement of comprehensive income. There was a net negative result of 8.7 million euros from items not to be reclassified to the income statement.

10. As in the 2018 consolidated financial statements, the calculation of current and deferred income taxes was based on an average tax rate of 30.40 percent (previous year: 30.40 percent).

11. There were no reportable events of material importance for the freenet Group after 30 June 2019.

12. As its main decision-making body, the Executive Board organises and manages the company based on the differences between the individual products and services offered by the company. As the Group performs its business operations almost entirely in Germany, its business is not organised or managed based on geographical regions. The Group was active in the following operating segments in the first six months of 2019:

- Mobile Communications
  - Activities as a Mobile Communications service provider – marketing of Mobile Communications services (voice and data services) from the Mobile Communications network operators Deutsche Telekom, Vodafone and Telefónica Deutschland in Germany
  - Based on the network operator agreements entered with these network operators, a range of the company's own network-independent services and tariffs as well as a range of network operator tariffs
  - Sale/distribution of Mobile Communications devices as well as additional services for mobile data communications and digital lifestyle
  - Rendering of sales services
- TV and Media:
  - Rendering of services, mainly to end users, in the field of IPTV
  - Planning, project management, installation, operation, service and marketing of broadcast-related solutions for business clients in the radio and media sectors
  - Rendering of services to end users in the field of DVB-T2
- Other/Holding:
  - Rendering of portal services such as e-commerce/advertising services (these essentially comprise the offer of online shopping and the marketing of advertising space on websites), of payment services for end customers as well as various digital products and entertainment formats for downloading and displaying and use on mobile devices
  - Development of communication solutions, IT solutions and other services for corporate customers
  - Range of narrowband voice services (call-by-call, preselection) and data services
  - Rendering of sales services

The "Other/Holding" segment includes other business activities in addition to operating activities. This mainly comprises the holding activities of freenet AG (with the rendering of services within the Group in central areas, such as legal, human resources and finance) as well as areas which cannot be clearly allocated to operating segments. The segment revenue of 30.2 million euros (previous year: 32.9 million euros) reported for the "Other/Holding" segment in the first six months of 2019 is attributable to operating activities (30.7 million euros; previous year: 33.4 million euros) and other business activities (–0.5 million euros; previous year: –0.5 million euros). Of the figure of 22.5 million euros (previous year: 22.3 million euros) reported as gross profit for the first six months of 2019 for the "Other/Holding" segment, 23.1 million euros (previous year: 23.0 million euros) is attributable to the operating activities and –0.6 million euros (previous year: –0.7 million euros) is attributable to the other business activities. The EBITDA of –4.7 million euros (previous year: –4.9 million euros) reported for the "Other/Holding" segment for the first six months of 2019 was accounted for by operating activities to the extent of 6.3 million euros (previous year: 6.9 million euros) and by other business activities in the amount of –11.0 million euros (previous year: –11.8 million euros).

SEGMENT REPORT FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2019

in EUR '000s	Mobile Com-munications	TV and Media	Other/ Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**1,246,939**	**119,276**	**22,830**	**0**	**1,389,045**
Inter-segment revenue	9,030	4,641	7,362	–21,033	0
Total revenue	**1,255,969**	**123,917**	**30,192**	**–21,033**	**1,389,045**
Cost of materials, third party	**–898,480**	**–36,575**	**–7,265**	**0**	**–942,320**
Inter-segment cost of materials	–9,020	–7,500	–425	16,945	0
Total cost of materials	–907,500	–44,075	–7,690	16,945	–942,320
Segment gross profit	**348,469**	**79,842**	**22,502**	**–4,088**	**446,725**
Other operating income	22,908	7,656	3,715	–1,693	32,586
Other own work capitalised	4,561	2,536	735	0	7,832
Personnel expenses	–66,274	–32,220	–18,446	0	–116,940
Other operating expenses	–122,770	–24,598	–13,161	5,781	–154,748
thereof loss allowances on financial assets and contract assets	–22,541	–346	–84	0	–22,971
thereof without loss allowances on financial assets and contract assets	–100,229	–24,252	–13,077	5,781	–131,777
Total overhead[1]	–161,575	–46,626	–27,157	4,088	–231,270
thereof inter-segment allocation	–3,771	–646	329	4,088	
Segment EBITDA	**186,894**	**33,216**	**–4,655**	**0**	**215,455**
Depreciation, amortisation and impairment					–77,295
EBIT					**138,160**
Financial result					–15,029
Income taxes					–11,494
Consolidated profit					**111,637**
Consolidated profit attributable to shareholders of freenet AG					116,943
Consolidated profit attributable to non-controlling interests					–5,306
Net cash investments	**9,431**	**4,916**	**1,205**		**15,552**

[1] The overhead costs as the difference between gross profit and EBITDA include the items other operating income, other own work capitalised, personnel expenses and other operating expenses.

SEGMENT REPORT FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2018 (ADJUSTED)

in EUR '000s	Mobile Com-munications	TV and Media	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**1,215,412**	**145,171**	**25,654**	**0**	**1,386,237**
Inter-segment revenue	22,784	3,576	7,268	–33,628	0
Total revenue	**1,238,196**	**148,747**	**32,922**	**–33,628**	**1,386,237**
Cost of materials, third party	**–873,193**	**–59,304**	**–7,974**	**0**	**–940,471**
Inter-segment cost of materials	–10,233	–17,292	–2,664	30,189	0
Total cost of materials	–883,426	–76,596	–10,638	30,189	–940,471
Segment gross profit	**354,770**	**72,151**	**22,284**	**–3,439**	**445,766**
Other operating income	23,786	9,934	2,089	–1,414	34,395
Other own work capitalised	4,367	2,292	1,067	0	7,726
Personnel expenses	–60,584	–29,276	–16,760	0	–106,620
Other operating expenses	–140,538	–27,073	–13,596	4,853	–176,354
thereof loss allowances on financial assets and contract assets	–25,420	–61	–128	0	–25,609
thereof without loss allowances on financial assets and contract assets	–115,118	–27,012	–13,468	4,853	–150,745
Total overhead[1]	–172,969	–44,123	–27,200	3,439	–240,853
thereof inter-segment allocation	–3,210	–437	208	3,439	
Segment EBITDA	**181,801**	**28,028**	**–4,916**	**0**	**204,913**
Depreciation, amortisation and impairment					–66,790
EBIT					**138,123**
Financial result					–13,073
Income taxes					–17,006
Consolidated profit					**108,044**
Consolidated profit attributable to shareholders of freenet AG					114,165
Consolidated profit attributable to non-controlling interests					–6,121
Net cash investments	**8,201**	**12,407**	**2,910**		**23,518**

[1] The overhead costs as the difference between gross profit and EBITDA include the items other operating income, other own work capitalised, personnel expenses and other operating expenses.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the condensed interim 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 interim management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Büdelsdorf, 9 August 2019

freenet AG

The Executive Board

Christoph Vilanek Ingo Arnold Stephan Esch

Antonius Fromme Rickmann v. Platen

H1/2019

FURTHER INFORMATION
OF FREENET AG

GLOSSARY

Adjusted EBITDA EBITDA (see "EBITDA") adjusted for one-time effects.

Adjusted net debt Net debt (see "Net debt") less equity investments (see "Equity investments").

Adjusted debt ratio Ratio between adjusted net debt (see "Adjusted net debt") and EBITDA (see "EBITDA") generated in the last twelve months.

Equity investments Market value of Sunrise Communications Group AG and CECONOMY AG on the reporting date. The market value of Sunrise Communications Group AG is calculated by multiplying the closing price of the Sunrise share on the Swiss stock exchange by the number of shares held by the freenet Group (11,051,578) as of the relevant reference date. Swiss francs are translated into euros using an officially defined reference date rate based on data of Bloomberg. The market value of CECONOMY AG is calculated by multiplying the closing price of the CECONOMY share on the Frankfurt stock exchange by the number of CECONOMY AG shares held by the freenet Group (32,633,555 no-par-value shares) as of the relevant reference date.

ARPU (Mobile Communications) abbr., Average Revenue Per User. The customer group-specific usage fee divided by the average number of customers on the relevant reference date.

Debt ratio Ratio between net debt (see "Net debt") and EBITDA (see "EBITDA") generated in the last twelve months.

EBIT Earnings before interest and taxes.

EBITDA EBIT (see "EBIT") plus depreciation, amortisation and impairment

Equity ratio Ratio between equity to total equity and liabilities.

Free cash flow Cash flows from operating activities less CAPEX (see "Net investments") and cash repayments of lease liabilities.

freenet TV subscribers (RGU) RGU means "revenue generating unit"; it refers to active freenet TV subscribers.

Gross profit Revenue less cost of materials.

Gross profit margin Ratio between gross profit and revenue.

IPTV abbr., Internet protocol television; refers to the transmission of television programmes and films using the Internet Protocol as opposed to other broadcasting channels such as cable television, DVB-T2 or satellite.

Net debt Long-term and short-term borrowings shown in the balance sheet, less liquid assets, less equity investments (see "Equity investments").

Net investments (CAPEX) Investments in property, plant and equipment and intangible assets, less proceeds from the disposal of intangible assets and property, plant and equipment.

Net lease liabilities Non-current and current lease liabilities shown in the balance sheet, less non-current and current lease assets.

No-frills No-frills tariffs deliberately have a simple structure, and in general do not include a subsidised device. Traditionally, they are marketed by way of direct distribution (e. g. online) and not via specialist outlets.

Overhead Overhead includes the items other operating income, other own work capitalised, personnel expenses and other operating expenses.

Postpaid Mobile services billed subsequently (usually 24-month contracts).

Prepaid Mobile services billed in advance.

TV customers Customers of the freenet Group in the TV and Media segment who are freenet TV subscribers (RGU) (see "freenet TV subscribers (RGU)") or waipu.tv subscribers (see "waipu.tv subscribers").

waipu.tv registered customers Customers who have registered free of charge and/or subscribed to one of the fee-based tariffs (see "waipu.tv subscribers").

waipu.tv subscribers Customers who use subscribed to one of the fee-based tariffs (e. g. Comfort or Perfect).

FINANCIAL CALENDAR

Date	Event
9 August 2019	**Half-year report as of 30 June 2019 – Second quarter 2019**
29 August 2019	TMT Sector Conference (Commerzbank) Frankfurt | Germany
4 September 2019	Media & Telecom Forum (Barclays) London | Great Britain
5 September 2019	dbAccess TMT Conference (Deutsche Bank) London | Great Britain
23 September 2019	8th German Corporate Conference (Berenberg/Goldman Sachs) Munich | Germany
25 September 2019	Baader Investment Conference 2019 (Baader Bank) Munich | Germany
7 November 2019 (expected)	**Quarterly Statement as of 30 September 2019 – Third quarter 2019**
13/14 November 2019	TMT Conference 2019 (Morgan Stanley) Barcelona | Spain
18 November 2019	Equity Conference (DZ Bank) Frankfurt | Germany
5 December 2019	17th Annual European Conference (Berenberg) Surrey | Great Britain

Further dates, schedule updates and information on roadshows is available at https://www.freenet-group.de/investor/financial-calendar/index.html

All dates are subject to change.

IMPRINT AND CONTACT

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CONSULTING, CONCEPT & DESIGN

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The annual report and our interim reports are also available for download on the Internet at:
http://www.freenet-group.de/investor-relations/publikationen

The English version of the interim report is a convenience translation of the German version.
The German version is legally binding.

Current information regarding freenet AG and the freenet shares is available on our website at:
www.freenet-group.de/en.

freenet GROUP

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