GROUP MANAGE-MENT REPORT

02

GROUP MANAGEMENT REPORT

GROUP MANAGEMENT REPORT

ORGANISATIONAL STRUCTURE AND BUSINESS MODEL

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

OVERVIEW OF THE FREENET GROUP

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

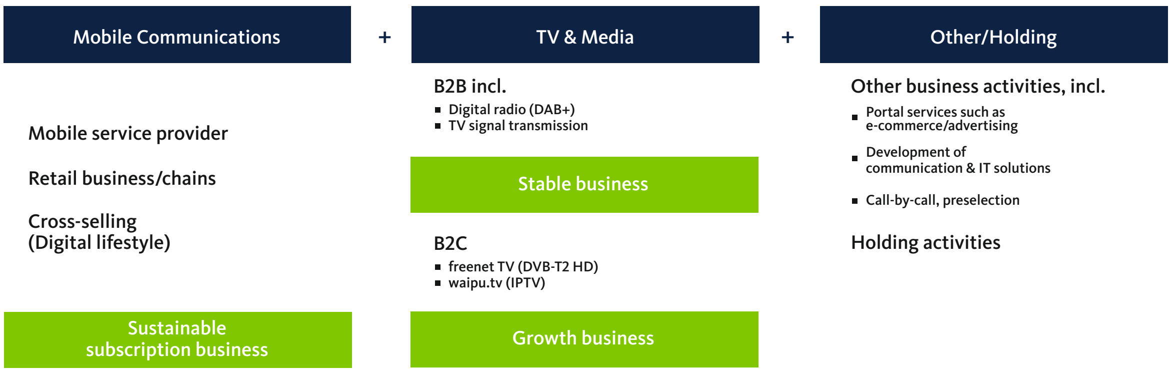
Its operating activities are limited mainly to private customers in the German market. freenet AG, the parent company of the freenet Group, is a listed German public limited company (Aktiengesellschaft – AG) with its registered office in Büdelsdorf and administrative headquarters in Hamburg. The company's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

Table 4: Executive Board departments

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

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

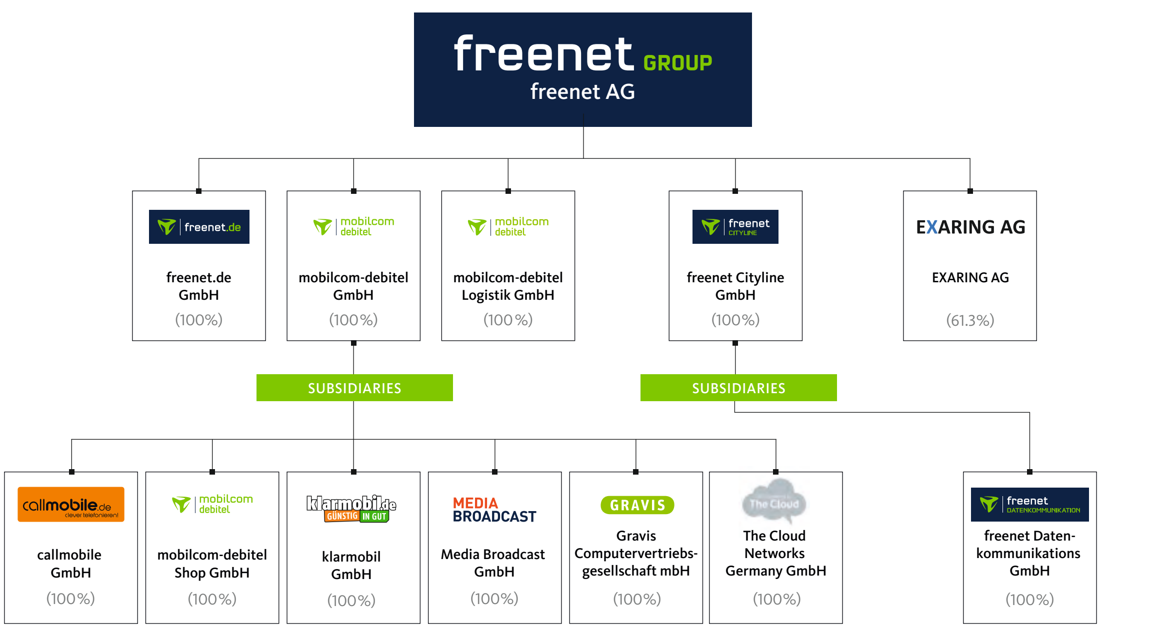
Figure 5: Segment overview



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

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

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



CUSTOMER-FOCUSED VALUE CREATION AND BUSINESS MODEL

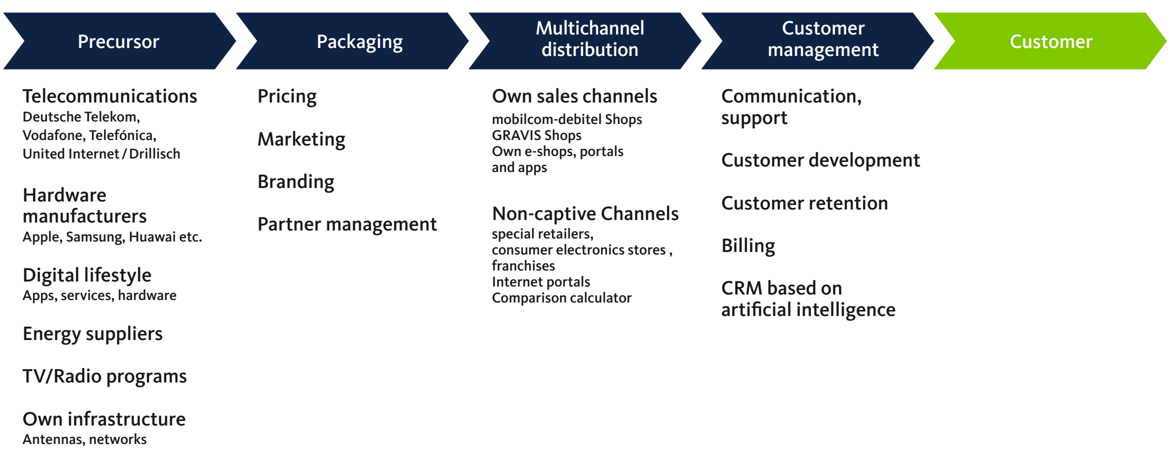
The activities within the freenet Group's value chain that generate value are situated in packaging, multichannel distribution and customer management. In addition to using our own infrastructure in the area of TV and Media, major partners such as network operators, hardware and application manufacturers,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

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

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

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

Figure 7: Customer-focused value creation and business model



OPERATING SEGMENTS IN DETAIL

MOBILE COMMUNICATIONS: LARGEST NETWORK-INDEPENDENT MOBILE COMMUNICATIONS PROVIDER

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

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

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

TV AND MEDIA: IPTV AS GROWTH DRIVER

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

Media Broadcast designs, sets up and operates multimedia broadcast infrastructure for TV and radio based on state-of-the-art digital transmitter technology. The freenet Group is the sole provider of digital antenna TV (DVB-T2 HD) in the German market. The Group distributes TV content from public and private broadcasters to private end customers via the freenet TV brand.

EXARING AG operates the first fully integrated platform for IP entertainment services in Germany. Its business model is also based on the transmission of TV content from public and private broadcasters. The company broadcasts and sells video content via Internet-based technology (IPTV) with an innovative app and exclusive access to a modern fibre-optic network in Germany stretching over more than 13,000 km. The IPTV product is sold to private users in a subscription model via the freenet Group's distribution channels, among others. Business with private customers is complemented with an offering for business users including addressable TV and web-to-TV services. This modern, convenient and affordable way of receiving TV content has enabled waipu.tv to gain a relevant market position in the growing German IPTV market within just a few years.

GROUP MANAGEMENT REPORT

CORPORATE STRATEGY AND GOALS

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

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

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

CUSTOMER EXPERIENCE IS MORE THAN JUST MEETING CUSTOMER EXPECTATIONS

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

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

As a result, maintaining our market share in the saturated German mobile communications market is a priority. Active customer experience management, a consistent multi-brand strategy and tight integration with the multi-channel distribution network are intended to contribute significantly to this effort. Our aim is to optimise the quality of the customer base in the long term and thus stabilise monthly revenue per customer. This is also crucial for preserving the strategically important potential for upselling and cross-selling measures.

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

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

MAINTAINING THE ASSET-LIGHT STRATEGY

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

When implementing its corporate strategy, the freenet Group always takes into account the different needs and expectations of all other freenet-specific stakeholders, including employee, shareholders and lenders too. Overall, the strategic focus of the Group is based on sustainable and responsible action and management. Likewise, all stakeholders can benefit from the performance of the freenet Group based on its value-oriented and prudent way of doing business.

GROUP MANAGEMENT REPORT

CORPORATE MANAGEMENT

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

The performance indicators used for corporate management purposes also regularly represent alternative performance measures (APMs). Even though that companies and investors commonly use APMs for assessing operating performance and the company’s debt situation, these are only meaningful to a limited extent when used as a sole analysis tool. In addition, even though they might use similar or even identical designations, the APMs are not necessarily equivalent to the APMs used by other companies because of different calculation methods used. In order to take account of the low degree of standardisation, the respective calculation system is disclosed below.

FINANCIAL PERFORMANCE INDICATORS

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

Table 5: Financial performance indicators 2018 – 2020

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

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

REVENUE AND EBITDA

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

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

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

Table 6: EBITDA and adjusted EBITDA

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

FREE CASH FLOW

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

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

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

Table 7: Free cash flow

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

POSTPAID ARPU

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

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

NON-FINANCIAL PERFORMANCE INDICATORS

The development of the freenet Group's financial performance indicators is closely linked to the development of subscription customers as aggregated non-financial performance indicators for relevant customer groups. The strategically relevant customer group in each case varies depending on the operating segment. The postpaid customer base serves as a performance indicator for the Mobile Communication segment, and the revenue-generating TV customer base serves as a performance indicator for the TV and Media segment. Customer acquisition and retention are therefore essential for the successful development of the freenet Group.

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

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

Table 8: Non-financial performance indicators 2018 – 2020

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

Group management report

OTHER KEY INDICATORS AND MEASURES FOR THE COMPANY'S SUCCESS

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

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

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

PRODUCT BRANDS, NEW PRODUCTS, PARTNERSHIPS AND SALES ACTIVITIES

In the reporting period, the freenet Group again launched a number of new products, entered into new partnerships and developed additional sales channels with the aim of securing its primary business and creating new potential at the same time. The most important of these new products, partnerships and sales activities are presented in the list below.

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

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

RESEARCH AND DEVELOPMENT

freenet AG does not have its own research and development department. However, in view of the rapid technological progress being made in the telecommunication industry, the company is closely monitoring and analysing all significant innovations in this sector. The primary aim of these efforts is to reinforce the Group's long-term competitive positioning in this dynamic market environment. Most of the development work being undertaken at the freenet Group forms part of IT, strategic and product development projects.

In the financial year and in the previous year, the income statement was not affected significantly by research and development costs. Within the framework of IT-, strategy- and product development projects, the freenet Group made total cash-effective investments of 22.1 million euros in 2020 (2019: 20.3 million euros).

EMPLOYEE MATTERS

At year-end, the freenet Group employed 4,004 persons at nine locations as well as in mobilcom debitel shops and GRAVIS stores. Each year, the Group makes more than 100 training positions available on vocational training and work/study ("dual study") courses; these are broken down into a total of 20 training courses at more than 150 training locations. At the end of 2020, the number of apprentices in the freenet Group was 329 (2019: 336). Vocational training and continuing professional development (CPD) as well as dual studies also serve to maintain employee skills. The freenet Group believes that continually developing employee expertise in view of current market and technological developments is essential for its future business success.

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

EBIT AND FINANCIAL RESULT

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

GROSS PROFIT AND GROSS PROFIT MARGIN

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

Table 10: Calculation of gross profit

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

FINANCIAL MANAGEMENT

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

CASH, LIQUIDITY AND CAPITAL STRUCTURE MANAGEMENT

The financial management system mainly comprises cash and liquidity management along with capital structure management, and is handled centrally by the Treasury department, supported Financial Control and Accounting.

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

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

In terms of the equity ratio, the freenet Group's management considers a lower limit of 25.0 per cent to be appropriate along with a target leverage capped at 3.0 times EBITDA.

Table 11: Capital structure management KPIs

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

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

Table 12: Equity ratio

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

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

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

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

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

[1] The market value of Ceconomy is calculated by multiplying the closing price of Ceconomy's ordinary shares on the Frankfurt stock exchange by the number of shares held by the freenet Group (32,633,555) as of the relevant reference date.

DIVIDEND POLICY

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

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

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

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

Figure 8: Dividend per share 2009 – 2020

In euros

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

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

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

GROUP MANAGEMENT REPORT

REPORT ON ECONOMIC POSITION

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

MACROECONOMIC ENVIRONMENT

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

Table 14: IMF economic forecasts for 2020

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

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

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

SECTOR-SPECIFIC DEVELOPMENT

MOBILE COMMUNICATIONS MARKET

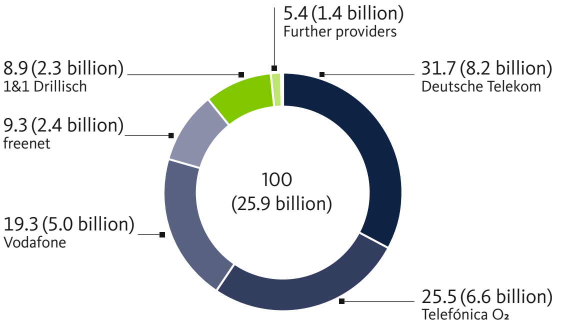
According to estimates from the German Association of Providers of Telecommunications and Value-Added Services (VATM), around 58.9 billion euros was generated from telecommunications services in Germany during the 2020 reporting year. Even when taking COVID-19 into account, this corresponds to an increase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

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

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

Figure 9: Mobile revenue by network operator and service provider

in % or EUR



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

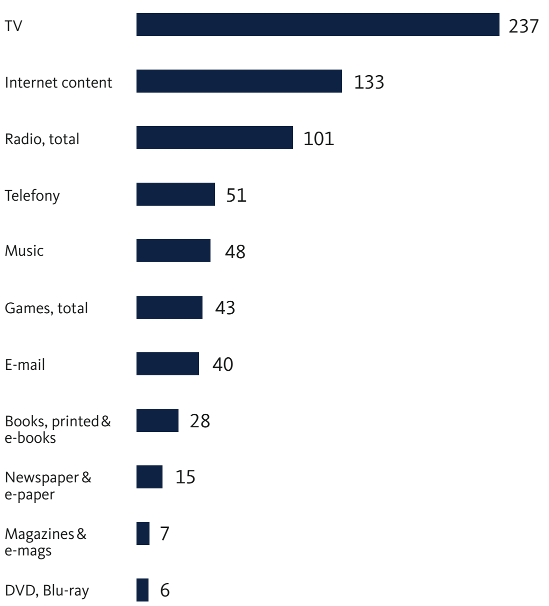
At a regulatory level, draft legislation to modernise the German Telecommunications Act (TKG Amendment) was approved by the German Federal Cabinet on 16 December 2020, thus triggering the implementation of the European Electronic Communications Code (Directive (EU) 2018/1972). The TKG Amendment particularly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

TV / VIDEO MARKET

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

Figure 10: Daily usage of selected media in Germany

in minutes



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

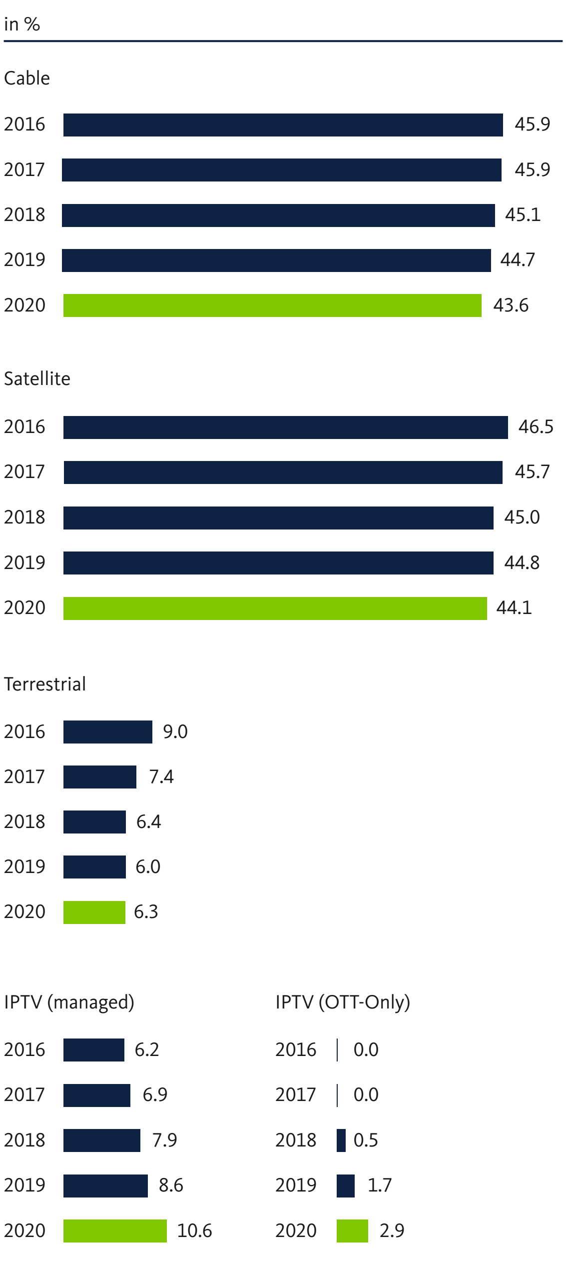
Source: SevenOne Media

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

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

Since the completion of the switch to DVB-T2 HD in March 2017, the market share of terrestrial television reception has stabilised at around 6 per cent. The sole provider of this broadcasting technology in Germany is the Media Broadcast Group, a wholly owned subsidiary of the freenet Group.

Figure 11: Distribution of broadcasting methods, 2016 – 2020



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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR ENDED 2020

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

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

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

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

FREENET FLEX: NEW APP-BASED MOBILE PHONE TARIFF INTRODUCED

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

SUNRISE INTEREST SOLD AND CAPITAL BASE STRENGTHENED FOR THE LONG TERM

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

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

SHARE BUYBACK PROGRAMME CARRIED OUT

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

NETFLIX COLLABORATION REINFORCES GROUP'S POSITIONING AS DIGITAL LIFESTYLE PROVIDER

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

COURSE OF BUSINESS

MOBILE COMMUNICATIONS

Postpaid customers

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

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

Postpaid ARPU and revenue from services

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

Digital lifestyle

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

TV AND MEDIA

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

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

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

Table 15: Summary of course of business in 2020

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

ACTUAL COURSE OF BUSINESS VS. FORECAST

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

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

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

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

Table 16: Comparison of forecast and actual business performance 2020

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

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

OVERALL ASSESSMENT BY THE EXECUTIVE BOARD OF THE COURSE OF BUSINESS

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

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

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

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

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

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

NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

PRELIMINARY REMARK ON THE SALE OF THE SUNRISE EQUITY INVESTMENT

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

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

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

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

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

Table 17: Key figures of results of operations

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

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

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

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

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

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

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

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

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

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

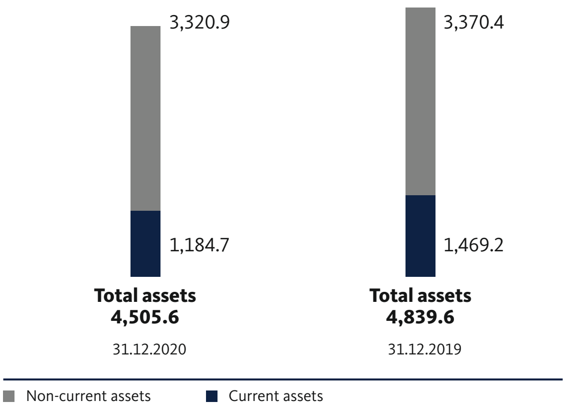
Income tax expenses fell by 24.8 million euros compared with 2019 to 27.0 million euros (previous year: 51.8 million euros). Expenses of 4.0 million euros from deferred taxes have also been netted in income tax expenses (previous year: 26.4 million euros). The improvement in deferred taxes is essentially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

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

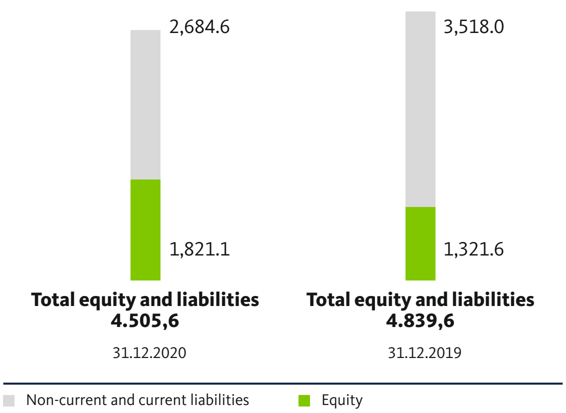
As a result, the consolidated profit reported in the 2020 financial year totalled 561.0 million euros – up from 184.7 million euros in the same period in 2019.

Figure 12: Selected balance sheet figures of the Group

Assets in EUR millions



Equity and liabilities in EUR millions



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

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

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

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

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

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

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

CASH FLOWS

Table 18: Key cash flow indicators of the Group

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

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

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

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

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

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

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

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

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

GROUP MANAGEMENT REPORT

REPORT ON OPPORTUNITIES AND RISKS

REPORT ON AND ASSESSMENT OF OPPORTUNITIES

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

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

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

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

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

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

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

Internal opportunities for freenet AG could emerge in particular from:

- assessing and implementing strategic options in core business areas,
- continuously strengthening of the brands klarmobil, freenet Flex and FUNK in the market segment for flexible tariff and contract models, with the aim of participating even more actively in their growth,
- enhancing our established omni channel sales by expanding existing and opening new directly controllable retail and non-retail sales channels and utilising existing and new sales collaborations and partnerships,
- improving sales performance with even more customer-focused products and services and sales pitches,
- maintaining a strong service focus at all customer touchpoints and a local presence with our own shops and stores,
- marketing additional products (cross-selling), including Digital Lifestyle and TV and Media products, in conjunction with vertical growth in the product portfolio as a whole,
- (further) enhancing our own, innovative products, e.g. additional app-based tariffs,
- consolidating and consistently enhancing IT applications and IT systems to further improve customer satisfaction, e.g. by expanding digital self-service options and the intelligent use of contemporary communication media,
- continuously strengthening business relationships with suppliers to stabilise existing and develop new and improved condition models,
- continuously improving processes and quality to ensure a sustainable rise in productivity – including the increasing digitalisation of business processes and corporate management,
- prioritising the empowerment and development of our employee to boost staff loyalty and increase the attractiveness of the workplace.

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

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

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

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

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

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

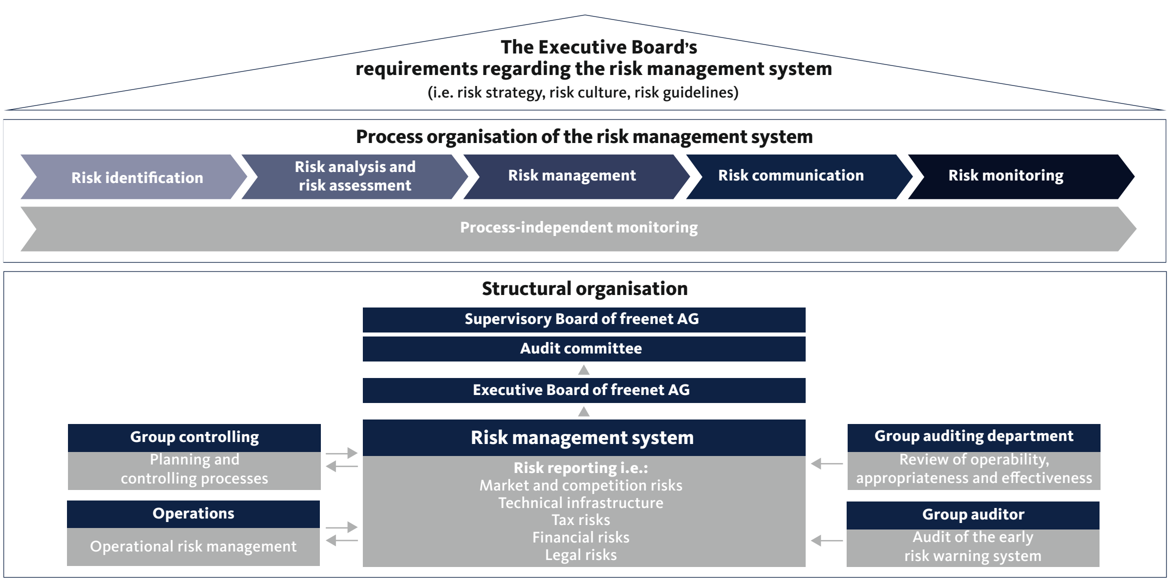
Management therefore expects business to develop as described in the report on expected developments.

RISK MANAGEMENT SYSTEM

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

The systems and methods of the risk management system are an integral part of the overall organisation of freenet AG's structure and processes. As part of the statutory audit assignment for the annual and consolidated financial statements, the system is regularly examined by the auditor to determine whether it is suitable to identify at an early stage any developments that endanger the company's continued existence as a going concern.

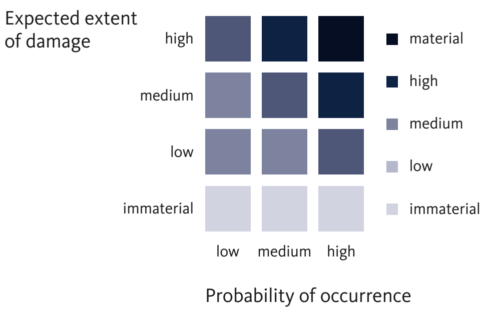
Figure 13: Process and structural organisation of freenet AG's risk management system



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

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

Figure 14: Risk matrix at freenet AG



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

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

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

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

REPORT ON AND ASSESSMENT OF RISKS

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

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

CORONAVIRUS CRISIS

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

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

MARKET RISKS

Highly competitive markets

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

Vigorous competition could also lead to higher costs for acquiring new customers, accompanied by falling revenue and a significant willingness of customers to switch providers. As a result, the forecast revenue-based key performance indicators, earnings indicators and free cash flow may not develop as planned. In order to prevail against its competitors, freenet AG must continue to design its products and services attractively, market them successfully and carry out customer loyalty activities. In addition, freenet AG must respond flexibly to the development of the competition's business and anticipate new customer requirements. This involves a medium risk for the achievement of the company's goals.

Distribution

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

The freenet Group has a broad distribution network. As a countermeasure with regard to the loss of distribution performance, the respective subsidiaries enter into long-term contracts with their main distribution partners and offer them attractive incentive systems (e.g. Airtime models). An additional opportunity to maintain or expand existing distribution channels lies in the consistent examination of new retail, distribution and collaboration partnerships and in the acquisition of additional franchise partners. The risk of losing distribution channels has been classified as low by freenet AG.

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

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

Network operators

Bonus payments and commissions of the network operators form part of the revenue of freenet AG. Reducing these network operator premiums may increase capital commitment and marketing risk. This aspect constitutes a medium risk for freenet AG, primarily as a result of limited bricks-and-mortar sales channels amid the coronavirus crisis. freenet AG is trying to minimise the risk by negotiating flexible purchasing terms and by continuously monitoring target attainment for premium payments and renegotiating as and when necessary.

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

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

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

Laws and regulation

Legislative changes, interventions by regulators or even landmark judicial decisions may have repercussions for the company's business models and for the possibility of acquiring and retaining customers and collecting receivables from customers. This might have a negative impact on the forecast revenue and on the amount of free cash flow. The potential impact of current legislative projects in Germany (Telecommunications Modernisation Act, Fair Consumer Contracts Act) cannot be adequately assessed at present. The effects of individual decisions or legislative changes might not be significant in themselves, with the result that the associated risk can be classified as low overall. freenet AG counters this risk by regularly monitoring regulatory developments and following the outcomes of legal judgements.

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

IT RISKS

System failures/errors

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

Data theft and hacker attacks

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

TAX RISKS

Loss carryforwards

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

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

Other tax risks

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

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

FINANCIAL RISKS

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

Bad debt losses

The assessment of the risk of default on trade accounts receivable in the freenet Group is focused primarily on trade accounts receivable owed by end customers. For important contract customer sectors, credit assessments are carried out for the customers before the contract is signed. In the ongoing contractual relationship, the implementation of a swift and regular reminder and debt collection process involving a number of debt collection companies in the benchmarking area, together with long-term debt collection monitoring and high-spender monitoring, are essential measures for minimising default risk. Finally, the appropriate recognition of loss allowances takes the risks into account. The default risk of receivables due from end customers is classified by freenet AG as medium, particularly as a result of potential long-term consequences of the coronavirus crisis such as a rise in unemployment or an increasing number of personal bankruptcies.

Extensive credit check processes are also taking place in the area of receivables owed by dealers and franchise partners, with credit limits and preventative advance payment terms being set out for critical suppliers. Reminder and debt collection processes are used in the event of a default of payment. Commercial credit insurance, moreover, safeguards us against significant default risks vis-à-vis major customers (dealers and distributors). The risks associated with uninsured dealers and distributors are restricted by an internal limit system – generally, customers with a poor credit standing must pay cash in advance or the commercial relationship will not materialise. There are regularly significant trade accounts receivable due from the mobile network operators in the Mobile Communications segment, and there are regularly trade accounts receivable in the TV and Media segment due from public and private providers of TV and radio programmes. The receivables portfolio is regularly evaluated and the collection of these receivables is also monitored on an ongoing basis. Even taking into account the effects of the coronavirus crisis, experience shows that the overall risk of bad debt losses in this area is low.

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

Impairment of assets

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

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

Liquidity

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

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

The Group uses a variety of financial instruments to reduce general liquidity risk. The liabilities due to banks shown under borrowings relate to the promissory note loans entered into in May 2015, February 2016, October 2016, December 2018 and July 2020 (recognised at 940.7 million euros, including interest accruals, as of 31 December 2020) and a loan tranche in the form of a revolving credit facility of 300.0 million euros (previous year: 300.0 million euros), which, as in the previous year, had not been drawn on as of 31 December 2020.

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

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

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

Capital risk

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

Interest rate risk

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

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

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

Other financial risks

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

STRATEGIC RISKS

Equity investments

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

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

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

OPERATING RISKS

Service prices for customers in default

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

OTHER RISKS

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

OVERVIEW OF THE RISK SITUATION

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

Table 19: Risk overview

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

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

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

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

Thanks to the risk management process that has been implemented and the monthly reporting system, the Executive Board has a good overall view of the risk position presented here. Market, IT, tax, financial, strategic, operational and other risks were identified as of 31 December 2020. The probability of occurrence or the expected extent of damage from risks has increased in individual cases as a result of the pandemic.

Their potential effects on the general future development of freenet AG and its financial and non-financial performance indicators are classified as low overall by the Executive Board. Numerous assessment made continue to be dependent upon the duration and extent of the coronavirus crisis. At this point, it is not possible to reliably and completely assess this. Taking these general conditions into account, the Executive Board expects that the positive trend forecast in the outlook will not be significantly impaired by the risks outlined. All in all, it can be assumed that the risks have no impact on the continued existence of freenet AG.

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

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

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

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

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

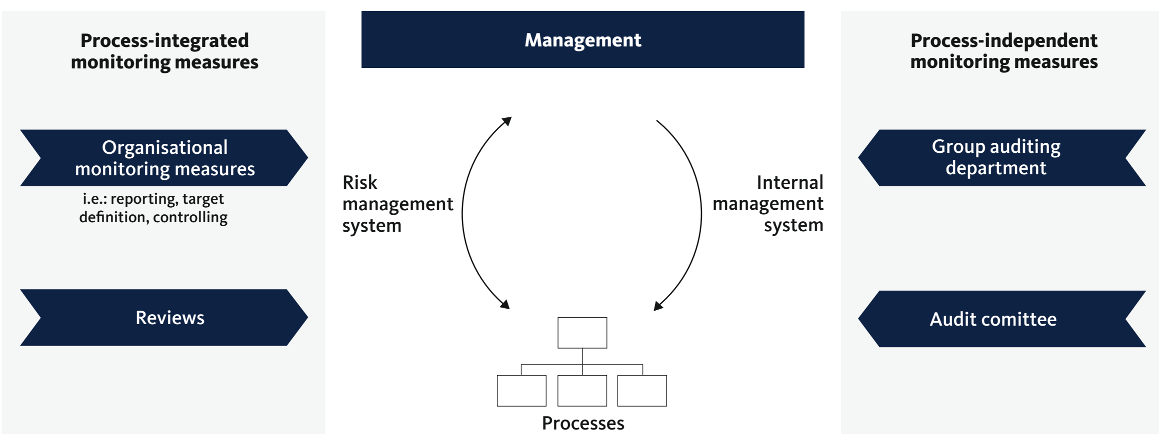
The objective of the controls implemented in the ICS for the accounting process is to guarantee that the financial statements conform to standards and to ensure that the accounting is accurate. Approval processes for issuing access rights protect the IT systems used in the accounting process from unauthorised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

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

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

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

Figure 15: Key features of the internal control system of freenet AG



GROUP MANAGEMENT REPORT

REPORT ON EXPECTED DEVELOPMENTS

MARKET/INDUSTRY FORECAST

MACROECONOMIC ENVIRONMENT

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

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

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

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

TELECOMMUNICATIONS MARKET

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

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

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

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

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

TV/VIDEO MARKET

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

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

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

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

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

COMPANY FORECAST FOR 2021: STABLE PERFORMANCE EXPECTED

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

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

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

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

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

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

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

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

Table 20: Forecast of financial performance indicators

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

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

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

Table 21: Forecast of non-financial performance indicators

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

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

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

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

In the Mobile Communications segment, we intend to continue participating in the market's moderate growth and expand the base of postpaid customers that forms the main pillar of this segment. In this context, measures aimed at increasing loyalty should reduce churn and align the freenet Group's business activities even more consistently with the needs of the customer.

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

GROUP MANAGEMENT REPORT

REPORT ON POST-BALANCE SHEET DATE EVENTS

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

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

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

GROUP MANAGEMENT REPORT

NON-FINANCIAL STATEMENT *

ABOUT THIS REPORT

BUSINESS MODEL

The operating activities of freenet AG, which has been listed at the Frankfurt Stock Exchanges since 2007, and its subsidiaries are limited mainly to private customers and to the German market. The majority of the more than 2.5 billion euros in revenue is generated with mobile communications and mobile Internet services. Operating as a service provider without its own network infrastructure, the company sells mobile communications tariffs and options throughout Germany. This portfolio is also being expanded to encompass a diverse range of digital lifestyle products and services. In 2016, the Group developed another segment to complement its Mobile Communications business, TV and Media, by acquiring the Media Broadcast Group and a majority interest in EXARING AG. As Germany's largest service provider in the radio and media sector, the Media Broadcast Group designs, sets up and operates multimedia broadcasting platforms for TV and radio based on state-of-the-art digital transmitter technology.

An extensive description of the business model is set out in the section "Business model and organisation" on pages 40 – 43 of the Group management report.

MATERIALITY ANALYSIS

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

Table 22: Material issues assigned to CSR RUG aspects and GRI standards

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

The review of the materiality analysis as part of the aforementioned process is planned for 2021. Irrespective of this, internal stakeholders are asked annually whether their assessment of materiality has changed fundamentally. In addition, the selection and internal assessment of material issues is regularly compared with the expectations of external stakeholders (including investors, sustainability/financial analysts or customers) in an active dialogue.

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

NON-FINANCIAL RISKS

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

GENERAL INFORMATION

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

The disclosures included in the non-financial statement relate to the period from 1 January 2020 to 31 December 2020 and apply to both freenet AG and the Group. Unless otherwise noted, the statement covers all fully consolidated companies included in the consolidated financial statements. In view of the business-specific structure of the TV and Media segment and the Media Broadcast Group assigned to that segment, the presentation of material topics sometimes includes separate information on this company.

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

MATERIAL ISSUES

EMPLOYEE

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

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

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

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

is another key focus. The most important fields of action in this context are continuing professional development (CPD) and learning. Good leadership is an essential prerequisite for pursuing goals and, in particular, achieving them. Since 2015, we have therefore continually offered and expanded management training courses in a programme called "We Take the Lead" ("Wir gehen in Führung"). New senior managers are chosen based on their capabilities and receive support from a multi-stage onboarding process. By focusing on the new world of work, we aim to analyse and address digital transformation issues and new working practices.

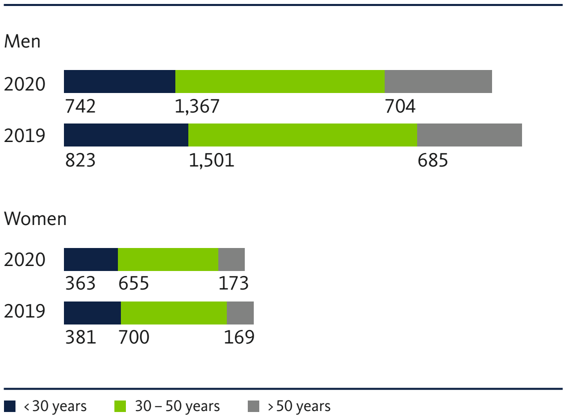
Diversity

The diversity of its workforce reflects the history and success of the freenet Group. The workforce currently comprises employee of 60 different nationalities, who speak a variety of languages, come from a range of cultural backgrounds, and all treat each other with respect. Diversity is anchored as a key value underlying cooperation and leadership in the Group ("We leverage our diversity"). Diversity comes alive in our company even in our hiring process and then is reflected in our daily work through various programmes, management tools/courses and training events.

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

Gender diversity is a focus topic because the freenet Group is subject to the German Act on Equal Participation of Women and Men in Executive Positions (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen). In accordance with this law, the freenet Group has set targets of ensuring that 30 per cent of first-level and extended senior managers are women by 31 December 2021 (for more details please refer to "Corporate Governance Statement").[2] Of the Group's salaried employee, 29.3 per cent are women, which is roughly level with the previous year (2019: 29.8 per cent; 2018: 28.9 per cent).

Figure 16: Employee by gender and age



Employee attraction and retention

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

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

Table 23: New hires and employee turnover [4]

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

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

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

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

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

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

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

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

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

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

Training and continuing professional development (CPD)

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

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

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

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

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

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

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

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

[5] The competency model, which was established back in 2016, focuses on cooperation and collaboration, developing an effective persona, entrepreneurial thought and action, driving change, and authentic leadership. The latter only applies to senior managers.

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

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

In addition to continuing to develop employee, the freenet Group takes its responsibility to society and the younger generation seriously and has created multifaceted training options that serve as another important component in ensuring a sufficient supply of young talent. In the field of vocational training and studies combining theory and practise ("dual studies"), more than 100 training places are made available across Germany every year, which consist of a total of 20 training courses. The trainees receive support from focused onboarding, trainee camps and in-house courses. Successful college and university graduates can participate in the freenet Group's companywide, one-year specialist trainee programme. In 2020, 10 participants successfully completed this programme (2019: 10 participants). The number of students participating in "dual studies" was 43 (2019: 32; 2018: 27), and a total of 328 employee were in training at more than 150 sites (2019: 336 employee; 2018: 325 employee).

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

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

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

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

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

Occupational health and safety

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

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

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

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

Safety at work is particularly relevant at Media Broadcast due to its specific activities. Of the 613 employee (2019: 650; 2018: 673) 131 (2019: 142; 2018: 145) are involved with the maintenance and possible repair of transmission masts and antennas, some of which are very high. Accordingly, precautions have been taken to comply with the stringent safety requirements to protect workers in these particular areas: These employee are individually equipped with protective gear and safety equipment that always complies with the currently applicable occupational safety and accident prevention regulations and European standards (Regulation (EU) 2016/425, Directive 2014/34/EU, Directive 85/374/EEC). In addition, the employee are subject to regular check-ups carried out by occupational doctors and, once every year, take part in the prescribed climbing and rescue exercises. Every three years, they attend follow-up seminars concerning the subjects of fall protection and rescue measures.

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

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

Table 25: Occupational injuries and commuting accidents

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

DIGITAL RESPONSIBILITY

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

Led by the Chief Technical Officer (CTO), the freenet Group's IT department provides all of the IT services required for the Group's business operations. One of the five fundamental principles of the freenet Group's IT strategy is data protection and security. The freenet Group's IT department works according to well-established information security guidelines. A security organisation with defined roles and a dedicated security incident management process are based on these guidelines. Security incidents are initially visualised by a dashboard, then analysed by a core security team and finally coordinated by security incident managers. The key roles within the security organisation are assumed by the Security Board as a decision-making body, the IT Security Coordinator, who centrally coordinates all security measures, and decentralised security officers in each individual IT department. The company's network traffic is technically analysed for security incidents so that countermeasures can be established at an early stage. Several initiatives to further improve data security were implemented in 2020.

External partners provide support for incident response (e.g. crisis management, communications, preservation of evidence) in the event of a cyberattack and conduct the necessary forensic analyses. Of course, the freenet Group IT department has a regularly updated crisis and emergency plan and a recovery plan for the company's IT infrastructure and software applications to keep potential failures or restrictions to a minimum.

Security patch management is part of normal IT operation in all IT functions. In this way, the freenet Group is able to respond quickly and in an appropriate manner to changes in threat scenarios. The entire IT system landscape as well as the security level in the Group's own data centre meet the legal requirements and correspond to the current state of the art. Cologne-based Media Broadcast Group, which is part of the freenet Group, has also been certified according to ISO 27001 since 2013. This certification therefore extends to freenet's own data centre in Düsseldorf. [10] Both companies have implemented an Information Security Management System (ISMS) establishing procedures certified according to ISO 27001 to ensure information security in the case of outsourced data processing. This ensures the basis for contract design, monitoring and auditing for standard-compliant requirements for outsourced data processing.

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

IT Management and the management levels of the freenet Group consider data security a central task. The Executive

[9] Frequency of accidents per 1,000 full-time employee [((industrial accidents + commuting accidents) * 1,000)/Number of full time employee].
[10] The certification is applicable for the entire value chain of the Media Broadcast Group and also for the data centre services "Housing and Hosting" for external business customers rendered by freenet Datenkommunikations GmbH.

Board and Supervisory Board or the latter's committees are regularly informed of the relevant developments and requirements in the field of data protection. The requirements of the EU General Data Protection Regulation (GDPR) that has been effective since May 2018 have been implemented across the Group and appropriate guidelines and processes have been defined and introduced. All issues and projects which are relevant for data protection purposes are agreed beforehand with the data protection officer of the Group. For all IT measures relating to employee data, the IT control committee of the works council is consulted.

The customers of the freenet Group should experience a high degree of transparency with regard to the processing of their personal data. The freenet Group guarantees this by providing comprehensive information on this topic on the "Data protection" section of its websites. Content is regularly evaluated for comprehensibility, taking account of customer enquiries from the Customer Care Center. In addition, every customer can request information regarding the data stored about them and can request them to be corrected or erased. This enables customers to decide what should happen with their data. Freenet's customer-facing website makes it also possible for all customers to inspect their own stored data and consent granted as well as change them as necessary.

All employee are required to comply with both data protection requirements and the freenet Group's regularly updated confidentiality instructions. They can also access a comprehensive wiki and online training on data protection and data security at any time for their own training. All major company departments maintain a list of all data processing activities that is regularly reviewed to ensure that it is up to date. In addition, for the processing of customer data, regular analysis of the level of protection are carried out to identify appropriate measures. When service providers are appointed by the freenet Group IT department, they are bound by both the Group's customers' data protection requirements when processing orders as well as statutory data security requirements. If customer data are used for analysis purposes or for product design purposes, an approval process ensures in each case that such data are adequately pseudonymised or anonymised. In view of the company's approximately 8.5 million customers with fixed-term contracts and more than 4,000 employee, freenet received only a very small number of data protection complaints in 2020. Most of these were queries regarding the fulfilment of data subjects' right of access under Art. 15 of the GDPR.

Beyond its own operational IT security processes, Media Broadcast is very much and continuously involved with KRITIS – a joint initiative of the Federal Office of Civil Protection and Disaster Assistance (Bundesamt für Bevölkerungsschutz und Katastrophenhilfe – BBK) and also of the Federal Office for Information Security (Bundesamt für Sicherheit in der Informationstechnik – BSI) to protect critical infrastructure: Media Broadcast takes its mission of keeping broadcast systems crisis-proof very seriously, given that this has implications for the whole of society, and in 2019 assumed the chairmanship of the "Media and Culture" industry working group.

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

CUSTOMER MATTERS

In a saturated mobile communications market such as in Germany, the maintenance and quality of relationships with customers play an increasingly important role. The freenet Group therefore places customers at the centre of all of our activities and orients the strategy and organisation of the company toward meeting their individual needs. The Chief Customer Experience Officer (CCE) is responsible for all activities from attracting new customers through maintaining relationships with existing customers to winning back former customers as well as reinforcing a customer-focused corporate culture. To implement these plans, a central organisational unit was set up to deal primarily with the topic of "customer experience".

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

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

Figure 17: Customer satisfaction guiding principles

Customer satisfaction by way of service quality

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

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

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

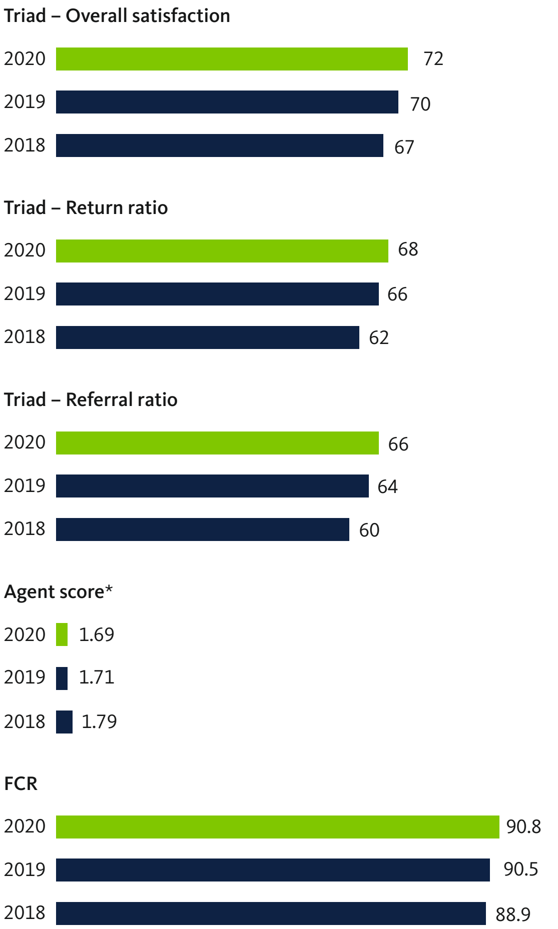
Our customer satisfaction analysis generates information about satisfaction, expectations and potential for improving the customer experience. This enables us to specifically measure perceived service quality over the entire customer life cycle at all service touchpoints. In addition to continually updating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

This is measured in three different categories:

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

Figure 18: Results of the CSA as of 31 December

in % / as indicated



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

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

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

Customer satisfaction by enhancing digital dialogue

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

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

Sustainable and inclusive product solutions

The freenet Group is continually enhancing its portfolio of customer-focused mobile tariffs and telecommunication-related services based on systematic market and customer analyses. Close relationships with the three German network operators enable the freenet Group to structure a product portfolio ranging from the discount to the premium market. This diversified brand and portfolio approach enables the company to serve many customer segments and meet a wide variety of customer needs. The company also offers an attractive tariff portfolio for mobile communications and TV for low-income customers and enables customers with poorer creditworthiness to participate in digital life via a special deposit model [11].

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

This range also includes products which meet the market trend and customer requirements derived from these trends for product solutions covering aspects such as environmental protection, data protection and protection of minors. In terms of protecting data and devices, these include a comprehensive range of security software (e.g. Kaspersky Internet Security, Kaspersky Password Manager and Kaspersky Safe Kids) and participation in initiatives such as “trustedDialog” and “E-Mail Made in Germany”. The latter association of German e-mail providers guarantees our freenet.de e-mail customers a high level of security and data protection for their daily e-mail communications. In terms of protecting minors, the Group is an active member of the respective “Code of Conduct of German Mobile Communications Providers” and JusProg e.V., a non-profit association that aims to better protect minors on the Internet.

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

CORPORATE ENVIRONMENTAL PROTECTION

The freenet Group’s business activities generate carbon emissions and influence the availability of resources. In the area of mobile communications, energy and resource consumption is limited mainly to the administrative sites, the vehicle fleet and the more than 560 shops and stores due to the service provider model. The Group’s largest user of energy is the Media Broadcast Group as an operator of digital TV and radio infrastructure. For supplying its broadcasting and transmission technology, it consumes energy at approximately 932 transmitter sites and radio towers, thus accounting for 82 per cent of the freenet Group’s total electricity consumption.

For a medium-sized company, the optimum use of resources and efficient utilisation of energy are important for economic success in a competitive environment dominated by large corporations. This is why the freenet Group explicitly supports political and societal expectations and initiatives in the area of climate protection. Since 2018, the freenet Group has supported the Carbon Disclosure Project (CDP) and each year discloses climate data, especially carbon emissions, thereby ensuring transparency of information regarding the impact of the Group’s business on the environment.

From the freenet Group’s perspective, reducing the fuel consumption of the company’s vehicle fleet and the electricity used for network infrastructure in TV and Media are significant ways to lower carbon emissions that can be influenced directly. The goal is to either reduce absolute consumption further or to increase intensity in relation to total revenue. After weighing costs and benefits, the company applies energy efficiency improvement recommendations arising from regular statutory energy audits (at least once every 4 years) conducted as per Sections 8 to 8d of the Act on Energy Services and Other Energy Efficiency Measures (Gesetz über Energiedienstleistungen und andere Energieeffizienzmaßnahmen – EDL-G) in accordance with DIN EN 16247-1. The most recent statutory energy audit took place in December 2019 and covered all Group companies with the exception of Media Broadcast, where separate energy audits are carried out for historical reasons. For 2021, Media Broadcast also plans to conduct an energy audit required by

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

law and to use this opportunity to set new, suitable targets for energy purchasing and use, among others. The Group has not yet developed a specific companywide carbon strategy aligned with quantitative parameters due to a general lack of relevance to the Group's activities.

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

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

Energy consumption and carbon emissions

The strategic decision to change over to the new HD standard DVB-T2 in the TV business also continues to contribute toward the greater energy efficiency that is our goal. Replacing the analogue FM radio[12] with the more energy-efficient digital DAB+ transmission standard again decreased the Media Broadcast Group's electricity usage year-on-year (−4.3 per cent). Compared with the 2015 benchmark, the overall electricity consumption of the Media Broadcast Group has declined by approximately 48.9 per cent, and the associated carbon emissions have declined by approximately 61.1 per cent. There are technological and regulatory limitations to implementing energy savings in the field of broadcasting and transmission technology, however. For example, contracting and using frequencies is subject to a regulatory framework governing infrastructure design and expansion, which Media Broadcast must comply with.

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

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

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

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

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

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

Table 26: Energy consumption and carbon emissions

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

[13] The year 2015 was set as the base year, as this is the first year for which retrograde, consolidated reporting of energy consumption and carbon emissions has been carried out.
[14] The fuel consumption comprises consumption in the form of diesel and petrol for the company car fleet. Other indirectly procured fuels have not been included because no valid consumption figures were available due to the billing cycle, e.g. of facility managers, and extensive estimates would have been necessary. The conversion factors of the British Ministry for the Environment, Food and Rural Affairs (DEFRA) have been used for converting fuel consumption in GWh and carbon emissions.
[15] $CO_2eq = CO_2$, CH4 and N2O.
[16] CO_2 emissions comprise diesel and petrol consumption for the fleet of employee vehicles (2020: 805). The employee vehicles are mainly used for private purposes (including for commuting to the workplace). In return, the employee pays a monthly amount to the company that is deducted from their gross salary. Emissions from fuel consumption were previously reported in Scope 1; due to the predominantly private use, it was decided in 2020 to report them separately as Scope 3. For simplification purposes, the previous year's figures are based on the share of carbon emissions employee vehicles in total fuel consumption in 2020 (42%).
[17] Electricity consumption calculated on the basis of appropriate estimates and extrapolations.
[18] The CO_2 emissions factor of the Federal Environmental Office (Umweltbundesamt) is used for converting electricity consumption into CO_2 emissions.
[19] Calculated by basically taking into account the German electricity mix for electricity consumption plus an explicit green electricity contract.

Consumption of resources

The freenet Group concentrates primarily on digital communication among employee as well as in dialogue with customers and business partners. It thus makes a contribution towards reducing paper consumption and making efficient use of resources in administration. This starts with the digital networking of sales channels and extends right through to avoiding the printing and posting of millions of invoices every month. At the main mobile communications brand mobilcom-debitel, this improved the share of digitally delivered invoices by more than 10 per cent to 88.4 per cent in 2020 (2019: 77.7 per cent; 2018: 74.9 per cent). At the discount brands, the share remained stable at 95.5 per cent (2019: 95.5 per cent; 2018: 95.7 per cent). Overall therefore, 89.9 per cent of all invoices are transmitted digitally (2019: 81.4 per cent; 2018: 78.8 per cent).

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

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

Table 27: Key figures on resource consumption

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

ANTI-CORRUPTION

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

As a typical economic crime, corruption occurs particularly where the briber can have an impact on large cash flows for their own benefit with comparatively small means. In the freenet Group, this risk therefore exists in the context of high-revenue contract partners, both on the customer and supplier side, for example. Based on our risk analysis, this risk is assessed to be low, because the companies in question are all entities heavily involved in compliance issues, i.e. mobile network operators doing business in Germany, suppliers of smartphones and prominent electronics retailers.

In order to be able to successfully address general compliance risks, the company has implemented a compliance management system (CMS) which has created uniform standards for compliance matters such as combating corruption throughout the Group. Compliance measures are the central responsibility of the Chief Compliance Officer (CCO) and are implemented and monitored continually for compliance in close and constructive collaboration with the Internal Audit, Human Resources and Legal departments. The CCO reports directly to the CFO and advises the CFO as the person responsible for compliance with the law and for monitoring compliance risks in the implementation of the relevant legal requirements. In addition, the CCO reports to the Supervisory Board's audit committee and informs the Supervisory Board immediately if risks arise that may endanger the continued existence of the freenet Group.

Figure 19: Compliance management structure

Management of corruption risks is based on several approaches, which are characterised by prevention, identification and reaction in each case. The Group's efforts in this area focus on specific employee information for prevention purposes. Customised training, one-on-one discussions and generally binding guidelines provide the company's employee with a stable framework with which they can align themselves. The corporate culture we embody promotes the continual exchange of information among employee and between employee and senior managers regarding the legal risks associated with their activities.

In this context, the gift, purchasing and signature guidelines have a vital role to play. While the gift guidelines are designed to prevent the undue influence of both internal and external business dealings, the signature guidelines ensure that only selected individuals can enter into transactions and, in the case of important declarations of intent, authorised representatives from different departments and divisions are always required to act as co-signatories. In addition, the purchasing policy ensures that the best suppliers are objectively procured using clear procedural parameters and by requiring the specialist department undertaking the procurement to involve the Purchasing department as a neutral party in significant transactions. Payments from customers and to suppliers are normally not settled in cash. Only when dealing with end customers does the freenet Group accept cash at customary levels in order to keep the risk of money laundering to a minimum. In addition, the Compliance unit offers a hotline which enables it to always provide legal and content-specific advice in order to enable possible uncertainties in daily work to be resolved quickly.

A multiple-channel approach is also used for identifying any legal infringements. The gift guideline requires all employee to submit a report every quarter to the Compliance unit via their superiors with regard to all gifts worth more than 20 euros given and received, so that gifts, invitations and benefits can be checked in order to establish whether they are correct and legally proper. In the freenet Group, receiving and giving gifts is only permitted if the possibility that a business decision has been influenced can be unequivocally ruled out. Possible violations of regulations are followed up by the Internal Audit and Central Fraud Management departments in particular. Finally, all employee and franchisees can report suspicious incidents to the Compliance unit around the clock via a whistleblower system – including anonymously if desired. In addition to the intranet, email and telephone, there is also an interface on the point of sale system for this purpose. As whistleblowers can remain anonymous, it is ensured that their actions have no negative consequences for them. The whistleblower committee reviews incoming tip-offs and conducts additional investigations where appropriate. The composition and working practices of the committee are explained in more detail in the section "Corporate Governance Statement".

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

SUPPLY CHAIN

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

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

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

The freenet Group's ability to exert influence on the main suppliers listed above with regard to sustainability aspects is limited given the Group's share in the suppliers' total business volume and its positioning in the value chain. Nevertheless, the freenet Group is aware of its ecological responsibility and its responsibility for human rights. The objective is therefore to ask the cooperating manufacturers and network operators to use their influence on and position in the value chain, particularly to ensure fair working conditions and to exclude conflict minerals in the production of telecommunications hardware and accessories.

Since 2018, this has been done by way of the freenet Group's own Supplier Code of Conduct, which defines minimum standards in the areas of human rights, social standards, environmental protection, safety and security, health, and compliance and is publicly available on the freenet Group's website. The Code of Conduct is generally included in all new procurement agreements and processes. Alternatively, the freenet Group requires its strategic suppliers to declare that their standards at least correspond to those of the freenet Group. Suppliers are also committed to the Code of Conduct by default via freenet's General Terms and Conditions of Purchase.

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

In the event of violations, the freenet Group reserves the right to suitably address the issue depending on the severity of the violation. This includes, but is not limited to, requesting immediate remediation of the violation, asserting claims for damages or terminating the respective contract. If suppliers or their employee wish to report a possible violation of applicable law or the freenet Group's standards, the Code of Conduct provides for direct contact for business partners to our Compliance department, which initiates investigations if required. This can also be done anonymously.

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

Sustainability aspects are incorporated into the freenet Group's purchasing policy as decision-making parameters to reinforce this self-imposed responsibility. As a Group-wide framework, the purchasing policy is intended to encourage the responsible employee to explicitly take sustainability criteria into account when making purchasing decisions. For this purpose, information about sustainability aspects, in particular environmental management, has been obtained and taken into account in advance for all tenders in addition to aspects relating to the financial situation since the second quarter of 2020. In this context, all suppliers and service providers will be required to agree to the Supplier Code of Conduct prior to submitting a quote. These aspects will be incorporated into a uniform and standardised analysis of tenders in the second quarter of 2021.

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

GROUP MANAGEMENT REPORT

CORPORATE GOVERNANCE

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

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

In its meeting on 9 December 2020, the Supervisory Board considered the regulations of the GCGC as amended on 19 December 2019 and, together with Executive Board, issued the annual Declaration of Compliance with regard to the GCGC. The Declaration of Compliance dated 9 December 2020 is included in the following Corporate Governance Statement and has been made permanently accessible on the company's website under www.freenet-group.de/investor-relations/corporate-governance/index.html.

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

In the Corporate Governance Statement in accordance with sections 289f, 315d HGB, freenet AG displays its current Declaration of Compliance in accordance with section 161 of the German Stock Corporation Act (AktG) and explains the relevant disclosures about corporate management practices that are applied over and above the statutory provisions. In addition, the working practices of the Executive and Supervisory Boards are described and the composition and working practices of the Supervisory Board's committees are disclosed. Also to be found in the following are the information regarding the percentage of women in the Executive Board and in the two management tiers below the level of the Executive Board, as well as information regarding compliance with minimum percentages of women on the Supervisory Board.

freenet AG made the following Corporate Governance Statement in accordance with sections 289f, 315d HGB which is simultaneously a part of its management report for the financial year 2020.

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

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

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

   1. The company has taken out D&O insurance for its board members. No deductible has been stipulated for Supervisory Board members because it is not evident that this would benefit the company. It is taken for granted that all Supervisory Board members carry out their duties responsibly. In order to treat all the Supervisory Board members equally, moreover, any deductible would have to be set at a uniform level, even though the members' personal financial backgrounds vary. A deductible would therefore not have an equal impact on the members of the Supervisory Board. As their responsibilities are the same, this does not seem appropriate. (2017 Code: clause 3.8 (3))

   2. The company is highly committed to transparency in its reporting. This also applies to the remuneration of the Executive Board members, the separate components of which are disclosed and discussed individually in the remuneration report. Nonetheless, the Executive Board and Supervisory Board have decided not to use the model tables in the remuneration report to present the Executive Board's remuneration. Although the service contracts with the Executive Board members provide for caps, there is a risk that the disclosure of maximum amounts for share-based payment components creates an impression which is inconsistent with the actual assumptions for the performance of the share price. (2017 Code: clause 4.2.5 sentence 5 and 6)

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

3. When appointing new members to the Executive Board, the Supervisory Board so far has appointed candidates who were best suited, in particular because of their knowledge and skills acquired in the course of their many years of service in the company. In contrast, the criteria for the composition of the Executive Board mentioned in clause 5.1.2 (1) of the 2017 Code were not the focus of the Supervisory Board's attention when previous appointments were made and from the Supervisory Board's point of view were secondary to the candidate's specific suitability. (2017 Code: clause 5.1.2 (1))

4. No age limit has been set for members of the Executive Board and the Supervisory Board. It is not evident why qualified individuals with relevant professional and other experience should not be considered as candidates solely on the grounds of their age. (2017 Code: clauses 5.1.2 sentence 8 and 5.4.1 sentence 2)

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

6. Clause 5.4.6 of the 2017 Code recommends linking performance-related remuneration for Supervisory Board members to the sustained performance of the company. The Supervisory Board's variable remuneration is set according to the dividend for the past financial year, in line with section 11 (5) of the company's articles of association. This form of variable remuneration has proven its worth in the past. (2017 Code: clause 5.4.6 (2)

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

1. Age limit for Executive Board and Supervisory Board members

a) Recommendations B.5 and C.2:

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

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

b) Statement of non-compliance:

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

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

2. Other seats held by members of the Executive Board

a) Recommendation C.5:

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

b) Statement of non-compliance:

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

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

RELEVANT DISCLOSURES ON CORPORATE GOVERNMENT PRACTICES

Freenet AG has a compliance system that is continuously expanded and enhanced. The freenet Group's chief compliance officer (CCO) reports directly to the Executive Board. He helps the Executive Board to highlight the legal requirements that are relevant for freenet AG and to implement them accordingly within the freenet Group, as well as to adapt the compliance system to changing requirements. In addition, current developments are regularly assessed on the Governance Board by the CFO together with the CCO and the Head of Audit and Fraud Management and measures are derived, if necessary. The CCO also reports regularly to the Supervisory Board's audit committee. The CCO informs the Supervisory Board whenever risks arise which endanger the continued existence of the freenet Group.

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

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

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

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

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

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

A centralised fraud management unit has also been set up, which in coordination with the individual fraud management functions in the specialist departments of the freenet Group, is responsible in particular for the introduction and improvement of effective preventive measures and processes for preventing damage to the freenet Group caused by fraud, and for investigating fraud.

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

WORKING PRACTICES OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

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

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

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

COMPOSITION AND WORKING PRACTICES OF COMMITTEES

The Executive Board has not constituted any committees.

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

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

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

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

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

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

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

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

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

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

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

DEFINED TARGETS FOR THE PERCENTAGE OF WOMEN ON THE EXECUTIVE BOARD AND ON THE TWO MANAGEMENT TIERS BELOW THE EXECUTIVE BOARD; DISCLOSURES ON COMPLIANCE WITH MINIMUM PERCENTAGES OF WOMEN ON THE SUPERVISORY BOARD
In 2017, the Supervisory Board and Executive Board have each defined the following targets for the period until 31 December 2021 with regard to the percentage of women on the Executive Board and on the two management tiers below the Executive Board:

Table 28: Target for share of women, 2021

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

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

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

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

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

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

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

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

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

SELF-ASSESSMENT OF THE SUPERVISORY BOARD

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

INDEPENDENCE

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

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

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

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

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

COMPOSITION OF SUBSCRIBED CAPITAL

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

RESTRICTION ON SHARE TRANSFER OR VOTING RIGHTS

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

EQUITY INTERESTS EXCEEDING 10 PER CENT OF THE VOTING RIGHTS

As of 31 December 2020, and on the basis of the existing notifications of voting rights, Flossbach von Storch AG, Cologne, holds an equity interest of 14.89 per cent of the voting rights in freenet AG indirectly via Flossbach von Storch Invest S.A., Luxembourg, in accordance with sections 21 et seq. WpHG.

SHARES WITH SPECIAL RIGHTS AND POWERS OF CONTROL

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

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

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

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

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

POWERS OF THE EXECUTIVE BOARD TO ISSUE SHARES

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

The Executive Board, with the approval of the Annual General Meeting, has also been authorised by a resolution of the Annual General Meeting of 27 May 2020 to increase the share capital by issuing new shares against contributions in cash or in kind up to a maximum of 12,800,000.00 euros until 2 September 2025 (Authorised Capital 2020).

In addition, on 27 May 2020, the Annual General Meeting adopted a resolution regarding a conditional capital increase involving up to a total of 12,800,000.00 euros, consisting of 12,800,000 new no-par-value registered ordinary shares (Conditional Capital 2020). The purpose of the conditional capital increase is to enable registered no-par value shares to be granted to the holders or creditors of convertible and/or bonds with warrants which are issued on the basis of the authorisation as adopted by the Annual General Meeting of 27 May 2020 under agenda item 8.1) and which provides a conversion or option right in relation to the registered no-par-value shares of the company or which establishes a conversion or option obligation in relation to these shares. The Executive Board has been authorised to determine the further details for carrying out a conditional capital increase.

POWERS OF THE EXECUTIVE BOARD TO BUY BACK SHARES

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

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

CHANGE OF CONTROL

A change of control might have an impact on the repayment claims resulting from the syndicated loan agreement between the freenet Group and a syndicate of banks as well as the promissory note loan issued by freenet AG. In such a case, these loans might be called in either in part or in their entirety without freenet being able to influence such a move. Such a change of control, irrespective of whether it precedes the takeover offer, might exist in the event of the acquisition of more than 50 per cent of the voting rights in freenet AG or if one or more persons acting in concert have the right to determine the majority of members of the Supervisory Board of freenet AG. In such a case, freenet would be exposed to the risk that subsequent financing for settling the repayment claims might not be agreed or might only be agreed subject to less favourable conditions.

COMPENSATION AGREEMENT OF THE COMPANY

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

REMUNERATION REPORT OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD

EXECUTIVE BOARD REMUNERATION IN ACCORDANCE WITH HGB

The remuneration paid to the members of the Executive Board consists of an annual fixed salary, annual variable benefits, and benefits with a long-term incentive effect. There are also pension commitments. The annual variable benefits each result from an annual target agreement in which regularly determined figures indicating the freenet Group's significant financial and non-financial performance indicators are defined as individual targets. The maximum possible target achievement for the annual variable remuneration is 150 per cent.

In addition, agreements concerning the contracts of employment that grant benefits with a long-term incentive effect (LTIP Programmes) were entered into with the members of the Executive Board. In LTIP Programme 2, which is still applicable to Mr Esch, the years 2015 to 2019 have been defined as target attainment years. In LTIP Programme 2, an LTIP account is maintained; in each financial year, depending on the extent to which defined targets for the financial year in question have been attained, credit or debit entries are made in the accounts in the form of phantom shares. Mr Esch may receive a cash payment minus taxes and duties until 30 June 2021 (end of this programme). The amount of this payment is dependent on various factors, including the relevant share price at the time of the payout.

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

In LTIP Programme 3, an LTIP account is maintained for each member of the Executive Board; in each financial year, depending on the extent to which defined targets for the financial year in question have been attained, credit entries are made in the accounts in the form of phantom shares. Then, within a predetermined period of time, cash payouts less taxes and charges can be made for each financial year, depending on the balance in the respective LTIP account. The amount of these payments is dependent on various factors, including the relevant share price at the time of the payout. Various caps exist in LTIP Programme 3. Annual payment into the virtual account is capped at 150 per cent of the basic amount. The entry figure determined can be doubled at the most, if at least 105 per cent of the EBT target for a certain financial year is achieved. When calculating payout amounts, the payout multiplier (average stock market price of the freenet share to be used) is capped at 50 euros. When calculating dividend, an amount of 20 euros per phantom share payable may not be exceeded.

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

Table 30: Executive Board remuneration for financial year 2020 according to HGB

In EUR '000s	Fixed benefits	Variable cash benefits	Total cash benefits	Benefits granted with long-term incentive component	Total benefits acc. to HGB
Christoph Vilanek	1,015	1,739	2,754	0	2,754
Ingo Arnold	511	808	1,319	0	1,319
Stephan Esch	515	308	823	0	823
Rickmann v. Platen	512	308	820	0	820
Antonius Fromme	509	308	817	0	817
Total	**3,062**	**3,471**	**6,533**	**0**	**6,533**

Table 31: Executive Board remuneration for financial year 2019 according to HGB

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

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

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

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

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

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

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

As of 31 December 2020, the obligation under commercial law for Mr Vilanek amounted to 5,692 thousand euros (previous year: 4,620 thousand euros), and the obligation for Mr Esch came to 4,880 thousand euros (previous year: 4,052 thousand euros). The obligation amount for Messrs Preisig, Spoerr, Krieger and Berger, as former Executive Board members, totalled 12,339 thousand euros as at 31 December 2020 (previous year: 11,304 thousand euros). Due to the nature of the selected commitment, there are no obligations under German commercial law for Messrs Platen, Fromme and Arnold.

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

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

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

EXECUTIVE BOARD REMUNERATION IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

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

Table 32: Benefits granted to the Executive Board for financial year 2020 in accordance with the GCGC

In EUR ’000s	Christoph Vilanek	Ingo Arnold	Stephan Esch	Rickmann v. Platen	Antonius Fromme	Total
Fixed remuneration	1,000	500	500	500	500	3,000
Fringe benefits	15	11	15	12	9	62
Total	**1,015**	**511**	**515**	**512**	**509**	**3,062**
One-year variable remuneration	1,600	750	250	250	250	3,100
Multi-year variable remuneration						
LTIP Programme 2	0	0	61	0	0	61
LTIP Programme 3	342	201	151	138	138	970
Total	**1,942**	**951**	**462**	**388**	**388**	**4,131**
Pension expense						
Current service cost	569	100	347	100	100	1,216
Past service cost	0	0	0	0	0	0
Total	**569**	**100**	**347**	**100**	**100**	**1,216**
Total remuneration	**3,526**	**1,562**	**1,324**	**1,000**	**997**	**8,409**

Table 33: Benefits granted to the Executive Board for financial year 2019 in accordance with the GCGC

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

Table 34: Benefits received by the Executive Board in financial year 2020 in accordance with the GCGC

In EUR '000s	Christoph Vilanek	Ingo Arnold	Stephan Esch	Rickmann v. Platen	Antonius Fromme	Total
Fixed remuneration	1,000	500	500	500	500	3,000
Fringe benefits	15	11	15	12	9	62
Total	**1,015**	**511**	**515**	**512**	**509**	**3,062**
One-year variable remuneration	1,239	558	308	308	308	2,721
Multi-year variable remuneration						
LTIP Programme 2	0	0	0	0	0	0
LTIP Programme 3	0	0	0	0	0	0
Total	**1,239**	**558**	**308**	**308**	**308**	**2,721**
Pension expense						
Current service cost	569	100	347	100	100	1,216
Past service cost	0	0	0	0	0	0
Total	**569**	**100**	**347**	**100**	**100**	**1,216**
Total remuneration	**2,823**	**1,169**	**1,170**	**920**	**917**	**6,999**

Table 35: Benefits received by the Executive Board in financial year 2019 in accordance with the GCGC

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

REMUNERATION ARRANGEMENTS IN THE EVENT OF A TERMINATION OF EMPLOYMENT

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

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

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

Arrangements for the former Executive Board member Joachim Preisig:

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

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

- On reaching the age of 60, Mr Vilanek shall receive a retirement pension amounting to 2.7 per cent of their last annual fixed salary for each contract year commenced on the Executive Board of the company, to a maximum of 35 per cent of the last annual fixed salary (maximum pension).
- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of their schooling or vocational training, terminating at the latest when they reach the age of 25, to a maximum total amount of the guaranteed pension or the value of pension entitlements accrued at the time of Mr Vilanek's death.
- A five-year target agreement was signed. If the service contract ends prematurely due to termination, cancellation or otherwise, or his appointment to the position is revoked, Mr Vilanek is entitled to payout of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to section 626 BGB, or that the revocation of his appointment to the position is not connected to the termination of the service contract on the part of the company, for which there is good cause under section 626 BGB, or if the contract is terminated by the member of the Executive Board, or if the service contract terminates prematurely due to permanent incapacity to serve, or due to the death of the member of the Executive Board, or if the service contract is terminated prematurely by mutual consent, provided that the cancellation is not made in order to avoid a termination of the service contract by the company, for which an important reason pursuant to section 626 BGB exists, the number of phantom shares in the long term incentive account is added to the number of phantom shares resulting from the achievement of the target agreement for the current financial year.

For the Executive Board member Stephan Esch, the following arrangement has applied since 1 January 2020:

- On reaching the age of 60, Mr Esch shall receive a retirement pension amounting to 2.5 per cent of his last annual fixed salary for each year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, but no more than 225,000.00 euros (guaranteed pension).
- Surviving dependant pension for the spouse or life companion and orphan's pension for any children until the end of their schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension or the value of pension entitlements accrued at the time of Mr Esch's death.
- A five-year target agreement was signed. If the service contract ends prematurely due to termination, cancellation or otherwise, or his appointment to the position is revoked, Mr Esch is entitled to payout of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to section 626 BGB, or that the revocation of his appointment to the position is not connected to the termination of the service contract on the part of the company, for which there is good cause under section 626 BGB, or if the contract is terminated by the member of the Executive Board, or if the service contract terminates prematurely due to permanent incapacity to serve, or due to the death of the member of the Executive Board, or if the service contract is terminated prematurely by mutual consent, provided that the cancellation is not made in order to avoid a termination of the service contract by the company, for which an important reason pursuant to section 626 BGB exists, the number of phantom shares in the long term incentive account is added to the number of phantom shares resulting from the achievement of the target agreement for the current financial year.

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

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

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

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

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

- A three-year target agreement was signed. If the service contract ends prematurely due to termination, cancellation or otherwise, or his appointment to the position is revoked, Mr Arnold is entitled to payout of the long-term incentive account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to section 626 BGB, or that the revocation of his appointment to the position is not connected to the termination of the service contract on the part of the company, for which there is good cause under section 626 BGB, or if the contract is terminated by the member of the Executive Board, or if the service contract terminates prematurely due to permanent incapacity to serve, or due to the death of the member of the Executive Board, or if the service contract is terminated prematurely by mutual consent, provided that the cancellation is not made in order to avoid a termination of the service contract by the company, for which an important reason pursuant to section 626 BGB exists, the number of phantom shares in the long term incentive account is added to the number of phantom shares resulting from the achievement of the target agreement for the current financial year.
- There are no service contracts with any subsidiaries of freenet AG.

SUPERVISORY BOARD REMUNERATION

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

- Basic remuneration
- Attendance fees
- Performance-related remuneration

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

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

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

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

For their activities during financial year 2020, the members of the company's Supervisory Board received fixed remuneration of 405 thousand euros plus attendance fees amounting to 83 thousand euros. In addition, performance-related remuneration of 405 thousand euros was also expensed. The extent to which this performance-related remuneration will be paid out depends on the profit appropriation resolution for the financial year 2020. The aggregate expenses for Supervisory Board activities thus amounted to 893 thousand euros.

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

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

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

Table 36: Remuneration for financial year 2020

In EUR '000s	Basic remuneration	Attendance fees	Performance-related remuneration	Total
Active members				
Prof. Dr. Helmut Thoma	60.0	12.0	60.0	132.0
Knut Mackeprang [1]	45.0	6.0	45.0	96.0
Claudia Anderleit [1]	30.0	5.0	30.0	65.0
Thorsten Kraemer	30.0	5.0	30.0	65.0
Marc Tüngler	30.0	9.0	30.0	69.0
Robert Weidinger	30.0	12.0	30.0	72.0
Sabine Christiansen	30.0	5.0	30.0	65.0
Thomas Reimann [1]	30.0	8.0	30.0	68.0
Fränzi Kühne	30.0	4.0	30.0	64.0
Theo-Benneke Bretsch [1]	30.0	4.0	30.0	64.0
Bente Brandt [1]	30.0	8.0	30.0	68.0
Gerhard Huck [1]	30.0	5.0	30.0	65.0
Total	**405.0**	**83.0**	**405.0**	**893.0**

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

Table 37: Remuneration for financial year 2019

In EUR '000s	Basic remuneration	Attendance fees	Performance-related remuneration	Total
Active members				
Prof. Dr. Helmut Thoma	60.0	12.0	0.0	72.0
Knut Mackeprang [1]	45.0	6.0	0.0	51.0
Claudia Anderleit [1]	30.0	5.0	0.0	35.0
Thorsten Kraemer	30.0	5.0	0.0	35.0
Marc Tüngler	30.0	7.0	0.0	37.0
Robert Weidinger	30.0	13.0	0.0	43.0
Sabine Christiansen	30.0	5.0	0.0	35.0
Thomas Reimann [1]	30.0	8.0	0.0	38.0
Fränzi Kühne	30.0	4.0	0.0	34.0
Theo-Benneke Bretsch [1]	30.0	4.0	0.0	34.0
Bente Brandt [1]	30.0	8.0	0.0	38.0
Gerhard Huck [1]	30.0	5.0	0.0	35.0
Total	**405.0**	**82.0**	**0.0**	**487.0**

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

Büdelsdorf, 4 March 2021

freenet AG

The Executive Board

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