GROUP MANAGEMENT REPORT

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BUSINESS MODEL AND ORGANISATION

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

OVERVIEW OF THE FREENET GROUP

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

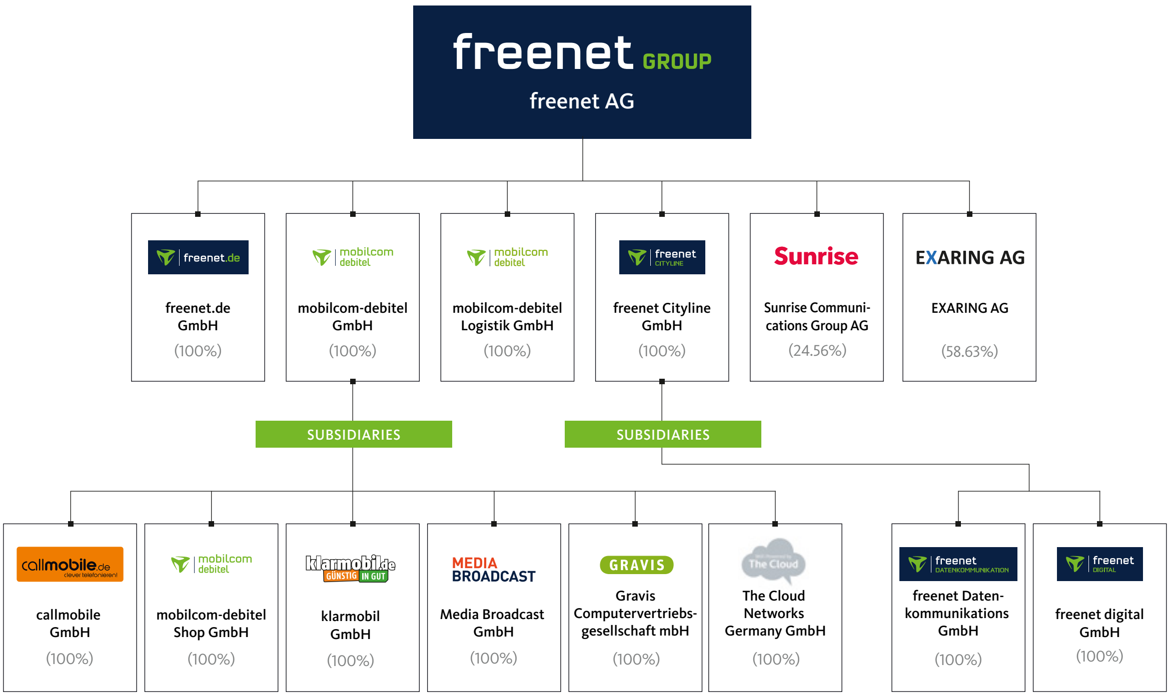
As of 31 December 2019, there were five Executive Board departments:

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

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

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

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



MOBILE COMMUNICATIONS SEGMENT

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

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

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

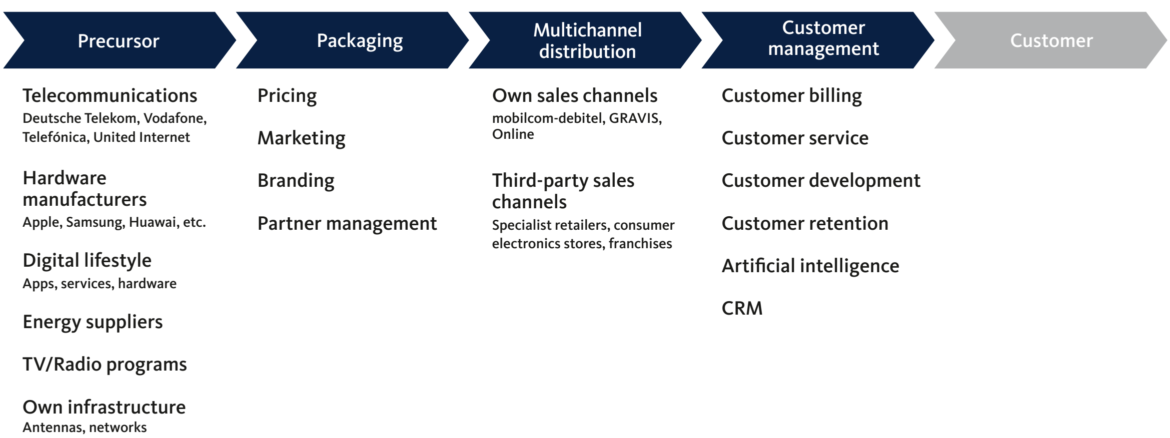
TV AND MEDIA SEGMENT

The freenet Group has been active in the TV and Media segment via Media Broadcast GmbH (Cologne) and a majority holding in EXARING AG (Munich) since 2016. Media Broadcast GmbH designs, sets up and operates multimedia broadcast infrastructure for TV and radio based on digital transmitter technology. Media Broadcast GmbH, and thus the freenet Group, is the sole provider of digital antenna TV (DVB-T2 HD) in the German market. The Group distributes TV content from public and private broadcasters to private end customers via the freenet TV brand.

The business model of EXARING AG is also based on the transmission of TV content from public and private broadcasters. The company broadcasts and sells video content via internet-based technology (IPTV) with an innovative app and exclusive access to a modern fibre-optic network in Germany stretching over 13,000 km. The IPTV product is purchased and marketed to private users in a subscription model via the freenet Group's distribution channels, among others. EXARING AG supplements its business with private customers with an offering for business users including addressable TV and web-to-TV services.

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

Figure 6: Customer-focused value creation and business model



GROUP MANAGEMENT REPORT

CORPORATE STRATEGY AND GOALS

The freenet Group's vision is "Always the Right Choice". Service quality and lasting customer satisfaction and loyalty are therefore vitally important. As service quality is considered to be a strategic asset in the freenet Group, the company has spent years intensifying its focus on improving the customer experience and established a separate Executive Board department for these activities in 2018.

CUSTOMER EXPERIENCE IS MORE THAN JUST MEETING CUSTOMER EXPECTATIONS

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

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

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

Long-term customer contracts that make consistent value contributions (almost free of seasonal effects) and the continued pursuit of the asset-light strategy are the basis for the freenet Group's stable business performance and reliable forward planning of revenue, EBITDA and free cash flows. In addition to organic growth, the freenet Group continuously monitors the market for acquisitions, investments and other collaborations to expand its digital lifestyle portfolio and reinforce its market position. These efforts are primarily focused on the Group's home market of Germany.

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

GROUP MANAGEMENT REPORT

CORPORATE MANAGEMENT

To implement the operations and strategic objectives of the Group, a standardised and reliable management system is used at the highest Group level and in the freenet Group's individual companies. Performance is measured using both financial and non-financial performance indicators. If a need for adjustment is identified in the future, the management of the freenet Group reserves the right to adjust the management system accordingly.

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

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

FINANCIAL PERFORMANCE INDICATORS

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

- Revenue
- EBITDA
- Free cash flow
- Postpaid ARPU

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

REVENUE

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

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

EBITDA

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

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

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

Table 3: Calculation of EBITDA and Adjusted EBITDA

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

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

FREE CASH FLOW

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

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

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

Table 4: Calculation of free cash flow

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

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

Postpaid ARPU is calculated without factoring in the hardware revenue included in the basic fee (subsidy portion). The freenet Group thus creates transparency with regard to the ability to reconcile revenue from services and the development of postpaid ARPU and customer numbers. The revenue generated from the sale of mobile devices via the mobile phone upgrade option are still not included in the calculation.

NON-FINANCIAL PERFORMANCE INDICATORS

The development of the freenet Group's operating performance is closely linked to the development of subscriber numbers. Customer acquisition and retention are therefore essential for the freenet Group. The strategically relevant customer groups vary depending on the operating segment. The postpaid customer base serves as a performance indicator for the Mobile Communication segment, and the revenue-generating TV customer base serves as a performance indicator for the TV and Media segment.

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

The freenet Group's TV business addresses a further segment, which strengthens and expands the company's strategic positioning as a digital lifestyle provider. The development in revenue-generating freenet TV subscriber (RGU) numbers as well as waipu.tv subscribers is used as a key measure for success in establishing the segment and thus for market penetration with both TV products.

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

OTHER KEY INDICATORS AND MEASURES FOR THE COMPANY'S SUCCESS

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

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

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

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

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

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

RESEARCH AND DEVELOPMENT

freenet AG does not have its own research and development department. In view of the rapid technological progress being made in telecommunications, however, the company is closely monitoring and analysing all significant innovations. The primary aim of these efforts is to reinforce the Group’s long-term competitive positioning in this dynamic market environment. Most of the development work being undertaken at the freenet Group forms part of IT, strategic and product development projects. In the financial year and in the previous year, the income statement was not affected significantly by research and development costs. Within the framework of IT-, strategy- and product development projects, the freenet Group made total cash-effective investments of 20.3 million euros in 2019 (2018: 18.1 million euros).

EMPLOYEES

At year end, the freenet Group employed 4,238 people at 9 locations as well as in mobilcom debitel shops and GRAVIS stores. Each year, the Group makes more than 100 training positions available on vocational training and work/study (“dual study”) courses; these are broken down into a total of twelve training courses at more than 150 training locations. At the end of 2019, the number of apprentices in the freenet Group was 336 (2018: 325). Ensuring that employees maintain their skills and continue to develop their expertise in view of current market and technological developments is essential for the future business success of the freenet Group.

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

EBIT AND FINANCIAL RESULT

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

GROSS PROFIT AND GROSS PROFIT MARGIN

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

Table 5: Calculation of gross profit

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

FINANCIAL MANAGEMENT

CASH, LIQUIDITY AND CAPITAL STRUCTURE MANAGEMENT

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

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

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

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

Table 6: Equity ratio

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

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

Table 7: Net debt and adjusted net debt

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

[1] The market value of Sunrise is calculated by multiplying the closing price of the Sunrise share on the Swiss Stock Exchange by the number of shares held by the freenet Group (11,051,578) as of the relevant reference date. Swiss francs are translated into euros using an officially defined reference date rate based on Bloomberg data. The market value of Ceconomy is calculated by multiplying the closing price of Ceconomy's ordinary shares on the Frankfurt stock exchange by the number of shares held by the freenet Group (32,633,555) as of the relevant reference date.

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

Table 8: Key figures of capital structure management

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

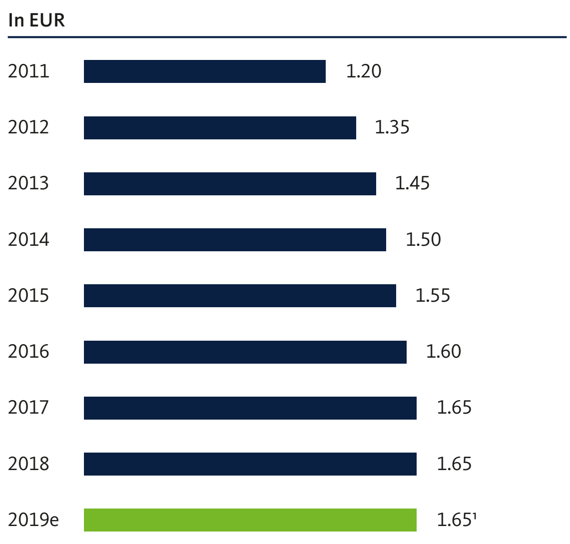
DIVIDEND POLICY

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

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

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

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



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

GROUP MANAGEMENT REPORT

REPORT ON ECONOMIC POSITION

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

MACROECONOMIC ENVIRONMENT

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

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

SECTOR-SPECIFIC DEVELOPMENT

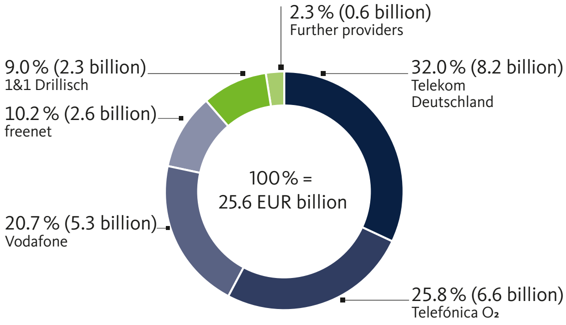
MOBILE COMMUNICATIONS MARKET

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

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

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

in % or EUR



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

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

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

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

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

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

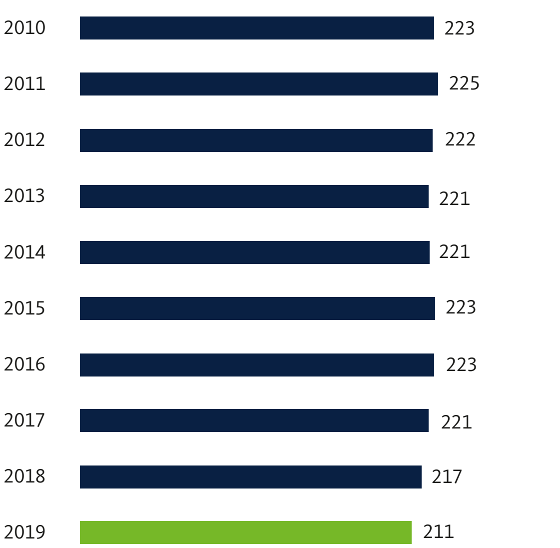
All in all, service providers (such as the freenet Group) have a positive view of the parameters for the auction. In essence, they guarantee improved access to current (4G or older) and future technologies (5G and beyond) in the period up to 2040. Moreover, network operators are required to negotiate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

TV/VIDEO MARKET

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

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

In minutes

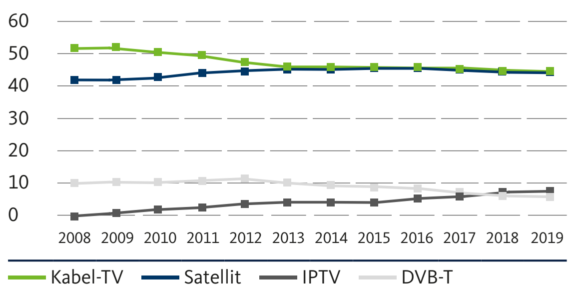


Details: 3 years and older; TV scope, German-speaking TV panel; Monday to Sunday, 3 to 3 o'clock, all channels

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

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

in %



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

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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR ENDED

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

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

SAMSUNG AND WAIPU.TV EMBARK ON STRATEGIC PARTNERSHIP

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

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

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

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

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

MOBILCOM-DEBITEL AND EXPERT SE LAUNCH PARTNERSHIP

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

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

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

COURSE OF BUSINESS

MOBILE COMMUNICATIONS

Postpaid customers

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

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

Table 9: Postpaid customers

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

Postpaid ARPU and revenue from services

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

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

Table 10: Postpaid ARPU and revenue from services

In EUR/revenue from services in EUR millions	2019	2018
Postpaid ARPU	18.7	19.0
Revenue from services, postpaid	1,540.9	1,555.4
Revenue from services, no-frills/prepaid	134.3	142.0

DIGITAL LIFESTYLE

Devices, products and services in the areas of entertainment, security, smart home and e-health have complemented our offering in the Mobile Communications segment for several years. During the past financial year, numerous new products and services were once again added to our portfolio in order to drive organic growth in this area. In 2019, the freenet Group generated revenue of 189.9 million euros with the marketing of its digital lifestyle products. This represents a year-on-year increase of 5.6 per cent (2018: 179.8 million euros).

Table 11: Digital lifestyle revenue (organic)

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

TV AND MEDIA

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

Table 12: TV customers

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

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

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

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

COMPARISON OF FORECAST AND ACTUAL BUSINESS PERFORMANCE

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

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

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

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

Table 13: Comparison of forecast and actual business performance 2019

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

EXECUTIVE BOARD'S EVALUATION OF BUSINESS PERFORMANCE

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

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

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

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

REVENUE AND RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

Table 14: Key performance indicators for the Group

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

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

NET ASSETS AND FINANCIAL POSITION

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

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

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

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

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

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

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

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

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

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

Table 15: Selected balance sheet figures of the Group

Assets

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

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

Equity and liabilities

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

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

CASH FLOWS

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

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

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

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

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

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

Table 16: Key cash flow indicators of the Group

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

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

GROUP MANAGEMENT REPORT

REPORT ON OPPORTUNITIES AND RISKS

REPORT ON AND ASSESSMENT OF OPPORTUNITIES

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

freenet AG and its subsidiaries strive to offer their customers high-quality and attractively priced products combined with excellent customer service. In addition, the company is focused on expanding the TV and Media segment. Together with its subsidiary Media Broadcast GmbH and its majority holding EXARING AG, freenet AG's terrestrial and Internet-based television business offers the company the opportunity to diversify and tap new growth potential. Continuous expansion of the associated product portfolio offers opportunities to increase user numbers in the TV and

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

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

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

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

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

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

Internal opportunities for freenet AG could emerge in particular from:

- assessing and implementing strategic options in mobile communications, digital lifestyle, and TV and media,
- continuously strengthening the brands klarmobil, freenetmobile and callmobile in the steadily growing discount market, with the aim of participating even more actively in their growth,
- continuously strengthening business relationships with suppliers to stabilise existing and develop new and improved condition models,
- enhancing our selling power by expanding existing sales channels and opening up new ones both online and offline (omni-channel) and utilising existing and new sales collaborations and partnerships,
- improving sales performance with even more customised sales pitches to customers,
- potential from combining customer groups from the individual segments (cross-selling),
- marketing additional products, including Digital Lifestyle and TV and Media products, in conjunction with vertical growth in the product portfolio as a whole,
- developing freenet’s own innovative products,
- maintaining a local presence with our shops and stores as well as our solid service focus at all customer touch points,
- consolidating and consistently enhancing IT applications and IT systems to further improve customer satisfaction, e.g. by expanding digital self-service options and the intelligent use of contemporary communications media,
- continuously improving processes and quality to ensure a sustainable rise in productivity – including the increasing digitalisation of business processes and corporate management,
- prioritising the empowerment and development of our employees to boost staff loyalty and increase the attractiveness of the workplace.

The assessment and implementation of strategic options in mobile communications, digital lifestyle and TV, the marketing of additional or new, innovative products and the enhancement of our own selling power could have a positive effect on the development of the underlying financial performance indicators and hence exceed our expectations. A stronger selling power and customer satisfaction could, as it were, lead to a more positive trend in customer figures than had been forecast. The likelihood of this happening is regarded as rather low.

Some technical innovations and strong partnerships in all business areas as well as new products such as FUNK, which can only be booked via the App, will continue to create opportunities for further market penetration in the future. If the brands perform better than expected in discount markets, this could lead to higher revenue, earnings contributions and free cash flow than forecast.

The strategic collaboration of mobile communications services and digital lifestyle applications was accelerated further. This Group-level orientation of business activities will be pursued consistently in the future as well, as the trend towards the digitalisation and interconnection of products and services will continue. Against this backdrop, we continue to see growth opportunities, potential synergies and opportunities for new strategic partnerships in this area.

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

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

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

Both external and internal opportunities were identified. These basically remained at the same level since the previous year, and could lead to even more positive business performance. The effects of the opportunities shown on the forecast financial and non-financial performance indicators, and therefore on the development of freenet AG as a whole, are collectively rated as low.

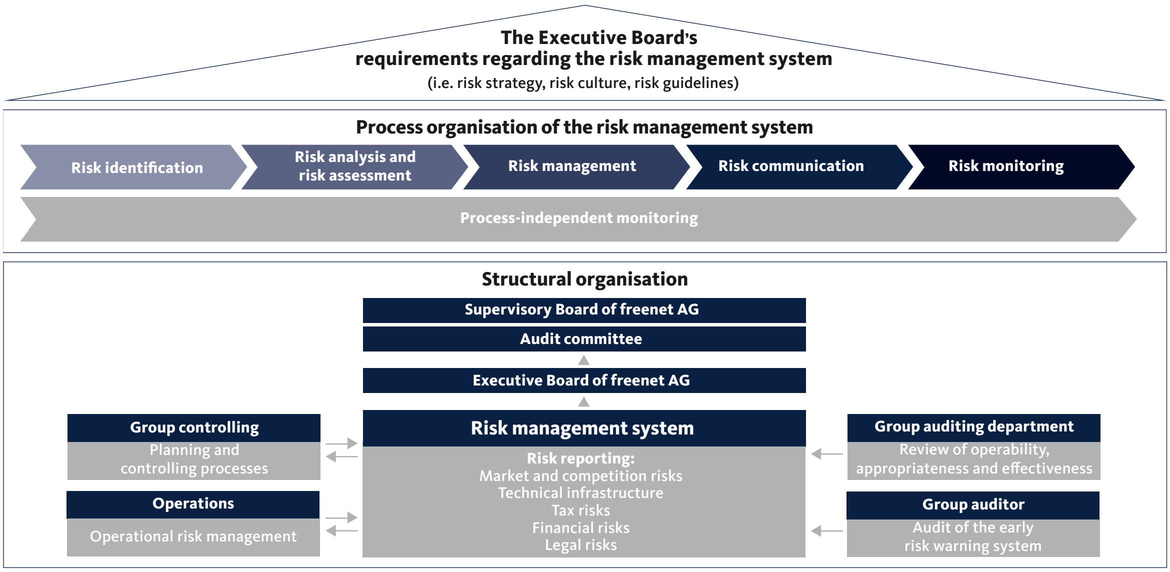
Management therefore expects business to develop as described in the report on expected developments.

RISK MANAGEMENT SYSTEM

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

To this end, the freenet AG Executive Board has set up within the Group an early warning, monitoring and management system that also integrates the subsidiaries. The systems and methods of the risk management system are an integral part of the overall organisation of freenet AG's structure and processes. As part of the statutory audit assignment for the annual and consolidated financial statements, the system is examined by the auditor to determine whether it is suitable to identify at an early stage any developments that endanger the company's continued existence as a going concern.

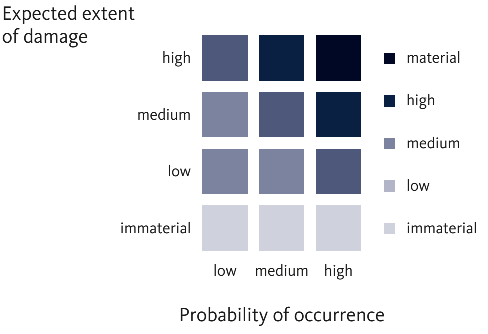
Figure 12: Process and structural organisation of freenet AG's risk management system



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

The risks within freenet AG are assessed in accordance with the net principle, by which the risk is observed in conjunction with the impact of any risk mitigation measures implemented. The criteria "probability of occurrence" and "anticipated extent of damage" are used to assess the risks. In the process, risks with a low (<50 per cent), medium (50 to 75 per cent), and high (>75 per cent) probability of occurrence are systematically categorised and differentiated from each other. With regard to the extent of the anticipated damage arising from a risk, distinctions are drawn between immaterial (<1.0 million euros), low (1.0 to 2.5 million euros), medium (2.5 to 10.0 million euros) and high (>10.0 million euros) anticipated damage. The combination of the probability of occurrence and the extent of the anticipated damage results in the classification of the risks' significance as "immaterial", "low", "medium", "high" and "material". These risk categories are shown in the following illustration.

Figure 13: Risk matrix at freenet AG



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

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

The methods and systems of risk management are continuously being examined, enhanced and adjusted. In the process, freenet AG's internal auditing department plays a supporting role, with the regular audits of the risk reports being the main focus. The internal control system (ICS) of freenet AG also provides further support for the risk management system. Formally documented controls are used to counter internal risks. The Supervisory Board, in particular freenet AG's audit committee, monitors the effectiveness of the risk management system and the internal control system from the standpoint of German stock corporation law. The Supervisory Board is involved by means of regular reporting and, if necessary, an up-to-date report by the Executive Board (process-independent risk monitoring).

In addition to the risk management system, the Executive Board has established an extensive monthly reporting system that covers both the financial and non-financial performance indicators in the Group for the purpose of managing and monitoring its ongoing business activities. In regular meetings with all of the relevant business units and subsidiaries, the Executive Board ensures that all members are informed in a timely manner about operational developments. Current topics and future measures are also discussed at these meetings (part of risk communication).

REPORT ON AND ASSESSMENT OF RISKS

This section presents risks that could influence freenet AG's net assets, financial position or results of operations. The risks are categorised as market risks, IT risks, tax risks, financial risks, strategic risks and operating risks.

The Mobile Communications segment is the most significant segment in the freenet Group in terms of both revenue and earnings. This is also the source of the main market risks in this particular field; they are therefore detailed in the following primarily in relation to this segment. The assessment of risk for the other categories basically applies for all segments. Material differences between the segments in relation to the risk assessment are specified as such separately.

MARKET RISKS

Highly competitive markets

The telecommunications markets continue to be characterised by intense competition. This can lead to shortfalls in revenue, loss of market share and pressure on margins in the respective business areas and/or can make it more difficult to gain market share.

Vigorous competition could also lead to higher costs for acquiring new customers, accompanied by falling revenue and a significant willingness of customers to switch providers. As a result, the forecast revenue-based key performance indicators, earnings indicators and free cash flow could develop in a slightly more negative fashion than previously expected. In order to prevail against its competitors, freenet AG must continue to design its products and services attractively, market them successfully and carry out customer loyalty activities. In addition, freenet AG must respond flexibly to the development of the competition's business and anticipate new customer requirements. This involves a medium risk for the achievement of the company's goals.

Network operators

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

The margins in mobile service provider business are very much determined by the network operators and their defined tariff models. This imposes certain restrictions within the tariff models, for instance by way of restrictions faced by users wishing to change tariffs. Nevertheless, purchasing models are constantly being reviewed to ensure that the Group is able to react as flexibly as possible to market effects. The risk has been classified as low by freenet AG.

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

The network operator risks, either individually or in combinations, could affect the forecast earnings metrics and free cash flow more negatively than anticipated.

Distribution

As a countermeasure with regard to the loss of distribution partners, freenet AG enters into long-term contracts with its main distribution partners and offers them attractive incentive systems (e.g. airtime models). An additional opportunity to maintain or expand existing distribution channels lies in the consistent examination of new retail, distribution and collaboration partnerships and in the acquisition of additional franchise partners. The risk of losing distribution channels has been classified as immaterial by freenet AG.

Laws and regulation

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

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

Risks in TV and media

In connection with the Media Broadcast Group, the company is facing the risk that customer demand for the freenet TV product, and therefore also revenue and free cash flow, might be weaker than originally anticipated. The company has begun closely monitoring customer performance in order to implement countermeasures, if necessary. This represents a medium risk for freenet AG overall.

The majority interest in EXARING AG could trigger the risk that costs, particularly in the field of content (TV stations) and acquisitions (distribution partners/marketing partners), might turn out to be higher than originally anticipated or that it might not be possible to meet the target number of customers. This would have a negative impact on EBITDA and free cash flow. EXARING AG has also established a monitoring procedure to track customer performance in order to take operational management measures, if necessary. freenet AG classifies this risk as medium.

IT RISKS

System failures/errors

The operational availability and efficiency of the technical infrastructure, including the company's data centres and billing systems, are of material importance for the company's successful operation and continued existence as a going concern. There is a low risk that network failures or service problems as a result of system errors or failures resulting from the absence of opportunities for providing customer support might lead to losses of customers, or that the TV and Media segment might be affected by problems in the broadcasting of TV and radio signals. Apart from the decline in revenue that results from a loss of customers, a system breakdown means that freenet AG might not be able to provide any services and is therefore unable to generate any revenue or make any positive contribution to the anticipated earnings or free cash flow. Technical early warning systems are used to prevent such breakdowns and risks of failure. Continuous maintenance and updates keep the security precautions up to date at all times. Backups are created at short intervals.

Data theft and hacker attack

Successful attacks carried out by malware or cyberattacks might, in a worst case scenario, result in the theft of customer data. Sensitive (customer) data could be stolen or published as a result of inadequate security measures regarding the allocation of employee privileges, among others. A hacker attack on the freenet TV database, on the other hand, might result in harmful data manipulation which, under extreme circumstances, might result in the failure of the TV boxes. Extensive security mechanisms have been implemented in order to prevent this. The risk has been classified as low overall by freenet AG.

TAX RISKS

Loss carryforwards

If, within five years, over 50 per cent of the shares or voting rights in the company came to be held directly or indirectly by a single shareholder or by several shareholders with parallel interests (harmful acquisition of shares), any negative income (corporation and trade tax loss carryforwards) of the company not settled or deducted by the time of the harmful acquisition could be lost in accordance with section 8c of the German Corporation Tax Act (Körperschaftsteuergesetz–KStG).

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

Other tax risks

In the case of assessment periods that have not been audited conclusively, there might in principle be changes that result in subsequent tax payments or changes in the loss carryforwards if the tax authorities, within the framework of external tax audits, come to different interpretations of tax regulations or different assessments of the respective underlying circumstances. The same applies for types of official charges which in part have yet to be audited, in particular because they are usually not subject to external tax audits.

The risk of different interpretations and assessments of circumstances applies in particular to corporate restructuring processes under company law. It cannot therefore be ruled out entirely that as a result of contributions of assets, other conversion processes, new capital injections and changes in the shareholding structure, the corporate income and trade tax carryforwards declared by the corporations of freenet AG and hitherto ascertained separately by the tax authorities might be reduced or discontinued. All in all, this is regarded as a low risk.

FINANCIAL RISKS

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

Bad debt losses

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

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

There are regularly trade accounts receivable due from the mobile network operators in the Mobile Communications segment, and there are regularly trade accounts receivable in the TV and Media segment due from public and private providers of TV and radio programmes. The concept of collecting these receivables is also constantly monitored. However, past experience has shown that the risk of bad debt losses in this respect is extremely low.

There are factoring agreements in place between the Group and two banks on the sale of receivables from the mobile upgrade option. The relevant risks (in particular the risk of bad debt losses) and opportunities are transferred to the banks under this arrangement. Although of minor significance, the late payment risk completely remains with the freenet Group.

Impairment of assets

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

freenet AG's assets are checked both regularly and on an ad-hoc basis otherwise as and when appropriate if there are potential indicators of lasting impairment. Such an indicator may be changes in the economic or regulatory environment. Any resultant impairment is not cash-effective, and therefore does not have any impact on free cash flow. Revenue and EBITDA are also not affected (no impact on the financial performance indicators).

Liquidity

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

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

The Group uses a variety of financial instruments to reduce general liquidity risk. The liabilities due to banks shown under borrowings relate to the promissory note loans entered into in May 2015, February 2016, October 2016 and December 2018 (recognised at 1,083.6 million euros, including interest accruals, as of 31 December 2019) as well as the loan tranche in the syndicated facility agreement of November 2018 for a total of 610.0 million euros (recognised at 609.9 million euros, including interest accruals, as of 31 December 2019). The second tranche of 300.0 million euros (previous year: 300 million euros) – in the form of a revolving credit line – had not been drawn as of 31 December 2019, as was the case in the previous year.

The credit agreements that were entered into entail another liquidity risk because the restrictions agreed therein ("undertakings" and "covenants") restrict freenet AG's financial and operational leeway. These impose restrictions on the company, for example regarding changes in the Group's business operations, the implementation of internal Group measures to change its structure under company law, the provision of collateral, and any acquisitions or disposals of assets, especially equity interests. Within narrow limits, the company may borrow outside of the loan agreements in order to finance future strategic investments, for example. In view of the aforementioned liquidity reserves, however, freenet AG classifies the existing risk of a constraint of financial leeway as low.

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

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

Capital risk

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

Interest rate risk

As regards variable-interest borrowings, freenet AG is subject to interest rate risks related largely to the EURIBOR. The company counters these medium risks by having a mix of fixed- and variable-interest borrowings. Although the interest rate risks are not explicitly hedged, the cash holdings (which are invested mainly at variable interest rates) serve as a natural hedge and accordingly mitigate interest rate risks arising from the variable-interest borrowings.

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

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

Other financial risks

Other financial risks might occur in the form of foreign currency and exchange rate risks. The company is only exposed to foreign currency risks to a limited extent; this is the reason why the management report does not detail these risks separately. With regard to the exchange rate risks, it must be borne in mind that the company holds an interest of 24.56 per cent in the share capital of Sunrise. Sunrise uses the Swiss franc (CHF) as the reporting currency for preparing its consolidated financial statements. The exchange rate between the euro and Swiss franc has an impact on determining both elements of the position of our consolidated income statement "Profit or loss of equity-accounted investments", namely the share in the current profit or loss of Sunrise and also the write-downs resulting from the shadow purchase price allocation regarding Sunrise. Accordingly, this exchange rate has an influence on the results of operations of the freenet Group; however, it does not affect EBITDA and is considered to be low at present.

STRATEGIC RISKS

Acquisition of companies

freenet AG has acquired companies in the past. There is a medium risk that the operating activities of these companies will not develop as expected. This development would have a negative impact on the forecast earnings and free cash flow. The management report contains regular monitoring of the investment development with the aim of initiating countermeasures immediately if there are any deviations from the original plan.

Equity investments

freenet AG holds several equity investments, including a 24.56 per cent interest in Sunrise. It is possible that the business of Sunrise might perform worse than originally anticipated; this in turn might have a negative impact on the results of operations (but not on EBITDA) and the cash flow of freenet AG. The risk has been classified as low by freenet.

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

Since March 2017, Capita has been handling the entire customer service of mobilcom-debitel as a strategic partner in particular. If the operations are unexpectedly discontinued by Capita, there is the risk of additional costs as a result of the need to implement the retransfer of the activities contractually agreed for such a case or for the external provider to be changed at short notice. The risk has been classified as low by freenet AG.

OPERATING RISKS

Service prices for customers in default

Across the entire sector, consumer protection agencies have taken legal action against network operators and service providers in relation to the nature and extent of charges imposed on customers in default of payment. In this connection, legal action relating to "cease and desist" and where appropriate payment has been initiated against freenet AG by consumer protection agencies regarding the imposition of service charges for customers in default of payment. The resulting risk of a decline in revenue or a possible payment has materialised to some extent and is further classified by freenet AG as medium.

OVERVIEW OF THE RISK SITUATION

The risks for freenet AG outlined above are summarised below.

Risks	Probability of occurrence	Expected extent of damage	Risk	Tendency
Market risks				
Highly competitive markets	medium	medium	medium	▶
Network operator				
Bonuses and commissions	low	medium	low	▼
Premiums and margins	low	low	low	▶
Shift to direct	medium	low	low	▲
Distribution	low	immaterial	immaterial	▶
Laws and regulation	low	medium	low	▶
Customer demand for TV and media	medium	medium	medium	▶
IT risks				
System malfunctions/errors	low	medium	low	▶
Data theft and hacker attack	low	medium	low	▶
Tax risks				
Loss carryforwards	low	high	medium	▶
Other tax risks	low	medium	low	▶
Financial Risk				
Bad debt losses	low	low	low	▶
Impairment of the assets	low	high	medium	▶
Liquidity				
General liquidity risk	low	high	medium	▶
Constraint of financial leeway	low	medium	low	▶
Mobile phone upgrade option factoring	low	high	medium	▶
Dividend payment	low	high	medium	▶
Capital risk management	low	high	medium	▶
Interest rate risk	medium	medium	medium	▶
Other financial risks	low	medium	low	▶
Strategic risks				
Acquisition of companies	medium	medium	medium	▶
Equity investments	low	medium	low	▶
Outsourcing of customer service business	low	medium	low	▶
Operational risks				
Service prices for customers in default	medium	medium	medium	▶

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

Thanks to the risk management process that has been implemented and the monthly reporting system, the Executive Board has a good overall view of the risk position presented here. Market, IT, tax, financial, strategic as well as operational risks were identified as of 31 December 2019. These risks remain virtually unchanged compared with the previous year as far as their probability of occurrence or their impact are concerned.

Their potential effects on the general future development of freenet AG and its financial and non-financial performance indicators continue to be classified as low overall by management. Management is therefore expecting that the positive trend forecast will not be compromised significantly as a result of the aforementioned risks. All in all, it can be assumed that the risks have no impact on the continued existence of freenet AG.

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

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

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

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

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

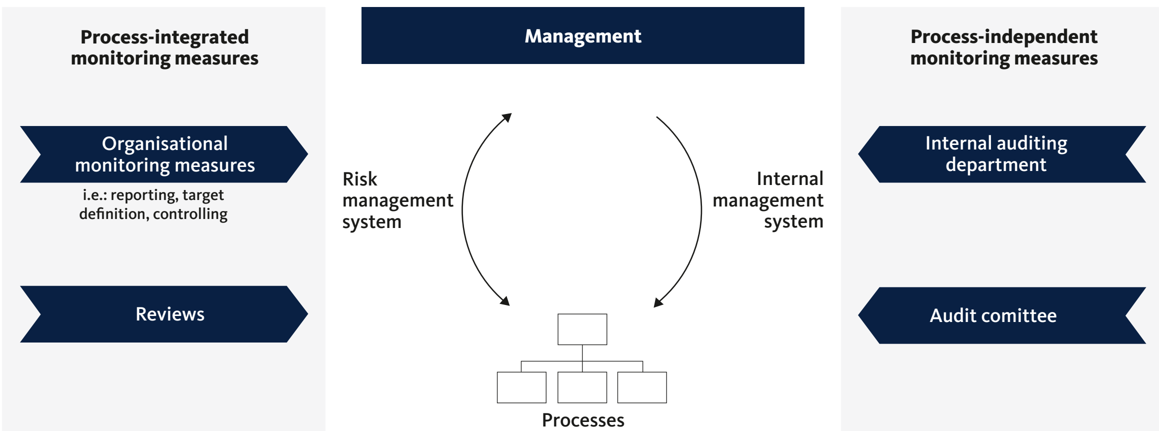
The objective of the controls implemented in the ICS for the accounting process is to guarantee that the financial statements conform to standards and to ensure that the accounting is accurate and effective. Approval processes for issuing access rights protect the IT systems used in the accounting process from unauthorised access. Internal controls ensure the correct function of the interface between SAP-FI and the consolidation system SAP EC-CS, as well as the reconciliations of the standardised reporting packages of the subsidiaries right through to the consolidated financial statements of freenet AG. The automated monitoring measures integrated into processes are supplemented by manual plausibility checks of the relevant interim results and spot checks by management or Controlling, among others.

The effectiveness of the ICS is assured through process-independent monitoring. As a process-independent, internal monitoring body, freenet AG’s Group Internal Audit unit conducts regular order-based, risk-oriented audits and, where necessary, ad hoc audits to verify the functionality and effectiveness of the ICS by way of spot checks and initiates measures when necessary in cooperation with management.

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

The risk management system is linked to the internal control system and covers not only operational risk management, but also the systematic early identification, control and monitoring of risks throughout the Group. For further explanatory notes about the risk management system, please refer to the "Risk management system" section of the report.

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



GROUP MANAGEMENT REPORT

REPORT ON EXPECTED DEVELOPMENTS

MARKET/INDUSTRY OUTLOOK

MACROECONOMIC ENVIRONMENT

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

TELECOMMUNICATIONS MARKET

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

TV/VIDEO MARKET

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

STABLE OUTLOOK FOR THE FREENET GROUP BUSINESS MODEL

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

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

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

COMPANY FORECAST FOR 2020

REVENUE EXPECTED TO REMAIN STABLE WITHOUT MOTION TM

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

EBITDA AND FREE CASH FLOW ALSO FORECAST TO REMAIN STABLE

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

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

SUBSCRIBER BASE (EXCLUDING FREENET FUNK) AND POSTPAID ARPU

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

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

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

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

In the TV and Media segment, the freenet Group ended the financial year with around 1.43 million revenue generating TV customers. We expect to expand this customer base further during the 2020 financial year. Management believes that the IPTV product waipu.tv will continue to drive growth in this segment. With an innovative approach that sets it apart from other Internet-based TV offerings, this product is already a relevant player in the market. The Group expects to expand this market position again in financial year 2020 with the help of product enhancements and new partnerships.

GROUP MANAGEMENT REPORT

REPORT ON POST-BALANCE SHEET DATE EVENTS

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

GROUP MANAGEMENT REPORT

NON-FINANCIAL STATEMENT *

ABOUT THIS REPORT

BUSINESS MODEL

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

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

MATERIALITY ANALYSIS

In 2017, we initially identified potential sustainability issues based on a sector/peer review and on the basis of the materiality assessment of the Global e-Sustainability Initiative (GeSI) for the information and communication technology sector. The material issues were subsequently determined in a two-stage procedure comprising individual interviews and a materiality workshop. Key factors for the assessment were the relevance of the issues for understanding the business performance, earnings and position, as well as the impact of the activities on the aspects specified in the law.

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

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

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

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

NON-FINANCIAL RISKS

The risk analysis carried out in the context of the non-financial statement is based on the Group-wide risk management system (RMS) of the freenet Group. The risks recognised there were analysed to establish whether they match the issues and aspects of the non-financial statement. For risks from the RMS that relate to issues covered by the CSR-RUG, a risk assessment has been carried out in line with the assessment for the Group risk report (please refer to the Report on opportunities and risks). Measured in terms of the legal materiality criteria for reporting non-financial risks[1], and after the implementation of risk-mitigation measures, none of the identified risks is of a material nature as defined in the RMS established Group-wide and the CSR-RUG.

GENERAL INFORMATION

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

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

Responsibility for the content of the various sustainability aspects lies with the respective departments, with central coordination done by the Finance department of the Executive Board. The Supervisory Board of freenet AG has reviewed the content of the non-financial statement. The Supervisory Board was supported by Mazars GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft (independent auditor) in the form of a limited assurance engagement. This engagement was conducted based on the International Standard on Assurance Engagements ISAE 3000 (revised).

MATERIAL ISSUES

EMPLOYEES

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

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

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

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

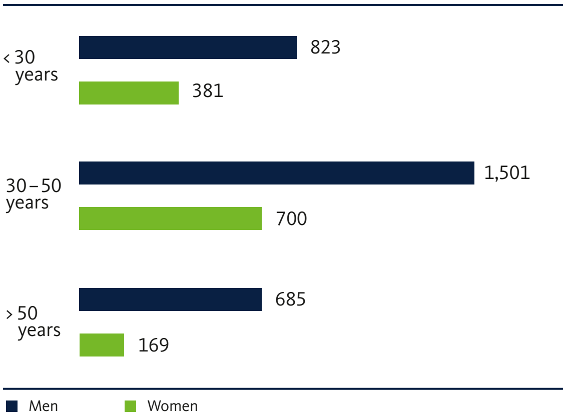
on the new world of work, we aim to analyse digital transformation issues and new working methods. In addition to new agile methods, collaboration and networking are promoted to further shake up the silo mentality in particular in the freenet Group.

Diversity

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

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

Figure 15: Employees by gender and age [2]



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

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

Employee attraction and retention

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

[3] Disclosures on the diversity plan for the Supervisory Board and Executive Board are provided in the Corporate Governance Statement.
[4] This key figure has only been collected since the 2018 financial year.
[5] Number of employees (salaried employees) who leave the organisation voluntarily or due to dismissal, retirement, or death (exits) as compared to the average number of employees [(Exits * 100)/Ø Number of employees].
[6] This key figure has only been collected since the 2018 financial year.

Table 18: New hires and employee turnover[7]

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

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

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

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

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

Training and continued professional development (CPD)

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

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

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

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

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

[8] The competency model, which was established back in 2016, focuses on cooperation and collaboration, developing an effective persona, entrepreneurial thought and action, driving change, and authentic leadership. The latter only applies to senior managers.
[9] This key figure has only been collected since the 2018 financial year.

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

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

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

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

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

Occupational health and safety

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

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

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

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

Table 20: Occupational injuries and commuting accidents

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

DIGITAL RESPONSIBILITY

The freenet Group is aware that consumers and companies in Germany are concerned about the increasing volume of reporting on cyberattacks and data abuse. A transparent and secure method of handling the sensitive personal data provided to the company in the context of its telecommunications services is becoming more and more important. Regulation and the high degree of digitalisation of business processes in the telecommunications sector brought this particular issue into focus in the past.

Led by the Chief Technical Officer (CTO), the freenet Group's IT department provides all of the IT services required for the Group's business operations. One of the five fundamental principles of the freenet Group's IT strategy is data protection and security. The freenet Group's IT department works according to well-established information security guidelines. A security organisation with defined roles and a dedicated security incident management process are based on these guidelines. Security incidents are initially visualised by a dashboard, then analysed by a core security team and finally coordinated by security incident managers. The key roles within the security organisation are assumed by the Security Board as a decision-making body, the IT Security Coordinator, who centrally coordinates all security measures, and decentralised security officers in each individual IT department. Several initiatives to improve data security were implemented in 2019. For instance, a technical solution was introduced for analysing network traffic for security incidents and a process was established to eliminate identified irregularities, depending on their criticality.

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

Security patch management is part of normal IT operations in all IT functions. In this way, the freenet Group is able to respond quickly and in an appropriate manner to changes in threat scenarios. The entire IT system landscape as well as the security level in the Group's own data centre meet the legal requirements and correspond to the current state

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

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

To check the data security concepts which are applied, external security experts regularly carry out penetration tests of the exposed IT systems on behalf of the Internal Audit department. The reliability and security of our infrastructure and processes are also regularly subjected to routine testing by regulators focusing on different areas. In 2019, for example, a spot test was conducted by the Federal Commissioner for Data Protection and Freedom of Information (BfDI), which did not result in any material objections.

IT Management and the management levels of the freenet Group consider data security a central task. The Executive Board and Supervisory Board or the latter's committees are regularly informed of the relevant developments and requirements in the field of data protection. The requirements of the EU General Data Protection Regulation (GDPR) that has been effective since May 2018 have been implemented across the Group and appropriate guidelines and processes have been defined and introduced. All issues and projects which are relevant for data protection purposes are agreed beforehand with the data protection officer of the Group. For all IT measures relating to employee data, the IT control committee of the works council is consulted. Our customers should experience a high degree of transparency with regard to the processing of their personal data. The freenet Group guarantees this by providing comprehensive information on this topic on the "Data protection" section of its websites. This content is regularly evaluated, taking account of customer enquiries from the Customer Care Center for improved comprehensibility. In addition, every customer can request information regarding the data stored about them and exercise their right to correct or erase this data. This enables customers to decide what should happen with their data. freenet's customer-facing website makes it also possible for all customers to inspect their own stored data and permissions granted as well as change them as necessary.

All employees are required to comply with both data protection requirements and the freenet Group's regularly updated confidentiality instructions. All major company departments maintain a list of all data processing activities that is regularly reviewed to ensure that it is up to date. In addition, for the processing of customer data, regular analysis of the level of protection are carried out to identify appropriate measures. When service providers are appointed by the freenet Group IT department, they are bound by both our customers' data protection requirements when processing orders as well as statutory data security requirements. If customer data are used for analysis purposes or for product design purposes, an approval process ensures in each case that such data are adequately pseudonymised or anonymised. In view of the company's nearly 8.3 million customers with fixed-term contracts and more than 4,000 employees, freenet received only a very small number of data protection complaints in 2019. Most of these were queries regarding the fulfilment of obligations under Art. 15 of the GDPR.

Beyond its own operational IT security processes, Media Broadcast is very much and continuously involved with KRITIS – a joint initiative of the Federal Office of Civil Protection and Disaster Assistance (Bundesamt für Bevölkerungsschutz und Katastrophenhilfe) and also of the Federal Office for Information Security (Bundesamt für Sicherheit in der Informationstechnik) to protect critical infrastructure: This initiative defines sectors which make a society vulnerable; these also include the field of media and culture. Media Broadcast takes its mission of keeping broadcast systems crisis-proof very seriously, given that this has implications for the whole of society, and in 2019 assumed the chairmanship of the "Media and Culture" industry working group. It therefore works on developing and implementing security standards as well as providing advice and support to public and private broadcasters to ensure that this part of the critical infrastructure functions properly. Currently, its industry standard on IT security is in the review and approval process.

CUSTOMER MATTERS

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

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

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

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

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

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

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

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

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

Customer satisfaction by way of service quality

Service quality is considered to be a strategic asset in the freenet Group, because meeting customer expectations improves loyalty and enables us to unlock cross-selling and up-selling potential. The freenet Group’s service plan includes customer service by phone, a comprehensive range of digital contact opportunities for customers and the integration of the shops. Our range of customer services is being constantly developed and expanded at all customer touch points. In 2019 this effort included a variety of tests of a mobile phone repair service in the mobilcom-debitel shops with various partners. In the interest of remaining viable and competitive in the future with regard to offering phone-based customer service, the freenet Group outsourced customer service completely to an external company in March 2017 – namely Capita. The Customer Service Management (CSM) department is tasked with cooperating with this partner and documenting changes that could affect the customer experience. A comprehensive management structure and ongoing analysis of customer contacts guarantee that agreed performance indicators are met and service quality is continually improved, for instance thanks to proactive communication with customers regarding delivery delays by our hardware partners. This service approach also transfers to the TV and Media segment. Media Broadcast’s entire value chain is certified in accordance with ISO 9001. This certification is the basis for and the central element of our consistently high service quality and resulting customer satisfaction.

Customer satisfaction by enhancing digital dialogue

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

Sustainable and inclusive product solutions

The freenet Group is continually developing its portfolio of customer-focused mobile tariffs and mobile services based on systematic market and customer analyses. Close relationships with the three German network operators enable the freenet Group to structure a product portfolio ranging from the discount to the premium market. This brand and portfolio approach enables the company to serve many customer segments and meet a wide variety of customer needs. The company also offers an attractive tariff portfolio for mobile communications and TV for low-income customers and enables customers with poorer creditworthiness to participate in digital life via a special deposit model [14].

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

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

Regarding choice and development, there is no explicit focus on sustainability criteria, which means that a concept in the narrower sense of the term is not available at present.

[14] The deposit model is for customers who failed the credit assessment for subscription-based offerings. The deposit is staggered in 50/100/200/400 euros. Paying the deposit enables the respective customer to use mobile services within their selected tariff. Moreover, the customer benefits from the bundle with a subsidised handset.

CORPORATE ENVIRONMENTAL PROTECTION

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

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

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

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

Energy consumption and carbon emissions

The strategic decision to change over to the new HD standard DVB-T2 in the TV business continues to contribute toward the greater energy efficiency that is our goal. The new transmitters broadcast more highly compressed signals, which optimises frequency utilisation and sharply reduces energy consumption. The same applies to radio transmissions. Replacing the UKW standard with the more energy-efficient digital DAB+ transmission standard decreased electricity usage steeply year on year (–18.7 per cent). Compared with the 2015 benchmark, the overall electricity consumption of the Media Broadcast Group has declined by approximately 46.6 per cent, and the associated carbon emissions have declined by approximately 52 per cent. There are limitations to implementing energy savings in the field of broadcasting and transmission technology, however. Contracting and using frequencies is subject to a regulatory framework governing infrastructure design and expansion. Media Broadcast is therefore required to adhere to the standards set by third parties.

In the remainder of the Group, the data centre and the company vehicle fleet of the freenet Group represent the main areas for reducing carbon emissions. Accordingly, the data centre of the Group in Düsseldorf is supplied exclusively by renewable energy (2019: 5.4 GWh; 2018: 5.4 GWh). We also aim to ensure that our fleet of company vehicles uses as little fuel as possible and produces minimal emissions. In 2019 the freenet Group invested in installing the infrastructure for our own electrical vehicle charging stations at the Büdelsdorf site. The goal is to promote the use of electric vehicles and therefore to make business transport more sustainable. In addition to the two existing charging stations, we added four more with two charging points each. The freenet Group plans to expand charging station infrastructure at the Hamburg site in 2020 and examine the option of installing it at other selected company sites in Germany. This enables the freenet Group to fulfil its societal responsibility to contribute to reducing carbon emissions in transportation and to be prepared for the growing electrification of the auto market. The existing Car Policy was supplemented with an eCar Policy to efficiently integrate electric vehicles into the company's vehicle fleet. When purchasing electric vehicles and plug-in hybrid vehicles, the freenet Group performs a driver profile analysis in advance to approve such purchases on the basis of not only financial, but also environmental factors. The company additionally intends to increase the share of electric vehicles in the vehicle fleet that can be used for business trips, including between sites. In addition, the Media Broadcast Group conducts ongoing mileage monitoring of its company cars to identify possibilities for consolidation. The fleet size was thus again reduced and totalled 312 vehicles by the end of 2019 (2018: 350).

Table 21: Energy consumption and carbon emissions

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

[15] The year 2015 is set as the base year, as this is the first year for which retrograde, consolidated reporting of energy consumption and carbon emissions has been done.
[16] Fuel consumption comprises consumption in the form of diesel and petrol for the fleet of company cars. Other indirectly procured fuels have not been included because no valid consumption figures were available due to the billing cycle, e.g. of facility managers, and extensive estimates would have been necessary. The conversion factors of the British Ministry for the Environment, Food and Rural Affairs (DEFRA) have been used for converting fuel consumption in GWh and carbon emissions.
[17] $CO_2eq = CO_2$, CH_4 und N_2O.
[18] Electricity consumption calculated on the basis of appropriate estimates and extrapolations.
[19] Calculated by basically taking into account the German electricity mix for electricity consumption plus an explicit green electricity contract.
[20] The CO_2 emissions factor from the Federal Environmental Office (Umweltbundesamt) is used for converting electricity consumption into CO_2 emissions.

Consumption of resources

The freenet Group concentrates primarily on digital communication among employees as well as in dialogue with customers and business partners. It thus makes a contribution towards reducing paper consumption and making efficient use of resources in administration. This starts with the digital networking of sales channels and extends right through to avoiding the printing and posting of millions of invoices every month. In November and December 2019, a total of around 0.5 million additional contracts were proactively switched to online billing. At the main mobile communications brand mobilcom-debitel, this improved the share of digitally delivered invoices to 77.7 per cent (2018: 74.9 per cent). At the discount brands, the share remained stable at 95.5 per cent (2018: 95.7 per cent). Overall therefore, nearly 81.4 per cent of all invoices were transmitted digitally (2018: 78.8 per cent). For 2020 we anticipate the resulting savings to amount to around 5.0 million hardcopy invoices.

The “FLIP4NEW” programme conducted by the GRAVIS and mobilcom-debitel subsidiaries in partnership with external provider Flip4 GmbH represents another contribution towards ensuring an efficient use of resources and reducing electric waste. The aim is to purchase old devices – in particular smartphones, tablets and CPUs – to extend the lifecycle of the devices by selling them on and by recovering spare parts. Devices which are no longer usable are accepted by the recycle it GmbH, which is certified in the areas of environmental and data protection.

To avoid electronic waste, the freenet Group is also working hard to improve the return rate in its own shops as well as the proportion of so-called “A products” – devices which can be sold immediately. In light of this, devices have been foil-coated before being shipped to customers since 2017. The resulting and sustained positive effects of this were evident for the third successive year in 2019, as the return rate and proportion of A products remained high. The return rate was 3.4 per cent (2018: 1.7 per cent) and the proportion of A products was 85.5 per cent (2018: 84.2 per cent). In relation to end users, the percentage of A products in 2019 was also stable at 93.8 per cent (2018: 92.2 per cent).

Table 22: Key figures on resource consumption

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

ANTI-CORRUPTION

The freenet Group is committed to all applicable laws and standards as well as the underlying ethical principles: It is also aware of the harmful effects of economic crimes and therefore strongly condemns corruption in particular and takes a strong stance against it. In accordance with German law, the freenet Group does not differentiate between corruption in commercial transactions or among public officials on the one hand and facilitation payments on the other. In the case of criminal offences, the company naturally pursues a zero tolerance policy. The Executive Board underlines the company's strict attitude towards combating corruption by way of a tone from the top, which is also communicated to all areas of the organisation by downstream managers. The works councils of the freenet Group also support all guidelines that serve to combat corruption. Compliance is a strong element of the corporate culture, and is expressed by the actions and support of all parts of the company.

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

Management of corruption risks is based on several approaches, which are characterised by prevention, identification and reaction in each case. The Group's efforts in this area focus on specific employee information for prevention purposes. Customised training, one-on-one discussions and generally binding guidelines provide the company's employees with a stable framework with which they can align themselves. The corporate culture we embody promotes the continual exchange of information among employees and between employees and senior managers regarding the legal risks associated with their activities. In this context, the gift, purchasing and signature guidelines have a vital role to play. While the gift guidelines are designed to prevent the undue influence of both internal and external business dealings, the signature guidelines ensure that only selected individuals can enter into transactions and, in the case of important declarations of intent, authorised representatives from different departments and divisions are always required to act as co-signatories. In addition, the purchasing policy ensures that the best suppliers are objectively procured using clear procedural parameters and by requiring the specialist department undertaking the procurement to involve the Purchasing department as a neutral party in significant transactions. In addition, the Compliance unit offers a hotline which enables it to always provide legal and content-specific advice in order to enable possible uncertainties in daily work to be resolved quickly.

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

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

SUPPLY CHAIN

As a result of the supply chain's importance to the freenet Group's business model, we require our suppliers, service providers and other business partners to make a clear commitment to sustainable action. The entire procurement organisation is consolidated in the Partner Relationships Executive Board division. Our constantly developing base of suppliers for mobile communications services comprises around 1,500 suppliers from various countries. The following main suppliers account for more than 90 percent of the purchasing volume in terms of value in this area:

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

Cooperation with the mobile network operators, device/accessory manufacturers and service providers in customer support are handled by purchasing units created specifically for that purpose. All other suppliers are handled centrally by a further purchasing unit (indirect purchasing). The Media Broadcast Group has its own separate purchasing department.

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

Since 2018, this has been done by way of the freenet Group's own Supplier Code of Conduct, which defines minimum standards in the areas of human rights, social standards, environmental protection, safety and security, health, and compliance, and is publicly available on the freenet Group's website. The code of conduct is generally included in all new procurement agreements and processes. Alternatively, we require our strategic suppliers to declare that their standards at least correspond to those of the freenet Group. In the event of violations, the freenet Group reserves the right to appropriately address the issue depending on the severity of the violation. This includes, but is not limited to, requesting immediate remediation of the violation, asserting claims for damages or terminating the respective contract. If suppliers or their employees wish to report a possible violation of applicable law or our standards, our code of conduct provides for direct contact for business partners to our Compliance department, which also initiates investigations.

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

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

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

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

GROUP MANAGEMENT REPORT

CORPORATE GOVERNANCE

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

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

In its meeting on 3 December 2019, the Supervisory Board considered the regulations of the German Corporate Governance Code as amended on 7 February 2017 and, together with Executive Board, issued the annual Declaration of Conformity with regard to the German Corporate Governance Code. The Supervisory Board and Executive Board have essentially continued the deviations stated and the reasons for them from previous years. The Declaration of Conformity dated 3 December 2019 is included in the following Corporate Governance Statement and has been made permanently accessible on the company's website under https://www.freenet-group.de/investor-relations/corporate-governance/index.html.

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

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

freenet AG made the following Corporate Governance Statement in accordance with sections 289f, 315d HGB, which is simultaneously a part of its management report for the financial year 2019.

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

STATEMENT IN ACCORDANCE WITH SECTION 161 AKTG

Since submitting the last Declaration of Conformity on 4 December 2018, freenet AG has complied with the recommendations of the German Corporate Governance Code ("Code") as amended on 7 February 2017 with the following exceptions and will continue to comply with the recommendations of the Code as amended on 7 February 2017, unless stated otherwise by the company in the following.

1. The company has taken out D&O insurance for its board members. No deductible has been stipulated for Supervisory Board members because it is not evident that this would represent an advantage for the company. It is taken for granted that all Supervisory Board members carry out their duties responsibly. In order to treat all Supervisory Board members equally, moreover, any deductible would have to be set at a uniform level, even though the members' personal financial backgrounds vary. A deductible would therefore constitute different burdens for the individual Supervisory Board members. As their responsibilities are the same, this does not seem appropriate. (Code clause 3.8 (3))
2. The company has a strong commitment to transparent reporting. This also applies to the remuneration of the Executive Board members, the separate components of which are disclosed and discussed individually in the remuneration report. Nonetheless, the Executive Board and Supervisory Board have decided not to use the model tables in the remuneration report to present the Executive Board's remuneration. Although the service contracts with the Executive Board members provide for caps, there is a risk that the disclosure of maximum amounts for share-based payment components creates an impression which is inconsistent with the actual assumptions for the performance of the share price. (Code clause 4.2.5 sentence 5 and 6)
3. When appointing new members to the Executive Board, the Supervisory Board so far has appointed those candidates to the Executive Board who were best suited in particular because of their knowledge and skills acquired in the course of their many years of service in the company. In contrast, the criteria for the composition of the Executive Board mentioned in clause 5.1.2 (1) of the Code were not the focus of the Supervisory Board's attention when previous appointments were made and will remain subordinate with respect to future appointments from the Supervisory Board's point of view. (Code clause 5.1.2 (1))
4. No age limit has been set for members of the Executive Board and the Supervisory Board. It is not evident why qualified individuals with relevant professional and other experience should not be considered as candidates solely on the grounds of their age. (Code clauses 5.1.2 sentence 8 and 5.4.1 sentence 2)
5. The Supervisory Board does not specify any concrete targets for its composition, as defined in Code clauses 5.4.1 (2) and 5.4.2 sentence 1. It therefore also does not draw up a profile of skills for the entire board. It can therefore not follow the recommendations made in Code clause 5.4.1 (4). When proposing new members for election, the Supervisory Board has so far been guided solely by their suitability. The Supervisory Board is convinced that this has proven to be effective. It therefore sees no need to change the practice. (Code clauses 5.4.1 (2), (4) and 5.4.2 sentence 1)
6. Clause 5.4.6 (2) of the Code recommends linking performance-related remuneration for Supervisory Board members to the sustained performance of the company. The Supervisory Board's variable remuneration is set according to the dividend for the past financial year, in line with section 11 (5) of the company's articles of association. This form of variable remuneration has proven its worth in the past. Furthermore, the company's dividend policy as communicated to financial markets, which is based on free cash flow, is linked to the company's sustained performance. Linking variable remuneration to this dividend strategy therefore also serves the company's sustained performance. For this reason, there is no intention of changing the Supervisory Board's variable remuneration. (Code clause 5.4.6 (2))

RELEVANT DISCLOSURES ON CORPORATE GOVERNMENT PRACTICES

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

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

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

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

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

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

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

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

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

WORKING PRACTICES OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

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

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

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

COMPOSITION AND WORKING PRACTICES OF COMMITTEES

The Executive Board has not constituted any committees.

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

Steering committee

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

Members: Prof. Dr Helmut Thoma (chairman), Thorsten Kraemer, Gerhard Huck, Knut Mackeprang

Personnel committee

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

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

Audit committee

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

Members: Robert Weidinger (chairman), Marc Tüngler, Bente Brandt, Thomas Reimann

Mediation committee

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

Members: Prof. Dr Helmut Thoma (chairman), Fränzi Kühne, Knut Mackeprang, Theo-Benneke Bretsch

Nomination committee

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

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

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

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

in %	Target for 31 December 2021
Executive Board	0
Management tier 1 (direct reports)	30
Management tier 2 (direct reports)	30

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

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

In the period under review, the percentages of men and women on the Supervisory Board complied with the legal requirement of a minimum percentage of 30 per cent.

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

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

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

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

LEGAL GROUP STRUCTURE AND TAKEOVER-RELEVANT DISCLOSURES IN ACCORDANCE WITH SECTIONS 289A (1), 315A (1) HGB

COMPOSITION OF SUBSCRIBED CAPITAL

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

RESTRICTION ON SHARE TRANSFER OR VOTING RIGHTS

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

EQUITY INTERESTS EXCEEDING 10 PER CENT OF THE VOTING RIGHTS

As of 31 December 2019, and on the basis of the existing notifications of voting rights, Flossbach von Storch AG, Cologne, holds an equity interest of 14.89 per cent of the voting rights in freenet AG indirectly via Flossbach von Storch Invest S.A., Luxembourg, in accordance with sections 21 et seq. WpHG.

SHARES WITH SPECIAL RIGHTS AND POWERS OF CONTROL

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

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

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

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

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

POWERS OF THE EXECUTIVE BOARD TO ISSUE SHARES

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

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

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

POWERS OF THE EXECUTIVE BOARD TO BUY BACK SHARES

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

CHANGE OF CONTROL

A change of control might have an impact on the repayment claims resulting from the syndicated loan agreement between the freenet Group and a syndicate of banks as well as the promissory note loan issued by freenet AG. In such a case, these loans might be called either in part or in their entirety without freenet being able to influence such a move. Such a change of control, irrespective of whether it precedes the takeover offer, might exist in the event of the acquisition of more than 50 per cent of the voting rights in freenet AG or if one or more persons acting in concert have the right to determine the majority of members of the

Supervisory Board of freenet AG. In such a case, freenet would be exposed to the risk that subsequent financing for settling the repayment claims might not be agreed or might only be agreed to subject to less favourable conditions.

COMPENSATION AGREEMENT OF THE COMPANY

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

REMUNERATION REPORT OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

EXECUTIVE BOARD REMUNERATION IN ACCORDANCE WITH HGB

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

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

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

When the employment contract was extended (with Mr Vilanek, granted on 4 April 2018, and with Mr Esch, granted on 19 March 2019) and the appointment to the Executive Board made (for both Mr von Platen and Mr Fromme with effect from 1 June 2018; for Mr Arnold with effect from 1 January 2019), supplemental agreements to the employment contracts granting a new LTIP ("LTIP Programme 3") were entered into with the aforementioned members of the Executive Board. In LTIP Programme 3, the years 2019 to 2023 have been defined as target attainment years for Mr Vilanek, 2018 (on a pro rata basis from the appointment date) until 2021 (on a pro rata basis) for Mr von Platen and Mr Fromme, 2019 to 2021 for Mr Arnold, and 2020 to 2024 for Mr Esch.

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

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

Table 23: Executive Board remuneration for financial year 2019 according to HGB

In EUR '000s	Fixed benefits	Variable cash benefits	Total cash benefits	Benefits granted with long-term incentive component	Total benefits acc. to HGB
Christoph Vilanek	1,015	688	1,703	0	1,703
Ingo Arnold	510	287	797	606	1,403
Stephan Esch	494	229	723	785	1,508
Rickmann v. Platen	510	287	797	0	797
Antonius Fromme	509	287	796	0	796
Total	**3,038**	**1,778**	**4,816**	**1,391**	**6,207**

Table 24: Executive Board remuneration for financial year 2018 according to HGB

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

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

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

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

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

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

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

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

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

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

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

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

EXECUTIVE BOARD REMUNERATION IN ACCORDANCE WITH THE GCGC

Within the meaning of clause 4.2.5 of the German Corporate Governance Code (DCGC), we hereby make the following disclosures about the benefits granted to the members of the Executive Board for financial year 2019 and the previous year, and about the benefits paid to the members of the Executive Board in the financial year 2019 and the previous year.

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

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

Table 26: Benefits granted to the Executive Board for financial year 2018 in accordance with the GCGC

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

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

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

Table 28: Benefits received by the Executive Board in financial year 2018 in accordance with the GCGC

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

REMUNERATION ARRANGEMENTS IN THE EVENT OF A TERMINATION OF EMPLOYMENT

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

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

- Upon reaching the age of 60, the above-mentioned members of the Executive Board shall receive a retirement pension amounting to 2.5 per cent of their last annual fixed salary for each year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, to a maximum of one-third of the last annual fixed salary (guaranteed pension).

- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.

Arrangements for former Executive Board member Joachim Preisig:

- Upon reaching the age of 60, Mr Preisig shall receive a retirement pension amounting to 2.5 per cent of his last annual fixed salary for each year commenced on the Executive Board of the company or the former debitel AG, to a maximum of one-third of the last annual fixed salary (guaranteed pension).
- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- Upon reaching the age of 60, Mr Preisig shall receive a pension from the Debitel pension fund which is calculated according to legal requirements; the guaranteed pension is thus calculated on a pro rata basis (monthly retirement pension commitment of 9,333.00 euros) in line with the actual length of service. All claims of Mr Preisig, his spouse or a domestic partner with rights as beneficiary, and any surviving dependants from the debitel pension fund shall be offset against all aforementioned claims arising from the contract of employment with freenet AG.

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

- Upon reaching the age of 60, Mr Vilanek shall receive a retirement pension amounting to 2.7 per cent of his last annual fixed salary for each contract year commenced on the Executive Board of the company, to a maximum of 35 per cent of the last annual fixed salary (maximum pension).
- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of their schooling or vocational training, terminating at the latest when they reach the age of 25, to a maximum total amount of the guaranteed pension or the value of pension entitlements accrued at the time of Mr Vilanek's death.

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

For Executive Board member Stephan Esch, the following arrangement applied from 1 January 2015 (agreement dated 26 February 2014) until 31 December 2019:

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

shares in the long-term incentive account is added to the number of shares that result from the Group EBITDA for the current financial year.

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

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

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

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

For Executive Board member Ingo Arnold, the following arrangement has applied since 1 January 2019:

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

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

SUPERVISORY BOARD REMUNERATION

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

- Basic remuneration
- Attendance fees
- Performance-related remuneration

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

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

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

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

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

For their activities during financial year 2019, the members of the company's Supervisory Board received fixed remuneration of 405 thousand euros plus attendance fees amounting to 82 thousand euros. In addition, performance-related remuneration of 405 thousand euros was also expensed. The extent to which this performance-related remuneration will be paid out depends on the profit appropriation resolution for the financial year 2019. The aggregate expenses for Supervisory Board activities thus amounted to 892 thousand euros.

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

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

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

Table 29: Remuneration for financial year 2019

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

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

Table 30: Remuneration for financial year 2018

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

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