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# Interim Report as of 30 September 2014

3rd quarter 2014

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freenet AG • Hollerstraße 126 • 24782 Büdelsdorf



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## Key financials: Group overview

### Result

In EUR million/as indicated	Q1–Q3/2014	Q1–Q3/2013	Q3/2014	Q2/2014	Q3/2013
Revenue	2,206.9	2,374.5	762.1	727.2	789.6
Gross profit	567.3	531.5	194.2	190.5	181.6
EBITDA	269.3	263.0	96.3	87.6	92.6
EBIT	221.6	221.3	80.9	71.2	78.6
EBT	192.1	191.4	71.6	60.5	68.8
Group result from continued operations	180.7	179.2	66.2	57.1	63.6
Group result from discontinued operations	0.0	0.0	0.0	0.0	0.0
Group result	180.7	179.2	66.2	57.1	63.6
Earnings per share in EUR (diluted and undiluted)	1.41	1.40	0.52	0.44	0.50

### Balance Sheet

In EUR million/as indicated	30. 9. 2014	30. 9. 2013	30. 9. 2014	30. 6. 2014	30. 9. 2013
Balance sheet total	2,436.7	2,476.4	2,436.7	2,469.5	2,476.4
Shareholder's equity	1,234.8	1,179.2	1,234.8	1,168.5	1,179.2
Equity ratio in %	50.7	47.6	50.7	47.3	47.6

### Finances and investments

In EUR million	Q1–Q3/2014	Q1–Q3/2013	Q3/2014	Q2/2014	Q3/2013
Free cash flow <sup>1,2</sup>	210.9	201.6	79.6	74.2	74.9
Depreciation and amortisation	47.7	41.7	15.3	16.4	14.0
Net investments <sup>2</sup> (CAPEX)	18.7	13.1	8.3	4.7	7.0
Net cash <sup>2,3</sup>	-472.0	-471.9	-472.0	-545.3	-471.9

### Share

	30. 9. 2014	30. 9. 2013	30. 9. 2014	30. 6. 2014	30. 9. 2013
Closing price Xetra in EUR	20.61	17.89	20.61	23.23	17.89
Number of ordinary shares in '000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation in EUR '000s <sup>3</sup>	2,638,697	2,291,012	2,638,697	2,974,857	2,291,012

### Employees

	30. 9. 2014	30. 9. 2013	30. 9. 2014	30. 6. 2014	30. 9. 2013
Employees <sup>3</sup>	4,939	4,593	4,939	4,904	4,593

## Key financials: overview Mobile Communications segment

### Customer development

In million	Q1–Q3/2014	Q1–Q3/2013	Q3/2014	Q2/2014	Q3/2013
Mobile Communications customers <sup>3</sup>	12.83	13.37	12.83	12.99	13.37
Thereof Customer Ownership	8.90	8.67	8.90	8.84	8.67
Thereof contract customers	5.97	5.82	5.97	5.90	5.82
Thereof no-frills customers	2.93	2.85	2.93	2.94	2.85
Thereof Prepaid cards	3.93	4.70	3.93	4.14	4.70
Gross new customers	2.18	2.43	0.76	0.73	0.79
Net change	-0.46	-0.71	-0.16	-0.15	-0.19

### Result

In EUR million	Q1–Q3/2014	Q1–Q3/2013	Q3/2014	Q2/2014	Q3/2013
Revenue	2,168.4	2,350.7	749.9	714.5	781.6
Gross profit	535.2	516.2	184.3	179.5	176.9
EBITDA	280.6	263.8	98.7	91.3	95.1
EBIT	240.5	224.9	86.1	77.5	81.9

### Monthly average revenue per user (ARPU)

In EUR	Q1–Q3/2014	Q1–Q3/2013	Q3/2014	Q2/2014	Q3/2013
Contract customer	21.5	22.5	21.7	21.5	22.6
No-frills customer	2.9	3.5	2.9	3.0	3.5
Prepaid card	2.9	3.0	3.1	3.0	3.2

<sup>1</sup> Free cash flow (FCF) is defined as cash flow from operating activities minus investment in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.

<sup>2</sup> This information relates to the overall Group (including discontinued operations).

<sup>3</sup> At the end of period.

# To our shareholders

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



## Letter to shareholders

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

In a telecommunications market which can hardly be described as lacking in dynamism, the past few months have brought about further changes to the competitive situation: With approval for the Telefónica takeover of E-Plus, binding standards for the new company regarding transactions with providers who are independent from the network have been drawn up by the EU commission.

In connection with this, freenet AG also conducted intensive negotiations with Telefónica, although we ultimately decided against entering into far-reaching obligations that involved an acquisition of network capacities. We did this entirely in the interests of our strict shareholder value-oriented philosophy. This was because the higher risks were not offset by any commensurate improvements: not for opportunities for corporate structuring in the competitive environment, not for our customers, not for our sales and specialist trade partners, and certainly not for our shareholders.

The competitive position that we occupy has nevertheless improved along with the now completed restructuring of the market in its present form: the guarantee of our successful business model's existence as a service provider encompassing a comprehensive spectrum of digital lifestyle, mobile communications and mobile internet services was extended with Telefónica Deutschland until 2025. In addition, Telefónica had to undertake to provide us with the latest technology and any necessary volume of network capacity in accordance with our needs. This means that we can continue to offer our customers an ideal selection of products, independent advice and the greatest possible proximity to customers thanks to our multi-channel approach with our own shops, specialist dealers and consumer electronics stores and our presence in online and social media channels.

The sustained level of success that this corporate strategy is generating is demonstrated once again by the developments and results in the third quarter of the current financial year:

- Gross profit increased compared to the comparative quarter in 2013 and amounted to 194.2 million euros; gross profit margin amounts to 25.5 per cent.
- EBITDA also improved in comparison to the previous year, amounting to 96.3 million euros.
- Free cash flow again showed a positive trend, increasing to 79.6 million euros.
- In the important area of customer ownership, the positive trend from the previous quarters is continuing: The number of customers in the postpaid and no-frills segment increased again by around 60,000 to 8.90 million; of which the number of contract customers likewise increased compared to the comparative period, rising to 5.97 million by the end of September 2014. This is the ninth quarter of growth in a row in this key figure.
- At the same time, postpaid ARPU largely stabilised at its current level of 21.7. This demonstrates, among other things, the successes of our tariff strategy, which puts a great deal of emphasis on high-value contract customers.
- With regard to our revenue, we are increasingly eschewing the low-margin hardware segment. As in the preceding quarters, our revenue consequently decreased: in the third quarter, it was below the comparative quarter of 2013 at 762.1 million euros.



This means that freenet AG is still on target for compliance with the guidance figures that had been projected for 2014 as a whole—with EBITDA of 365 million euros and free cash flow of around 265 million euros.

In the past few months, notwithstanding the changes on the market, we have continued to work systematically on this successful course—aiming to continuously improve processes in the interests of our customers. This involves, in particular:

- Innovative products in the growing digital lifestyle market
- A diversity of campaigns in connection with our voice and data tariffs
- New services from our main brand mobilcom-debitel and subsidiaries
- Further collaborations with interesting partners

For several years now we have been emphasising attractive offerings encompassing diverse aspects of digital lifestyle. In collaboration with the online portal Toluna, the service portal *www.my-digital-lifestyle.de* that we launched at the beginning of the third quarter ascertained that out of approximately 4,000 mobile communication users, for example, two-thirds of the respondents are interested in smart-home products, but have so far only used them infrequently. This demonstrates the huge potential of this market that we are increasingly serving—above and beyond the smart-home products that we have already launched.

The latest examples in the health field include the smart sleep system “Withings Aura”, which analyses and exerts a positive influence on the individual’s sleeping behaviour and also creates personalised programmes for waking up and falling asleep. In connection with this, our subsidiary GRAVIS had concluded an exclusive distribution agreement with Withings, the manufacturer. In the entertainment segment we have the smartphone option mload Plus, with which users can download current premium games, MP3 songs, ringtones and logos for a monthly charge of 5 euros. Moreover, since August, we have also been offering our prepaid customers games options for their Android smartphones.

In the data security and data management field, we extended the existing cloud solution from mobilcom-debitel in the last quarter by adding the “Smart Organizer”: with this feature, users can scan and file documents, if necessary providing them with a memory function, and easily find and retrieve them again at any time by using the search function. The enhanced cloud is now available to all of our new customers—irrespective of any existing or pending mobile communications contract.

Our successful involvement in the digital lifestyle area has also been underlined by two new partnerships with Axel-Springer-Verlag and Daimler-Benz subsidiary car2go respectively. Since August, we have therefore integrated the content of Bild+ together with the German football Bundesliga reports as options into the tariffs of mobilcom-debitel and our no-frills brand klarmobil. Furthermore, customers can select the new “Bild+ Fan Flat” tariff from klarmobil—with 1,000 MB high-speed volume including Bild+ and the Samsung Galaxy Tab 4 at the special price of 19.95 euros per month in the first year of the contractual period.

Since September, more than 100 mobilcom-debitel and GRAVIS shops in Germany’s seven largest cities have been carrying out the requisite driving licence validation—and, where

necessary, the installation of the relevant app from carzgo, including tips for its optimum use—for the world's largest app-based car-sharing service. In this way, we are not only giving our support to a highly attractive mobility concept for our cities, we are once again bringing the fascinating possibilities of digital lifestyle to life—and, in the process, we are attracting suitably clued-up customers into our retail stores.

The fact that we, as service providers in a competitive environment, are not disadvantaged in any way compared to the network operators can be demonstrated with several further examples from the field of current product launches and services. In September, for example, we were able to supply all 44 GRAVIS stores with the highly coveted new iPhone 6 in time for the official sales launch; some of our retail stores in larger cities opened hours earlier than usual to meet the demand. This is a service that die-hard Apple fans—of the kind who usually spend the night before such events camped out in front of the stores—are sure to have appreciated.

In combination with the “real Allnet” tariff from mobilcom-debitel, for example, the cost of buying an iPhone 6 with 16 GB memory as part of this deal is reduced to around 200 euros, with the monthly package price starting at 35 euros. In addition, customers can use the GRAVIS purchase service and receive up to 200 euros or more for used hardware—e. g. for their old iPhone 5s. Or they use the 0 per cent financing service provided by GRAVIS and pay the new Apple flagships in instalments over a period of 12 or 24 months.

Since this September, our subsidiary has been allowed to carry out repairs to iPhones of all generations, which currently includes the battery replacement programme for the batch of iPhone 5 devices with shortened battery lifespan that were sold between September 2012 and January 2013. GRAVIS has already been an “Authorised Apple Service Provider” for computers and notebooks for more than ten years and thanks to its exemplary customer satisfaction rating of over 90 per cent in this area, the company's Apple certification now applies to the iPhone as well.

Another timely offering from freenet is Deutsche Telekom's “landline number option” that we have been offering our customers via our main brand mobilcom-debitel since the beginning of September. Customers can therefore be reached outside of a homezone throughout Germany at no further cost via mobile/smartphone on their landline number. In addition, calls outside of the homezone can also be forwarded to the mailbox. Alternatively, there is an option to ensure callers hear a recorded message informing them that the desired contact partner is currently not available. The feature costs up to an additional 9.95 euros per month depending on the tariff booked by the respective customer, while in some tariffs, such as “Complete Comfort XXL”, the option is included free of charge.

In the next few months, we are going to further expand our product range in the fields of digital lifestyle, mobile communications and mobile internet. Our mobilcom-debitel retail stores and partnerships are one of the focal points of these activities. Based on a comprehensive analysis of customers, we have developed a new, modular concept that we are now going to implement step by step, initially in around 200 outlets.

We want our transformation from a mobile communications specialist into a digital lifestyle provider to be reflected in the design of the shops as well: the concept will facilitate the faster and more flexible presentation of new products and campaigns, while a diversity of features pertaining to Smart Home can be demonstrated live and tested by customers using an interactive module. The tried-and-tested "Try-out-Zone", in which customers can extensively test headphones, portable Bluetooth speakers or other digital lifestyle products, will also be integrated into the new shop design.

Against this backdrop, we will be taking on the changed market situation with unchanged commitment, but also with the confidence and sense of purpose that is commensurate with our position as Germany's largest network-independent telecommunications supplier: We have a very good, sustainably assured position in the competitive environment, as well as employees and a management team with great expertise, experience and motivation. This means that we can continue to serve our customers in the best possible manner: with first-class products and services accompanied by fully independent, intensive and objective advice on their own premises.



Christoph Vilanek



Joachim Preisig

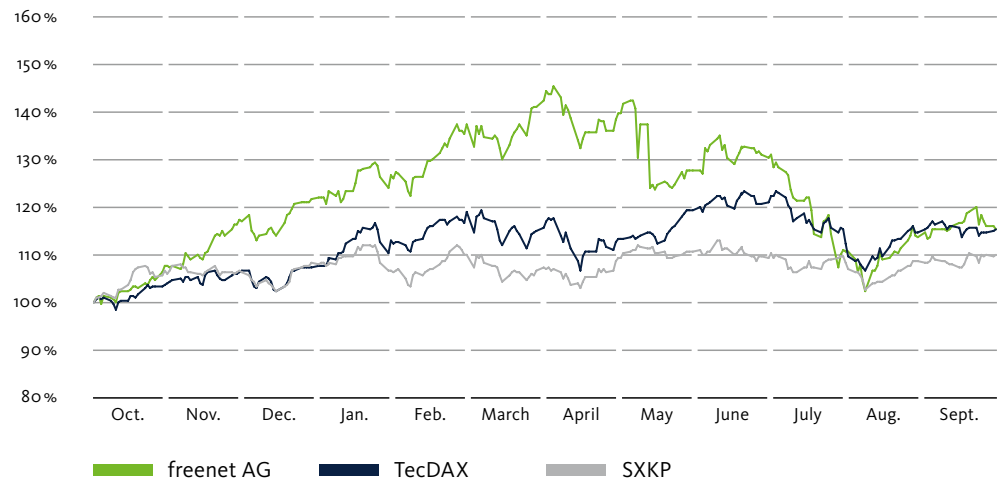


Stephan Esch

# freenet AG on the capital market

## Performance of the freenet share

Figure 1: Performance of the freenet share over the past 12 months (indexed; 100 = Xetra closing price on 30 September 2013)



## German stock market

Business sentiment in Germany was initially upbeat in the third quarter. The positive business climate was predominately influenced by the robust state of the labour market and buoyant private consumption. However, the trend in industrial production, adjusted for non-recurring effects, and the deterioration of the confidence indicators for the future economic situation, increasingly led to a slowdown in the real situation as time passed. In addition to the deterioration in the volume of industrial orders and production, exports also declined sharply in August as a result of the general intensification of geopolitical uncertainty.

Against this background, the German stock market was initially shaped by domestic buyers during the reporting period, while foreign investors disposed of equity in particular. Despite economic stimulus measures by the European Central Bank, investors then increasingly assumed that there would be a recession in the eurozone. In addition to the existing structural economic risks in the eurozone, measures for dealing with the geopolitical risks are likely to continue influencing the further trend on the capital market.

Against this backdrop, the German stock market trended negatively in the third quarter of 2014. While the DAX closed 4 per cent lower for the quarter at 9,474 points on 30 September 2014, the TecDAX was down by almost 5 per cent in the reporting period, closing at 1,249 points.

## The freenet share

The freenet share was unable to buck the general market trend in the most recent quarter and saw its price deteriorate by 12 per cent. The share began the third quarter with a Xetra daily closing price of 23.38 euros and trended unevenly throughout the quarter, closing at 20.61 euros. The average Xetra daily closing price in the reporting period was 20.62 euros.

Over the past quarter, around 42.4 million freenet shares were traded on the electronic trading platform Xetra, compared with 38.1 million in the second quarter and 32.8 million in the first quarter. The proportion traded on alternative exchanges (dark pools) again increased slightly to 42 per cent of the total volume traded in the third quarter, up from 39 per cent in the preceding quarter and 40 per cent in the first quarter. The average daily Xetra trading volume in the reporting period developed accordingly, with around 653,000 shares comfortably exceeding the previous quarters' volume. An average of 605,000 freenet shares per day were traded on Xetra in the second quarter, following 512,000 in the first quarter.

The development of the freenet share, which fell by around 12 per cent in the third quarter of 2014, was somewhat weaker than that of the comparative index TecDAX, which closed 5 per cent down. The SXKP Index, in which the European telecom shares are concentrated, closed at an unchanged level at the end of the third quarter of 2014.

In a 12-month comparison, the freenet AG share price rose by 15 per cent and trended no less dynamically than the TecDAX, while the European telecom shares assembled within the SXKP index rose by only 10 per cent in the same period.

## Shareholder structure

freenet AG's share capital totals 128,061,016 euros and is divided into 128,061,016 registered no-par-value shares. Each share represents 1.00 euro of the share capital.

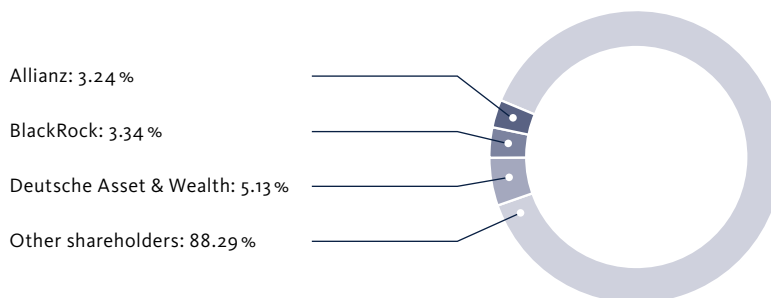
According to the voting rights disclosures received pursuant to Section 21 of the German Securities Trading Act (WpHG), freenet's shareholder structure changed as follows during the reporting period:

- On 4 July 2014, Allianz Global Investors Europe (Germany) informed us that it had exceeded the 3 per cent reporting threshold on 1 July 2014. Its share of the voting rights in freenet AG on this day amounted to 3.24 per cent (4,154,149 voting rights).
- On 11 July 2014, JPMorgan Asset Management (United Kingdom) informed us that it had fallen below the 3 per cent reporting threshold on 8 July 2014. Its share of the voting rights in freenet AG on this day amounted to 2.98 per cent (3,815,146 voting rights).
- On 8 August 2014, Deutsche Asset & Wealth Management Investment (Germany) informed us that it had exceeded the 3 per cent reporting threshold on 5 August 2014. Its share of the voting rights in freenet AG on this day amounted to 3.41 per cent (4,369,869 voting rights).
- On 12 September 2014, Norges Bank (Norway) informed us that it had fallen below the 3 per cent reporting threshold on 11 September 2014. Its share of the voting rights in freenet AG on this day amounted to 2.82 per cent (3,606,994 voting rights).

- On 17 September 2014, Deutsche Asset & Wealth Management Investment (Germany) informed us that it had exceeded the 5 per cent reporting threshold on 15 September 2014. Its share of the voting rights in freenet AG on this day amounted to 5.13 per cent (6,572,541 voting rights).
- On 30 September 2014, BlackRock, Inc. (USA) notified us of its portfolio of voting rights as at 25 September 2014 as a result of the disclosure obligations under the German Securities Trading Act (WpHG) that were newly interpreted in close coordination with the German Federal Financial Supervisory Authority (BaFin). This revealed that its share of the voting rights in freenet AG on that day amounted to 3.34 per cent (4,280,677 voting rights).

As a result, the shareholder structure of freenet AG on 30 September 2014 was as follows:

Figure 2: Shareholder structure of freenet AG on 30 September 2014



Source: freenet AG, 30 September 2014

Based on the voting rights disclosures received during the quarter under review, free float has decreased from 93.62 per cent to 88.29 per cent compared with the end of the second quarter 2014.

According to the definition of Deutsche Börse AG, the free float continues to be 100 per cent.



# Interim group management report



# Economic report

## Business performance

As an independent service provider, freenet AG serves the growing digital lifestyle market with integrated product environments, affordable mobile tariffs and customer-oriented services for all of Germany's mobile telecommunications networks. The portfolio encompasses the company's own tariffs and services in the traditional business segment of mobile communications/mobile internet and corresponding services from network operators in Germany. In addition to this, the company offers innovative digital applications relating to home automation and security, health, data security, entertainment and infotainment—including the latest smartphones, tablets and notebooks as terminals and attractive accessories.

Private customers make up their key target group as part of a multi-brand strategy: In view of the intense level of competition in the industry, the main brand, mobilcom-debitel, concentrates primarily on high-quality contractual relationships when acquiring customers and managing existing ones, while freenet's discount brands cover the no-frills segment.

In the third quarter of 2014, the company continued to pursue its successful strategy in the fields of digital lifestyle and mobile communications/mobile internet, and further enhanced its products, services and activities in these segments.

## New digital lifestyle offerings

Since April 2013, mobilcom-debitel has been offering its customers a cloud solution of their own in a variety of performance variants as an additional option to a mobile communications contract—for emails and files, contacts, appointments, photos, videos or music. In September of the last quarter, the company expanded this cloud by adding the "Smart Organizer", an integrated document management system. The user scans the document in question with their smartphone and files it, whereupon the cloud makes it available as a PDF and indexes it automatically for a full-text search. The documents can also be provided with a memory function, in the same way as an invoice is given a payment deadline.

This means that the document is always to hand; entering a key term within the convenient search function is enough. And the smartphone's calendar function later reminds the user that the invoice has to be paid. The "Smart Organizer" recognises all of the common document types such as Word files, PowerPoint files or other text files. Since November, incidentally, the expanded mobilcom-debitel cloud has been bookable not only as an additional option for a mobile communications contract, but also generally for all new customers—in the "Plus" and "Pro" variants starting at 2.99 euros per month.

In the entertainment area, mobilcom-debitel launched the smartphone option "mload Plus", which is usable under all of the company's voice and data tariffs, in July. In return for a monthly charge of 4.99 euros, it is designed to facilitate entry into the digital lifestyle world and makes it possible to download six current Android premium games or apps, three MP3 songs, one ringtone or one logo per month. In addition, users can play more than 100 smartphone-optimised browser games online at any time at no additional cost. The available selection includes more than 2,800 games/apps, over 2.8 million MP3 songs, a browser game flat rate and around

100,000 further content elements including ringtones or logos. The games are offered as full versions without any further in-app purchases; like the MP3 songs, they remain in the customer's possession after the option has expired.

Since the beginning of August, prepaid customers of mobilcom-debitel in the T-Mobile and Vodafone networks with a data flat rate have also been able to use a games option for their Android smartphone. "GamePack Prepaid" offers ten current games from the supplier Gameloft at a package price of 4.99 euros for the six-month minimum contractual term. They can also be loaded for data download using Wi-Fi and—as with the mload Plus option—they can be used even after the contractual term has come to an end.

In the health segment, freenet is coming up with new approaches. Since the end of August, the subsidiary GRAVIS has been distributing the smart sleep system "Withings Aura" exclusively for Germany through the 44 own stores and in the GRAVIS online shop at a price of approximately 300 euros. This intelligent product for sleep analysis contains a bedside table unit, a sleep sensor and a smartphone app, and monitors and has a positive influence on the sleep process—which is a basic precondition of health and performance capability.

To do this, the sensor under the mattress measures the personal sleep patterns such as body movements, breathing cycles and heart rate. On the basis of these data, "Withings Aura" then ascertains the ideal time to wake the user with the bedside table unit: The illuminant registers the sleep environment, including noises, room temperature and the light level, and runs scientifically tested light and sound programs. The smartphone app finally depicts the sleep pattern graphically, helps to analyse the sleeping behaviour and operates personalised waking-up and falling-asleep programmes. Withings Aura received the Innovations Design and Engineering Award 2014 at the International Consumer Electronics Show in Las Vegas.

Other digital lifestyle products from the fields of entertainment and home automation are likewise being distributed via GRAVIS. These include, for example, three wireless loudspeaker packages in different price categories that can each be operated via an app to ensure the right musical accompaniment at all times. The water-resistant "Bluetooth Bubble Speaker" from Networx at a price of 25 euros streams the user's favourite music from their smartphone even into the shower if required; the convenient "Logitech UE Boom", on the other hand, fits into a bicycle's bottle holder and provides a full sound for just under 200 euros; finally, the "Sonos PLAY:5 All-in-One" is impressive with its five integrated loudspeakers, a top-class sound experience and at a price of around 400 euros.

"Avea" from the digital lifestyle manufacturer Elgato is another product that ensures an upbeat mood at home. The new LED lamp fits into normal holders and can be operated via an app with the user's iPhone or iPad. Up to ten of these lamps automatically fine-tune themselves in providing predefined lighting effects; they switch between various sophisticated nuances and, if desired, even wake the subject up with a simulated sunrise.

In order to ideally inform users about such products, services and general topics surrounding various aspects of digital lifestyle, freenet.de GmbH launched a new service online portal in mid-July. Under *www.my-digital-lifestyle.de*, the three segments Smart Home, Entertainment, and Wearables & Health cover a diverse spectrum with numerous supplier, service and advice-related themes. Featuring articles by independent authors and experts containing background information and useful advice, the portal has been set up as a competent partner for all users who want to familiarise themselves with the possibilities of the digital lifestyle.

### **New smartphones, tablets...**

The third quarter was completely dominated by the iPhone 6—as is usual when Apple launch a new product. As from 15 September, customers could pre-order the long-awaited smartphone from mobilcom-debitel with a Telekom or Vodafone tariff, and for the sales launch on 19 September, the new iPhones were on sale in the GRAVIS stores and, a short while later, in the consumer electronics outlets of the exclusive freenet distribution partner MediaMarkt/Saturn. As a special service, GRAVIS offered an interest free financing arrangement for purchases of the iPhone 6 and iPhone 6 Plus on an instalment basis.

In addition, mobilcom-debitel promptly offered the “Complete Comfort M”, a suitable tariff for the Deutsche Telekom or Vodafone networks—with a monthly charge of around 46 euros in the first twelve months of the contractual term and a purchase price of some 160 euros for the iPhone 6. The flat rate contains calls to the German mobile communications networks and the German landline, unlimited free SMS messages, a data flat rate of 750 MB and a hotspot flat rate.

Within three days of the sales launch, more than 10 million iPhone 6 and iPhone 6 Plus devices were sold in Germany. Those who prefer devices from other manufacturers were well served by mobilcom-debitel's favourably priced alternatives. During the same period, the online shop was offering, for example, the premium smartphone Galaxy S5 from Samsung at the unique purchase price of one euro, in combination with the sharply reduced tariff “comfort Allnet with Handy 5” in the Vodafone network. In this way, the monthly package price was reduced by 5 euros from the usual 34.99 euros for the first twelve months.

Other attractive hardware offers included, for example:

- The iPad 4 with 16 GB in the cellular/Wi-Fi variant also for one euro, combined with the LTE tariff “Internet Flat 3000 Spezial” with 3 GB inclusive volume and 7.2 Mbit/s maximum speed—at a price per month of 24.99 euros with a two-year contractual term;
- The Galaxy Tab 3 with 1 GB RAM and 8 GB flash memory at a purchase price of 89.99 euros for newcomers into the mobile data world;
- The smartphone Asha 230 from Nokia for one euro with the “Flex Basic” tariff from mobilcom-debitel—with no monthly basic charge or minimum turnover.

### ...and special-offer tariffs

As in the previous quarters, freenet once again left its distinctive mark in the respective market segments with time-limited campaigns featuring its various brands. Here is a selection of particularly favourably-priced tariffs which are generally available via the company's own deal platform [www.crash-tarife.de](http://www.crash-tarife.de) or comparable online platforms:

- In July, the “Vodafone Allnet Flat” from mobilcom-debitel with 1 GB data volume and telephone flat rate to the German mobile communication and landline network was halved to 14.95 euros; in addition, the monthly charge for the “Allnet-Starter” tariff from klarmobil at Vodafone—with 200 MB data volume, 100 free SMS messages and 100 call minutes to all national networks—was reduced by around 80 per cent to 1.95 euros.
- In August, klarmobil doubled the data volume in the “Allnet-Starter”, leaving the other services and charges unchanged, while for the “Internet-Flat 1,000 Promotion” with 1 GB inclusive volume, mobilcom-debitel axed the monthly basic charge of 9.99 euros for the first twelve months of the two-year contractual term.
- In September, mobilcom-debitel put together the “surf flat 5000” as a new, high-quality tariff package with a high-speed data volume of 5 GB for a smartphone/tablet at 5.95 euros per month and a mobile LTE Wi-Fi hotspot that can connect up to ten devices for a one-off payment of 29 euros and a monthly charge of 6.95 euros. The company also halved the price of the “Surf 250 Promotion” tariff to 4.99 euros per month—with 250 free minutes/SMS messages and 250 MB data volume. klarmobil, on the other hand, paid new customers who had just switched to the “Allnet-Spar-Flat” tariff a bonus of 100 euros and reduced their monthly charge by 5 euros to 19.85 euros with the added bonus of retaining their phone number.

### New services

Since the beginning of September, mobilcom-debitel has been offering Telekom's new “landline number option”, which means that customers can be reached not only within a homezone, but also via their mobile phones anywhere in the country at no additional cost on their landline number. In the “Complete Comfort XXL” tariff they can select this additional option free of charge and with tariffs featuring a landline flat rate, there will be an additional charge of 4.95 euros per month; in all other tariffs, the landline number option costs 9.95 euros per month.

At the subsidiary GRAVIS, customers have been allowed to hand in their old mobile phones, smartphones, tablets and Apple products in return for payment for some time now. Since the beginning of July, this purchasing service has also been available online—and can also be used for DVD players, cameras, navigation devices and computers from other manufacturers. The old device in question can be chosen and assessed via the link at [www.gravis.de/services/ankauf-service](http://www.gravis.de/services/ankauf-service). Following a short value assessment, the customer receives an email containing a parcel label with which they can send in the device—after it has undergone a technical inspection, they will be sent a GRAVIS voucher card by post or email.

In addition, GRAVIS online customers can now also use mobile payment methods in a matter of seconds, too: Cross-channel payment from Yapital has been integrated into the online shop since the end of September. To use this service, all that users have to do is scan a QR code with the Yapital app on their smartphone and click on “Confirm”. Alternatively, they can also settle their purchase amount by entering a username and password. To facilitate this process, a transaction overview in the app lists all of the amounts transparently and in real time.

### **New partnerships**

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

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

### **New marketing campaign**

At the beginning of August, mobilcom-debitel launched a further marketing campaign under the slogan “Germany does the soundcheck”. The objective behind this was to bring musical digital lifestyle products to life with synchronised promotional, guerrilla and social media campaigns.

The campaign was based on three old VW buses branded in mobilcom-debitel green that visited 74 hotspots in German cities and holiday regions in around 200 campaign days and attracted attention there with their sound system. Visitors had the opportunity to borrow and try out the latest music gadgets, including mobile sound systems or cordless Bluetooth headphones, take a “sound shower” or sing their favourite song, where the prize tempting the participants was a digital lifestyle package worth 10,000 euros.

The necessary widespread impact for the campaign was secured by TV ads in three two-week flights that were transmitted between 1 August and 12 October on all high-reach private channels; the ad was shown over 1,100 times in all and thereby generated some 300 million gross contacts. In addition, an out-of-home poster transported the claim and put its faith in the campaign's key visual: a turntable on which the music accessories were presented.

The campaign's central platform was the facebook page [www.md.de/facebook](http://www.md.de/facebook), where the guerilla campaigns and van stations were shared and the ad was extended. The registered participants received a test product and entered a prize draw in the hope of winning the digital lifestyle package.

At the same time, the mobilcom-debitel shops were decorated in a musical style—with elaborate adhesive posters in the display windows and the presentation of accessories. On the campaign days, the participating shops set up outdoor musical worlds of experience. The campaign was accompanied by a preferential offer of the “md MusicFlat” for new and existing customers likely to renew their contracts exclusively in the mobilcom-debitel shops: The package price was reduced in the first three months of the two-year contractual term by around 45 per cent to 4.99 euros per month.

## Key drivers of the business development

### Customer development

In million	30.9.2014	30.6.2014	31.3.2014	31.12.2013	30.9.2013
Mobile Communications customers	12.83	12.99	13.13	13.29	13.37
Thereof Customer Ownership	8.90	8.84	8.79	8.76	8.67
Thereof contract customers	5.97	5.90	5.87	5.86	5.82
Thereof no-frills customers	2.93	2.94	2.92	2.90	2.85
Thereof prepaid cards	3.93	4.14	4.34	4.53	4.70
Gross new customers	0.76	0.73	0.69	0.91	0.79
Net change	-0.16	-0.15	-0.16	-0.08	-0.19

Despite persistently tough competition on the market, the number of contract customers again increased in the third quarter of 2014. The increase over the previous quarter amounts to around 70,000 customers, with a postpaid customer base of 5.97 million as at 30 September 2014. This means that we have been able to consistently expand this customer group since the second quarter of 2012, which is a key focus for our strategic business approach. In a year-on-year comparison, the increase translates into some 150,000 customers. In our view, this positive development is attributable to the constantly updated range of products we offer with attractive contract tariffs in conjunction with rising customer demand for data usage with modern smartphones.

Despite our strong focus on contract customers, we were able to stabilise customer numbers in our second strategically important customer group, the no-frills segment. As at 30 September 2014, the number of customers was 2.93 million. The yearly increase of around 85,000 customers provides clear evidence of the ongoing dynamic trend in our discount market segment, in which we use online sales channels primarily to serve particularly price-sensitive customers who need less individual advice.

Accordingly, our customer ownership—which includes the postpaid and no-frills customer groups and serves as a key performance indicator for our company—also increased, by around 60,000 customers (0.7 per cent) in the reporting period. This represents an increase of 230,000, or 2.7 per cent, in our customer base compared with the corresponding quarter last year, taking it to 8.90 million.

The number of prepaid SIM cards in circulation continued to fall as expected in comparison with the previous quarter, and amounted to 3.93 million cards as at 30 September 2014. As at 30 June 2014, the number of active prepaid SIM cards in circulation was still 4.14 million. This was 0.8 million cards fewer than in the corresponding period last year (30 September 2013: 4.71 million cards). This further fall is the result of more inactive SIM cards being deactivated by network operators.

This means that the total number of mobile communications customers declined by around 160,000 to 12.83 million (30 June 2014 12.99 million) in the quarter under review. Consequently, the number of mobile communications customers has shrunk by around 540,000 compared with the same quarter last year (13.37 million).

### Monthly average revenue per user (ARPU) in the Mobile Communications segment

In EUR	Q3/2014	Q2/2014	Q1/2014	Q4/2013	Q3/2013
Contract customer	21.7	21.5	21.2	21.6	22.6
No-frills customer	2.9	3.0	2.9	3.0	3.5
Prepaid cards	3.1	3.0	2.7	3.0	3.2

The average monthly revenue per contract customer (postpaid ARPU) grew by 21.7 euros in the third quarter of 2014, 0.2 euros higher than in the previous quarter. Compared with the corresponding quarter last year (22.6 euros), however, ARPU fell by 0.9 euros. This can still predominantly be attributed to unrelenting price competition on the German market. This means that some freenet customers with older contracts, which in some cases still have relatively high basic monthly fees, are also switching to the current smartphone tariffs on offer. Compared to that, ARPU from new customers is developing in a relatively stable manner.

At 2.9 euros, the average monthly revenue per no-frills customer in the quarter under review (no-frills ARPU) remained virtually unchanged compared with the previous quarters (Q2 2014: 3.0 euros, Q1 2014: 2.9 euros). No-frills ARPU, however, was 0.6 euros lower than in the third quarter of 2013 (3.5 euros). This trend also reflects competitive pressure—e.g. from sales promotions—in this price-sensitive market. The no-frills segment primarily caters for particularly price-conscious mobile communications customers who take out contracts online.

Prepaid ARPU increased by 0.1 euros to 3.1 euros in the third quarter of 2014, thereby remaining stable at its level of the corresponding quarter last year.

## Assets, earnings and financial position

### Revenue and results

In EUR '000s	Q3/2014	Q3/2013	Change
Revenue	762,136	789,632	-27,496
Gross profit	194,229	181,642	12,587
Overhead costs	-97,965	-89,052	-8,913
EBITDA	96,264	92,590	3,674
EBIT	80,916	78,580	2,336
EBT	71,551	68,796	2,755
<b>Group result</b>	<b>66,154</b>	<b>63,574</b>	<b>2,580</b>

**GROUP REVENUE** fell by 3.5 per cent in the third quarter of 2014 compared with the comparative quarter last year. Among other factors, lower revenue from low-margin business (primarily hardware sales to sales partners and distributors and from the prepaid segment) and the decline in postpaid ARPU by an average of 0.9 euro per customer had a negative impact on revenue.

The earnings figures (gross profit, EBITDA, EBIT, EBT and Group result) increased over the corresponding quarter last year without exception.

The **GROSS MARGIN** widened by 2.5 percentage points to 25.5 per cent compared with Q3 2013, which was primarily attributable to the significant decline in the low-margin business mentioned above. **GROSS PROFIT** was 12.6 million euros up on the same quarter last year at 194.2 million euros—mainly as a result of the larger group of consolidated companies (inclusion of freenet digital Group).

**OVERHEAD EXPENSES**—which form the difference between gross profit and EBITDA and include the items **OTHER OPERATING INCOME, OTHER OWN WORK CAPITALISED, PERSONNEL EXPENSES, OTHER OPERATING EXPENSES** and the **RESULT OF COMPANIES CONSOLIDATED USING THE EQUITY METHOD**—rose by 8.9 million euros compared with the Q3 2013, also mainly as a result of the larger group of consolidated companies.

The Group result from continued operations before interest, tax, depreciation and amortisation (**EBITDA**) in Q3 2014 came to 96.3 million euros, 4.0 per cent above their level in the comparative quarter last year.

**DEPRECIATION AND AMORTISATION** increased by 1.3 million euros in Q3 2013 and totalled 15.3 million euros. This was primarily due to the amortisation of intangible assets recognised in connection with the acquisition of the freenet digital Group as part of the purchase price allocation.

**NET INTEREST INCOME**, i.e. the balance between interest income and interest expenses was reported at -9.4 million euros in Q3 2014, representing a slight improvement compared with the same quarter last year (-9.8 million euros).



As a result of the effects explained, the **GROUP'S PRE-TAX EARNINGS (EBT)** increased by 2.8 million euros over the corresponding quarter last year to 71.6 million euros.

**INCOME TAX** expenses totalling 5.4 million euros were reported for the Q3 2014 (Q3 2013: 5.2 million euros). This figure resulted from offsetting current income tax expenses in the amount of 7.2 million euros (previous year: 7.7 million euros) against deferred tax income, due primarily to the addition of deferred tax assets from tax loss-carryforwards totalling 1.8 million euros (previous year: 2.5 million euros).

As in the third quarter of the previous year, the **GROUP PROFIT** reported in Q3 2014 resulted solely from continuing operations and amounted to 66.2 million euros. This represents an increase of 2.6 million euros compared with the 63.6 million euros earned during the same quarter of the previous year. The Group profit generated in Q3 2014 is among the best quarterly Group results ever achieved in the history of the freenet Group.

## Assets and financial position

### Assets

In EUR million	30.9.2014
Non-current assets	1,864.8
Current assets	571.9
<b>Total assets</b>	<b>2,436.7</b>
In EUR million	30.6.2014
Non-current assets	1,868.4
Current assets	601.1
<b>Total assets</b>	<b>2,469.5</b>

### Liabilities

In EUR million	30.9.2014
Shareholder's equity	1,234.8
Non-current and current liabilities	1,201.9
<b>Total equity and liabilities</b>	<b>2,436.7</b>
In EUR million	30.6.2014
Shareholder's equity	1,168.5
Non-current and current liabilities	1,301.0
<b>Total equity and liabilities</b>	<b>2,469.5</b>

As at 30 September 2014, the **BALANCE SHEET TOTAL** amounted to 2,436.7 million euros, having fallen by 32.8 million euros (1.3 per cent) since 30 June 2014 (2,469.5 million euros).

On the **ASSETS SIDE**, non-current assets decreased by 3.6 million euros. This was largely due to a fall in intangible assets of 6.1 million euros to 397.7 million euros, which in turn resulted from a combination of ongoing amortisation and a low level of new investment. The increase in goodwill of 1.5 million euros is connected with the provisional purchase price allocation for the takeover of shops belonging to reStore GmbH.

Within the current assets, there was a slight decline of 3.0 million euros in trade receivables to 373.9 million euros. This occurred in connection with the sale of mobile phone upgrade option receivables with a nominal value of 42.7 million euros (as at 30 June 2014: 30.3 million euros). Please refer to note 5 of the selected explanatory notes pursuant to IAS 34 for more information. A contrary effect, as is usual during the course of the year, flowed from the increase in claims against network operators as a result of deferred annual bonuses.

Cash and cash equivalents decreased by 17.3 million euros to 91.5 million euros. The decrease in cash and cash equivalents resulted primarily from the diminution of 99.0 million euros (from 129.1 million euros to 30.1 million euros) in the revolving credit line that was utilised, while the cash flow from operating activities served to increase cash and cash equivalents.

On the **EQUITY AND LIABILITIES SIDE**, gross borrowing decreased, compared with 30 June 2014, by 90.7 million euros to 563.5 million euros, mainly as a result of the credit line that was utilised to an extent 99.0 million euros lower as at 30 September 2014.

The trade payables reported at 364.2 million euros, around their previous quarter's level, as at 30 September 2014 are predominantly owed to network operators, traders and hardware manufacturers. The decline in other liabilities and accruals by 8.1 million euros to 149.7 million euros was primarily a consequence of the payment of a nominal sum of 12.5 million euros towards the exclusive distribution right vis-à-vis Media-Saturn Deutschland GmbH.

The **EQUITY RATIO** increased from 47.3 per cent at the end of June 2014 to 50.7 per cent at the end of September 2014, mainly due to the Group's net profit for the year. The net financial liabilities amounted to 472.0 million euros as at 30 September 2014, representing a decrease of 73.4 million euros compared with the end of the previous quarter that is primarily attributable to cash flow from operating activities generated in the last quarter.

## Cashflow

In EUR million	Q3/2014	Q3/2013	Change
Cash flow from operating activities	87.9	81.9	6.0
Cash flow from investing activities	-5.3	-7.6	2.3
Cash flow from financial activities	-0.9	-40.7	39.8
<b>Change in cash and cash equivalents</b>	<b>81.7</b>	<b>33.6</b>	<b>48.1</b>
Free cash flow <sup>1</sup>	79.6	74.9	4.7

<sup>1</sup> Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.

In the third quarter of 2014, **CASH FLOW FROM OPERATING ACTIVITIES** came to 87.9 million euros, which equates to a year-on-year increase of 6.0 million euros.

In addition to the increase of 3.7 million euros in EBITDA, the decrease of 0.7 million euros in net working capital (prior-year quarter: increase of 2.0 million euros) had a positive impact on cash flow from operating activities. It should be noted here that as at 30 September 2014, receivables from the mobile phone upgrade option with a nominal value of 42.7 million euros were sold to a bank (please refer to note 5 of the selected explanatory notes for more details), resulting in an increase of 12.2 million euros compared with 30 June 2014. Taxes on income amounting to 8.9 million euros were paid in the third quarter of 2014 (previous year: 7.4 million euros).

**CASH FLOW FROM INVESTING ACTIVITIES** amounted to –5.3 million euros in Q3 2014, compared to –7.6 million euros in the third quarter of 2013; in each case it consisted mainly of investments in property, plant and equipment and intangible assets. The most significant investment in the quarter under review was in proprietary software in connection with a range of strategic projects, and IT developments. In Q3 2014, cash flow from investing activities includes a cash inflow from the final purchase price adjustment amounting to 4.2 million euros from the acquisition of the freenet digital Group, plus a cash outflow from the acquisition of the reStore locations in the amount of 2.3 million euros.

In the quarter under review, **cash flow from financing activities** increased to –0.9 million euros compared with –40.7 million euros in the same period last year. This development results from the scheduled repayment of 40.0 million euros on the amortising loan that had been made in the corresponding period last year.

As a result of the factors described above, **FREE CASH FLOW** in the third quarter of 2014 increased by 4.7 million euros year on year to 79.6 million euros.

## Financial Management and Control System

The corporate strategy of freenet AG is underpinned by focused financial management, which uses the capital structure and liquidity development as key performance indicators (KPIs). The strategy is implemented by means of a comprehensive treasury management system based on established controlling structures.

The capital structure is primarily managed via financial KPIs comprising gearing, the interest coverage ratio and the equity ratio. Gearing indicates how much of the current operating result (EBITDA) would be needed to pay off the company's net debt (borrowing less cash and cash equivalents). Interest coverage is the ratio of EBITDA to the interest balance.

## Key figures of financial management

	Target 2013	Q3/2013	Q2/2014	Q3/2014	Target 2014/15
Debt ratio	1.0–2.5	1.3	1.5	1.3	1.0–2.5
Interest Cover	>5	8.5	8.4	8.6	>5
Equity ratio	>50%	47.6%	47.3%	50.7%	>50%

At 1.3, gearing remains in the lower portion of the strategic range of 1.0 to 2.5. Due to the dividend distribution in May 2014, this factor was still 1.5 in the previous quarter. Borrowing is dominated by the corporate bullet bond amounting to 400 million euros due in April 2016 and the loan against borrower's note in the amount of 120 million euros due in 2017/2019.

At 8.6, interest coverage is slightly above the level of the same quarter last year and the previous quarter this year, and is therefore well above the target level. This increase resulted primarily from the Group's positive earnings situation.

The equity ratio as at 30 September 2014 is just above the target level of 50 per cent. Compared to the previous year's reporting date, there has been an increase of 3.1 percentage points. We are assuming that this key financial indicator will increase slightly in the subsequent two quarters up until the next dividend payout.

### **Employees**

As at the end of Q3 2014, the number of employees rose to 4,939 compared to 4,904 at the end of the second quarter and 4,961 at the end of the first quarter of 2014.

## Opportunities and risk report

In the third quarter of 2014, there were no significant changes in the opportunities and risks as described in detail in the “Opportunities and risk report” of our 2013 annual report, which has been updated in our interim report as of 30 June 2014. The 2013 annual report and the interim report as of 30 June 2014 are available online at [www.freenet-group.de/investor/quarterly-annual-reports](http://www.freenet-group.de/investor/quarterly-annual-reports)

## Forecast

The Executive Board confirms its guidance for the current financial year as included in the Group management report 2013 for the 2014 and 2015 financial years. There were no significant changes in the third quarter of 2014.

Accordingly, for the 2014 and 2015 financial years the company continues to expect a slight increase in Customer Ownership (postpaid and no-frills)—an important indicator—with the post-paid ARPU expected to fall slightly in the current financial year and stabilise in 2015.

A decrease of about 5 per cent to 8 per cent in Group revenue is expected for the 2014 financial year, as the company has waived certain very low margin retail business activities with Hardware effective from the first quarter of 2014. A stabilisation of Group revenue is expected for the 2015 financial year.

In line with the developments described above, the company aims to achieve a Group EBIDTA of around 365 million euros for the 2014 financial year and around 370 million euros for the 2015 financial year.

The company also aims to achieve a free cash flow for the freenet Group in the amount of approx. 265 million euros in the 2014 financial year and approx. 280 million euros in the 2015 financial year. Free cash flow is defined as cash flow from operating activities, less investments in property, plant, equipment and intangible assets, plus cash inflows from the disposal of intangible assets and property, plant and equipment.

Due to long-term contractual commitments in the forecast period, the planned merger of the two network operators, Telefónica Deutschland and E-Plus, will have no measurable, negative effect on the business activities or the target indicators EBITDA and cash flow.

## Significant events after the reporting date

There were no events after the balance sheet date which was of significance to the freenet Group.

## Transactions with related parties

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

In EUR '000s	1. 1. 2014 –30. 9. 2014	1. 1. 2013 –30. 9. 2013
<b>Sales and income attributable to services</b>		
<b>Joint ventures</b>		
FunDorado GmbH, Hamburg	251	171
<b>Companies with a major influence on freenet AG<sup>1</sup></b>		
b2c.de GmbH, Munich (Drillisch AG Group)	n/a	286
	<b>251</b>	<b>457</b>
<b>Purchased services and onward charging</b>		
<b>Joint ventures</b>		
FunDorado GmbH, Hamburg	0	8
<b>Companies with a major influence on freenet AG<sup>1</sup></b>		
eteleon e-solutions AG, Munich (Drillisch AG Group)	n/a	24
b2c.de GmbH, Munich (Drillisch AG Group)	n/a	3,029
	<b>0</b>	<b>3,061</b>

The following major receivables due from and liabilities due to related parties existed as at 30. September 2014:

In EUR '000s	30. 9. 2014	30. 9. 2013
<b>Liabilities from regular transactions</b>		
<b>Joint ventures</b>		
FunDorado GmbH, Hamburg	45	57
	<b>45</b>	<b>57</b>

All transactions were at market rates.

If the parties were not classified as related parties under IAS 24, no details were provided (n/a).

<sup>1</sup> According to a voting rights notification dated 25 March 2013, the voting rights of Drillisch AG, including the shares held by MSP Holding GmbH, totalled 10.43 percent at 20 March 2013. So, because Drillisch AG has not been able to exercise any controlling influence on the freenet Group since 20 March 2013, Drillisch AG and its affiliated companies have not been classified as related parties. Transactions with companies in the Drillisch group during the first nine months of 2013 were therefore only reported as transactions with related parties if they occurred before 20 March 2013.

Condensed interim consolidated  
financial statements



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# Consolidated income statement

for the period from 1 January to 30 September 2014

In EUR '000s	Q1–Q3/2014 1. 1. 2014 –30. 9. 2014	Q1–Q3/2013 1. 1. 2013 –30. 9. 2013	Q3/2014 1. 7. 2014 –30. 9. 2014	Q3/2013 1. 7. 2013 –30. 9. 2013
Revenue	2,206,882	2,374,517	762,136	789,632
Other operating income	46,376	48,893	14,480	16,353
Other own work capitalised	10,124	6,887	4,960	4,024
Cost of materials	-1,639,614	-1,843,032	-567,907	-607,990
Personnel expenses	-143,297	-126,336	-48,495	-44,744
Depreciation and impairment write-downs	-47,747	-41,718	-15,348	-14,010
Other operating expenses	-211,389	-198,115	-69,027	-64,775
<b>Operating result</b>	<b>221,335</b>	<b>221,096</b>	<b>80,799</b>	<b>78,490</b>
Share of results of associates	265	215	117	90
Interest receivable and similar income	1,506	1,161	825	374
Interest payable and similar expenses	-31,030	-31,071	-10,190	-10,158
<b>Result before taxes on income</b>	<b>192,076</b>	<b>191,401</b>	<b>71,551</b>	<b>68,796</b>
Taxes on income	-11,420	-12,237	-5,397	-5,222
<b>Group result from continued operations</b>	<b>180,656</b>	<b>179,164</b>	<b>66,154</b>	<b>63,574</b>
<b>Group result from discontinued operations</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Group result</b>	<b>180,656</b>	<b>179,164</b>	<b>66,154</b>	<b>63,574</b>
Group result attributable to shareholders of freenet AG	180,251	179,028	66,273	63,674
Group result attributable to non-controlling interest	405	136	-119	-100
<b>Earnings per share in EUR (undiluted)</b>	<b>1.41</b>	<b>1.40</b>	<b>0.52</b>	<b>0.50</b>
<b>Earnings per share in EUR (diluted)</b>	<b>1.41</b>	<b>1.40</b>	<b>0.52</b>	<b>0.50</b>
Earnings per share from continued operations in EUR (undiluted)	1.41	1.40	0.52	0.50
Earnings per share from continued operations in EUR (diluted)	1.41	1.40	0.52	0.50
Earnings per share from discontinued operations in EUR (undiluted)	0.00	0.00	0.00	0.00
Earnings per share from discontinued operations in EUR (diluted)	0.00	0.00	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)	128,011	128,011	128,011	128,011
Weighted average of shares outstanding in thousand (diluted)	128,011	128,011	128,011	128,011

# Consolidated statement of comprehensive income

for the period from 1 January to 30 September 2014

In EUR '000s	Q1–Q3/2014 1. 1. 2014 –30. 9. 2014	Q1–Q3/2013 1. 1. 2013 –30. 9. 2013	Q3/2014 1. 7. 2014 –30. 9. 2014	Q3/2013 1. 7. 2013 –30. 9. 2013
<b>Group result</b>	<b>180,656</b>	<b>179,164</b>	<b>66,154</b>	<b>63,574</b>
Change in fair value of held-for-sale financial instruments	-34	-75	-3	-10
Foreign currency translation adjustments	235	0	179	0
Taxes on income recognised directly in other comprehensive income	-60	22	-53	3
Other comprehensive income (not recognised in profit or loss)/ to be reclassified to the income statement in the following periods	141	-53	123	-7
<b>Other comprehensive income (not recognised in profit or loss)</b>	<b>141</b>	<b>-53</b>	<b>123</b>	<b>-7</b>
<b>Consolidated comprehensive income</b>	<b>180,797</b>	<b>179,111</b>	<b>66,277</b>	<b>63,567</b>
Consolidated comprehensive income attributable to shareholders of freenet AG	180,392	178,975	66,396	63,667
Consolidated comprehensive income attributable to non-controlling interest	405	136	-119	-100

# Consolidated balance sheet

as of 30 September 2014

## Assets

In EUR '000s	30.9.2014	30.6.2014	31.12.2013
<b>Non-current assets</b>			
Intangible assets	397,702	403,838	397,331
Goodwill	1,153,292	1,151,758	1,122,112
Property, plant and equipment	32,995	33,284	33,752
Investments in associates	1,510	1,394	1,395
Other investments	1,539	1,542	1,540
Deferred income tax assets	190,279	188,709	186,947
Trade accounts receivable	75,496	75,578	78,508
Other receivables and other assets	11,974	12,329	14,549
	<b>1,864,787</b>	<b>1,868,432</b>	<b>1,836,134</b>
<b>Current assets</b>			
Inventories	69,542	70,640	69,802
Current income tax assets	2,547	4,648	2,326
Trade accounts receivable	373,899	376,867	423,121
Other receivables and other assets	34,360	40,064	35,049
Cash and cash equivalents	91,532	108,866	110,766
	<b>571,880</b>	<b>601,085</b>	<b>641,064</b>
	<b>2,436,667</b>	<b>2,469,517</b>	<b>2,477,198</b>

## Shareholder's equity and liabilities

In EUR '000s	30.9.2014	30.6.2014	31.12.2013
<b>Shareholders' equity</b>			
Share capital	128,061	128,061	128,061
Capital reserve	737,536	737,536	737,536
Cumulative other comprehensive income	-12,645	-12,768	-12,786
Retained earnings	378,411	312,138	383,776
<b>Capital and reserves attributable to shareholders of freenet AG</b>	<b>1,231,363</b>	<b>1,164,967</b>	<b>1,236,587</b>
Capital and reserves attributable to non-controlling interest	3,400	3,519	2,995
	<b>1,234,763</b>	<b>1,168,486</b>	<b>1,239,582</b>
<b>Non-current liabilities</b>			
Trade accounts payable	23	23	0
Other payables	37,559	52,310	65,894
Borrowings	518,163	517,980	517,599
Deferred income tax liabilities	143	151	157
Pension provisions	45,275	44,965	44,369
Other provisions	6,727	6,609	9,512
	<b>607,890</b>	<b>622,038</b>	<b>637,531</b>
<b>Current liabilities</b>			
Trade accounts payable	364,182	359,697	401,970
Other payables	112,183	105,543	113,520
Current income tax liabilities	51,357	55,632	43,276
Borrowings	45,329	136,227	20,413
Other provisions	20,963	21,894	20,906
	<b>594,014</b>	<b>678,993</b>	<b>600,085</b>
	<b>2,436,667</b>	<b>2,469,517</b>	<b>2,477,198</b>

## Schedule of changes in equity

from the period from 1 January to 30 September 2014

In EUR '000s	Share capital	Capital reserve	Cumulative other comprehensive income			Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
			Revaluation reserve	Actuarial valuation reserve in accordance with IAS 19					
<b>As of 1. 1. 2013</b>	<b>128,061</b>	<b>737,536</b>	<b>-13</b>	<b>-13,284</b>	<b>324,883</b>	<b>1,177,183</b>	<b>370</b>	<b>1,177,553</b>	
Initial consolidation of subsidiaries	0	0	0	0	0	0	2,994	2,994	
Dividend Payment	0	0	0	0	-172,815	-172,815	0	-172,815	
Acquisition of additional shares in subsidiaries	0	0	0	0	366	366	-366	0	
Recognition of stock option liabilities connected to company acquisitions	0	0	0	0	-7,601	-7,601	0	-7,601	
Group result	0	0	0	0	179,028	179,028	136	179,164	
Change in fair value of held-for-sale financial instruments	0	0	-53	0	0	-53	0	-53	
Sub-total: Consolidated comprehensive income	0	0	-53	0	179,028	178,975	136	179,111	
<b>As of 30. 9. 2013</b>	<b>128,061</b>	<b>737,536</b>	<b>-66</b>	<b>-13,284</b>	<b>323,861</b>	<b>1,176,108</b>	<b>3,134</b>	<b>1,179,242</b>	

In EUR '000s	Share capital	Capital reserve	Cumulative other comprehensive income			Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
			Revaluation reserve	Foreign currency translation adjustments	Actuarial valuation reserve in accordance with IAS 19				
<b>As of 1. 1. 2014</b>	<b>128,061</b>	<b>737,536</b>	<b>-69</b>	<b>0</b>	<b>-12,717</b>	<b>383,776</b>	<b>1,236,587</b>	<b>2,995</b>	<b>1,239,582</b>
Dividend payment	0	0	0	0	0	-185,616	-185,616	0	-185,616
Group result	0	0	0	0	0	180,251	180,251	405	-180,656
Change in fair value of held-for sale financial instruments	0	0	-24	0	0	0	-24	0	-24
Foreign currency translation	0	0	0	165	0	0	165	0	165
Sub-total: Consolidated comprehensive income	0	0	-24	165	0	180,251	180,392	405	180,797
<b>As of 30. 9. 2014</b>	<b>128,061</b>	<b>737,536</b>	<b>-93</b>	<b>165</b>	<b>-12,717</b>	<b>378,411</b>	<b>1,231,363</b>	<b>3,400</b>	<b>1,234,763</b>

# Consolidated statement of cash flows

## for the period from 1 January to 30 September 2014

In EUR '000s	1. 1. 2014 –30. 9. 2014	1. 1. 2013 –30. 9. 2013
<b>Result from continued and discontinued operations before interest and taxes (EBIT)</b>	<b>221,600</b>	<b>221,311</b>
<b>Adjustments</b>		
Depreciation and impairment on items of fixed assets	47,747	41,718
Result of companies included using the equity method	-265	-215
Income from the sale of subsidiaries	0	-4,009
Profits/Loss on disposals of fixed assets	-282	-1,119
Increase in net working capital not attributed to investing or financing activities	-17,473	-26,420
Other non-cash components	0	-197
Income taxes paid	-21,680	-16,380
<b>Cash flow from operating activities</b>	<b>229,647</b>	<b>214,689</b>
Investments in property, plant and equipment and intangible assets	-19,332	-13,129
Proceeds from the disposal of property, plant and equipment and intangible assets	596	54
Purchase of subsidiaries	-44,352	-13,176
Proceeds from sale of subsidiaries	540	500
Outflow of funds from deconsolidation	0	-2,734
Return of contributions from companies consolidated using the equity method	150	250
Interest received	830	823
<b>Cash flow from investing activities</b>	<b>-61,568</b>	<b>-27,412</b>
Payments to company owners and minority shareholders	-185,616	-172,815
Payments for the acquisition of minority interests	0	-5,000
Cash repayments of borrowings	-256	-84,961
Interest paid	-31,441	-31,136
<b>Cash flow from financing activities</b>	<b>-217,313</b>	<b>-293,912</b>
<b>Cash-effective change in cash and cash equivalents</b>	<b>-49,234</b>	<b>-106,635</b>
<b>Cash and cash equivalents 1. 1.</b>	<b>110,766</b>	<b>207,353</b>
<b>Cash and cash equivalents 31. 3.</b>	<b>61,532</b>	<b>100,718</b>
<b>Composition of cash and cash equivalents</b> In EUR '000s	<b>30. 9. 2014</b>	<b>30. 9. 2013</b>
Cash and cash equivalents of continued operations	91,532	100,718
Liabilities for short-term financial planning to banks	-30,000	0
	<b>61,532</b>	<b>100,718</b>
<b>Composition of free cash flow</b> In EUR '000s	<b>30. 9. 2014</b>	<b>30. 9. 2013</b>
Cash flow from operating activities	229,647	214,689
Investments in property, plant and equipment and intangible assets	-19,332	-13,129
Proceeds from the disposal of property, plant and equipment and intangible assets	596	54
<b>Free cash flow (FCF)</b>	<b>210,911</b>	<b>201,614</b>

## Selected explanatory notes in accordance with IAS 34

### Major accounting, valuation and consolidation principles

1. These condensed consolidated interim financial statements have been prepared in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, based on the international accounting standards endorsed by the European Union, the International Financial Reporting Standards (IFRS), in accordance with IAS 34. The Group took into account all IFRSs adopted and mandated by the EU. No review of these condensed consolidated interim financial statements has been carried out.

The Group applied all of the accounting standards which have been mandatory since 1 January 2014. Of the accounting standards which were applied for the first time, the following had no material impact on the presentation of the Group's net assets, financial position and results of operations: the amendments to IAS 32 (Financial Instruments, Presentation: Offsetting Financial Assets and Financial Liabilities), to IAS 39 (Financial Instruments: Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting), IFRIC 21 (Levies: Identification of a present obligation to pay a levy), and the amendments to IFRS 10, IFRS 12 and IAS 27 with regard to the exemption of investment companies from the consolidation obligation. The revised IAS 36, whose application has been mandatory for the first time as from 1 January, requires more detailed disclosures if there is evidence of impairment. If, as was the case in the first nine months of 2014, there is evidence of impairment, the disclosures are less detailed.

The accounting standards whose application has been mandatory for the first time since 1 July 2014 have no impact on freenet AG's consolidated financial statements. These are the Annual Improvements Project 2010 to 2012—Improvements in IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38), the Annual Improvements Project 2011-2013—Improvements in IFRS (IFRS 1, IFRS 3, IFRS 13, IAS 40) and the amendments to IAS 19, Employee Benefits.

The accounting and valuation methods used to prepare the interim report for the period ending 30 September 2014 and to establish the benchmark figures for the previous year are the same as those which were applied in the consolidated financial statements for the period to 31 December 2013. A detailed description of the Group's accounting and valuation methods is included in the notes to the consolidated financial statements of freenet AG as at 31 December 2013.



## Significant events and transactions

2. On 16 December 2013, the Group concluded a purchase agreement to acquire all of the shares and voting rights in the companies Jesta Digital GmbH, now renamed as freenet digital GmbH, based in Berlin; Jesta Digital Holdings, Inc., now renamed as freenet digital Holdings, Inc., based in Wilmington, USA; and Jesta Digital Group U.S. Holdings, Inc., based in Wilmington, USA (these companies and their subsidiaries are hereinafter referred to as “freenet digital Group”). Following approval from the anti-trust authorities and after having met other conditions, the takeover was completed effective 15 January 2014, which gave the Group control over this subsidiary. With offices in Berlin and Los Angeles, as well as around 300 employees, freenet digital Group is one of the world’s leading providers of modern digital entertainment formats and services for users of digital applications.

A cash price of USD 72.18 million was agreed. The cash purchase price was subject to adjustments depending on the net working capital, cash and cash equivalents, and financial liabilities of the purchased group of companies. These purchase price adjustments were established with binding effect in July 2014. The final cash purchase price is the equivalent of 45,897 thousand euros, of which 50,125 thousand euros was paid in Q1 2014 as the provisional cash price and 4,228 thousand euros was paid to the Group in Q3 2014 as the final purchase price adjustment.

In addition, there may be a first earn-out ranging between USD 0 million and USD 10 million; the exact amount of this earn-out is based on the gross profit of freenet digital Group for the 2014 calendar year. As at the first-time consolidation on 15 January 2014, the Group recognised a purchase price liability of 3,655 thousand euros for the first earn-out. For this purpose, various scenarios throughout the full range were evaluated with their probabilities of occurrence. As at 30 September 2014, this purchase price liability is recognised at 3,813 thousand euros, following the addition of any accrued interest.

There may also be a second earn-out. This depends on whether freenet digital Group or significant parts thereof are sold within the first 60 months of being acquired or within the first 96 months if a certain EBITDA level is achieved. Under certain conditions, a defined share of the proceeds from the sale would fall due as an additional purchase price, for which no upper limit has been set.

The purchase price allocation carried out in accordance with IFRS 3 for the acquisition of freenet digital Group is final and conclusive.

The following overview provides details of the assets and liabilities of freenet digital Group acquired at fair value at the time of the initial consolidation:

#### Assets and liabilities of Jesta Digital Group measured at fair value as at 15 January 2014

Assets		Liabilities	
In EUR '000s	15.1.2014	In EUR '000s	15.1.2014
<b>Non-current assets</b>		<b>Non-current liabilities</b>	
Intangible assets	26,873	Deferred tax liabilities	7,523
Goodwill	29,162		<b>7,523</b>
Property, plant and equipment	660		
Other receivables and other assets	202		
	<b>56,897</b>		
<b>Current assets</b>		<b>Current liabilities</b>	
Current income tax assets	1,415	Trade account payable	10,249
Trade accounts receivable	18,141	Other liabilities and deferrals	3,982
Other receivables and other assets	2,710	Current tax liabilities	8,307
Liquid assets	3,833	Other provisions	3,383
	<b>26,099</b>		<b>25,921</b>
	<b>82,996</b>		<b>33,444</b>

The difference of 49,552 thousand euros between the assets and liabilities represents the expected total purchase price as at the time of initial consolidation (final cash price of 45,897 thousand euros plus the expected first earn-out at the time of acquisition of 3,655 thousand euros). The purchase price allocation results in goodwill of 29,162 thousand euros, which is attributable mainly to freenet digital Group's ability to continue acquiring new customers in the future, as well as the company's workforce which cannot be recognised separately on the balance sheet. The goodwill was attributed to the cash-generating unit "freenet digital Group". The acquired intangible assets mainly comprise customer relationships worth 12,189 thousand euros, technology (in excess of the sum already reported in freenet digital Group's financial statements in the purchase price allocation) in the amount of 9,132 thousand euros and trademark rights totalling 3,879 thousand euros, which were recognised as a result of the purchase price allocation. Due to the subsequent amortisation of the intangible assets recognised in the course of the purchase price allocation over a useful life of 48 to 60 months, amortisation amounting to 1,309 thousand euros per quarter will be recognised in the first four years following the acquisition date and 1,066 thousand euros per quarter in the fifth year following the acquisition date. No contingent liabilities were recognised in the purchase price allocation. The fair value of the acquired receivables is 21,053 thousand euros. Value adjustment allowances amounting to 2,122 thousand euros were set aside for gross trade receivables of 20,263 thousand euros as at the acquisition date. We have not identified any transactions which have to be shown separately from the acquisition of the assets and liabilities. A budgeting plan based on the DCF procedure and with valuation relevance was made available for the purchase price allocation. This covered a detailed period of three years and a rough planning period of a further three years. The royalty relief method was used to determine the fair values of the technology and the trademark rights.

The fair value of the customer relationships was established using a capital-value-oriented procedure based on the residual value method.

The ongoing spread of smartphones and tablet PCs together with data-friendly mobile phone tariffs are fuelling increasing demand for mobile digital lifestyle applications. With its acquisition of freenet digital Group, freenet plans to press ahead with its growth course in the digital lifestyle segment.

For the purpose of the freenet AG Group's segment reporting, freenet digital Group was allocated to the "Other/Holding" segment.

During the first nine months of 2014, freenet digital Group contributed a total of 18.2 million euros to Group revenue with third parties following its first-time consolidation. If this transaction had taken place on 1 January 2014, its contribution to Group revenue in the first nine months of 2014 would have been 19.6 million euros. Its contribution to the Group's earnings was of minor significance. This would still have been the case had the transaction taken place on 1 January 2014.

3. By means of an asset deal in second quarter of 2014, the Group acquired from reStore GmbH, Düsseldorf, by way of the subsidiary GRAVIS, the right to be specified in the rental agreements as the new shop tenant for the particular shop locations previously operated by reStore GmbH, or to conclude these rental agreements anew with the landlord. This right applies to up to twelve locations. Eleven locations had been taken over by 30 September 2014.

The purchase price allocation carried out for this acquisition, amounting to 2,288 thousand euros in payments as at the balance sheet date, is of a provisional nature because the last location had not yet been carried acquired by the balance sheet date. The provisional purchase price allocation dealt with the acquired assets as follows: 569 thousand euros was allocated to the right to take over the rental agreements or conclude them anew, 225 thousand euros was allocated to the factory and office equipment acquired and 355 thousand euros was allocated to dismantling obligations. Furthermore, deferred income tax liabilities totalling 169 thousand euros were recognised. The remaining 2,018 thousand euros have been recognised provisionally as goodwill and are largely attributable to the shops' drop-in customers, as well as the low coverage of the workforce not accounted for on the balance sheet. The right of acquisition and/or the right to conclude the rental agreements anew, along with the factory and office equipment that was acquired, were assessed using a cost-oriented procedure. The dismantling obligations were assessed using the cash method.

In the freenet AG Group's segmental reporting, the locations acquired were allocated to the "Mobile Communications" segment as part of the subsidiary GRAVIS. The goodwill accounted for by this transaction was allocated to the cash-generating unit "mobile communications".

The acquired locations' contribution to the Group's revenue with third parties and to the Group's earnings during the first nine months of 2014 as from the time of their initial consolidation were of insignificant magnitude. This would still have been the case had the transaction taken place on 1 January 2014.

The reStore locations were taken over as part of our strategy of further increasing the number of our directly controllable shops, and therefore our proximity to customers.

4. The statement of cash flows for the first nine months of 2014 shows an outflow of 44,352 thousand euros for the acquisition of subsidiaries under cash flow from investing activities. In addition to the cash price of 45,897 thousand euros paid for the acquisition of freenet digital Group, the Group also received cash and cash equivalents amounting to 3,833 thousand euros for the purposes of the statement of cash flows (holdings of liquid assets less liabilities due to banks in connection with the short-term management of financial investments) as a result of the first-time consolidation of freenet digital Group. The Group's cash outflow for the reStore shops it has taken over so far has been 2,288 thousand euros.
5. For some time now, the freenet Group has been offering its customers the opportunity to choose higher-value devices for an additional monthly fee with its mobile phone upgrade option. Contracts with this mobile phone upgrade option continue to be recognised as follows: freenet has an unconditional right to payment from the customer receiving the mobile phone as part of the mobile phone upgrade option. freenet records a receivable in the amount of the present value of the additional monthly amounts to be paid by the customer for the higher-value mobile phone over the term of the contract when the contract is signed and the mobile phone is handed over. As customers' willingness to pay more for higher-value smartphones has increased, the number of postpaid customers selecting this mobile phone upgrade option has risen steadily over the past few financial years. This also means that the figure for deferred receivables relating to the mobile phone upgrade option recognised under non-current and current trade receivables has climbed continuously. For the freenet Group, this means that tied-up capital has been increasing for years: today's higher-value smartphones are more expensive to purchase than the mobile phones of the past, and while cash outflows to acquire these devices occur before or when a contract is signed with the end customer, cash inflows from the mobile phone upgrade option are spread over the 24 months of the contract with the end customer.

With this in mind, the Group has concluded a factoring agreement with a bank, which was first utilised in the Q1 2014. As at 30 September 2014, receivables from the mobile phone upgrade option with a nominal value of 42.7 million euros (30 June 2014: 30.3 million euros) had been sold. Consequently, deferred receivables from the mobile phone upgrade option within non-current and current trade receivables were reduced as at 30 September 2014.

The contract with the bank is a master agreement with an indefinite term. It is possible to sell mobile phone upgrade option receivables on a quarterly basis up to a certain limit. Within this limit, freenet is at liberty to decide whether and to what extent receivables are to be sold. The bank purchases the receivables with a defined del credere discount and it also bills freenet for interest and fees. This sale of receivables without recourse represents genuine factoring. The relevant risks (such as the risk of default in particular) and opportunities are transferred to the bank. The freenet Group shall assume the late payment risk in its entirety, although this is of minor significance. There is no continuing involvement of freenet AG as at 30 September 2014.

6. The underlying figure for the cash flow statement is the earnings generated by ongoing and discontinued operations before interest and income taxes (EBIT). The following shows the way in which this EBIT figure is derived from the consolidated income statement:

#### Calculation of the starting point for determining the consolidated cash flow statement

In EUR '000s	1. 1. 2014 —30. 9. 2014	1. 1. 2013 —30. 9. 2013
Earnings before taxes of continued operations	192,076	191,401
Interest payable and similar expenses of continued operations	31,030	31,071
Interest payable and similar income of continued operations	-1,506	-1,161
<b>Earnings before interest and taxes (EBIT) of continued and discontinued operations</b>	<b>221,600</b>	<b>221,311</b>

## Other disclosures

7. Our disclosures on the subject of fair values are as follows (see next page):

The following overview “Fair value hierarchy as at 30 September 2014”, shows the key parameters upon which the valuation of both financial instruments measured at fair value as well as some of the financial instruments measured at amortised cost and for which a fair value has been determined, are based. For definitions of the individual levels as per IFRS 13, we refer to the Notes to the Consolidated Financial Statements of freenet AG as at 31 December 2013.

## Financial instruments according to classes as of 30 September 2014

In EUR '000s	Valuation category according to IAS 39	Carrying amount 30.9.2014	Approach				Fair value 30.9.2014
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
<b>Assets</b>							
Cash and cash equivalents	LR	91,532	91,532				91,532
<b>Total cash and cash equivalents</b>		<b>91,532</b>	<b>91,532</b>				<b>91,532</b>
Other financial assets (measured at cost of purchase)	HFS	503		503			
Other financial assets (measured at fair value)	HFS	1,036				1,036	1,036
<b>Total other financial assets</b>		<b>1,539</b>					
<b>Trade accounts receivable</b>	LR	<b>449,395</b>	<b>449,395</b>				<b>449,583</b>
Other non-derivative financial assets	LR	27,832	27,832				27,832
Held-for-sale other assets	HFS	2,864				2,864	2,864
Derivative financial assets	FIPL	0			0		0
Non-financial assets		15,638					
<b>Sum of receivables and other assets</b>		<b>46,334</b>					
<b>Liabilities</b>							
Trade accounts payable	FLAC	364,205	364,205				364,205
Financial debt (liabilities due to banks and shareholders)	FLAC	563,252	563,252				603,430
Derivative financial liabilities	FIPL	0			0		0
<b>Sum of financial liabilities within the scope of IFRS 7</b>		<b>563,252</b>					<b>603,430</b>
Other non-derivative financial liabilities measured at cost of purchase	FLAC	89,088	89,088				89,088
Non-financial liabilities		60,654					
<b>Sum of liabilities and deferrals</b>		<b>149,742</b>					
<b>Financial instruments not covered by the scope of IFRS 7</b>							
Present values of liabilities from finance lease according to IAS 17		240					240
Pension provisions according to IAS 19		45,275					45,275
Provisions for employee participation programmes according to IFRS 2		2,247					2,247
<b>Sum of financial instruments not covered by the scope of IFRS 7</b>		<b>47,762</b>					
<b>Thereof aggregated by valuation categories according to IAS 39</b>							
Held-for-sale financial instruments	HFS	4,403		503		3,900	3,900
Loans and receivables	LR	568,759	568,759				568,947
Financial instruments measured at fair value through profit or loss	FIPL	0			0		0
Financial liabilities measured at amortised cost of purchase	FLAC	-1,016,545	-1,016,545				-1,056,723

**Fair value hierarchy as of 30 September 2014**

In EUR '000s	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	2,864	2,864	0	0
Other financial assets	1,036	1,036	0	0
Trade accounts receivable	74,727	0	0	74,727
Borrowings	558,160	433,060	0	125,100
<b>Total</b>	<b>-479,533</b>	<b>-429,160</b>	<b>0</b>	<b>-50,373</b>

The fair values of the financial instruments were ascertained on the basis of the market information available on the balance sheet date; the following methods and premises were taken as the basis for this calculation:

The other assets held for sale amounting to 2,864 thousand euros are investments in money market funds whose market value in an active market serves as their fair value. The other financial assets are fixed-interest bonds with long-term maturities amounting to 1,036 thousand euros, which serve as a rent security deposit for shops and whose market value is likewise calculated as their fair value.

In order to ascertain the fair values of the trade receivables that constitute the long-term portion of the receivables from the mobile upgrade option, assumptions were made about the duration and risk-adjusted interest rate to determine the cash value of the anticipated future payment flows from these contracts. This interest rate takes the maturities of these interest rates into account, as well as their default risk. The fair value of these receivables is 120 thousand euros higher than their carrying amount due to divergent market interest rates.

The fair value of the non-current financial liabilities totalling 558,160 thousand euros exceeds their carrying amount by 40,178 thousand euros as at 30 September 2014. 34,809 thousand euros of this difference is accounted for by the valuation of the corporate bond (level 1) and was ascertained on the basis of this corporate bond's stock market price as at the quarterly balance sheet date. There was also a difference of 5,369 thousand euros from the valuation of the promissory note loan (level 3) at fair value; this was ascertained as at the valuation date using up-to-date estimates of the company's own credit risk and the interest rate level.

There were no shifts regarding the levels.

8. With the exception of the acquisitions described above, the group of consolidated companies remained unchanged compared with the consolidated financial statements for the period ending 31 December 2013.
9. As was the case in the 2013 consolidated financial statements, an average rate of 29.85 per cent (comparative period last year: 29.30 per cent) was used to calculate the current and deferred income taxes.
10. During the first nine months of 2014, net borrowing increased by 44.8 million euros from 427.2 million euros to 472.0 million euros. The cash flow from operating activities was the

most important factor reducing net borrowings, while the dividend distribution and the purchase of freenet Digital Group were the main reasons for the cash outflows which had the opposite effect.

11. There were no events of significance after the balance sheet date.

## Segment reporting

12. The “Other/Holding” segment includes other business activities in addition to operating activities. These primarily include freenet AG’s activities as a holding company (with the provision of intra-Group services in central divisions such as Legal, HR and Finance), as well as other accounting entries that cannot be clearly allocated. The segment revenue of 55.4 million euros (previous year: 35.4 million euros) reported for the “Other/Holding” segment in the first nine months of 2014 relates to operating activities of 51.2 million euros (previous year: 32.0 million euros) and other business activities of 4.2 million euros (previous year: 3.4 million euros). The gross profit of 36.8 million euros (previous year: 19.2 million euros) reported for the “Other/Holding” segment in the first nine months of 2014 relates to operating expenses of 37.1 million euros (previous year: 19.2 million euros) and other business activities of –0.3 million euros (previous year: 0.0 million euros). The EBITDA of –11.2 million euros (previous year: –0.8 million euros) reported for the “Other/Holding” segment in the first nine months of 2014 relates to operating activities of 1.8 million euros (previous year: 11.9 million euros) and other business activities of –13.0 million euros (previous year: –12.7 million euros). The EBIT of –18.9 million euros (previous year: –3.5 million euros) reported for the “Other/Holding” segment in the first nine months of 2014 relates to operating activities of –1.7 million euros (previous year: 9.8 million euros) and other business activities of –17.2 million euros (previous year: –13.3 million euros).

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



## Segment report 1 January to 30 September 2014

In EUR '000s	Mobile Communications	Other/Holding	Elimination of intersegment revenue and costs	Total
<b>Third-party revenue</b>	<b>2,162,284</b>	<b>44,598</b>	<b>0</b>	<b>2,206,882</b>
Intersegment revenue	6,097	10,813	-16,910	0
Revenue, total	2,168,381	55,411	-16,910	2,206,882
<b>Cost of materials, third party</b>	<b>-1,626,439</b>	<b>-13,175</b>	<b>0</b>	<b>-1,639,614</b>
Intersegment cost of materials	-6,734	-5,440	12,174	0
Cost of materials, total	-1,633,173	-18,615	12,174	-1,639,614
<b>Segment gross profit</b>	<b>535,208</b>	<b>36,796</b>	<b>-4,736</b>	<b>567,268</b>
Other operating income	44,980	7,960	-6,564	46,376
Other own work capitalised	7,387	2,737	0	10,124
Personnel expenses	-110,644	-32,653	0	-143,297
Other operating expenses	-196,353	-26,336	11,300	-211,389
Share of result in associates	0	265	0	265
<b>Segment EBITDA</b>	<b>280,578</b>	<b>-11,231</b>	<b>0</b>	<b>269,347</b>
Depreciation and impairment write-downs	-40,072	-7,675	0	-47,747
<b>Segment EBIT</b>	<b>240,506</b>	<b>-18,906</b>	<b>0</b>	<b>221,600</b>
Group financial result				-29,524
Taxes on income				-11,420
<b>Group result from continued operations</b>				<b>180,656</b>
<b>Group result from discontinued operations</b>				<b>0</b>
<b>Group result</b>				<b>180,656</b>
Group result attributable to shareholders of freenet AG				180,251
Group result attributable to non-controlling interest				405
<b>Investments in continued operations</b>	<b>15,155</b>	<b>4,177</b>		<b>19,332</b>

## Segment report 1 January to 30 September 2013

In EUR '000s	Mobile Communications	Other/ Holding	Elimination of intersegment revenue and costs	Total
<b>Third-party revenue</b>	<b>2,346,432</b>	<b>28,085</b>	<b>0</b>	<b>2,374,517</b>
Intersegment revenue	4,305	7,389	-11,694	0
Revenue, total	2,350,737	35,474	-11,694	2,374,517
<b>Cost of materials, third party</b>	<b>-1,830,961</b>	<b>-12,071</b>	<b>0</b>	<b>-1,843,032</b>
Intersegment cost of materials	-3,619	-4,217	7,836	0
Cost of materials, total	-1,834,580	-16,288	7,836	-1,843,032
<b>Segment gross profit</b>	<b>516,157</b>	<b>19,186</b>	<b>-3,858</b>	<b>531,485</b>
Other operating income	43,220	8,482	-2,809	48,893
Other own work capitalised	6,470	417	0	6,887
Personnel expenses	-109,134	-17,202	0	-126,336
Other operating expenses	-192,944	-11,838	6,667	-198,115
Share of result in associates	0	215	0	215
<b>Segment EBITDA</b>	<b>263,769</b>	<b>-740</b>	<b>0</b>	<b>263,029</b>
Depreciation and impairment write-downs	-38,909	-2,809	0	-41,718
<b>Segment EBIT</b>	<b>224,860</b>	<b>-3,549</b>	<b>0</b>	<b>221,311</b>
Group financial result				-29,910
Taxes on income				-12,237
<b>Group result from continued operations</b>				<b>179,164</b>
<b>Group result from discontinued operations</b>				<b>0</b>
<b>Group result</b>				<b>179,164</b>
Group result attributable to shareholders of freenet AG				179,028
Group result attributable to non-controlling interest				136
<b>Investments in continued operations</b>	<b>11,913</b>	<b>1,216</b>		<b>13,129</b>



## Further Information

# Financial calendar

**7 November 2014**

Interim Report as of 30 September 2014—Third quarter 2014

**19 and 20 November 2014<sup>1</sup>**

TMT Conference, Morgan Stanley, Barcelona, Spain

**25 and 26 November 2014<sup>1</sup>**

Deutsches Eigenkapitalforum, Deutsche Börse AG/DVFA, Frankfurt, Germany

**26 March 2015<sup>1</sup>**

Publication of the consolidated financial statements/Annual Report 2014

**7 May 2015<sup>1</sup>**

Interim Report as of 31 March 2015—First quarter 2015

**21 May 2015<sup>1</sup>**

Annual General Meeting of freenet AG, CCH Hamburg

**6 August 2015<sup>1</sup>**

Interim Report as of 30 June 2015—Second quarter 2015

**6 November 2015<sup>1</sup>**

Interim Report as of 30 September 2015—Third quarter 2015

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<sup>1</sup> Probable dates.

## Imprint, contact, publications

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The annual report and our interim reports are also available at:  
[www.freenet-group.de/investor/quarterly-annual-reports](http://www.freenet-group.de/investor/quarterly-annual-reports)

The English version of the Interim Report is a translation of the German version of the Interim Report. The German version of this Interim Report is legally binding.

Current information concerning freenet AG and the freenet share is available on our website at:  
[www.freenet-group.de/en](http://www.freenet-group.de/en)



If your mobile phone has QR-Code recognition software, you will be directed to the freenet Group website by scanning this code.



freenet **GROUP**

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