freenet GROUP

mobilcom debitel

freenet

freeXmedia

TALKLINE

klarmobil.de

4PLAYERS.DE

STRATO AG

NEXT ID

Annual Report 2008

Group accounts of freenet AG

freenet AG • Hollerstraße 126 • 24782 Büdelsdorf

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1. To our shareholders

1. To our shareholders

1.1 Key figures

Result in € million	2008	2007 adjusted[1]	Q4/2008	Q3/2008 adjusted[1]	Q4/2007 adjusted[1]
Third-party revenue	2,873.8	1,690.8	1,090.1	1,042.4	417.5
Gross profit	641.6	445.7	221.7	227.8	101.0
EBITDA	207.1	213.7	16.2	107.4	42.6
EBIT	82.2	173.4	–37.7	55.9	31.9
EBT	–5.7	180.5	–86.1	18.7	31.7
Group result from continued operations	148.4	60.9	–68.0	165.9	–36.7
Group result from discontinued operations	–36.8	–111.9	15.4	–25.7	–38.1
Group result	111.6	–51.1	–52.6	140.2	–74.8

Balance	2008	2007 adjusted[1]	Q4/2008	Q3/2008 adjusted[1]	Q4/2007 adjusted[1]
Balance sheet total in € million	3,107.5	741.0	3,107.5	3,068.1	741.0
Shareholders' equity in € million	791.3	300.2	791.3	843.9	300.2
Equity ratio in %	25.5	40.5	25.5	27.5	40.5

Finances and investments in € million	2008	2007 adjusted[1]	Q4/2008	Q3/2008 adjusted[1]	Q4/2007 adjusted[1]
Cash flow from operating activities[2]	73.6	49.1	3.4	41.2	–20.7
Depreciation and amortisation	124.9	40.3	53.9	51.5	10.6
Investments[2]	42.8	54.4	14.2	15.5	13.3
Net cash	–1,326.1	–38.0	–1,326.1	–1,297.7	–38.0

Share	2008	2007	Q4/2008	Q3/2008	Q4/2007
Closing price XETRA (€)	4.15	15.99	4.15	6.38	15.99
Number of ordinary shares (in thousand)	128,061	96,061	128,061	128,061	96,061
Market capitalisation (in € thousand)	531,453	1,536,025	531,453	817,029	1,536,025
Earnings per share (€)	1.01	–0.54[1]	–0.40	1.15[1]	–0.78[1]

1 The previous year comparison figures have been adjusted retrospectively due to IFRS 5 (discontinued operations) and due to the cessation of capitalising customer acquisition and customer retention costs.
2 This information relates to the overall Group (including discontinued operations).

Business performance by sector in € million	**2008**	**2007 adjusted[1]**	**Q4/2008**	**Q3/2008 adjusted[1]**	**Q4/2007 adjusted[1]**
Third-party revenue for the group[2]	**2,873.8**	**1,690.8**	**1,090.1**	**1,042.4**	**417.5**
1. Revenue mobile communications	2,654.7	1,273.7	1,058.2	1,016.7	320.5
2. Revenue broadband	302.6	273.7	68.8	75.9	77.4
3. Revenue portal	47.8	56.7	11.5	9.4	15.9
4. Revenue hosting	87.7	79.9	22.4	22.5	20.5
5. Revenue B2B	101.0	134.9	27.5	22.7	33.4
6. Revenue narrowband	76.0	149.3	15.3	16.3	27.8
Group gross profit[2]	**641.6**	**445.7**	**221.7**	**227.8**	**101.0**
1. Gross profit mobile communications	468.9	226.0	185.5	187.7	51.0
2. Gross profit broadband	64.1	–12.7	11.1	18.7	–6.8
3. Gross profit portal	35.2	40.7	9.1	6.3	11.3
4. Gross profit hosting	71.6	63.7	17.8	18.3	16.4
5. Gross profit B2B	25.6	31.2	6.2	5.3	6.9
6. Gross profit narrowband	48.9	86.7	9.7	10.4	16.3

Selected key data	**2008**	**2007**	**Q4/2008**	**Q3/2008**	**Q4/2007**
Total customers freenet Group in million	23.29	11.69	23.29	24.56	11.69
Thereof contract customers in million	11.86	6.48	11.86	11.84	6.48
Mobile communications					
Mobile communications customers in million	19.12	5.70	19.12	19.97	5.70
Thereof contract customers in million	8.83	2.99	8.83	8.67	2.99
Thereof prepaid customers in million	10.29	2.71	10.29	10.61	2.71
Thereof Netherlands (debitel) in million	0.00	0.00	0.00	0.69	0.00
Gross new customers in million	17.21[3]	1.73	1.42[3]	15.02	0.48
Net additions in million	13.42	0.60	–0.85	13.98	0.26
Monthly average revenue per user (ARPU)					
Contract customer in €	25.3	27.2	25.2	25.4	26.4
No-frills customer in €	5.7	7.3	5.5	6.3	6.3
Prepaid customer in €	3.2	4.1	3.0	3.2	3.9
Active narrowband customers (internet + telephony) in million	1.41	2.96	1.41	1.74	2.96
DSL customers in million	0.94	1.28	0.94	1.05	1.28
Active registered members in million	7.92	8.96	7.92	8.22	8.96
Paid service customers Hosting in million	1.29	1.20	1.29	1.26	1.20
Paid service customers Portal in million	0.52	0.54	0.52	0.53	0.54
Employees at the end of period	7,255	3,838	7,255	7,713	3,838

1 The previous year comparison figures have been adjusted retrospectively due to IFRS 5 (discontinued operations) and due to the cessation of capitalising customer acquisition and customer retention costs.
2 The differences in revenue/gross profit between the sum of the individual segments and the total segments are the result of effects under IFRS 5 and interdivision settlements.
3 Correction to the version published on 26 March 2009 due to a printing error: Gross new customers in million in Q4/2008: 1.42 (previously published: 0.69); Gross new customers in million in 2008: 17.21 (previously published: 16.48).

1.2 Key events of the financial year 2008 in the freenet Group

March 2008

- On 2 March 2008, as the result of a review initiated in December 2007, the Board of Managing Directors and the Supervisory Board decided to spin off freenet AG's DSL business and portal business to two new subsidiaries.

April 2008

- On 27 April 2008, the freenet AG signed a contract to acquire the debitel Group.

June 2008

- Starting 2 June 2008, under the terms of an agreement with DTAG regarding IP Bitstreaming, the unbundled DSL product "freenet*Komplett*" became available throughout Germany in all subscriber territories that are open to service by DTAG.
- On 19 June 2008, the Board of Managing Directors resolved to solicit letters of interest for the broadband business from potential buyers.

July 2008

- On 5 July 2008, the acquisition of debitel Group by freenet AG was concluded. As a result, the Telco (Netherlands) Holding B.V. (formerly: debitel (Netherlands) Holding B.V.) held by Permira funds now holds 24.99 percent of shares in freenet AG.

August 2008

- On 8 August 2008, the Annual General Meeting of freenet AG confirmed the Supervisory Board and the Board of Managing Directors in their positions, and the resolutions for the revocation from office of members of freenet AG's Supervisory Board and for a vote of no confidence in Board of Managing Directors were defeated by large majorities at freenet AG's 2008 Annual General Meeting.

- On 29 September 2008 the Supervisory Board appointed Joachim Preisig as Chief Operations&Integration Officer of freenet AG.

October 2008

- On 23 October 2008, the Dutch telecommunications group KPN and debitel AG agreed to the acquisition of debitel's Dutch subsidiary by KPN. The acquisition was concluded at the end of December 2008 with its clearance by the antitrust authorities.

November 2008

- On 20 November 2008, the freenet AG Board of Managing Directors presented a restructuring concept for the Mobile Communications segment and informed the relevant workers' councils.

December 2008

- On 22 December 2008, the Supervisory Board announced that Eckhard Spoerr, Chairman & CEO of freenet AG, would be leaving freenet AG at his own request with effect from 23 January 2009. From the point of Eckhard Spoerr's resignation, Joachim Preisig was appointed as Spokesman of the Board of Managing Directors.

1.3 Letter to shareholders

Board of Managing Directors of freenet AG, f.l.t.r.: Axel Krieger, Joachim Preisig, Stephan Esch, Eric Berger

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

Undoubtedly the year 2008, with its dramatic developments, defies all conventional dimensions of comparison and assessment: the international banking and financial system on the verge of collapse, followed by plummeting revenue and profits in many industry, retail and services sectors, all of which was accompanied by burgeoning uncertainty among all participants in economic life and – as a response from the affected governments – bailouts in the hundreds of billions of euros and dollars.

For freenet AG, too, 2008 was yet another very chequered year – quite apart from the disastrous global economic conditions. After successfully concluding the merger with mobilcom AG in 2007 and – against the backdrop of massive competition in the industry – intensively reviewing other options for a consolidation of and with freenet, at the beginning of 2008 we decided to take an active role in the imminent redesign of the German telecommunications industry, after repeated talks with various possible strategic partners failed to lead to results.

With the acquisition of debitel Group in 2008, we took a decisive strategic step toward further consolidation in our industry. It resulted in the biggest network-independent telecommunications provider in Germany, with 19.1 million mobile communications customers, 7.9 million active registered members, and 1.8 million paid service customers for digital Internet services, as well as more than 0.9 million DSL customers and 1.4 million narrowband customers. Following the debitel acquisition, we command a market share of close to 20 percent in our new core business of mobile communications. Accordingly, our strategy met with strong support from our shareholders at the Annual General Meeting last summer.

Following the debitel acquisition, we took systematic steps to develop the group and secure its future. First, we integrated the considerable management expertise gained through the debitel acquisition into a shared management team recruited from all companies in the new freenet Group – freenet, mobilcom and debitel Group; this new management team then began by developing an integration concept, about which the employee representatives were informed in November 2008.

In addition, the Board of Managing Directors has drawn up the following 5-point plan to safeguard business success in the long run:

- **The freenet Group is relying on maximum operating performance to generate revenue and cash flow**
  We intend to continually improve the value creation in our operations. But this does not mean we have lost sight of our intention to sell parts of the company that are no longer part of freenet's core business – in particular our broadband business, which we are trying to place with a strong group of companies. Preparations for the sale and negotiations with interested buyers were progressing in a very promising manner until late last summer, when the worsening of the financial crisis resulted in a considerable interference with and delay of the still continuing sale process. As part of focusing on the German mobile communications market, we initiated the sale of debitel's Dutch branch to the local telecommunications group KPN soon after the acquisition and concluded the transaction before the end of the year.
- **The freenet Group is giving top priority to and applying objective benchmarks in advancing the integration of the various parts of the company; in this process, freenet promotes and cultivates an open, dialogue-oriented culture of self-responsibility**
  One of its goals is to take advantage of significant synergies by optimising the high complexity of the group's structure, with its various locations throughout Germany. Another central important task for a telecommunications company with a huge customer base is the integration of its various IT systems. The integration process is scheduled to conclude by 2010.
- **The freenet Group has developed a clear strategy for its new core business of mobile communications, and seeks to realise its growth opportunities with a combination of mobile Internet and the Portal business**
  As a service provider for all mobile networks, we offer our end customers and distribution partners the best possible selection of products; at the same time, this gives us an outstanding unique selling proposition in the market. As well as classic mobile communications, mobile Internet is another focus of our future corporate development. Here, too, we are in an excellent position to successfully implement our strategy for this segment: We possess high expertise and many years of experience in the portal business, in digital Internet services, creating attractive content and innovative advertising formats – not to mention strong distribution power and proven partnerships.

- **In the course of its activities in mobile communications the freenet Group concentrates on one mobile communications brand with a long-term brand and product strategy, which will put a stronger focus on customer needs**
  The debitel acquisition has markedly increased the brand diversity in the various market segments covered by the group. As part of merging these different brand worlds and harmonising the various mobilcom and debitel rates, freenet will from now on concentrate on the service provider brand mobilcom-debitel; this will put a stronger focus on customer needs on the one hand, and secure the customer base long-term on the other.
- **The freenet Group is Germany's largest independent sales and distribution platform for mobile communications and fixed-line products**
  Following the debitel acquisition we have massively enhanced our distribution power and proximity to customers – with nearly 1,000 branded shops and 6,000 points of sale alongside our proven online and direct-to-customer sales channels. This puts us in a position to provide independent consultation to our customers, across all networks and products.

Our latest figures show that we are on the right track with our strategy and the steps and measures we have already taken:

- Due to the consolidation of the debitel Group on 5 July 2008, revenue in the new core business of mobile communications doubled year-on-year to 2.65 billion euros and gross profit to 469 million euros;
- At group level, revenues increased by 70 percent year-on-year for the full year 2008 to 2.87 billion euros, and gross profit rose by 44 percent to around 642 million euros;
- The Group result from continued operations has also improved significantly, to 148.4 million euros in 2008; this includes one-off charges, mainly for restructuring the mobile communications segment, to the sum of 73.5 million euros.

So despite the turbulence that continues to rock the global economy, freenet AG remains on course for success with the right strategy, with its management team that has proven itself over many years, and a team that is now considerably larger but just as motivated. With all our energy, consequence and continuity we will continue working to meet the challenges and to sustainably increase the company's value added as a result.

Joachim Preisig

Axel Krieger

Stephan Esch

Eric Berger

1.4 Supervisory Board report

Professor Doctor Helmut Thoma
Chairman of the Supervisory Board

The Supervisory Board reports here on its activities during the financial year 2008. In the following, we elaborate on key areas considered by the full board, the work done by the board's committees, the annual and group audit, and personnel changes on the Board of Managing Directors and the Supervisory Board.

Overview of supervisory and advisory work

During the 2008 business year, the Supervisory Board provided the Board of Managing Directors with advice on corporate governance and oversaw its management of the business. The Board of Managing Directors involved the Supervisory Board in all decisions material to the governance of the company and regularly reported to us on the company's business progress, corporate planning, strategic development and current situation both verbally and in writing. The orderly, appropriate and efficient running of the company by the Board of Managing Directors gave us no cause for complaint.

In particular, we discussed in detail with the Board of Managing Directors the deviations taken by the business from the original plans and goals, and reviewed these on the basis of the documentation provided. The Board of Managing Directors coordinated with us the company's strategic direction following the acquisition of the debitel Group. All business events of material significance to the company were discussed in full by the Supervisory Board based on the Board of Managing Directors' reports.

Based likewise on the Board of Managing Directors' reports and after review and deliberation, we also passed formal resolutions where necessary. Where current business events required our consideration, we called meetings at short notice and dealt in a timely manner with strategic requirements. The Board of Managing Directors also kept us informed outside of formal meetings of the latest business developments. Furthermore, the Supervisory Board chairman also discussed the company's prospects and future strategic direction in meetings with the Board of Managing Directors and was kept informed of current issues and events.

During the financial year 2008, a total of nine physical board meetings took place, plus two meetings by telephone. In two cases, the Supervisory Board also took decisions by means of circulating written correspondence. With the exception of two meetings, to which one member in each instance sent their apologies, Supervisory Board meetings were all fully attended.

Any conflicts of interests that members of the Board of Managing Directors or Supervisory Board may have must be declared to the Supervisory Board and the Annual General Meeting must be duly notified. No such conflicts of interest have been declared to the Supervisory Board.

Issues discussed by the Supervisory Board

At the plenary meetings of the Supervisory Board, its members regularly discussed the group's revenue, bottom-line trends and the financial position of the group and of its individual business segments, based on reports from the Board of Managing Directors.

At our first meeting of the financial year, on 2 March 2008, we dealt with the review and approval of the final 2007 annual and group accounts. At this meeting, the auditors elaborated on the audit findings. Based on our own review, we raised no objections to the auditors' audit results and followed the audit committee's recommendation in approving the annual and group accounts. We also dealt at this meeting with the planning for the financial year 2008 and passed a resolution on spinning off freenet AG's DSL and portal business to subsidiary companies.

At three meetings on 31 March, 18 April and 27 April 2008 we dealt with the acquisition and valuation of the debitel Group. Based on the reports and expert opinion we had before us, we discussed in relation to this the evaluation methods and results, in particular the implications of the debitel Group's financial liabilities, the appropriateness of the imbursement for the acquisition, and the risks arising from the acquisition.

In a conference call on 30 May 2008 we agreed the agenda for the 2008 Annual General Meeting. We also reviewed the Board of Managing Directors' proposal for profit appropriation. In light of the acquisition of the debitel Group, the associated financial factors and the company's ongoing strategic development we, as well as the Board of Managing Directors, felt that the payment of a dividend would be inappropriate.

The employee representatives newly elected on 7 July 2008 took part in a board meeting for the first time at our physical meeting on 22 July 2008. Membership of the Supervisory Board's sub-committees was reorganised at this meeting and Franziska Oelte was also elected as the board's Deputy Chair. The Board of Managing Directors reported on current business developments, the status of debitel's integration and on that of preparations for the Annual General Meeting.

At the meeting on 8 August 2008 we made the final preparations for the 2008 ordinary Annual General Meeting. Oliver Brexl informed us that he would be stepping down with effect from the end of the Annual General Meeting. The Annual General Meeting elected Lars P. Reichelt to the Supervisory Board in his place.

In the meeting held as a conference call on 29 September 2008 we appointed Joachim Preisig to the Board of Managing Directors as Director of Operations&Integration. We also agreed to the issue of stock appreciation rights to Mr. Preisig. In this meeting we also appointed Axel Krieger as Deputy Chairman of the Board of Managing Directors.

On 20 October 2008 we approved by circulation procedure the sale of the debitel Group's Dutch activities.

At our meeting on 19 November 2008 we discussed the integration of the debitel Group and approved the Board of Managing Directors' restructuring plans for the mobile communications segment, comprised in particular of the site strategy and the plan for integrating the IT systems. The meeting also discussed M&A activities and the group's business development.

At a meeting on 10 December 2008 we dealt with the mobile communications segment's strategic focus for the future and approved the Board of Managing Directors' brand strategy. We also approved the planning for the financial year 2009. We furthermore took a decision on the declaration relating to the German Corporate Governance Code.

In a telephone meeting on 22 December 2008 we dealt with Mr. Eckhard Spoerr's wish to leave the company and agreed to his resignation with effect from 23 January 2009. We also appointed Joachim Preisig as Spokesman of the Board of Managing Directors with effect from the point of Mr. Spoerr's resignation.

Following the end of the reporting year, we held a further telephone meeting on 28 January 2009, in which we reorganised the allocation of departmental responsibilities on the Board of Managing Directors. On 25 March 2009 we dealt in the course of a physical meeting with the review of the annual and group accounts to 31 December 2008.

Work of the Supervisory Board committees

In order to deal efficiently with its duties the Supervisory Board has set up one executive committee and four sub-committees. The sub-committees prepare the issues and draft Supervisory Board resolutions to be discussed by the full board. They also deal with duties transferred to them pursuant to the recommendations of the German Corporate Governance Code. To the extent that legislation permits, the Supervisory Board's decision-making authority was also delegated to sub-committees in some individual cases. We regard this division of duties as sensible, as it has proven itself in practice. The Supervisory Board chairman chairs all of the committees, except the audit committee. The respective committee chairmen reported to the full Supervisory Board on the matters discussed at their sub-committee meetings.

The executive committee met four times during the reporting year and dealt at its meetings largely with strategic matters. The focus of its deliberations in these meetings was on the corporate planning for the financial year 2008, M&A activities and the integration of the debitel Group. Another topic dealt with was the implementation of German Corporate Governance Code recommendations. In addition to Prof. Dr. Helmut Thoma, who chairs the executive committee, its members are Franziska Oelte, Richard Roy and Matthias Schneider (since 22 July 2008). Birgit Geffke was a member of the committee until 7 July 2008.

The audit committee met three times in 2008. The focus of its work was on the annual and group accounts and the auditors' audit reports. The committee also dealt with risk management and company compliance issues. The audit committee obtained the auditors' declaration of independence pursuant to clause 7.2.1 of the German Corporate Governance Code, monitored the auditors' independence, commissioned the audit and defined its key areas of focus. The auditors took part in two audit committee meetings, reporting on the one hand in detail on how the audit was going and on the other on planned audit actions and events that arose while the audit was being conducted. The audit committee is made up of Prof. Dr. Hans-Joachim Priester (chairman), Dr. Dieter Leuering, Matthias Schneider and Steffen Vodel (the latter two since 22 July 2008). Sascha Lucht and Andreas Neumann were members of this committee until 7 July 2008.

The personnel committee is responsible for the contracts of employment with members of the Board of Managing Directors and for their remuneration. This committee held eight meetings, three as teleconferences, and discussed the level of compensation for the members of the Board of Managing Directors, ratification of stock appreciation rights and increasing the size of the Board of Managing Directors through the addition of Joachim Preisig. Another focus of the committee's work was the ultimately unsuccessful negotiations with Oliver Steil about his appointment to the company's Board of Managing Directors. The personnel committee consists of Prof. Dr. Helmut Thoma (chairman), Claudia Anderleit und Joachim Halefeld (both since 22 July 2008) and Richard Roy (since 18 August 2008). Birgit Geffke and Sascha Lucht were members of this committee until 7 July 2008 and Oliver Brexl until 8 August 2008.

The mediation committee pursuant to clause 27, paragraph 3 of the German Co-Determination Act (MitbestG) was not convened during the financial year 2008. The members of this committee are Prof. Dr. Helmut Thoma (chairman), Franziska Oelte and Claudia Anderleit (both since 22 July 2008). Birgit Geffke and Ulrike Scharlach (both on 7 July) and Oliver Brexl (on 8 August) left the committee during the year.

The nominations committee, which for future new elections will suggest suitable candidates to the Supervisory Board to propose to the Annual General Meeting, dealt at its only meeting on 6 August 2008 with Oliver Brexl's departure from office with effect from the end of the 2008 ordinary Annual General Meeting. Its members are Prof. Dr. Helmut Thoma (chairman), Richard Roy and Thorsten Kraemer.

Annual and group audit for the financial year 2008

The annual accounts for the financial year 1 January to 31 December 2008 prepared by the Board of Managing Directors in accordance with the rules of the German Commercial Code (HGB) and the freenet AG management report were audited by Pricewaterhouse-Coopers AG WPG of Frankfurt am Main. The audit was commissioned by the Supervisory Board's audit committee in accordance with the resolution of the ordinary Annual General Meeting passed on 8 August 2008. The auditors issued an unqualified audit report.

The freenet AG group accounts to 31 December 2008 were produced in accordance with clause 315a of the German Commercial Code (HGB) based on the IFRS international accounting standards. The audit of these accounts and of the group management report was also unqualified.

The audit committee had defined the following three key areas of focus for the year-end audit for this reporting year: the debitel acquisition (especially the associated assumption of financial liabilities and the integration risks), the DSL segment's balance sheet accounting and the capitalisation of customer acquisition costs. The reports on these matters, as well as all other audit reports and final accounts documents, were sent on time to all Supervisory Board members. They were discussed within the audit committee on 11 February and 25 March 2009 and at a meeting of the Supervisory Board also on 25 March 2009. The auditors took part in the discussion of the annual and group accounts in the meetings of both the committee and the board. They reported on the material findings of the audits and made themselves available to the audit committee and Supervisory Board to answer any supplementary questions or provide further information. Details of the audit of the company's early risk-detection system were also included in the auditors' reports.

After our own review of the annual accounts, the final group accounts, the management report and the group management report, we concurred with the audit findings produced by the auditors with no objections and in accordance with the recommendation of the audit committee approved the annual and group final accounts at our meeting on 25 March 2009. The final annual accounts are thus formally adopted.

Changes in the Supervisory Board and Board of Managing Directors

There were several personnel changes on the freenet AG Supervisory Board during the financial year. The term of office of the employee representatives ended on 7 July 2008. The previous representatives were replaced by newly elected Supervisory Board members Claudia Anderleit, Joachim Halefeld, Hans-Jürgen Klempau, Matthias Schneider and Steffen Vodel. Franziska Oelte was re-elected by the workforce and elected Deputy Chair by the full Supervisory Board on 22 July 2008.

After Oliver Brexl had resigned his post with effect from the end of the ordinary Annual General Meeting on 8 August 2008, the Annual General Meeting elected Lars P. Reichelt to the Supervisory Board for the remainder of Mr. Brexl's term of office. As an alternate for Mr. Reichelt the Annual General Meeting elected Olaf Schulz.

On 29 September we appointed Axel Krieger Deputy Chairman of the Board of Managing Directors and appointed Joachim Preisig member of the Board of Managing Directors for Operations&Integration with effect until 31 August 2011. Since 24 January 2009, Mr. Preisig has also been the spokesman of the Board of Managing Directors. The chairman of the Board of Managing Directors, Eckhard Spoerr, stepped down on 23 January 2009.

The Supervisory Board would like to thank all departed members for their constructive and expert contributions and for their faithful collaboration.

The Supervisory Board expresses its appreciation to the Board of Managing Directors for its achievements and success during the reporting year and thanks all employees for their exceptional hard work and commitment throughout 2008.

To ensure that the company can focus with the necessary calm and concentration on the challenges ahead, former CEO Eckhard Spoerr offered to step down from his position in December 2008. We combine this step with the hope for calmer waters ahead for the company, and thank Mr. Spoerr for his exceedingly successful work to build and develop freenet into one of Germany's leading telecommunications groups.

Büdelsdorf, 25 March 2009

The Supervisory Board

Prof. Dr. Helmut Thoma
Chairman

1.5 The freenet share

Market developments and share performance

2008 was one of the worst years in history of the stock market. The crisis in the financial markets which began with the collapse of renowned banks in the US quickly spread to Europe and Asia and the other business segments and triggered a massive worldwide economic downturn. After a good first quarter in 2008, Germany's export-oriented economy slipped into recession during the second half of the year, and the IFO Index dropped to its lowest level in 25 years.

The global economic crisis was reflected in a drastic downward spiral in the international stock-market indexes: America's S&P 500 declined by 39 percent in 2008, the Nasdaq 100 and Japan's Nikkei index plummeted 42 percent each. The German stock-market barometers saw declines on a similar scale: The DAX index fell by 40 percent last year, the MDAX more than 43 percent and the TecDAX plunged by nearly 48 percent.

freenet shares

On 2 January 2008, freenet's share price started out at 15.99 euro. In January 2008, like its benchmark index (TecDAX), it lost up to 25 percent of its value. By mid-year, following very volatile developments with some significant price drops, it had pulled level with the TecDAX again, but the latter was roughly 30 percent below its value at 31 December 2007. By the end of the year, the TecDAX had plummeted by nearly 48 percent, and freenet's share was listed at 4.15 euro.

Over the course of the year, 161.1 million freenet shares were traded, a 5.6 percent increase year-on-year. The average daily trading volume during the past financial year was 634.2 thousand shares, versus 605.0 thousand shares in 2007.

Capital increase

The issue of 32,000,000 new shares and their admission to trading were carried out as part of freenet's acquisition of debitel Group on 5/7 July 2008. This was part of the share purchase agreement signed with Telco (Netherlands) Holding B.V. (formerly debitel (Netherlands) Holding B.V.), a holding company majority-controlled by Permira funds.

Shareholder structure

The group of shareholders, consisting of United Internet AG, Drillisch AG and Mr. Ralph Dommermuth, owns a total of 25.91 percent in freenet AG, directly or via the joint MSP Holding GmbH. Following the admission to trading of the new shares issued (as part of the acquisition of debitel Group) to Telco (Netherlands) Holding B.V., the latter holds 24.99 percent of the voting rights. Hermes Focus Asset Management Europe Limited owns other parts of the company totalling 5.00 percent.

At the end of the financial year, free float amounted to 44.10 percent, distributed among a broad base of private and institutional investors in Germany and abroad.

Earnings per share

Undiluted/diluted earnings per share (EPS) in the reporting year stood at 1.01 euro compared to –0.54 euro in 2007.

Undiluted/diluted EPS from continued operations in 2008 stood at 1.34 euro (0.63 euro in 2007) and the undiluted/diluted EPS from discontinued operations was –0.33 euro for the past financial year (–1.17 euro in 2007).

The basis for calculating EPS is the weighted average of outstanding shares.

	2008	2007 adjusted
Earnings per share (undiluted) in €	**1.01**	**–0.54**
Earnings per share (diluted) in €	**1.01**	**–0.54**
Earnings per share from continued operations (undiluted) in €	1.34	0.63
Earnings per share from continued operations (diluted) in €	1.34	0.63
Earnings per share from discontinued operations (undiluted) in €	–0.33	–1.17
Earnings per share from discontinued operations (diluted) in €	–0.33	–1.17
Weighted average of circulating shares in thousand (undiluted)	110,728	96,061
Weighted average of circulating shares in thousand (diluted)	110,728	96,076

Information about freenet shares

Master Data

Name	freenet AG
Type of share	no-par-value share
ISIN	DE000A0EAMM0
WKN	A0EAMM
Sector	DAXsector All Software (Performance)
Transparency Standard	Prime Standard
Market Segment	Regulated Market

Information on the Security

Class	Bearer shares without par value
Index	TecDAX
Capital Stock	128,061,016.00 euro
Quantity of shares	128,061,016

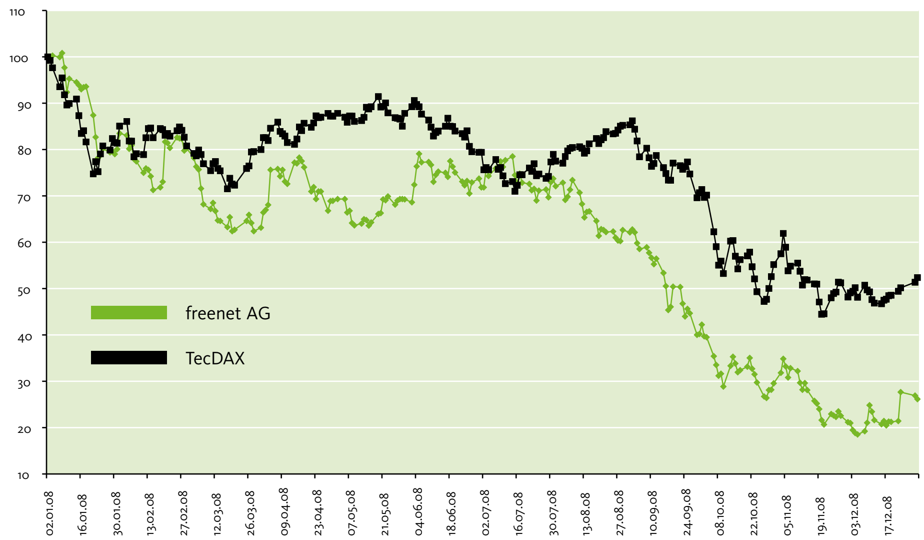
XETRA Trading Parameters

Symbol	FNT
Reuters Instrument Code	FNTG.DE
Designated Sponsor	Close Brothers Seydler Bank AG Equinet Aktiengesellschaft
Trading Model Type	Continuous Trading

History of circulating shares	
Quantity of issued shares on 1 January 2008	96,061,016
Capital increase and issue of shares on 5/7 July 2008 as part of freenet's acquisition of debitel Group	32,000,000
Quantity of issued shares on 31 December 2008	128,061,016

Price Performance 2008

(indexed price performance freenet AG und TecDAX)



Shareholder structure

1.6 Corporate Governance report

The company identifies with the aims of the German Corporate Governance Code and the principles of transparent, responsible management and control of the business, designed to increase value. The freenet Group Board of Managing Directors, Supervisory Board, all managers and members of staff are committed to these objectives.

Since issuing its last statement of compliance in December 2007, freenet AG has, with the exceptions listed below, complied with the recommendations contained in the current version of the German Corporate Governance Code (as issued on 14 June 2007/as amended on 6 June 2008) and intends also to comply in future with the recommendations of the 6 June 2008 version, except in cases where there is a declaration to the contrary from the company below.

1. The company has taken out D&O insurance for its directors and officers. This insurance includes no excess for members of the Board of Managing Directors or the Supervisory Board (clause 3.8, sentence 3 of the Code). The terms of the D&O insurance policy are subject to ongoing review, especially in respect of the excess, as there is no visible benefit to the company associated with this. Acting responsibly is a given duty for all Board members.
2. The structure of the compensation system and a regular review of the Board of Managing Directors' compensation is undertaken not by the full Supervisory Board, but, pursuant to clause 11, paragraph 2 of the Supervisory Board's procedural rules, by the freenet AG Supervisory Board's personnel committee (clause 4.2.2, sentence 1 of the Code). The Supervisory Board is of the view that operating in this way helps to make its work more efficient.
3. The management contract signed with the Board member Mr. Joachim Preisig does not contain a cap on settlements equal to the value of two annual payments (settlement cap; clause 4.2.3 sentence 9 of the Code) in case of early termination without important reason. Given the three-year term of the contract, the Supervisory Board assesses the risk of early contract termination without important reason to be manageable, and also considers the adoption of the settlement clause from the prior-existing employment contract between Mr. Joachim Preisig and debitel AG to be appropriate. The Supervisory Board intends to comply with the Code's recommendation in future management contracts wherever possible.
4. No age limit is currently set either for members of the Board of Managing Directors or for members of the Supervisory Board. In the Supervisory Board's opinion it makes no sense that well-qualified people with great professional and personal experience should not be considered as candidates simply due to their age (clause 5.1.2, sentence 6 and clause 5.4.1, sentence 2 of the Code).
5. The half year report 2008 and the report on the third quarter of 2008 were not discussed with the Board of Managing Directors by the Supervisory Board or its audit committee prior to their respective publication (clause 7.1.2 sentence 2 of the Code in the 6 June 2008 version). In each case, the discussion took place following publication. For organisational reasons, a prior discussion was not yet possible within the time limits specified (clause 7.1.2 sentence 4 of the Code); in future, however, this advance discussion will be held.

The Board of Managing Directors and the Supervisory Board made this declaration in December 2008 and have published it on the company's website.

Compensation report

Board of Managing Directors

In accordance with the Supervisory Board's procedural rules, compensation for the Board of Managing Directors is set by the freenet AG Supervisory Board's personnel committee.

The compensation of members of the Board of Managing Directors of the company and its predecessor companies is composed as follows:

Compensation for the financial year 2008 in €'000s	**Fixed compensation**	**Variable compensation from stock option and stock appreciation rights[1]**	**Other variable compensation**	**Total compensation**
Eckhard Spoerr	641	–3,310	410	–2,259
Axel Krieger	361	–2,069	155	–1,553
Stephan Esch	254	–1,034	60	–720
Eric Berger	253	–620	60	–307
Joachim Preisig[2]	105	55	100	260
	1,614	**–6,978**	**785**	**–4,579**

1 Incl. non-cash compensation valued in accordance with IFRS 2.
2 Compensation after beeing appointed to the Board of Managing Directors of freenet AG, i.e. for the period 30 September to 31 December 2008.

Compensation for the financial year 2007 in €'000s	**Fixed compensation**	**Variable compensation from stock option and stock appreciation rights[1]**	**Other variable compensation**	**Total compensation**
Eckhard Spoerr	642	3,408	358	4,408
Axel Krieger	357	2,130	142	2,629
Stephan Esch	257	1,065	53	1,375
Eric Berger	211	639	53	903
	1,467	**7,242**	**606**	**9,315**

1 Incl. non-cash compensation valued in accordance with IFRS 2.

In the financial year 2008, 400,000 stock appreciation rights were issued to Mr. Preisig, who took up his duties as member of the Board of Managing Directors of freenet AG as of 30 September 2008. The stock appreciation rights issued to Mr. Preisig in 2008 had a total value of 1,391 thousand euros on the date of issue, 1 September 2008. No new stock appreciation rights or stock options were issued to the other members of the company's Board of Managing Directors during the financial year 2008.

The compensation of the members of the Board of Managing Directors Spoerr, Krieger, Esch and Berger in 2008 is shown as negative sums, which can be attributed to the decrease in provisions for stock appreciation rights, which are largely determined by the share price at the reporting date. Not taking into account the negative compensation components arising from stock options and stock appreciation rights, compensation in the financial year 2008 came to 1,051 thousand euros for Mr. Spoerr, 516 thousand euros for Mr. Krieger, 314 thousand euros for Mr. Esch, 313 thousand euros for Mr. Berger, and 205 thousand euros for Mr. Preisig.

Beyond this, a payment of 2,000 thousand euros was agreed with Mr. Spoerr in the financial year 2008 to settle the claims contained in his employment contract, due to the early cancellation of his employment status with effect from 23 January 2009.

Altogether in 2008 directors' compensation within the terms of clause 314 paragraph 1 No. 6a HGB (cash payments, including the sum paid to Mr. Spoerr to settle his contractual entitlements, plus the newly issued stock appreciation rights at their total value at time of issue in the financial year) amounted to 5,790 thousand euros.

At 31 December 2008, the provisions for stock options and stock appreciation rights amounted to 563 thousand euros for Mr. Spoerr (previous year: 3,873 thousand euros), 352 thousand euros for Mr. Krieger (previous year: 2.421 thousand euros), 176 thousand euros (previous year: 1,210 thousand euros) for Mr. Esch, 106 thosand euros for Mr. Berger (previous year: 726 thousand euros) and 55 thousand euros for Mr. Preisig (previous year: 0).

In the financial year 2008, no cash was paid out on stock options and stock appreciation rights. In the previous year, 2007, 4,272 thousand euros were paid out to Mr. Spoerr, 3,402 thousand euros to Mr. Krieger, 1,022 thousand euros to Mr. Esch and 732 thousand euros to Mr. Berger.

In November 2004, Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger were granted direct assurance of a pension. At 31 December 2008, the Defined Benefit Obligation (DBO) was 894 thousand euros for Mr. Spoerr (previous year: 835 thousand euros), 473 thousand euros for Mr. Krieger (previous year: 442 thousand euros), 164 thousand euros for Mr. Esch (previous year: 137 thousand euros) and 163 thousand euros for Mr. Berger (previous year: 136 thousand euros). At 1 September 2008, freenet AG took over the pension commitment made by debitel AG to Mr. Preisig. At 31 December 2008, the DBO for Mr. Preisig was 137 thousand euros.

Based on the pension commitments to the members of the Board of Managing Directors, a total of 222 thousand euros in ongoing and subsequent service costs (previous year: 597 thousand euros) was included under Personnel Expenditure.

No loans were granted to members of the Board of Managing Directors during the year under review, nor were sureties or other guarantees made for any member of the Board of Managing Directors.

Compensation provisions for the event of a member of the Board of Managing Directors ceasing to be employed

Pensions
In November 2004, all members of the Board of Managing Directors of the former freenet.de AG were each granted direct assurance of a pension by freenet.de AG.

Upon termination of employment, freenet AG Board members are entitled to the benefits described under item 34 of the Notes.

Premature termination of employment contract
Service contracts in effect with mobilcom and freenet.de before the merger were transferred to the Company when the merger came into effect. The old contracts, which continued to be legally valid, were replaced by new ones. With the exception of the level of compensation, including the number of stock appreciation rights, the new contracts were the same as the old ones, including the terms of benefits in the event of the employment (prematurely) ending. No right exists to claim compensation for loss of office if a member of the Board of Managing Directors is responsible him/herself for the (premature) ending of his/her service contract.

Specifically, the company's service contracts provide the following benefits for the Board members Axel Krieger, Stephan Esch, and Eric Berger in the event of termination of employment:

- The right to payment of salary and bonuses (based on the assumption of 100 percent achievement of targets) for the remaining period of the contract where by mutual agreement the service contract is ended or notice to end is served within, in either case, twelve months of a change of control of the company.
- From their 60th birthday, the aforementioned members of the Board of Managing Directors shall receive a pension amounting to 2.5 percent of final base salary for each year commenced on the Board of the company or its legal predecessor at freenet.de AG, to a maximum of one-third of final annual base salary (guaranteed pension).
- Survivor annuity for the wife 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.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. If employment is terminated due to a change of control, all stock appreciation rights remain in force and can be exercised regardless of the vesting period if the other exercise conditions are met within twelve months, but not later than the end of the term. In the event of a member of the Board of Managing Directors terminating his/her service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

For the member of the Board of Managing Directors Joachim Preisig, the following rules apply from 1 September 2008:

- Upon retirement on reaching the age of 60, Mr. Joachim Preisig shall receive a pension in the amount of 9,333.00 euros (guaranteed pension). If he leaves early, Mr. Preisig shall receive a pension, after reaching the age of 60 and once the conditions prerequisite to non-forfeiture arise, which is calculated according to legal requirements, hence there is a scaling of the guaranteed pension based on the actual length of service.
- Survivor annuity for the spouse and orphan's pension for binding individual child custody rights on the basis of the confirmed pension for Joachim Preisig. Widows' and orphans' pensions combined may not exceed 90 percent of the pension that Mr. Preisig was entitled to or eligible for at the time of his death. On reaching the age of 18, orphans will cease to be entitled to receive the monthly orphan's pension. At this point, a one-time lump-sum payment amounting to 24 times the monthly pension is paid.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. In the event of a member of the Board of Managing Directors terminating his/her service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

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

Please also refer to item 34 in the Group appendix for further information, in particular about compensation amounts, stock appreciation rights held, share ownership and other details.

Supervisory Board

The compensation of the Supervisory Board is regulated by the statutes. The salary for the financial year 2008 consists of three components:

- a basic compensation
- an attendance fee for meetings and
- performance-based compensation

For each full financial year of membership, the members of the Supervisory Board receive a basic compensation of 12,000 euros from the company. The chairman of the Supervisory Board receives double this amount, while the deputy receives one and a half times this amount.

Each member of the Supervisory Board will also receive an attendance fee of 1,000 euros for each Supervisory Board meeting they attend. Supervisory Board members who are on a Supervisory Board committee – with the exception of the committee formed according to clause 27 paragraph 3 of the Co-determination Act – receive an additional attendance fee of 1,000 euros for each committee meeting they attend. The committee chairman receives double this amount.

Supervisory Board members also receive variable compensation at the end of each financial year of 500 euros per 0.01 euro in dividend per share distributed above 0.10 euro per share to shareholders in the past financial year. The variable compensation is limited to the fixed amount of compensation owed. The chairman of the Supervisory Board receives double this amount, while his deputy receives one and a half times this amount.

For their work during the financial year 2008 the company's Supervisory Board members received a fixed fee of 161.9 thousand euros and 214 thousand euros in attendance fees. In addition, a performance-based compensation up to the limit (of the amount of fixed compensation) of 161.9 thousand euros was included under expenditure. The extent to which this performance-based compensation will be paid is dependent on the profit-allocation decision for the financial year 2008. This brings total expenditure on Supervisory Board activities to 537.8 thousand euros.

Supervisory Board members also receive compensation for expenses incurred in connection with the exercise of their mandate, including value added tax.

Individual figures for the past two financial years are shown in the following tables. It should be noted that due to the number format there may be rounding differences in the interim and final sums, as the figures have been rounded to one decimal point.

Compensation for the financial year 2008 (€'000s)	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Prof. Dr. Helmut Thoma	24.0	39.0	24.0	87.0
Franziska Oelte[1]	14.7	16.0	14.7	45.4
Claudia Anderleit[1]	5.8	11.0	5.8	22.6
Joachim Halefeld[1]	5.8	11.0	5.8	22.6
Hans-Jürgen Klempau[1]	5.8	6.0	5.8	17.6
Thorsten Kraemer	12.0	12.0	12.0	36.0
Dr. Dieter Leuering	12.0	14.0	12.0	38.0
Prof. Dr. Hans-Joachim Priester	12.0	16.0	12.0	40.0
Lars P. Reichelt	4.8	4.0	4.8	13.5
Richard Roy	12.0	21.0	12.0	45.0
Matthias Schneider[1]	5.8	11.0	5.8	22.6
Steffen Vodel[1]	5.8	8.0	5.8	19.6
	120.5	**169.0**	**120.5**	**410.1**
Former members				
Oliver Brexl	7.3	11.0	7.3	25.6
Birgit Geffke[1]	9.3	9.0	9.3	27.6
Sascha Lucht[1]	6.2	9.0	6.2	21.4
Andreas Neumann[1]	6.2	6.0	6.2	18.4
Kai Petersen[1]	6.2	5.0	6.2	17.4
Ulrike Scharlach[1]	6.2	5.0	6.2	17.4
	41.4	**45.0**	**41.4**	**127.7**
	161.9	**214.0**	**161.9**	**537.8**

1 Employee representatives in accordance with section 7 (1) sent 1 no. 1 MitbestG of 4 May 1976.

Compensation for the financial year 2007 (€'000s)	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Prof. Dr. Helmut Thoma	22.3	23.0	22.3	67.6
Birgit Geffke[1]	15.5	19.0	15.5	50.0
Oliver Brexl	12.0	14.0	12.0	38.0
Thorsten Kraemer	5.4	4.0	5.4	14.8
Dr. Dieter Leuering	5.4	5.0	5.4	15.8
Sascha Lucht[1]	10.4	15.0	10.4	35.7
Andreas Neumann[1]	10.4	10.0	10.4	30.7
Franziska Oelte[1]	10.4	14.0	10.4	34.7
Kai Petersen[1]	10.4	8.0	10.4	28.7
Prof. Dr. Hans-Joachim Priester	10.0	10.0	10.0	30.0
Richard Roy	5.4	7.0	5.4	17.8
Ulrike Scharlach[1]	10.4	7.0	10.4	27.7
	127.8	**136.0**	**127.8**	**391.6**
Former members				
Christian Burger[2]	1.0	0.0	1.0	2.1
Andrew John Dechet	5.5	2.0	5.5	13.1
Bastian Frederik Lueken	4.7	3.0	4.7	12.3
Prof. Klaus-Dieter Scheurle[2]	1.6	0.0	1.6	3.1
Prof. Dr. G. Konrad Schmidt	6.4	4.0	6.4	16.8
Prof. Dr. Dieter H. Vogel[3]	3.5	5.0	3.5	12.0
	22.7	**14.0**	**22.7**	**59.4**
	150.5	**150.0**	**150.5**	**451.0**

1 Employee representatives in accordance with section 7 (1) sent 1 no. 1 MitbestG of 4 May 1976.
2 Member of the Supervisory Board of the former freenet.de AG.
3 Member of the Supervisory Board of the former mobilcom AG.
4 Variable compensation in accordance with section 11 (5) of the articles of incorporation was not paid because no dividend for 2007 was adopted by the shareholders' meeting. The provision which had been created was reversed in the financial year 2008.

2. Group management report

2. Group management report

Important note:

This group management report (management report) should be read in context with the group's audited financial data and appendices.

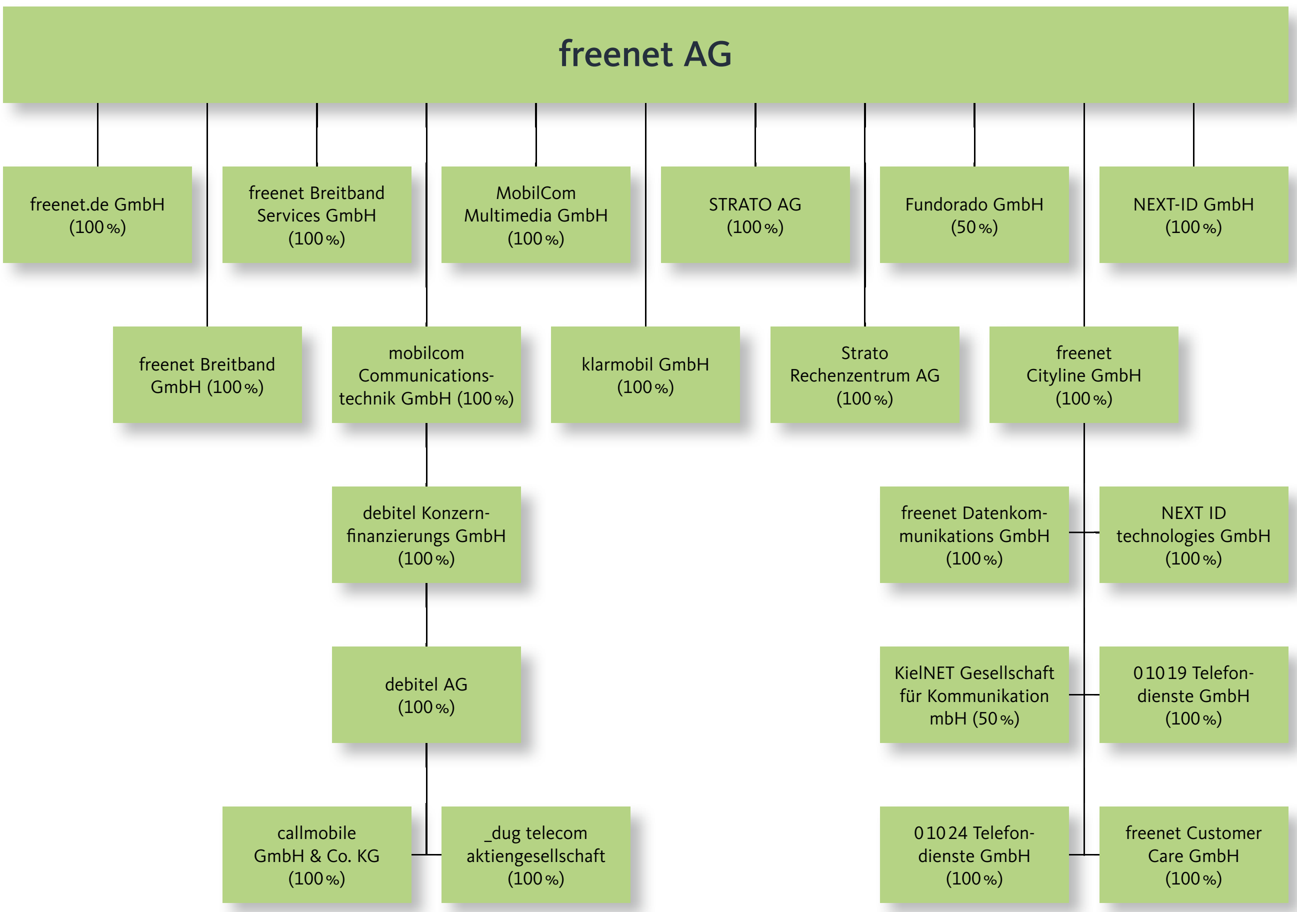
This report includes statements looking into the future, i.e. statements that are based not on historic facts but on current plans, assumptions and estimates. Forward-looking statements are valid only at the time that they are made. freenet AG accepts no obligation to modify these in the event that new information comes to light. Statements about the future are by their nature subject to risks and uncertainty. We therefore explicitly point out that a range of factors may influence actual results to such effect that they then differ appreciably from those forecast. Some of these factors are described in the "Risk Reporting" section and in other parts of this report.

2.1 Group structure

The conclusion of freenet AG's acquisition of debitel Group on 5 July 2008 resulted in a significant expansion of the Group to include the key debitel Group companies, i.e. debitel Konzernfinanzierungs GmbH in Stuttgart, debitel AG, Stuttgart, _dug telecom aktiengesellschaft in Oberkrämer, and callmobile GmbH & Co. KG in Hamburg.

Two major new Group companies were also founded during the past financial year 2008: freenet Broadband GmbH, to which freenet AG's broadband business was spun off, and freenet.de GmbH, to which freenet AG's portal business was spun off.

Major companies in the Group:



2.2 Overview of business trends in the freenet Group

Economic conditions / Market developments in 2008

Overall market and performance

2008 was one of the worst years in history of the stock market. The crisis in the financial markets which began with the collapse of renowned banks in the US quickly spread to Europe and Asia and the other business segments and triggered a massive worldwide economic downturn. After a good first quarter in 2008, Germany's export-oriented economy slipped into recession during the second half of the year, and the IFO Index dropped to its lowest level in 25 years.

The global economic crisis was reflected in a drastic downward spiral in the international stock-market indexes: America's S&P 500 declined by 39 percent in 2008, the Nasdaq 100 and Japan's Nikkei index plummeted 42 percent each. The German stock-market barometers saw declines on a similar scale: The DAX index fell by 40 percent last year, the MDAX more than 43 percent and the TecDAX plunged by nearly 48 percent.

Telecommunications market

Revenues in the German telecommunications market have been on a slight downward trend since the middle of the decade. Dialog Consult/VATM estimates indicate that 2008 was no exception, with revenues down by 4.1 percent to 60.6 billion euros. This affected both traditional fixed-line telephony and mobile communications. And according to statements issued by BITKOM (2008), the trend is set to continue this year.

Although the mobile communications market has benefited from a 13-percent increase in mobile contracts (SIM cards) to nearly 110 million – which corresponds to penetration of around 134 percent according to figures published by Germany's Federal Network Agency (Bundesnetzagentur) – the VATM reports that the continuing decline in rates caused revenues to shrink by 3 percent in 2008.

According to the VATM, voice telephony is still the most important revenue driver; however there was another steep increase in income from non-voice services in 2008, by 11.4 percent to 4.9 billion euros. The decline in SMS and MMS services continued, while data services grew by 35 percent year-on-year, to 2.3 billion euros; compared to 2006, they have more than doubled.

The German Advertising Federation (ZAW) sees hard times ahead in advertising sales, a negative trend that had already begun to crystallise in autumn 2008. The latest forecast by the Zenith-Optimedia media agency predicts that the German ad sales market will shrink by nearly five percent in 2009. Portals with a focus on the financial sector and stock markets will be especially hard hit.

The VATM expects a 4.9-percent decline for the Internet/fixed-line telephony segment in 2008. Deutsche Telekom AG's (DTAG) competitors were able to increase their number of minutes by 4.7 percent to over 380 million minutes per day, but the shift toward DSL-based full-range subscriptions continues.

Accordingly, the broadband market continued to grow in 2008, by an estimated 4.2 million to approx. 23.9 million lines. DTAG defended its market share of over 45 percent, adding another 1.8 million direct DT lines during the year. In alternative DSL connectivity, there was a shift away from DT Resale (–0.6 million) toward alternative network operators (+2.0 million). And although other types of connectivity – in particular broadband cable modems – were able to double their growth, adding one million new lines, their total two million broadband lines give them a market share of just 8.4 percent.

In all, according to an article in Süddeutsche Zeitung dated 4 February 2009, industry experts expect further revenue declines in the telecommunications sector, as the pressure on rates continues due to strong competition and rulings by the regulatory authority.

Webhosting continues to be a growth market. However, analyses by DENIC e.G. indicate that growth is slowing down among .de-domains – to an estimated 11.6 percent in 2008 after 12.0 percent in 2007.

Business performance of the freenet Group

freenet AG completed a quantum leap during the past financial year, with the acquisition of debitel Group and its first-time consolidation in the accounts in July 2008. This is reflected both in its new market position as Germany's biggest network-independent telecommunications provider, and in significantly increased revenues.

In a market environment that continued to be fraught with tough competition, sinking rates, declining growth rates in some cases not to mention considerably reduced volumes in several market segments, freenet AG generated revenue of 2.874 billion euros in 2008 – a 70 percent year-on-year increase. 1.090 billion euros of this was generated during the fourth quarter, after 1.042 billion euros in the previous quarter and 417.5 million euros in Q4/2007.

The acquisition also increased gross profit significantly by 44 percent to 641.6 million euros for all of 2008. Of this, 221.7 million euros was generated during the fourth quarter of 2008, compared with 101.0 million euros in Q4/2007 and 227.8 million euros in Q3/2008. The gross profit margin shrank slightly by 4.1 percentage points to 22.3 percent for all of 2008; the decline is due largely to the now much stronger weighting of the mobile communications segment, which traditionally has narrower gross profit margins than other segments within the Group.

EBITDA from continued operations (i.e. not including the DSL business which is up for sale, and debitel Netherlands, the mobile communications business sold at the end of the year) dwindled slightly year-on-year, despite an increase in gross profit, from 213.7 million euros to 207.1 million euros. Factors behind the decline include the recognition of provisions in connection with the restructuring programme adopted in November.

As a result, EBIT was down year-on-year, dropping by 52.6 percent to 82.2 million euros.

2008 also saw a considerable change in net interest income: while positive net interest income in the amount of 7.1 million euros was reported for 2007, in 2008 there was negative net interest income of 87.9 million euros. This was caused primarily by bank loans acquired as part of the debitel acquisition and the interest incurred on them.

The net Group profit from continued operations improved considerably in 2008, soaring by nearly 144 percent to 148.4 million euros. The reason for this is tax income from a write-up on the deferred tax assets for loss carryforwards due to the debitel acquisition; by contrast, in 2007 there had been high tax expenses due to a considerable negative one-off effect caused by the corporate tax reform among other things.

The discontinued operations – the DSL business and debitel Netherlands – recorded losses of 36.8 million euros in 2008.

This results in 111.6 million euros in net Group profits from continued and discontinued operations, after losses of 51.1 million euros in 2007.

Business performance by segment

Mobile communications

With the conclusion of the debitel acquisition in mid-2008, the mobile communications segment became a strategic core line of business for freenet. This quantum leap in freenet's market positioning is reflected in the following figures and developments:

- a surge in the number of customers in the segment to 19.1 million, with debitel contributing 13.0 million;
- an overall share of close to 20 percent of the mobile communications market, and 90 percent among service providers;
- a massive increase in distribution/selling power with nearly 1,000 branded shops now, well-working direct-marketing and online channels and a strong presence in electronics retail and superstores; initial synergies have already been achieved here: e.g. some redundancies were eliminated by ceding 80 shops to O_2;
- a unique selling proposition for retailers as *the* major network-independent mobile communications provider;
- an extensive, attractive portfolio of long-established brands for different target groups;
- a strengthened buying and negotiating position vis-à-vis suppliers; and
- its position as an important antitrust counterweight, which is both encouraged by politicians and supported by the regulatory authority.

The new dimensions of the company are also reflected in the figures for the financial year 2008. Due to the consolidation of debitel Group with effect from 5 July 2008, revenue and gross profit in the segment have doubled: revenue increased from 1.274 billion euros in 2007 to 2.655 billion euros; the fourth quarter accounted for 1.06 billion euros of this. For all of 2008, gross profit increased to 468.9 million euros, versus 226.0 million euros in 2007; this corresponds to a gross profit margin of 17.7 percent – identical to the figure for 2007. At 185.5 million euros, gross profit for Q4/2008 was 1.2 percent below that of the previous quarter.

In particular as a result of the debitel acquisition, the number of mobile communications customers increased significantly year-on-year, from 5.70 million customers at the end of 2007 to 19.12 million customers at the end of financial year 2008. This operative customer growth in a difficult market was based on our continually evolving customer management as well as new, reasonably priced products and specials, some of which are part of the company's strategic shift towards mobile Internet. For instance, from the beginning of Q2/2008, freenet-mobilcom offered all customers that signed up for the carriers' calling plans, a 10-percent discount on charges for calls within Germany including conference calls, forwarded calls and video telephony. Another value-for-money promotion by freenet*Mobile* followed with new package-price rates for different user profiles and a monthly allowance of 5 MB for careless Internet surfing. Mobile surfing became even more inexpensive in Q4/2008 with the introduction of the "msurf Discount" data flat rate: For 24.95 euros a month, users can conveniently and inexpensively access the "D-Netz" network at speeds of up to 7.2 Mbit/s. And since last December, customers have been able to buy a BlackBerry Storm for just 1 euro if they subscribe to this in combination with Vodafone's inexpensive Internet Messaging L option.

Despite positive developments in the customer pool, average monthly revenue per user (ARPU) declined during the past financial year. The reason for this was primarily the switch by existing customers from high-revenue, high-margin rates to new, more inexpensive calling plans. This industry-wide trend will continue in the financial year 2009. Against this backdrop, the company will do everything within its power to leverage every possible cost-saving synergy and potential in the months and quarters ahead. ARPU for the various product lines saw the following development: from 27.2 euros in 2007 to 25.3 euros in 2008 among classic contract customers; from 7.3 euros to 5.7 euros among no-frills customers; and from 4.1 euros in 2007 to 3.2 euros among Prepaid customers.

The debitel acquisition has markedly increased the brand diversity in the various market segments within the company. As part of merging these different brand worlds and harmonising the various mobilcom and debitel rates, freenet will from now on concentrate on the service provider brand mobilcom-debitel; this will put a stronger focus on customer needs on the one hand, and secure the customer base long-term on the other.

Broadband

The past financial year was characterised by a thorough culling of freenet's DSL business – in more than one sense. At the turn of the year 2007/2008, freenet had initiated systematic improvement measures that resulted in a separation from some distribution partners. Also, as part of a quality campaign, even stricter economic standards were applied in customer acquisition, and the DSL customer base was cleansed of contract relationships where customers could not be activated within a reasonable time-frame, due to process-related problems involving DTAG among other things.

At the same time, freenet hived off its broadband segment to a subsidiary to create the requisite conditions for selling the DSL business. The necessary negotiations with potential buyers started around mid-year. Irrespectively of this, freenet continuously upgraded its broadband range, especially the freenet*Komplett* packages, with new products, features, flat rates and discount rates.

Nonetheless, the conditions outlined above – tougher criteria for distribution partners, active customer culling, and upcoming disposal of the business – had an impact on the segment. This is reflected in a year-on-year drop to 943,000 customers. By contrast, revenues increased, by 10.5 percent to 302.6 million euros; of this, 68.8 million euros were generated in Q4/2008. Gross profits also showed a considerably positive development, and came to 64.1 million euros for all of 2008; this corresponds to a gross profit margin of 21.2 percent. In 2007, this line of business had generated a negative gross profit of 12.7 million euros.

Because its sale has already been initiated, the DSL business is to be shown under "Group result from discontinued operations" in the consolidated income statement. Revenues and expenditure pertaining to this line of business are thus excluded from the consolidated figures and combined in this item. This retroactive adjustment results in lower reported revenues and expenditure at Group level.

As a result of the initiated measures, the negative contribution to Group result has improved considerably since the previous year, from –111.9 million euros to –64.5 million euros.

Portal business

freenet AG's portal business– consisting of the e-commerce/advertising and paid services – was also spun off into a subsidiary during the first half of 2008 for better manageability of this segment. At the same time, the range of offered content, as well as the advertising and marketing tools, were further expanded and enhanced. In addition, freenet acquired a new Content Management System that allows for efficient ongoing development of the portal content, and a more effective integration of content and advertising partners.

The significant improvements in the portal business continued during the second half of the year. In July, freenet*Mail* was launched, a completely revised and customisable e-mail service based on Web 2.0 technology.

Starting in September, this was followed by new, high-performance domain packages, whose user-friendly features enable novices and pros alike to set up a professional Internet presence on their own, with their preferred website name, in just a few steps. The new domain packages offer more e-mail accounts, sub-domains and databases, along with more memory and more included domains than before. In addition, many packages were upgraded with Web 2.0 functionality such as photo albums, video modules and Weblogs, while features like the WEB-FTP browser interface and professional tools complete the spectrum of services. In total, the company had 520,000 paid-services customers at the end of December 2008.

In autumn 2008, "freeXmedia" – the successor company to the online marketing agent "freenet*Media*" – repositioned itself as a leading third-party marketer for major content providers. The company aims to position itself permanently in the Top Ten of the AGOF ranking of marketers by concentrating on areas that are in high demand.

As part of its mobile Internet strategy, freenet had launched its mobile portal already in 2007. Its main content initially consisted of News, a live ticker for sports, stock-market quotations, cinema and TV listings, and the weather forecast. Later, heavily frequented sites such as Google, Wikipedia, ebay, Deutsche Bahn (German Rail) and the "Das Örtliche" phone directory, as well as freenet's dating portal, were added. freenet also offers a real-time e-mail push service. Over the course of 2008, the applications were continually expanded and improved – which was rewarded accordingly at the end of the year 2008: At the KUDOS Awards, mobil.freenet.de won the prize for News/Entertainment and was ranked the No.2 "Mobile Site" overall by the expert public.

Compared with the previous year, revenues in the segment dwindled from 56.7 million euros to 47.8 million euros, mainly due to the persistent and grave financial crisis, which has sent ad sales booking plummeting for our financial portal "aktiencheck.de" in particular, and reduced internal cost allocations as a result of the overall subdued DSL business.

Regardless, profitability in the segment remains high: with gross profits at 35.2 million euros for the past financial year (2007: 40.7 million euros), the gross profit margin of 73.6 percent was even slightly above the previous year's 71.8 percent.

Hosting

In the financial year 2008, the STRATO group, which covers the webhosting business, successfully continued on its course of innovation and expansion in the German webhosting and server market, in the process forming or intensifying important strategic partnerships.

For one, STRATO further expanded its innovation leadership in offerings for servers: In the server applications segment, the company became one of the first to introduce "Microsoft Windows Server 2008" and "Oracle Server XE", as well as the high-performance Quad-Core AMD Opteron™ HE and "Shanghai" processors. New server boards developed in conjunction with AMD reduce electricity consumption in idle mode by 50 percent, thereby significantly lowering operating costs.

At the end of the year, STRATO signed an exclusive cooperation with the Lycos group, which – having discontinued its business – is encouraging its webhosting and eShop customers in Germany, Britain, France, Spain and the Netherlands to switch to STRATO.

In the "Software as a Service" (SaaS) sector, STRATO added the "STRATO Business Portal" to its product range in 2008. This standardised business software for small and medium-sized enterprises unites and links their most important IT processes on a single platform.

In the private customer segment, the product portfolio was expanded to include "EasyWeb" products, which enables Internet newcomers to easily present pictures, films and music online. And by introducing its "Web Dich!" (Web Yourself!) product, STRATO offers the members of 24 major German online communities the unprecedented chance to try out a free .de-domain in the format of www."nameofchoice".de for creating their own online profile.

STRATO's power of innovation and customer focus was reflected in numerous prizes and awards:

- The company won the "eco Internet Award", one of the most important awards in the German ITC industry, in the B2B products category for its "Business Portal" product, and was voted "best hosting provider for B2B customers";
- STRATO also won the "tim-Award", Germany's foremost readers' award, in the category "Business IT, Webhosting";
- Not least thanks to its new "EasyWeb" products, STRATO was picked as "Webhoster of the Year" for the fourth consecutive year by readers of the trade publication "PC Praxis", and "ComputerBild" felt the STRATO product "PowerWeb Basic" was the best homepage kit available on the market;
- In the ranking of "Germany's most customer-oriented service providers 2008" STRATO won the prize in the category of "IT and Telecommunications services provider", and scored an outstanding Top 5 placement in the overall ranking of all companies;
- At the ContactCenterWorld Awards 2008 in London – the unofficial world championship of call centres – STRATO won bronze for the EMEA region.

As a result, STRATO once again increased its pool of paying customers during the past financial year, by 90,000 or 7.5 percent to 1.29 million at the end of December. The subsidiary's revenues and earnings also showed a very gratifying development: Revenue increased by 9.8 percent to 87.7 million euros, with the fourth quarter contributing 22.4 million euros (Q4/2007: 20.5 million euros). Gross profits were up as well, by 12.5 percent to 71.6 million euros for 2008. This corresponds to another increase in the gross profit margin, to 81.7 percent (2007: 79.8 percent). EBITDA grew by 27.3 percent to 35.0 million euros, and EBIT saw a year-on-year increase of 39.4 percent to 28.0 million euros.

B2B Services

The Group's subsidiary NEXT ID, one of Germany's leading vendors of interactive communication solutions related to service hotlines, mobile services and new media, once again contributed the majority of the Group's B2B revenue during the past financial year. NEXT ID's customers include major media and entertainment companies as well as branded companies and call centres.

Since the second half of 2007, this segment has been impacted by added structural difficulties: for one, the amendment to the Telecommunications Act (TKG) of 1 September 2007, and regulatory restrictions on advertising in Teletext from early 2008, caused declines, especially in the entertainment market, among 0900 service hotlines and the directory services; this was exacerbated by market-driven declines in the call-in business. Nonetheless, NEXT ID was able to defend its leading role in the entertainment market and in call-in TV in 2008.

Another revenue driver in the segment is freenet Datenkommunikations GmbH, which among other things offers B2B customers the networking of their premises throughout Germany, the integration of field staff members, and VPN networking of company clients via dedicated servers. In this segment, too, the structural conditions have changed, as more and more comprehensive service offerings in the DSL and mobile internet segments increasingly replace at least a small portion of professional communication solutions in the B2B sector.

And so, revenues and gross profits in the segment declined during the past financial year: revenues dropped by 25.1 percent year-on-year to 101.0 million euros; of this 27.5 million euros was generated in Q4/2008, after 33.4 million euros in Q4/2007. Gross profits for the financial year 2008 shrank to 25.6 million euros, of which Q4/2008 contributed 6.2 million euros (Q4/2007: 6.9 million euros).

Narrowband

The decline of classic fixed-line telephony and narrowband Web access – which used to be the biggest revenue drivers of the "old" freenet AG – has been ongoing for several years and continued in 2008; once again, this was due to the triumphant advance of Internet (VoIP) telephony, mobile communications and DSL.

Although freenet continues to be well positioned in these sub-segments, with attractive offers and terms, the Company was not able to escape this overall downward drift in the market. Over the course of 2008, the number of active narrowband Web access customers declined by around 0.7 million, while the number of fixed-line telephony customers shrank by 0.8 million.

Revenues and gross profits in the segment are down accordingly: revenues fell by nearly half year-on-year to 76.0 million euros, while gross profits dropped by 43.6 percent to 48.9 million euros; the figure for Q4/2008 was 9.7 million euros (16.3 million euros in Q4/2007).

New products at freenet

Mobile communications

dailyme.tv
Einfach.Mobil.TV.

freenet-mobilcom continually expanded its product portfolio last year; for instance, mobile communication services are now offered not only in conjunction with telephones, but also with laptops to meet the growing demand for data rates.

In addition, multi-SIM cards are now available for all major networks. This reflects the increasing use of various terminals, and makes it even more convenient to use freenet-mobilcom services.

From the start of Q2, freenet has given all customers who choose the network operator's plans a 10-percent discount on call charges within Germany, including conference calls, forwarded calls and video telephony. At freenet the customer is free to choose any network operator plan, but they get it considerably cheaper.

Since July, freenet-mobilcom has also been offering all customers free mobile television on their phones with dailyme.tv. The freenet*Mobile* player needed to access mobile TV is already preinstalled on all of the mobile carrier's Nokia Series 60 handsets, so it can be used as soon as the phone is received.

Portal

In the middle of last year, the company launched freenet*Mail*, a comprehensively enhanced mail service based on Web 2.0 technologies with an updated user interface and new, easy-to-use additional features.

In September this was followed by new, powerful domain packages (www.domain.freenet.de) for creating one's own professional Internet presence with one's own chosen URL. The new packages feature more mailboxes, sub-domains and databases as well as more memory and more included domains. Some can also be upgraded with clever Web 2.0 features like blogs and photo albums.

Also in September, the online marketer "freeXmedia" successor company to "freenet*Media*", repositioned itself as a leading third-party marketer for leading content providers. It focuses on six marketing areas: automotive, digital entertainment, active living & lifestyle, sport, and general interest.

Hosting

In the server solutions segment the Company was one of the first to install "Microsoft Windows Server 2008" and "Oracle Server XE", as well as high-performance Quad-Core AMD Opteron™ HE and "Shanghai" processors.

One special innovation in the B2B segment was the launch of the STRATO Business Portal, which meant STRATO was for the first time able to provide small and medium-sized companies standardised business software on a rental basis, known as "Software as a Service (SaaS)". It links the major communications and IT processes of such firms via a hosted platform. In the private customer segment, the product portfolio has been expanded by "EasyWeb" applications for beginners; pictures, movies and music can now be easily presented online on one's own domain.

Broadband

Over the course of 2008, the company further upgraded its DSL-based freenet*Komplett* packages with new features, flat rates and plans. These attractive products have been available nationwide since the beginning of June 2008 in all subscriber territories serviced by Deutsche Telekom (DTAG).

2.3 Group earnings, assets and financial position

Earnings, assets and financial position

The Group earnings, assets and financial position were considerably influenced by the debitel Group acquisition, which came into effect on 5 July 2008.

Therefore, the comparability between the present consolidated financial statements and that of the previous year is limited. Because of the acquisition, the items on the consolidated balance sheet and consolidated income statement show significant year-on-year increases. Especially noteworthy here are the valuations made for the purchase price allocation upon the acquisition of the debitel Group– this means that at the time of the acquisition, among other things Goodwill of approx. 1,098 million euros, customer relationships in the amount of approx. 474 million euros, and brand rights valued at approx. 338 million euros were added to the consolidated balance sheet, and now are a determining factor on the assets side of this financial statement. Further, approx. 62 million euros of the depreciation for the business year stems from this purchase price allocation. The liabilities side of the consolidated balance sheet is dominated by financial debt of approx. 1,153 million euros (at the time of the acquisition) taken on as part of the debitel acquisition.

In this financial statement, the DSL business is shown as a discontinued line of business at 31 December 2008. The expenditure and income of this segment are shown in a separate item on the consolidated income statement, under "Group result from discontinued operations" – and adjustments were made accordingly to the comparable figures in the consolidated income statement to ensure comparability with the previous year's figures. All assets and debt of this discontinued line of business were also shown in the separate balance sheet items "Assets of disposal group classified as held-for-sale" and "Liabilities of disposal group classified as held-for-sale" – here there was no adjustment to be made to the previous year's comparable figures. debitel Nederland B.V. (referred to as "debitel Netherlands" in the following), part of the acquired debitel Group was sold with effect from 30 December 2008 and thus deconsolidated. Therefore, this company's expenditure and income during the period from initial consolidation (5 July 2008) to final consolidation (30 December 2008) is also shown under "Group result from discontinued operations".

In contrast to the consolidated financial statement published as at 31 December 2007, the costs of customer acquisition and customer retention and the accrual on the liabilities side of revenue components related to such costs were no longer capitalised in 2008 – for the background on this, please refer to the Notes, Chapter E) Accounting and valuation methods, section (d) Intangible assets – costs of customer acquisition. This change does not limit comparability with the previous year, since the previous year's figures were adjusted accordingly in this financial statement.

Key items on the consolidated financial statement

In the financial year 2008, revenue surged by 70.0 percent to 2,873.8 million euros. Due to the debitel Group acquisition, the Mobile Communications segment increased its external revenues from 1,272.5 million euros to 2,643.9 million euros (incl. revenues from the discontinued debitel Netherlands business) or 2,559.6 million euros (after deducting debitel Netherlands' revenues). In the Broadband segment, 2008 brought an increase in external revenues of 273.7 million euros, to 302.6 million euros, although in the end this only had a minimal effect on the Group revenues, since due to the planned sale of the DSL line of business, its revenues in the amount of 290.5 million euros (previous year: 263.3 million euros) were shifted to "Group result from discontinued operations" in accordance with IFRS 5. The external revenues of the Portal segment shrank from 49.1 million euros to 43.4 million euros, which was more than compensated for by an increase in external revenues in the Hosting segment, from 75.5 million euros to 83.6 million euros. While the Narrowband segment had to stomach a near-halving of its external revenues from 149.3 million euros to 76.0 million euros due to a market that is still shrinking severely, external revenues in the B2B segment dropped from 134.0 million euros to 99.3 million euros, mainly due to changing structural conditions in the value-added business, e.g. as a result of regulatory amendments.

As a result of the increase in revenues explained above, and the increase in purchasing volume to 2,232.2 million euros (2007: 1,245.1 million euros) gross profit rose by 195.9 million euros to 641.6 million euros (2007: 445.7 million euros). Overall, the gross profit margin shrank by 4.1 percentage points to 22.3 percent (2007: 26.4 percent), due first and foremost to a much stronger weighting of the Mobile Communications segment following the debitel Group acquisition – the gross profit margin in Mobile Communications is traditionally below the average gross profit margins seen in the Fixed-line/Internet business.

The average headcount in the Group increased by 50.9 percent year-on-year, from 3,749 to 5.658 employees. Because employee participation is bound up with the performance of the share price, personnel expenditure was down by 10.4 million euros in the financial year 2008 (previous year: personnel expenditure increased by 11.0 million euros). Personnel expenditure not dependent on share price increased by 91.9 percent year-on-year, from 121.7 million euros to 233.6 million euros, especially due to the debitel acquisition in the second half of 2008 and provisions for restructuring. At the end of the business year, the Group had 7,255 employees (previous year: 3,838 employees).

The balance of other operating expenses and other operating income yielded expenditure in the amount of 214.3 million euros for 2008, which represents a year-on-year increase by 113.4 million euros (2007: 100.9 million euros). Mainly due to a combination of all the effects listed above, EBITDA was down slightly year-on-year, from 213.7 million euros to 207.1 million euros. While the Hosting segment recorded a 7.5 million euros increase in EBITDA, from 27.5 million euros to 35.0 million euros, EBITDA declined year-on-year in the Mobile Communications segment (down by 3.9 million euros, from 127.9 million euros to 124.0 million euros) and in the continuing part of the Fixed-line segment, consisting of Broadband, Portal, B2B and Narrowband (down by 10.3 million euros, from 58.3 million euros to 48.0 million euros).

Depreciation amounted to 124.9 million euros versus 40.3 million euros in 2007. Of this 84.6 million euros increase, 62.1 million euros was due to depreciation on intangible assets such as customer relationships and brand rights, which were included in the consolidated balance sheet as part of the purchase price allocation in connection with the debitel acquisition.

Net interest income, as the balance of interest income and interest expenditure, decreased by 95.0 million euros year-on-year – while in 2007, 7.1 million euros of positive net interest income was reported, in 2008 there was negative net interest income in the amount of 87.9 million euros. The primary reason behind this development is the transfer of bank loans as part of the debitel Group acquisition and the interest incurred on these bank loans.

So, for 2008, the continued operations incurred Group losses in the amount of 5.7 million euros before taxes – as compared with pre-tax earnings of 180.5 million euros for the previous year.

The result from taxes on income improved by 273.6 million euros versus 2007 – while tax expenditure in the amount of 119.6 million euros was recorded in 2007, during the past business year there was tax income in the amount of 154.0 million euros. This effect is largely due to deferred taxes. In 2007, the high tax expenditure was driven largely by allowances for deferred tax assets for loss carryforwards, as well as by tax charges from changes in the rate of taxation (background to these changes in the rate of taxation: the amended tax laws which went into effect on 01 January 2008 resulted in an adjustment of the corporate tax rate for purposes of calculating deferred taxes, from nearly 39 percent to nearly 30 percent). The tax income seen in 2008 is overwhelmingly attributable to a write-up on the deferred taxes on the assets side for loss carryforwards due to the debitel Group acquisition: in future, thanks to a fiscal unity concept including the major companies in the debitel Group, which was planned at the reporting date and already implemented at the time this consolidated financial statement was drawn up, freenet AG will be able to offset its tax loss carryforwards against the debitel Group's tax gains and thereby capitalise them.

While a net Group profit from continued operations in the amount of 148.4 million euros after taxes was recorded for 2008, which corresponds to a 143.7 percent increase versus the 60.9 million euros in profits achieved in 2007, the discontinued operations (DSL business and debitel Netherlands) generated losses of 36.8 million euros in 2008. The losses of 111.9 million euros recorded in 2007 for discontinued operations were attributable solely to the DSL business.

The Group result from continued and discontinued operations for 2008 is 111.6 million euros, versus the losses of 51.1 million euros reported for the previous year.

At 31 December 2008, the balance sheet total for the Group was 3,107.5 million euros, which puts it 2,366.5 million euros above the balance sheet total at the end of the previous year (31 December 2007: 741.0 million euros). This development is decisively due to the debitel Group acquisition.

Non-current assets increased by 484.0 percent to 2,179.3 million euros (31 December 2007: 373.1 million euros). At the time of the initial consolidation of the debitel Group, non-current assets at a current market value of 2,078.9 million euros were taken over – 1,097.9 million euros in Goodwill as well as 918.6 million euros in intangible assets (largely the customer relationships and brand rights fixed for the purchase price allocation).

One offsetting effect is the 67.8 million euros reduction in deferred tax assets, from 82.7 million euros to 14.9 million euros. It should be noted that this item includes, for one, the deferred taxes on loss carryforwards on the assets side, which, as described above, increased considerably as a result of the debitel acquisition. And for another, this item also contains deferred tax liabilities on temporary differences between the tax balance sheet values and the carrying values of assets and liabilities – here was a significant increase due to the deferred liabilities to be formed, based on the purchase price allocation upon the debitel acquisition, for taxes on temporary differences, largely between the tax balance sheet values and the carrying values of the intangible assets uncovered in this purchase price allocation (such as customer relationships and brand rights).

Current assets increased by 152.3 percent to 928.2 million euros (31 December 2007: 367.9 million euros), largely due to the increase in trade receivables (by 304.0 million euros) and a rise in cash and cash equivalents (by 78.5 million euros). Furthermore, at 31 December 2008 the 118.4 million euros in assets attributable to the discontinued DSL business were shown under “Assets available for sale”.

The increase of liabilities on the balance sheet was driven for one by the rise in equity. At 31 December 2008, equity was 791.3 million euros (31 December 2007: 300.2 million euros). Of this 491.1 million euros increase, 381.8 million euros derive from capital reserves based on the capital increase performed by freenet AG in the financial year 2008 to finance the debitel acquisition. The remaining increase in equity stems primarily from the 111.6 million euros in group result achieved in 2008.

This reduced the equity ratio to 25.5 percent after 40.5 percent at the end of the previous year. Long-term liabilities increased by 1,372.1 million euros to 1,383.2 million euros (31 December 2007: 11.1 million euros). This increase results overwhelmingly from the bank loans transferred as part of the debitel acquisition, and the vendor note issued to finance the acquisition. Short-term liabilities are comprised largely of payables (616.6 million euros), financial debt (152.5 million euros), other provisions (73.7 million euros) as well as liabilities in connection with the planned sale of the DSL business assets (83.9 million euros). The rise in short-term liabilities by 503.3 million euros, from 429.7 million euros to 933.0 million euros is largely due to short-term liabilities taken on for the debitel acquisition, which at the acquisition date were shown at current market values of 459.6 million euros.

Cash flow from operating activities

Cash flow from operating activities increased by 24.5 million euros over the comparable period, to 73.6 million euros.

Based on earnings before interest, taxes and depreciation/amortisation (EBITDA) for the group (including discontinued operations) that were up by 70.7 million euros to 175.7 million euros, cash flow from operating activities was particularly diminished by a 87.3 million euros increase in current assets and the adjustment for proceeds from the sale of subsidiaries in the amount of 36.5 million euros (incoming payments from the sale of subsidiaries are shown under investing activities). Furthermore there was cash outflow resulting from the reduction of operative liabilities (by 5.8 million euros) and tax payments (by 3.8 million euros). One major notable counter-effect is the 38.4 million euros increase in provisions.

Cash flow from investing activities

In the financial year 2008, the cash flow from investing activities was down by 27.3 million euros year-on-year, to 10.0 million euros.

Whereas in the previous financial year there was no major cash inflow against the cash outflow for fixed assets, in 2008 there was net cash inflow, among other things from the debitel Group acquisition, of 26.6 million euros, consisting of the financial resources transferred (37.4 million euros), less the ancillary costs of purchase (10.8 million euros), as well as inflow of funds from the sale of fixed assets – especially from the sale of Shops – in the amount of 10.9 million euros.

Other cash inflow attributable to investing activities is primarily the result of interest income (6.9 million euros; previous year: 13.4 million euros).

Cash flow from financing activities

Compared with the corresponding previous-year period, cash flow from financing activities improved by 536.4 million euros, from –583.5 million euros to –47.1 million euros.

While the cash flow of the previous year was affected especially by a dividend payout (576.1 million euros), the cash outflow in 2008 is attributable nearly exclusively to interest payments (42.6 million euros). Further, the financing activities includes cash outflow of 4.4 million euros in connection with the debitel Group acquisition, and which represent costs of capital increase and loans procurement.

The following chart shows some important indicators for the Group:

In €'000s	2008	2007	Change
Third-party revenue	2,873,826	1,690,825	1,183,001
Gross profit	641,583	445,678	195,905
EBITDA	207,106	213,721	–6,615
EBIT	82,215	173,435	–91,220
EBT	–5,669	180,486	–186,155
Group result from continued operations	148,373	60,886	87,487
Group result from discontinued operations	–36,775	–111,949	75,174
Group result	111,598	–51,063	162,661

Non-financial performance indicators

As well as financial performance indicators, the monthly reporting also extends to non-financial performance indicators to help manage and monitor business operations.

Mobile Communications customers

The acquisition of the debitel Group in mid-2008 pushed the customer number in the segment to 19.1 million, and the Group's overall market share in the Mobile communications sector to nearly 20 percent (90 percent among service providers in Germany). As part of the acquisition, the Group's distribution/selling capacity was also increased massively, with now nearly 1,000 directly controllable shops, well-working direct-marketing and online channels and a strong presence in electronics retail and superstores. freenet also works to counter its customers' willingness to switch through various customer loyalty measures as well as a continually evolving customer relationship management.

Employees

freenet encourages integrated, responsible conduct from its employees and provides professional and technical coaching/training as needed. A one-year management development programme serves to further develop high potentials. Additionally there are various health-related offerings available. As a company that trains apprentices freenet had nearly 360 apprentices at the end of the business year. Over the course of the year, the number of employees increased, driven largely by the acquisition of the debitel Group, from 3,838 to 7,255.

Climate protection

freenet's subsidiary STRATO is especially committed to environmental concerns. For instance, STRATO and AMD together developed new server boards that reduce electricity consumption by 50 percent in idle mode. The new processors adjust electricity consumption to the server capacity being utilised – so the processors are especially suitable for the kind of changing requirements that STRATO's dedicated servers, e.g., are subject to.

2.4 Risk reporting

freenet AG's Board of Managing Directors has set up an appropriate system within the Group for early-stage risk detection, monitoring and management; it complies with the statutory requirements for an early risk detection system and conforms to the principles set out in the German Corporate Governance Code. In a manual for risk management within the Group, which is regularly revised and updated, the Board of Managing Directors has defined the key risks, drawn up a strategy on how to handle risk and documented the distribution of tasks and responsibilities within the Group's risk management system. This manual is known to all employees, and serves to systematically build their awareness of risk.

At the same time, a department in our Group's organisation structure is in charge of summarising, at regular intervals, the risk reports from the parent company's departments and the subsidiaries. These risk reports, which describe specific identified risks, the probability of their occurrence, and the implications should they occur, are submitted to the Board of Managing Directors for review and assessment.

Beyond this, the management has set up a comprehensive monthly reporting system to manage and monitor ongoing business operations that extends to both the financial and the non-financial performance indexes in the Group. The Board of Managing Directors is kept informed about operational developments in a timely manner at regular "jour-fixe" meetings, which are held for all relevant lines of business. Recent developments and future measures are also discussed at these jour-fixe meetings.

The heads of the various corporate divisions are also in constant communication with the Board of Managing Directors, ensuring timely notification of risks to the appropriate decision makers at all times.

Major risks

Of all of the risks identified in relation to the freenet Group, we elaborate below on those individual risks or areas of risk that, seen from the current perspective, could significantly affect freenet AG's earnings, assets and financial position.

Market and competition risks

With the debitel acquisition and the attendant considerable expansion of the Mobile Communications segment, the market risks related to the Mobile communications business have increased significantly. For one, this considerably reduces freenet's options for diversifying risks across other segments or lines of business. Nor can it be ruled out that risks will materialise within the debitel Group which remained unidentified during pre-acquisition Due Diligence, or which only materialised as a result of the integration.

Core element of the debitel integration is to realise synergies. The synergy potential is considerable; but factors such as time-consuming negotiations with the workers' councils, or the loss of executives and employees, can have a negative impact and result in higher costs.

Macroeconomic conditions have worsened considerably over recent months. Should this negative trend continue, this may result in the Group not being able to uphold its agreements with the banks financing the loans. Under certain circumstances, this could result in the financing banks having a right to call their loans. The financial market crisis and the economic downturn have an adverse effect on the freenet Group as well. For one, they have made the planned sale of the broadband business more difficult, and it may be expected that it can only be realised at considerably less favourable terms than originally anticipated.

Besides, there have been shifts in market volume – e. g. from the fixed-line telephony to mobile and/or Internet (VoIP) telephony, and from narrowband Internet access to broadband DSL access or mobile Internet access. freenet's gains in market share and revenue in new or growing market segments may not be able to compensate for any losses in market share and revenue incurred during these market shifts.

At the same time, the telecommunications markets continue to be fraught with intensive competition and the customers' high willingness to switch. This can lead to shortfalls in revenues, to loss of market share and to pressure on margins in any given business field and/or can make it more difficult to gain market share. Strong competition also leads to ever-higher expenditure on new customer acquisition, while revenues continue to fall and customers are very ready to switch. Should this trend continue or even grow stronger, this will have a negative impact on the company's earnings, assets and financial position. freenet strives to minimise its customers' readiness to switch with customer retention measures. If it does not succeed adequately at this, or only at inappropriate cost, this will have a negative impact on the company's earnings, assets and financial position.

Margins in the mobile service provider business are dependent on how the network operators structure their plans.

Apart from this, mobile network operators are increasingly moving over to marketing their products themselves and to forcing mobile communications service providers out of the market. Due to their business structure, mobile network operators are able to a degree to offer better rates than mobile service providers. This can lead to a loss of sales channels and customers.

As a result of the persistent competitive pressure it cannot be ruled out that there will be consolidation among mobile network operators. This could reduce competitive pressure and lead to a weakening of the service provider model.

The pressure on prices and margins in the German B2C market for mobile communication services is exacerbated by the steadily growing discount market. freenet itself does business in this segment with the "klarmobil" and "callmobile" brands, in order to participate in this growth market.

freenet wants to harness the growth opportunities of mobile Internet to absorb losses in reach and hence in revenue from stationary Internet. If freenet does not manage to generate appropriate mobile reach or if the carriers don't offer attractive buying models, this can have a sustained negative impact on the company earnings prospects.

In 2008, mobile communications revenues from "non-voice services" increased considerably due to the strong rise in use of data services. It cannot be ruled out that a long drawn-out serious financial crisis will have negative implications for the further growth of the mobile Internet market and hence for the utilisation of data services.

In the Webhosting business, freenet offers its customers paid services. It cannot be ruled out that such services may be offered free of charge by some competitors in future – which would have an accordingly negative impact on the company's earnings, assets and financial position.

As a result of the crisis in the financial markets, ad sales bookings have also declined perceptibly. Should this development persist, this could have not inconsiderable implications for the company's revenues.

freenet's operations are subject to a multitude of regulatory and statutory requirements – in particular in the areas of privacy, customer and consumer protection. Their rapid change will likely result in further requirements and financial strain.

A law to counteract impermissible telemarketing and to improve consumer protection in special distribution schemes is scheduled to take effect probably in April 2009. This could mean that telemarketing to consumers will be possible only with prior written consent. As well as new customer recruitment, this ruling will likely impact customer relationship management in particular, since numerous existing customers declared their consent in other-than-written form and could then no longer be contacted by phone for promotional purposes. This would have negative implications for freenet's earnings, assets and financial position.

In the mass volume business of a telecommunications company, particular attention must be paid to the creditworthiness of customers and sales partners. It is unavoidable that a certain percentage of receivables cannot be collected. Were this shortfall of receivables to increase as a result of the financial crisis, it would have an adverse impact on the company's earnings, assets and financial position.

freenet receives commission from network operators for procuring customers. If freenet's sales channels are abused by fraudulent third parties, this can lead to the network operators clawing back this commission, which can have a negative impact on the company's earnings, assets and financial position.

The resignation of Eckhard Spoerr, former CEO of freenet AG, may have a considerable impact on the management of the company's operations; in particular there is the risk that other executives will leave the company.

Technical infrastructure

Maintaining the operational availability and efficiency of the technical infrastructure, including the company's data centres and billing systems, is of major importance for successful business operations and its continuity. This is especially true against the background of the IT migrations ahead in the years 2009 and 2010, which are enormously complex projects. Network outages or service problems caused by system faults or failures can lead to the loss of customers and also result in financial losses for the company. As far as freenet uses the services of some third parties in this connection, these risks are not fully within the company's control. It is also the case that if the network infrastructure dimensioning is too small, this can lead to customer attrition, while if it is too large, this can cause disadvantages in terms of cost. There is also a risk that the drop in narrowband Internet traffic and fixed-line telephony or the planned sale of the broadband business will make the company's own network infrastructure less competitive.

If alternative network operators do not make adequate investments in their network infrastructure, in particular in order to increase its geographical coverage, customer demand for certain freenet products cannot be met or can only be met at higher cost or through higher customer rates. This will have a negative impact on customer numbers, revenue and profits. In such cases, freenet works as closely as possible with the network operators to eliminate these risks.

TV and radio cable network operators are increasingly equipping their cable networks with return channel capability, so that their existing cables are suitable not only for receiving TV and radio signals, but also enable Internet access and telephony. The cable network operators are thus increasingly entering into competition with freenet.

Advances in DSL technology and/or alternative broadband technologies, in particular DTAG's VDSL network, UMTS, WiMax and WiFi, may lead to losses in market share due to new competitors entering the market. If freenet fails to gain access to these technologies, possibly because there is no regulated claim to such access, or only on terms that are uneconomic for freenet, this may result in further losses in market share. Even if freenet does gain access to these technologies, this may require substantial further investment, the return on which is uncertain.

It is further to be expected that offers of Internet access via mobile technology will increasingly become available on the market in the years ahead. This too could have a negative impact on the market shares achievable in the long term and thus impair freenet's earnings prospects.

Dependency on suppliers

In order to be able to make use of freenet AG's telecommunications services, customers need special consumer hardware. If there are delays in the company being supplied with this hardware, this can lead to customer attrition and have a negative impact on freenet's earnings, assets and financial position.

The company's telephony and Internet access products are to a large part based on provisioning services from network operators such as DTAG and alternative network operators. In particular, to be able to market the freenet*Komplett* product throughout Germany, freenet AG is dependent on DTAG's upstream product. Furthermore in the narrowband segment, collection of the majority of customer receivables is via DTAG. freenet is therefore dependent in many areas on DTAG's efficiency and commitment. As the dominant telecommunications provider in Germany, DTAG is therefore able to exert considerable pressure on freenet in terms of price and margins in both the provisioning and consumer markets.

Tax risks

For assessment periods that have not yet been finally audited, it is always possible that changes will occur that result in back duties or changes to loss carryforwards, if the fiscal authorities come to different interpretations of tax regulations or to different assessments of any underlying fact during their tax audit. The same is true for types of taxes that may not have even been audited, in particular because they usually are not subject to external tax audits.

This applies for instance to the signing or extension/renewal of mobile carriage contracts. The fiscal authority is of the opinion that accrued income should be charged for these items in the amount of the discount and released over the customer's contract period. The company disagrees and immediately deducts such discounts from taxable income. In the event that the company does not prevail with its opinion, this would result in back duties.

The risk of divergent interpretations of contexts and valuations applies in particular also to any restructuring of corporate legal status. Therefore it cannot be totally ruled out that the tax loss carryforwards declared by the companies in the freenet Group, and also so far assessed by the fiscal authorities, could become wholly or partially inapplicable through contributions, other transactions involving changes of corporate form, capital inflows and changes in the composition of shareholders as per clause 8, paragraph 4 of the Corporation Tax Act (KStG; old version), if applicable in conjunction with clause 10a paragraph 9 of the Trade Tax Act (GewStG), and clause 12, paragraph 3, second sentence of the Reorganisation Tax Act (UmwStG; old version), if applicable in conjunction with clause 19 paragraph 2 UmwStG (old version).

If within five years 25 percent or more of the shares or voting rights in the company come to be directly or indirectly held by a single shareholder or by several shareholders with parallel interests (harmful acquisition of shares), the company's negative income (corporation and trade tax loss carryforwards) not settled or deducted by the time of the harmful acquisition could be lost in part or as a whole, in accordance with clause 8c of the Corporation Tax Act (KStG), if applicable in combination with clause 10a paragraph 9 of the Trade Tax Act (GewStG). Shares are considered to be united in a single shareholder if they are transferred to a buyer, to persons close to the buyer or to a group of buyers with parallel interests. For the 2008 assessment period, clause 8c KStG is first applicable on shares transfers after 31 December 2007.

The company has no influence on the occurrence of this risk, as the (partial) elimination of any not settled or deducted negative income (corporation and trade tax loss carryforwards) by the time of the harmful acquisition are brought about by measures and transactions at shareholder level. Against this backdrop, it cannot be ruled out that as the result of a sale or additional purchase of shares by the company's shareholders, 25 percent or more of the shares could be united under a single owner. The same risk exists if 25 percent or more of the shares or voting rights are first united under a single shareholder or several shareholders with parallel interests through other measures. The above-described legal consequences apply accordingly.

Financial risks

The liabilities to banks shown under financial debt stem from variable-interest loans. In connection with the debitel acquisition, freenet has guaranteed to continue payments on the debitel Group's liabilities under a syndicated loan contract in the amount of originally 1.125 billion euros. The syndicated loan contract also includes a revolving credit line in the amount of 150 million euros. freenet also calls upon a vendor note in the amount of 132.5 million euros. The covenants of the syndicated loan contract restrict the company's financial leeway. Under certain conditions, freenet AG can draw down loans of up to half of the amount of its revolving credit line under the syndicated loan contract. Moreover, the company is only allowed to draw down third-party loans beyond the syndicated loan contract within stringent restrictions.

Apart from this, freenet AG's financial and operating leeway is limited by numerous contractual restrictions (undertakings and covenants), to which freenet agreed with a view to continuing the syndicated loan contract. Among other things, freenet is subject to restrictions when taking out loans from third parties, granting collateral, or selling assets, especially share property. The syndicated loan contract and the vendor note also obligate freenet to use most of the proceeds from any sale of assets to pay down the debt under syndicated loan contract and the vendor note. The syndicated loan contract also includes an obligation to use up to 50 percent of the cash flow available from the mobile communications operations after servicing debts, to service the loan. Further, as insurance for the syndicated loan creditors' claims, shares in the major companies of the new freenet Group (including the debitel Group) are mortgaged to the lenders.

The above mentioned restrictions can – on their own or in interaction with other factors, such as a deteriorating economy – have a negative impact on freenet's earnings, assets and financial position.

In the event of a change of control, the consortium banks have a special right of cancellation. This would affect the company's ability to continue doing business and could even result in freenet's insolvency.

Interest rate risks are hedged by means of interest rate swaps, where variable-interest financial liabilities are converted to fixed-interest liabilities.

The completion of the debitel acquisition significantly increased the freenet Group's Goodwill in the balance sheet (in accordance with IFRS). As part of the purchase price allocation, the debitel Group's customer relationships and brand rights were re-assessed. In sum, this resulted in a multiplication of freenet's intangible assets as shown on the balance sheet. There is a risk that impairment testing in subsequent periods can result in major depreciations.

Risks of non-payment exist in connection with trade receivables and other assets shown on the balance sheet. The non-payment risk consists of any unexpected loss of currency or income. Provisions were made in the balance sheet for expected losses. Should these provisions turn out not to be sufficient, this would have a negative impact on the company's earnings, assets and financial position.

In the opinion of the company, other financial risks such as those relating to foreign currency or exchange rate changes can be classed as immaterial and are not therefore required to be shown separately in this annual report.

Item 32 of the Notes contains a detailed categorisation and elaboration of financial risks, and in particular the principles, goals and specific measures of the freenet Group's financial management.

Legal risks

Former shareholders of mobilcom AG and freenet.de AG have applied for a court review according to clause 15 of the Reorganisation Act (UmwG) of the share exchange ratio applied in the merger of mobilcom AG and freenet.de AG into what is now freenet AG.

If the court decrees that the exchange ratio was inappropriate, the difference will be settled in cash.

The cash adjustment will be paid to all affected shareholders, even if they were not one of the plaintiffs in the compensation claim. This would have a negative impact on the earnings, assets and financial situation.

It is, however, the company's assumption that the share swap ratio was appropriate and that there will be no cash adjustments, as the exchange ratio was carefully determined and was audited and confirmed by the court-appointed merger auditors.

In November 2002, mobilcom AG, being the company's legal predecessor, and a number of other former mobilcom group companies entered into a settlement agreement with France Télécom and several associated companies. The validity of this settlement agreement is being challenged by a number of individual shareholders. The company considers the agreement to be valid and has no indication that France Télécom does not feel bound by it. However, were the view of these shareholders to be legally upheld, it should be anticipated that France Télécom will claim from the company the sum of 7.1 billion euros, which it waived as part of the agreement, and will contest the grounds and amounts of any counterclaims the company may make.

Some individual shareholders are of the view that the increase in the real capital of mobilcom AG, the company's legal predecessor, in November 2000 was flawed and/or that the assets in kind brought in were no longer of any value, with the consequence that on the one hand the company would still be entitled to compensation claims against France Télécom running into billions and further that the shares issued to France Télécom would have had no voting rights.

It is the company's understanding that the increase in real capital was performed in a valid manner. The company therefore likewise assumes that this will also have no impact on the share evaluation review proceedings.

2.5 Information required under takeover law

Composition of capital stock
The subscribed capital (capital stock) of freenet AG amounts to 128,061,016 euros and is broken down into as many shares made out to their owners. Each share confers equal rights and one voice at the Annual General Meeting. In the business year under review, freenet AG's capital stock was increased by 32,000,000 euros in connection with the debitel Group acquisition.

Shareholdings exceeding 10 percent of the voting rights
There are two shareholders with direct or indirect capital stakes in the company exceeding 10 percent: one is a shareholder group consisting of United Internet AG, Drillisch AG and Mr. Ralph Dommermuth on the one hand, which collectively owns 25.91 percent of our capital stock, the other is Telco (Netherlands) Holding B.V., a holding company majority-controlled by Permira funds on the other, which holds 24.99 percent of the capital stock.

Shares with special rights attached
There are no special-rights shares that hold control authority.

Appointment and dismissal of members of the Board of Managing Directors, amendments to the Articles of Association
The appointment and dismissal of members of the Board of Managing Directors of freenet AG is subject to clauses 84, 85 German Stock Corporation Act (AktG) and clause 31 Codetermination Act (MitbestG) in conjunction with clause 5 paragraph 1 of the Articles of Association. The clauses governing amendments to the Articles of Association are clauses 133, 179 AktG and clause 16 paragraph 1 in the Articles of Association of freenet AG.

Authorization of the Board of Managing Directors to issue shares
Under clause 4 paragraph 6 of the Articles of Association, the Board of Managing Directors is authorised, with the approval of the Supervisory Board, to issue 16,030,508 shares on or before 18 August 2010 (capital authorised in 2005).

Change of control
The liabilities to banks taken on by the freenet Group under the syndicated loan contract may be called in part or in full under certain conditions. A right to call the loan may arise in the event of violations of certain contractual restrictions and obligations that freenet took on upon the transfer of the syndicated loan. In some cases, freenet has no influence on the conditions under which the consortium banks obtain a right to call the loan. This is true in particular for the right to call the loan in the event of a change of control at the company. Such a change of control already exists, provided the obligation to submit a takeover bid exists, if one party, or several parties acting jointly, obtain a majority at the Annual General Meeting. In the event of a cancellation, freenet bears the risk that subsequent financing to settle the syndicated loan contract cannot be obtained or can only be obtained on terms that are unfavourable for freenet. If no subsequent financing can be obtained, freenet would be exposed to the risk that the consortium banks liquidate the pledged shares in the essential companies, as well as other collateral furnished by the freenet Group.

Indemnity agreement
In the event of a change of control, stock appreciation rights may be exercised regardless of the retention period.

2.6 Compensation report

Board of Managing Directors

Basic principles of compensation

In accordance with the Supervisory Board's procedural rules, compensation for the Board of Managing Directors is set by the freenet AG Supervisory Board's personnel committee.

The compensation of members of the Board of Managing Directors of the company and its predecessor companies is performance-driven and is comprised of three components: a fixed compensation component, a performance-based element and a long-term component to serve as an incentive.

For the financial year 2008, compensation for the members of the Board of Managing Directors totalled −4,579 thousand euros, versus 9,315 thousand euros in 2007. Of this, 1,614 thousand euros were fixed compensation components, while the variable components amounted to −6,193 thousand euros.

In the financial year 2008, 400,000 stock appreciation rights were issued to Mr. Preisig, who took up his duties as member of the Board of Managing Directors of freenet AG as of 30 September 2008. The stock appreciation rights issued to Mr. Preisig in 2008 had a total value of 1,391 thousand euros on the date of issue, 1 September 2008. No new stock appreciation rights or stock options were issued to the other members of the company's Board of Managing Directors during the financial year 2008.

The compensation of the members of the Board of Managing Directors Spoerr, Krieger, Esch and Berger in 2008 is shown as negative sums, which can be attributed to the decrease in provisions for stock appreciation rights, which are largely determined by the share price at the reporting date. Not taking into account the negative compensation components arising from stock options and stock appreciation rights, compensation in the financial year 2008 came to 1,051 thousand euros for Mr. Spoerr, 516 thousand euros for Mr. Krieger, 314 thousand euros for Mr. Esch, 313 thousand euros for Mr. Berger, and 205 thousand euros for Mr. Preisig.

Beyond this, a payment of 2,000 thousand euros was agreed with Mr. Spoerr in the financial year 2008 to settle the claims contained in his employment contract, due to the early cancellation of his employment status with effect from 23 January 2009.

Altogether in 2008 directors' compensation within the terms of clause 314 paragraph 1 No. 6a HGB (cash payments, including the sum paid to Mr. Spoerr to settle his contractual entitlements, plus the newly issued stock appreciation rights at their total value at time of issue in the financial year) amounted to 5,790 thousand euros.

At 31 December 2008, the provisions for stock options and stock appreciation rights amounted to 563 thousand euros for Mr. Spoerr (previous year: 3,873 thousand euros), 352 thousand euros for Mr. Krieger (previous year: 2.421 thousand euros), 176 thousand euros (previous year: 1,210 thousand euros) for Mr. Esch, 106 thousand euros for Mr. Berger (previous year: 726 thousand euros) and 55 thousand euros for Mr. Preisig (previous year: 0).

In the financial year 2008, no cash was paid out on stock options and stock appreciation rights. In the previous year, 2007, 4,272 thousand euros were paid out to Mr. Spoerr, 3,402 thousand euros to Mr. Krieger, 1,022 thousand euros to Mr. Esch and 732 thousand euros to Mr. Berger.

In November 2004, Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger were granted direct assurance of a pension. At 31 December 2008, the Defined Benefit Obligation (DBO) was 894 thousand euros for Mr. Spoerr (previous year: 835 thousand euros), 473 thousand euros for Mr. Krieger (previous year: 442 thousand euros), 164 thousand euros for Mr. Esch (previous year: 137 thousand euros) and 163 thousand euros for Mr. Berger (previous year: 136 thousand euros). At 1 September 2008, freenet AG took over the pension commitment made by debitel AG to Mr. Preisig. At 31 December 2008, the DBO for Mr. Preisig was 137 thousand euros.

Based on the pension commitments to the members of the Board of Managing Directors, a total of 222 thousand euros in ongoing and subsequent service costs (previous year: 597 thousand euros) was included under Personnel Expenditure.

No loans were granted to members of the Board of Managing Directors during the year under review, nor were sureties or other guarantees made for any member of the Board of Managing Directors.

Compensation provisions for the event of a member of the Board of Managing Directors ceasing to be employed

Pensions

In November 2004, all members of the Board of Managing Directors of the former freenet.de AG were each granted direct assurance of a pension by freenet.de AG.

Upon termination of employment, freenet AG Board members are entitled to the benefits described under item 34 of the Notes.

Premature termination of employment contract

Service contracts in effect with mobilcom and freenet.de before the merger were transferred to the Company when the merger came into effect. The old contracts, which continued to be legally valid, were replaced by new ones. With the exception of the level of compensation, including the number of stock appreciation rights, the new contracts were the same as the old ones, including the terms of benefits in the event of the employment (prematurely) ending. No right exists to claim compensation for loss of office if a member of the Board of Managing Directors is responsible him/herself for the (premature) ending of his/her service contract.

Specifically, the company's service contracts provide the following benefits for the Board members Axel Krieger, Stephan Esch, and Eric Berger in the event of termination of employment:

- The right to payment of salary and bonuses (based on the assumption of 100 percent achievement of targets) for the remaining period of the contract where by mutual agreement the service contract is ended or notice to end is served within, in either case, twelve months of a change of control of the company.
- From their 60th birthday, the aforementioned members of the Board of the Managing Directors shall receive a pension amounting to 2.5 percent of final base salary for each year commenced on the Board of the company or its legal predecessor at freenet.de AG, to a maximum of one-third of final annual base salary (guaranteed pension).

- Survivor annuity for the wife 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.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. If employment is terminated due to a change of control, all stock appreciation rights remain in force and can be exercised regardless of the vesting period if the other exercise conditions are met within twelve months, but not later than the end of the term. In the event of a member of the Board of Managing Directors terminating his/her service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

For the member of the Board of Managing Directors Joachim Preisig, the following rules apply from 1 September 2008:

- Upon retirement on reaching the age of 60, Mr. Joachim Preisig shall receive a pension in the amount of 9,333.00 euros (guaranteed pension). If he leaves early, Mr. Preisig shall receive a pension, after reaching the age of 60 and once the conditions prerequisite to non-forfeiture arise, which is calculated according to legal requirements, hence there is a scaling of the guaranteed pension based on the actual length of service.
- Survivor annuity for the spouse and orphan's pension for binding individual child custody rights on the basis of the confirmed pension for Joachim Preisig. Widows' and orphans' pensions combined may not exceed 90 percent of the pension that Mr. Preisig was entitled to or eligible for at the time of his death. On reaching the age of 18, orphans will cease to be entitled to receive the monthly orphan's pension. At this point, a one-time lump-sum payment amounting to 24 times the monthly pension is paid.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. In the event of a member of the Board of Managing Directors terminating his/her service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

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

Please also refer to item 34 in the Group appendix for further information, in particular about compensation amounts, stock appreciation rights held, share ownership and other details.

Supervisory Board

The compensation of the Supervisory Board is regulated by the statutes. The salary for the financial year 2008 consists of three components:

- a basic compensation
- an attendance fee for meetings and
- performance-based compensation

For each full financial year of membership, the members of the Supervisory Board receive a basic compensation of 12,000 euros from the company. The chairman of the Supervisory Board receives double this amount, while the deputy receives one and a half times this amount.

Each member of the Supervisory Board will also receive an attendance fee of 1,000 euros for each Supervisory Board meeting they attend. Supervisory Board members who are on a Supervisory Board committee – with the exception of the committee formed according to clause 27 paragraph 3 of the Co-determination Act – receive an additional attendance fee of 1,000 euros for each committee meeting they attend. The committee chairman receives double this amount.

Supervisory Board members also receive variable compensation at the end of each financial year of 500 euros per 0.01 euro in dividend per share distributed above 0.10 euro per share to shareholders in the past financial year. The variable compensation is limited to the fixed amount of compensation owed. The chairman of the Supervisory Board receives double this amount, while his deputy receives one and a half times this amount.

For their work during the financial year 2008 the company's Supervisory Board members received a fixed fee of 161.9 thousand euros and 214 thousand euros in attendance fees. In addition, a performance-based compensation up to the limit (of the amount of fixed compensation) of 161.9 thousand euros was included under expenditure. The extent to which this performance-based compensation will be paid is dependent on the profit-allocation decision for the financial year 2008. This brings total expenditure on Supervisory Board activities to 537.8 thousand euros.

Supervisory Board members also receive compensation for expenses incurred in connection with the exercise of their mandate, including value added tax.

2.7 Supplementary report

In January 2009, an early extension of the exclusive sales partnership with the Saturn and Mediamarkt electronics markets, through the end of 2011, was achieved.

2.8 Opportunities and Forecast

Opportunities

The financial year 2009 will be dominated by the integration of the debitel Group. This can result in the following opportunities:

- Implementation of a consistent mobile communications strategy, to strengthen brand awareness and the company's positioning among network operators and in retail;
- Creation of a uniform service provider and retail brand to increase advertising awareness and establish a "new" stationary sales/distribution powerhouse, while also increasing the effectiveness and efficiency of advertising and sales and lowering the cost and complexity of POS marketing and brand management;
- Exploitation of synergies and cost savings based on the debitel acquisition, e.g. in the customer acquisition and service, billing and IT systems, advertising/marketing, purchasing and logistics, and in human resources;
- Negotiation and implementation of new purchasing schemes with the mobile carriers;
- Utilisation of growth opportunities in the data market and additional potential by expanding the mobile portal & Internet;
- Creation of strategic assets and financial resources by selling lines of business and/or subsidiaries that are no longer part of freenet AG's core business, in particular the broadband business.

Forecast

At this point in time, any estimate of the implications of the international financial crisis for the real economy is inadequate. A significant economic downturn is ahead in 2009, which will affect the telecommunications market as well.

As in previous years, all of freenet's lines of business – Mobile Communications, Broadband, Portal, Hosting, B2B and Narrowband – are characterised by intense competition in markets with varying growth rates and sometimes declining user numbers. The company currently expects to see the following developments in 2009 and 2010:

- In Mobile communications, revenues should increase considerably year-on-year in 2009, as a result of the debitel Group acquisition, since it was not consolidated in freenet AG's books until mid-2008. We also expect a drop in revenues per customer.
- In the Broadband segment, the Group's overall strategy includes parting ways with its fixed-line access business. The process of selling our DSL business, which was initiated in 2008, is taking longer than expected. We will, however, continue the selling process in 2009 despite the negative impact of the financial crisis.

- The Portal segment is strategically important for the company, since it offers an opportunity for attaining good positioning in the growth market of mobile Internet. However, the short-term growth prospects in this segment are strongly dependent on how the ad sales market develops under the impact of the financial crisis.
- freenet is well positioned in the Hosting segment as the second-largest webhosting provider in Germany and Europe, via its STRATO AG subsidiary. The company expects to be able to continue the expansion of prior years.
- In the B2B segment, freenet also commands a strong competitive position largely via a subsidiary – Next ID. Whether this can be maintained depends crucially on further developments in the legal and regulatory conditions.
- The Narrowband line of business is comprised of narrowband Web access and fixed-line telephony. The market-wide decline in users and volume that has been ongoing for years in these segments will most likely continue.

Summary statement on the business performance of the Group

Going forward, the company will focus even more intensively on its new core businesses Mobile Communications and Mobile Internet, with the aim of securing and enhancing freenet AG's long-term positioning as a profitable company with strong cash flow.

Büdelsdorf, 25 March 2009
The Board of Managing Directors

3. Consolidated financial statements

3. Consolidated financial statements

3.1 Overview

3.2 Consolidated income statement for the period from 1 January to 31 December 2008

In €'000s	Note	2008	2007 adjusted
Revenue	1	2,873,826	1,690,825
Other operating income	2	176,016	122,385
Other own work capitalised		1,382	571
Cost of materials	3	–2,232,243	–1,245,147
Personnel expenses	4	–223,139	–132,714
Depreciation and impairment write-downs	5	–124,891	–40,286
Other operating expenses	6	–390,295	–223,274
Operating result		**80,656**	**172,360**
Share of results of associates		1,559	1,075
Interest receivable and similar income	7	8,630	14,545
Interest payable and similar expenses	8	–96,514	–7,494
Result before taxes on income		**–5,669**	**180,486**
Taxes on income	9	154,042	–119,600
Group result from continued operations		**148,373**	**60,886**
Group result from discontinued operations	21	**–36,775**	**–111,949**
Group result		**111,598**	**–51,063**
Group result attributable to shareholders of freenet AG		112,182	–51,444
Group result attributable to minority interest		–584	381
Earnings per share (undiluted) in €	10	**1.01**	**–0.54**
Earnings per share (diluted) in €	10	**1.01**	**–0.54**
Earnings per share from continued operations (undiluted) in €	10	1.34	0.63
Earnings per share from continued operations (diluted) in €	10	1.34	0.63
Earnings per share from discontinued operations (undiluted) in €	10	–0.33	–1.17
Earnings per share from discontinued operations (diluted) in €	10	–0.33	–1.17
Weighted average of circulating shares in thousand (undiluted)		110,728	96,061
Weighted average of circulating shares in thousand (diluted)		110,728	96,076

3.3 Consolidated balance sheet as of 31 December 2008

Assets in €'000s	**Note**	**31.12.2008**	**31.12.2007 adjusted**
Non-current assets			
Intangible assets	11, 12	929,188	107,100
Goodwill	11, 12	1,120,162	110,304
Property, plant and equipment	11, 12	97,575	60,809
Investments in associates	14	3,462	3,174
Other investments	15	730	304
Deferred income tax assets	16	14,878	82,657
Trade accounts receivable	18	51	1,410
Other receivables and other assets	18	13,275	7,385
		2,179,321	**373,143**
Current assets			
Inventories	17	73,382	31,448
Current income tax claims	20	7,469	8,119
Trade accounts receivable	18	540,685	236,729
Other receivables and other assets	18	55,971	37,838
Cash and cash equivalents	19	132,224	53,744
Assets of disposal group classified as held-for-sale	21	118,428	0
		928,159	**367,878**
		3,107,480	**741,021**

Shareholders' equity and liabilities in €'000s	Note	31. 12. 2008	31. 12. 2007 adjusted
Shareholders' equity			
Share capital	22	128,061	96,061
Capital reserves	22	737,569	390,144
Retained earnings		–74,505	–186,687
Capital and reserves attributable to shareholders of freenet AG		**791,125**	**299,518**
Minority interest in shareholders' equity		136	720
		791,261	**300,238**
Non-current liabilities			
Trade payables	24	351	0
Other payables	24	10,081	1,497
Borrowings	26, 27	1,283,747	614
Retirement benefit obligations	28	22,068	829
Provisions for other liabilities and charges	29	66,946	8,133
		1,383,193	**11,073**
Current liabilities			
Trade accounts payable	24	425,093	227,221
Other payables	24	191,461	94,846
Current income tax liabilities	25	6,286	1,927
Borrowings	26, 27	152,527	90,282
Provisions for other liabilities and charges	29	73,718	15,434
Liabilities of disposal group classified as held-for-sale	21	83,941	0
		933,026	**429,710**
		3,107,480	**741,021**

3.4 Consolidated statement of cash flows from 1 January to 31 December 2008

In €'000s	Note	2008	2007 adjusted
Result from continued and discontinued operations before tax		**–42,444**	**68,537**
Adjustments:			
Depreciation and impairment on items of fixed assets	5, 21	130,287	43,569
Increase/decrease in provisions	21, 28, 29	38,369	–17,655
Interest income	7, 21	–7,988	–14,510
Interest expenses	8, 21	95,816	7,369
Share of results of associates	14	–1,559	–1,075
Other non-payment components		51	857
Profit/loss on disposals of fixed assets		–5,433	258
Increase of inventories, trade receivables and other assets not attributed to investing or financing activities		–87,309	–11,318
Decrease/increase of trade payables and other liabilities not attributed to investing or financing activities		–5,828	15,191
Proceeds of the sale of subsidiaries	21, 31	–36,510	0
Income taxes paid		–3,837	–42,163
Cashflow from operating activities		**73,615**	**49,060**
Purchase of property, plant and equipment		–23,828	–22,422
Purchase of intangible assets		–17,838	–30,162
Cash-proceeds from disposals of intangible and tangible fixed assets	31	10,888	435
Purchase of subsidiaries	21, 31, 33	–10,807	0
Cash inflow from the acquisition of cash	21, 31	37,385	0
Payments for the acquisition of other investments		–398	0
Proceeds from the sale of subsidiaries	21, 31	8,117	0
Cash outflow from the disposal of cash	21, 31	–21,751	0
Return of capital from associates	14	1,271	1,402
Interest received		6,928	13,368
Cashflow from investing activities		**–10,033**	**–37,379**
Dividend payment		0	–576,066
Cash-payments for the acquisition of minority interest		0	–2,206
Cash-payments in connection with capital increases	22, 31, 33	–4,386	0
Cash-payments by subsidiaries to minority shareholders		0	–419
Cash repayments of bonds and borrowings	27	–103	–97
Interest paid		–42,608	–4,665
Cashflow from financing activities		**–47,097**	**–583,453**
Cash-effective change in cash and cash equivalents		**16,485**	**–571,772**
Cash and cash equivalents at 1. 1.		**–36,435**	**535,337**
Cash and cash equivalents at 31. 12.		**–19,950**	**–36,435**

3.5 Schedule of changes in equity for the period from 1 January to 31 December 2008

In €'000s	Note	Share capital	Capital reserves	Statutory revenue reserves	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Minority interest in shareholders' equity	Shareholders' equity
As of 1. 1. 2007 as reported		**65,702**	**254,561**	**36**	**445,077**	**765,376**	**168,013**	**933,389**
Retrospective adjustment regarding the recognition of customer acquisition costs		0	0	0	–4,254	–4,254	0	–4,254
As of 1. 1. 2007 adjusted		**65,702**	**254,561**	**36**	**440,823**	**761,122**	**168,013**	**929,135**
Stock-based compensation	4	0	857	0	0	857	0	857
Merger into freenet AG and acquisition of minority interest in former freenet.de AG		30,359	134,726	–36	0	165,049	–167,255	–2,206
Dividend payment		0	0	0	–576,066	–576,066	0	–576,066
Cash-payments by subsidiaries to minority shareholders		0	0	0	0	0	–419	–419
Group result		0	0	0	–51,444	–51,444	381	–51,063
As of 31. 12. 2007		**96,061**	**390,144**	**0**	**–186,687**	**299,518**	**720**	**300,238**
As of 1. 1. 2008		**96,061**	**390,144**	**0**	**–186,687**	**299,518**	**720**	**300,238**
Stock-based compensation	4	0	18	0	0	18	0	18
Increase of capital due to debitel acquisition	22	32,000	349,760	0	0	381,760	0	381,760
Transaction cost of the capital increase	22	0	–2,386	0	0	–2,386	0	–2,386
Changes in value of financial assets recognised directly in equity at fair value	32	0	33	0	0	33	0	33
Group result		0	0	0	112,182	112,182	–584	111,598
As of 31. 12. 2008		**128,061**	**737,569**	**0**	**–74,505**	**791,125**	**136**	**791,261**

3.6 Consolidated statements of movements in non-current assets as of 31 December 2008

In €'000s	Cost of purchase or production					
	1.1.2008	Change in companies included in consolida-tion	Additions	Transfers	Disposals	31.12.2008
Intangible assets						
Internally-generated software	8,489	13,042	5,582	0	358	26,755
Software and licences	131,035	89,171	13,309	0	2,349	231,166
Trademarks	17,833	334,806	0	0	0	352,639
Customer relationship	65,848	473,686	100	0	14,764	524,870
Goodwill	110,304	1,097,881	2	0	88,025	1,120,162
	333,509	**2,008,586**	**18,993**	**0**	**105,496**	**2,255,592**
Property, plant and equipment						
Land, facilities on land and buildings	13,074	1,856	0	0	0	14,930
Switches and networks	184,812	0	2,883	0	25	187,670
Technical equipment and machinery	46,263	112	2,933	1,672	637	50,343
Other office equipment	105,007	45,104	16,663	–1,639	21,694	143,441
Payments on account and assets under construction	33	275	1,349	–33	27	1,597
	349,189	**47,347**	**23,828**	**0**	**22,383**	**397,981**
	682,698	**2,055,933**	**42,821**	**0**	**127,879**	**2,653,573**

Depreciation and impairment write-downs					Net book amounts	
1.1.2008	**Disposals from a change in companies included in consolidation**	**Additions**	**Disposals**	**31.12.2008**	**31.12.2008**	**1.1.2008**
7,231	695	5,341	343	11,534	15,221	1,258
93,594	8	27,843	1,817	119,612	111,554	37,441
0	620	5,798	0	5,178	347,461	17,833
15,280	0	61,808	7,170	69,918	454,952	50,568
0	0	0	0	0	1,120,162	110,304
116,105	**1,323**	**100,790**	**9,330**	**206,242**	**2,049,350**	**217,404**
4,709	0	539	0	5,248	9,682	8,365
172,602	0	4,434	25	177,011	10,659	12,210
27,651	0	7,387	597	34,441	15,902	18,612
83,418	101	17,137	16,748	83,706	59,735	21,589
0	0	0	0	0	1,597	33
288,380	**101**	**29,497**	**17,370**	**300,406**	**97,575**	**60,809**
404,485	**1,424**	**130,287**[1]	**26,700**	**506,648**	**2,146,925**	**278,213**

1 The additions to depreciation in the amount of 130,287 thousand euros are included in the income statement as follows:

Depreciation and impairment write-downs on property, plant and equipment and intangible assets	124,891
Group result from discontinued operations	5,396
	130,287

Consolidated statements of movements in non-current assets as of 31 December 2007 (retrospective adjustment)

In €'000s	Cost of purchase or production				
	1.1.2007	Additions	Transfers	Disposals	31.12.2007
Intangible assets					
Internally-generated software	7,918	571	0	0	8,489
Software and licences	128,987	3,058	–151	859	131,035
Trademarks	17,833	0	0	0	17,833
Customer relationship	37,473	28,375	0	0	65,848
Goodwill	110,303	1	0	0	110,304
	302,514	**32,005**	**–151**	**859**	**333,509**
Property, plant and equipment					
Land, facilities on land and buildings	13,076	0	0	2	13,074
Switches and networks	177,180	7,034	598	0	184,812
Technical equipment and machinery	37,589	6,549	2,449	324	46,263
Other office equipment	110,684	8,806	–2,869	11,614	105,007
Payments on account and assets under construction	27	33	–27	0	33
	338,556	**22,422**	**151**	**11,940**	**349,189**
	641,070	**54,427**	**0**	**12,799**	**682,698**

Depreciation and impairment write-downs					Net book amounts	
1.1.2007	**Additions**	**Transfers**	**Disposals**	**31.12.2007**	**31.12.2007**	**1.1.2007**
5,779	1,463	–11	0	7,231	1,258	2,139
83,493	10,837	11	747	93,594	37,441	45,494
0	0	0	0	0	17,833	17,833
6,248	9,032	0	0	15,280	50,568	31,225
0	0	0	0	0	110,304	110,303
95,520	**21,332**	**0**	**747**	**116,105**	**217,404**	**206,994**
4,198	513	0	2	4,709	8,365	8,878
168,128	4,472	2	0	172,602	12,210	9,052
20,250	7,559	162	320	27,651	18,612	17,339
84,926	9,693	–164	11,037	83,418	21,589	25,758
0	0	0	0	0	33	27
277,502	**22,237**	**0**	**11,359**	**288,380**	**60,809**	**61,054**
373,022	**43,569**[1]	**0**	**12,106**	**404,485**	**278,213**	**268,048**

1 The additions to depreciation in the amount of 43,569 thousand euros are included in the income statement as follows:

Depreciation and impairment write-downs on property, plant and equipment and intangible assets	40,286
Group result from discontinued operations	3,283
	43,569

3.7 Notes to the consolidated financial statements of freenet AG for the period ended 31 December 2008

A. General information

freenet AG (also referred to in the following as “the Company”), the Group’s parent company (also referred to in the following as “freenet”), is registered in Büdelsdorf, Germany. The Group provides telecommunication services in the segments Mobile Communications, Broadband, Hosting, B2B as well as Narrowband.

B. Accounting standards

The consolidated financial statements for 2008 have been prepared in accordance with the IFRS of the International Accounting Standards Board (IASB) and the status approved in the EU. Consideration has also been given to the regulations of Commercial Law applicable in accordance with section 315a HGB. All standards prevailing as at 31 December 2008 were taken into account, as were the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements have been prepared in Euros, the Company’s functional currency. Unless otherwise specified, all figures are stated in thousand euros (€’000s).

The consolidated financial statements have been prepared applying the historical cost convention – subject to the restriction that some financial assets are stated with their fair value. The annual financial statement of the companies included in the consolidated financial statements are subject to uniform accounting and valuation principles. The closing date in relation to which the annual financial statements have been prepared is the same as the closing date for the consolidated financial statements.

The following table shows the new or modified standards (IAS/IFRS) or interpretations (IFRIC), which are the subject of mandatory adoption with effect from 1 January 2008, or which have been the subject of early voluntary adoption since 1 January 2008, and the related impact on the Group:

Standard/Interpretation		**Mandatory application**	**Adoption by EU Commission**	**Impact**
IFRS 8	Operating Segments	1.1.2009	21.11.2007	Changes to segment reporting
IAS 39/ IFRS 7	Reclassification of Financial Assets - Coming into Force and Transitional Rules	1.6.2008 (retroactive)	15.10.2008	None
IFRIC 11	IFRS 2 - Group and Treasury Share Transactions	1.1.2008	1.6.2007	None

The Group adopted the standard IFRS 8 “Segments” earlier than legally necessary with effect from 1 January 2007. Please refer to section F of these notes to the financial statements.

The following table shows the new or modified standards (IAS/IFRS) or interpretations (IFRIC) which are not the subject of mandatory adoption in the financial year 2008 and their impact on the Group:

Standard/Interpretation		Mandatory application	Adoption by EU Commission	Impact
IAS 1	Presentation of Financial Statements	1.1.2009	17.12.2008	Still being reviewed by management
IAS 23	Borrowing Costs	1.1.2009	10.12.2008	None
IAS 27	Consolidated and Separate Financial Statements under IFRS	1.7.2009	No	Depending on the nature and extent of future transactions. The effects cannot be estimated at present.
IAS 32	Financial Instruments: Presentation (Financial Instruments which can be Called in and Obligations Arising upon Liquidation)	1.1.2009	21.1.2009	None
IAS 39	Financial Instruments: Recognition and Measurement (Permissible Underlyings as Part of Hedges)	1.7.2009	No	None
IFRS 1 IAS 27	Purchase Costs of Shares in Subsidiaries, Joint Ventures or Associated Companies	1.1.2009	23.1.2009	None
IFRS 1	Restructuring of the Standard	1.7.2009	No	None
IFRS 2	Share-Based Payments (Exercise Conditions and Annulements)	1.1.2009	16.12.2008	None
IFRS 3	Business Combinations	1.7.2009	No	Depending on the nature and extent of future transactions. The effects cannot be estimated at present.
Diverse	Annual Improvements Project 2008 – Improvements of IFRS	1.1./ 1.7.2009	23.1.2009	Still being reviewed by management
IFRIC 12	Service Concession Arrangements	1.1.2010	No	None
IFRIC 13	Customer Retention Programme	1.7.2008	16.12.2008	Still being reviewed by management
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1.1.2009	16.12.2008	None
IFRIC 15	Agreements for the Construction of Real Estate	1.1.2009	No	None
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1.10.2008	No	None
IFRIC 17	Distributions of Non-Cash Assets to Owners	1.7.2009	No	None
IFRIC 18	Transfers of Assets from Customers	1.7.2009	No	None

C. Consolidated companies

The consolidated financial statements include all companies with respect to which the Company is directly or indirectly in a position to determine the Company's financial and business policies in such a way that the Group parent benefits from the activities of the company in question. For a complete list of all companies included in freenet AG's consolidated financial statements, please consult our disclosures in accordance with section 315a HGB in note 35.

A joint venture is a contractual agreement under which two or more partners carry out an economic activity which is subject to joint management.

Associated companies are defined as companies over which the Group exerts a significant influence but which are not controlled by the Group; normally involving a share of between 20 and 50 percent in voting rights.

01024 Telefondienste GmbH, freenet Customer Care GmbH, freenet Datenkommunikations GmbH, 01050.com GmbH, tellfon GmbH, 01083.com GmbH, new directions GmbH, freenet Direkt GmbH, MobilCom Multimedia GmbH as well as meOme GmbH will take advantage of the exemption regulations specified in section 264 (3) HGB for the annual financial statements for the period ending 31 December 2008.

With regard to the information relating to the business combination which took place in the financial year 2008 in accordance with IFRS 3, please refer to note 33.

debitel Nederland B.V. has been included in the group of consolidated companies since 5 July 2008 as a result of the acquisition of the companies of the debitel Group; it was sold to the Dutch KPN Group as of 30 December 2008, and was consequently deconsolidated.

D. Consolidation principles

Companies are included in the consolidated financial statements with effect from the date on which the Company assumes control. Minority interests in the companies are disclosed separately on the balance sheet.

The purchase method was applied to the consolidation of equity.

The historical cost of company acquisitions is determined by the sum of the fair values of the assets purchased, the liabilities acquired, any equity instruments issued for acquisition purposes and the costs directly attributable to the acquisition.

All of the acquired company's identifiable assets, liabilities and potential liabilities meeting the recognition criteria of IFRS 3.37 will be disclosed separately at their fair value, irrespective of the extent of any minority interests.

Goodwill is recognised as that portion of the asset value at the time of acquisition, as determined in the initial valuation, which is in excess of the purchaser's share of the fair value of the acquired company's identifiable assets, liabilities and potential liabilities. Any excess in the share of the fair net value of the acquired company over the costs of acquisition is immediately recognised as revenue.

Joint ventures are included in the consolidated financial statements using the proportional consolidation method. The Group's shares of the assets, liabilities, revenues and expenditure are summarised in the corresponding items on the consolidated balance sheet and income statement.

Investments in associates are disclosed in the consolidated financial statements according to the equity method, whereby the recognised values of the holdings are increased or reduced by the proportion of the changes in the joint venture's equity capital which is attributable to the freenet Group. Goodwill arising from the acquisition of associates is not disclosed separately.

Internal profits and losses, revenues, costs and income as well as inter-company receivables and liabilities are eliminated. In the case of the elimination of intercompany profits, this is also applicable for associates. .

E. Accounting and valuation methods

The following accounting and valuation methods were applied when preparing the consolidated financial statements: The accounting and valuation methods have been applied consistently compared with the previous year, with the exception of the changes described under "(t) Comparable figures and changes in the accounting policies"

(a) Revenues

The Group mainly provides services for a short period. The revenues are recognised after the services have been rendered completely if the amount of the revenues can be reliably determined and if it is sufficiently likely that a future economic benefit will accrue to the Company. Services which atypically span the balance sheet date are shown according to the date on which reimbursement for the expenditure will in all probability be received. Services rendered but not yet invoiced are accrued separately in the annual financial statements. Revenues are disclosed net of value added tax and cash discounts. The revenues comprise the fair value of the consideration which has been received or which will be received for the sale of products and services within the framework of normal business activities.

Most of the revenues of the Group are generated with a large number of end users; the remaining revenues are attributable to business clients.

Supplementary notes on revenues:

The voice communication and data transmission fees are recognised as revenues over the period during which the service is provided.

Revenues from the sale of products are recognised when the products are delivered to the customer or the distributor.

Revenues attributable to provision fees are realised at the point at which network access is provided to the customer.

The Group receives commission revenues from the mobile network operators principally for attracting new users and for contract extensions. Commission revenues for new customers are recognised as soon as a new customer is provided with network access at a network provider. The commission claims are based on contractually defined qualitative and quantitative features, such as the number of new customers per quarter or average revenues per customer. Advertising cost subsidies are also granted for individual actions. Suppliers of mobile phones and accessories also grant commission and advertising cost subsidies in return for achieving predefined revenue and/or volume targets.

Where claims extend beyond the period in which the services were performed, commission revenues are accrued accordingly.

In the Hosting segment, revenues are also generated from the registration of names for Internet domains and web hosting. These involve entering into contracts with users whereby a range of services is offered in return for a registration fee plus regular monthly charges. The registration fee is recognised at the point at which the registration takes place and the process of setting up the service for the customer has been completed. On the other hand, monthly charges paid in advance are accrued over the life of the contract.

With regard to added value services, amounts are received for the Company's own account and also on behalf of third parties. Amounts which the Company charges for the account of the client do not constitute revenues in accordance with IAS 18.

(b) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

(c) Intangible assets

Goodwill is tested for impairment at least once every year, and is shown at original cost less cumulative impairments.

For this purpose, the goodwill is broken down over cash generating units. It is broken down over those cash generating units or groups of cash generating units which are expected to derive a benefit from the merger which gave rise to the goodwill. With regard to the specific distribution, please refer to note 11 “Intangible assets, property, plant and equipment and goodwill” as well as note 12 “Impairment test for non-monetary assets”.

The “debitel” and “STRATO” brand names are assets with an indefinite useful economic life; they are not depreciated, and instead are subject to an impairment test once every year or if there are any indications of an impairment. An indefinite useful life has been chosen because no steady loss of value is discernible with respect to these assets, nor could any time limit be set on its useful life.

On the other hand the “Talkline”, “callmobile” and “_dug” brand names have a definite useful life. Brand names are shown with their cost of purchase and are depreciated over their probable useful economic life on a straight-line basis. The residual useful economic life for the “Talkline” brand is 90 months, and the corresponding figures for the “callmobile” brand is 66 months and for the “_dug” brand 12 months.

Licences and software are shown at cost and are depreciated using the straight-line method over their probable economic service life, in general three years for software and three to ten years for licences. Within licences and software, a beneficial interest quota is amortised over 18 years in line with the minimum lease period for the underlying tenancy agreement.

Costs incurred in developing or maintaining software programs are usually recognised as expenses in the year they are incurred. Such costs are recognised as intangible assets falling under the heading internally generated software provided they relate to a clearly defined software product which can be used by the Company, and if the product's expected overall economic benefit is greater than the costs incurred they are capitalised as intangible assets under the category “Internally produced software”.

These costs include the personnel costs for the software development team as well as expenditure on services and fees incurred in creating the asset. Development costs are not capitalised until the point in time when their technical and economic feasibility can be proven. Capitalised software development costs are subjected to straight-line depreciation over the duration of their prospective useful life of three to five years.

Customer relations are depreciated over a period of four to 14 years using the straight-line method. The main customer relations shown in the consolidated financial statements relate to “debitel postpaid” as well as “talkline postpaid”; these are both written down over a useful life of 54 months.

A core technology which derives from the acquisition of the Strato Group is depreciated over ten years using the straight-line method.

An exclusive distribution right is depreciated using the straight-line method over the probable duration of the underlying agreement.

(d) Intangible assets – customer acquisition costs

Customer acquisition costs have to be shown as intangible assets if the definition and recognition criteria of IAS 38 are satisfied. In the past, with the creation of a database solution, freenet has been able to establish a basis for administering customer acquisition costs in its accounts at the level of individual customers. In this way, it has been possible to provide supporting evidence for the existence of the customer, to reliably determine the costs of purchase and also to confirm the value for the purposes of subsequent accounting. So far, the process of introducing and maintaining this database solution has involved considerable resources (personnel, server capacity). Nevertheless, industrial practice is extremely varied in relation to recognising customer acquisition costs as intangible assets with the aid of such data maintenance. Many companies point to the considerable practical problems relating to the processes of reporting and maintaining the data stocks, and for this reason do not show any intangible assets. From the point of view of cost/benefit considerations, it is not possible in every case to require the company preparing the accounts to incur such a high level of administrative costs on a sustainable basis. Accordingly, this means that the company preparing the accounts is able de facto to choose a method for setting up a suitable database solution and for determining the customer acquisition costs at the level of individual customers. Following the decision to take advantage of this option, the Group capitalised individually identifiable customer acquisition costs as intangible assets in the previous year 2007 in accordance with IAS 38. This capitalisation related to contract customers in the Mobile Communications, Broadband, Hosting and Narrowband segments.

In connection with accruing the customer acquisition costs in relation to specific periods over the minimum term of the customer contracts, various revenue components in these contract customer areas – essentially the connection premiums which are granted by the network operators and which fall due in mobile communications at the point at which a contract is taken out – were not recognised immediately as revenues; instead, these revenues were deferred. In line with the deferral of customer acquisition costs, these liability costs were reversed in revenues in the specific periods over the legal term of the customer contracts of six to 24 months.

The main components of the customer acquisition costs in the individual contract customer areas were the provision costs, the customer hardware costs and the sales commissions. Mark-downs in relation to the costs of purchase were recognised for margins which do not cover costs over the legal term of the customer contracts. The intangible assets shown for customer acquisition costs were depreciated over the legal term of the customer contracts of six to 24 months. The costs of signing up new customers were allocated to the category “Customer relations” for presentation in the schedule of consolidated assets.

With the acquisition of the debitel Group, freenet again had to decide as to whether it could follow the current practice of capitalising customer acquisition costs with the aid of a database solution, whether such a facility should also be extended to the debitel units or whether the costly administration for the overall group should be discontinued. In these consolidated financial statements for 2008, freenet has decided that it will no longer determine the necessary data for customer acquisition costs at the level of individual customers, which is the requirement for capitalising customer acquisition costs in accordance with IAS 38. The fact that these data are no longer determined constitutes a change of method in accordance with IAS 8.14b. Such a change of method may only be carried out if the change results in the financial statements providing reliable and more relevant information regarding the impact of business transactions, other events or conditions on the net assets, financial position or results of operations or cash flows of the Company.

This is the case in this respect. Firstly, the intention of this procedure is to ensure uniform accounting treatment of customer acquisition costs throughout the Group, because the companies acquired as a result of the debitel acquisition do not have a suitable database solution for determining the customer acquisition costs at the level of individual customers, and it is not possible for such a database solution to be set up at the debitel companies because this would constitute an unreasonable financial burden. Failure to implement uniform accounting treatment of customer acquisition costs in the Group would mean that it would not be possible to make a uniform assessment of the net assets and results of operations of the Group without breaking down the Mobile Communications segment into the sub-segments mobilcom and debitel; however, the Mobile Communications segment is not segregated in this way, and instead is subject to uniform management. Secondly, analysts, investors and the interested public have increasingly expressed the criticism that the process of capitalising customer acquisition costs lacks transparency, fails to enable different periods to be compared and thus fails to meet the requirement for plannability. And finally, internal reporting of the Group and also reporting to the financing banks report all major parameters on the assumption that the customer acquisition costs are not capitalised. freenet’s decision to no longer determine the necessary data for capitalising the customer acquisition costs accordingly results in harmonisation of internal and external reporting.

In addition to the fact that customer acquisition costs have not been capitalised in these financial statements, the revenue components incurred in connection with customer acquisition – essentially the connection premiums which are granted by the network operators and which are incurred in mobile communications at the point at which the contract is taken out – are recognised immediately as revenues at the time of the customer acquistion.

The previous year comparison figures for the financial year 2007 shown in these annual financial statements had to be adjusted retrospectively. An overview of how this adjustment of the previous year comparison figures is reflected in the individual items of the balance sheet and income statement is enclosed.

Retrospective adjustments regarding the recognition of customer acquisition costs 2007 in €'000s	Debit	Credit
Intangible assets (31.12.2007)		190,496
Deferred tax liabilities (31.12.2007)	30,354	
Current other receivables and other assets (31.12.2007)		1,437
Consolidated cumulative profit (1.1.2007)	4,254	
Non-current other liabilities and deferrals (31.12.2007)	28,260	
Current other liabilities and deferrals (31.12.2007)	61,472	
Revenue (1.1. – 31.12.2007)		90,827
Cost of materials (1.1. – 31.12.2007)	238,614	
Depreciation and impairments (1.1. – 31.12.2007)		52,617
Taxes on income (1.1. – 31.12.2007)		27,577
	362,954	**362,954**

(e) Property, plant and equipment

Property, plant and equipment is valued at the cost of acquisition or production less straight-line depreciation. The useful lives assumed for the depreciation of assets reflect the assets' expected useful lives within the Company. In calculating depreciation, the residual values at the end of the assets' useful lives are disregarded on grounds of immateriality.

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

Asset	Useful life in years
Buildings	25 to 33 years
Technical equipment and machinery	3 to 15 years
Motor vehicles	2 to 7 years
IT equipment	3 to 10 years
Telecommunications equipment and hardware	3 years
Leasehold improvements	3 to 10 years

(f) Impairment of non-monetary assets

Assets are always impaired if the carrying amount exceeds the recoverable amount. The recoverable amount is defined as the higher of the fair value of the asset less costs to sell and the value in use.

An impairment has to be carried out if triggering events indicate that the value of the asset might be impaired. Goodwill and assets with indefinite useful lives must be tested once a year in accordance with the provisions of IAS 36 for loss of value (impairment).

If the reason for an impairment is no longer applicable, the value of the asset is written up to a figure not exceeding the amortised cost of purchase. This is not applicable for goodwill and assets with an indefinite useful economic life, because no write-ups are possible in this respect.

(g) Leases

Leases where the Group is the lessee

The Group decides on a case by case basis whether assets are to be leased or purchased. For non-current assets, specific rules apply to motor vehicles (operating leases) and plant and equipment (purchase), but not to IT hardware and telecommunications equipment.

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

In the case of finance leases, IAS 17 specifies that the leased assets of which the Group is classified as the beneficial owner are capitalised and depreciated over their expected useful lives. Accordingly, the liability arising from the lease is shown as a liability and reduced by the repayment content of the leasing instalments which have already been made. The interest content of the leasing instalments is recognised directly in the income statement. The leases on technical data centre equipment are classified as finance leases. The original terms of the leases still running on the balance sheet date were estimated, taking the Company's existing option rights into account, at ten years, and the resultant debt is amortised over this period.

Leases where the Group is the lessor

When beneficial ownership of a mobile telephone is transferred to the customer, the Group shows a receivable due from the lessee in accordance with IAS 17. The receivable is shown in the amount of the net investment value at the time at which the contract is taken out. Lease payments received are broken down into an interest portion and a capital (redemption) portion. The interest components are recognised as financial income spread over relevant periods. As of the reference data, finance leases can only be recognised in relation to mobile contracts in which the purchase price for the hardware component is spread over a contractually fixed period.

(h) Investments in associates

Equity investments in associates continue to be recognised via an individual financial statement prepared for the various associates in accordance with IFRS and the Group's accounting and valuation methods. With regard to the at-equity method, please refer to section D "Principles of consolidation".

(i) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. For the purposes of measurement, financial assets are normally broken down into the following categories:

i. Financial assets measured at fair value through profit or loss
ii. Extended loans and receivables
iii. Held-to-maturity financial investments
iv. Held-for-sale financial assets.

The classification depends on the individual purpose for which the financial assets were acquired. Management determines the classification of the financial assets upon initial recognition.

i. Financial assets measured at fair value through profit or loss
This category contains two subcategories: Financial assets which are classified as held-for-trading right from the very beginning, and financial assets which are classified as "measured at fair value through profit or loss" right from the very beginning. A financial asset is assigned to this category if it is in principle acquired with the intention of being sold in the near future or if the financial asset is designated accordingly by management.

The financial assets measured at fair value through profit or loss as of the balance sheet date are shown under cash and cash equivalents and, in the case of derivative financial liabilities, under short-term other liabilities and accruals.

ii. Extended loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. They arise if the Group provides money, commodities or services directly to a debtor without any intention of trading the receivables. They are included under current assets, with the exception of those which only fall due 12 months after the balance sheet date. The latter are shown under non-current assets. Loans and receivables are shown in the balance sheet under trade accounts receivable, as well as in other receivables and other assets. They also include services which have been provided but which have not yet been billed but for which a contractual claim exists.

iii. Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed terms in relation to which Group management intends and is able to hold until final maturity. Held-to-maturity financial assets – with the exception of those which fall due within 12 months after the balance sheet date and which are shown correspondingly as current assets – have to be shown under non-current assets.

At present, the Group does not use this category for classifying any financial instruments.

iv. Held-for-sale financial assets

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

Shares in affiliated companies and investments are considered to be held-for-sale financial assets. The held-for-sale financial assets as of the balance sheet date are shown in the other financial assets as well as other receivables and other assets.

Measurement of financial instruments

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

Financial assets which are designated as “measured at fair value through profit or loss” are initially shown with their fair value; corresponding transaction costs are expensed in the income statement.

On the occasion of subsequent measurement, financial assets measured at fair value through profit or loss are shown with their fair value. Any profit or loss resulting from the subsequent measurement of financial assets measured at fair value through profit or loss is taken to the income statement. Interest swaps are derivative financial instruments and are used for hedging the risks of rising interest rates for financial liabilities. Because freenet does not maintain complete documentation and also does not maintain an effectiveness test, the interest swaps are not shown as “hedge accounting” in accordance with IAS 39. Changes in fair value are thus immediately recognised in the income statement. Interest swaps are measured at the present value of the future payments.

After initial recognition, loans and receivables are shown at amortised cost using the effective interest method less impairments for reductions in value. Profits and losses are shown in the result for the period if the loans and receivables are derecognised or impaired, and are also shown within the amortisations.

Held to maturity financial investments are measured at fair value less transaction costs after initial recognition. Profits and losses are recognised in the result for the period if the held-to-maturity investments are derecognised or impaired, and also within the amortisations.

After initial recognition, held-for-sale financial assets are shown with their fair value, whereby unrealised profits or losses are recognised directly in equity, under the reserve for unrealised profits. Dividend income arising from financial assets in this category has to be shown as other income in the income statement.

Dividends attributable to held-for-sale equity instruments have to be shown in the income statement as other income at the point at which the legal claim of the Group for payment arises.

Shares in affiliated companies, investments and securities however are shown at cost, because it is not possible for their fair value to be reliably determined. The shares are not listed and an active market does not exist; moreover, there is no intention for these assets to be sold at present. If there are any indications of lower fair values, these are recognised.

Cash and cash equivalents

Cash and cash equivalents consist of cash, sight deposits and other current highly liquid financial assets with an original term of max. three months.

Liabilities

Liabilities comprise the financial liabilities, trade accounts payable as well as other liabilities. When initially recognised, they are shown with the fair value of the consideration received less the transaction costs associated with borrowing.

In the following period, the financial liabilities are shown at amortised cost using the effective interest method. Profits and losses are recognised in the income statement when the liabilities are derecognised, and also within the amortisations.

Non-current liabilities are shown at amortised cost. Any differences between historical cost and the repayment amount are recognised in accordance with the effective interest method.

Current liabilities are shown in the amount due for repayment or fulfilment. At this point, please also refer to the comments on the accounting and measurement of financial assets. Loan liabilities are classified as current liabilities provided that the Group does not have the unconditional right to postpone settlement of the liability to a point in time no earlier than 12 months from the balance sheet date.

Derivative financial instruments are measured on the basis of future cash flows. Accordingly, derivative financial instruments can also be shown as financial liabilities.

Financial liabilities arising from finance leases are shown with the present value of the minimum lease payments.

Impairment of financial assets

On every balance sheet date, a check is performed to determine whether there are any objective indications of an impairment of a financial asset or a group of financial assets. In the case of equity instruments which are classified as held-for-sale financial assets, a considerable or permanent decline in the fair value to a level below the costs of these equity instruments is considered to be an indication that the equity instruments are impaired. If there is such an indication for held-for-sale assets, the cumulative loss – measured as the difference between the cost of purchase and the current fair value less any impairment losses recognised in relation to the relevant financial asset – is derecognised from equity and shown in the income statement. Once impairments of equity instruments have been recognised in the income statement, they are not subsequently reversed from the income statement.

In the case of not listed securities which are categorised as held-for-sale, a major or permanent decline of the fair value of the securities to a level below their cost of purchase is considered to be an objective indication of an impairment. If no market prices are available, other valuation methods are used, e. g. the DCF method.

An impairment of trade accounts receivable is recognised if there are objective indications that the due amounts are not fully recoverable. Considerable financial difficulties of a debtor, an increased probability that the borrower will become bankrupt or will have to go through another restructuring process, as well as any breach of contract, e.g. default or late payment of interest and principal, are considered to be an indication of the existence of an impairment.

In the case of some categories of financial assets, for instance trade accounts receivable, assets for which no impairment has been determined on an individual basis are tested for impairment on a portfolio basis. Objective indications of an impairment of a portfolio of receivables might be the Group's experience with payment inflows in the past, an increase in the frequency of payment defaults within the portfolio over the average duration of a loan as well as evident changes in the national or local economic climate which are associated with defaults of receivables.

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

Derecognition of financial assets

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

(j) Inventories

Inventories are shown at the lower of cost and the net realisable value on the balance-sheet date. The net realisable value is defined as the estimated recoverable proceeds less costs to sell. Costs of purchase and costs of production are measured on the basis of the moving average.

(k) Foreign currency transactions

The financial statements of foreign Group companies which do not prepare their accounts in the reporting currency are translated into Euro. The modified closing date method is used for translation purposes. Receivables and liabilities are translated using the exchange rate applicable on the date of the transaction.

The balances of the income statement are translated into Euros using average rates. Profits and losses arising from changes in exchange rates which occur by the balance sheet date are shown in the income statement.

(l) Pension provisions

Pension provisions are measured and recognised in accordance with IAS 19. The pension provision shown in the balance sheet is equivalent to the present value of the defined benefit obligation on the balance-sheet date less the fair value of the plan assets adjusted by cumulative actuarial profits and losses which have so far not been shown in the income statement as well as subsequent service cost not shown in the income statement. The present value of the defined benefit obligation is calculated every year by an independent actuarial expert using the projected unit credit method. This method takes into account not only the pensions and acquired vested interests known on the closing date; it also includes likely future increases in pensions and salaries.

Actuarial profits and losses which are based on adjustments and changes to actuarial assumptions attributable to past experience are shown in the income statement if the balance of the cumulative actuarial profits and losses not shown in the income statement exceeds the higher of ten percent of the present value of the defined benefit obligation (before deduction of the plan assets) or ten percent of the fair value of the plan assets at the end of the previous reporting period. These profits or losses are realised over the expected remaining service years of the beneficiary.

Subsequent service cost is immediately taken to the income statement, unless the changes in the pension plan depend on the employee remaining with the Company for a defined period (period until entitlement becomes vested). In this case, the past service cost is recognised in profit or loss on a straight-line basis over the period until vesting.

The service cost is shown under personnel expenses, and the interest portion of the allocation to provisions is shown in financial result.

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

(m) Other provisions

Provisions are recognised for legal or constructive obligations of uncertain timing or amount which arise as a result of past events, where it is more likely than not that settlement of the obligation will lead to an outflow of Group resources and where a reliable estimate of the extent of the obligation can be made. The provisions are valued using a best-possible estimate of the obligation on the balance-sheet date, taking into account the discounting of non-current obligations.

If a number of identical obligations exists, the probability of an asset charge on the basis of this group of obligations is determined. A provision is also shown if there is only a minor probability of an asset charge in relation to individual obligations included in this group.

Restructuring provisions comprise payments for the premature termination of rental agreements as well as severance payments to employees.

According to IAS 16, the purchase costs of tenant fittings include costs expected for obligations to remove tenant fittings. In accordance with IAS 37, a provision is also created to cover the present value of obligations to remove tenant fittings for which an outflow of resources is likely; this provision is created at the point at which the obligations arise. Changes in the value of an existing provision, in other words changes in the fulfilment amount and/or the discount rate, are recognised by means of an adjustment to the carrying amount of the tenant fittings (upper limit: recoverable amount; lower limit: zero).

(n) Employee stock option programmes

The Group offers the following employee participation programmes:
- Stock appreciation rights of freenet AG
- Stock options of the former mobilcom AG.

The accounting and valuation methods of the individual stock option programmes are detailed in the following:

Stock appreciation rights of freenet AG
The stock appreciation rights issued by freenet AG are measured at the fair value of the stock appreciation rights which will probably become vested. These rights are exercised in return for payment of a cash amount equivalent to the difference between the relevant stock price and the strike price less taxes and charges. For details, please refer to our explanations to note 23 “Employee participation programmes”.

Stock options of the former mobilcom AG
The former mobilcom AG had set up a stock-based compensation plan which is funded by equity instruments. The fair value of the work provided by the employees in return for the granting of options is recognised as an expense. The entire expense, which has to be recognised over the period until the point at which the options become vested, is calculated on the basis of the fair value of the options which have been granted. The estimate of the number of options which are expected to become exercisable is reviewed on every balance sheet day. The effects of any changes to original estimates which may have to be taken into consideration are recognised in the income statement and also by way of a corresponding adjustment in shareholders equity.

As part of the process of exercising options, the former mobilcom AG took advantage of the substitution right which it had been granted. The stock options are redeemed in the form of a cash settlement. Following revaluation using the parameters applicable for the corresponding reference date, allocations are paid into the provision via an entry in shareholders’ equity with no impact on the income statement.

(o) Deferred taxes on revenue

Deferred taxes are recognised for tax loss carry-forwards and using the liability method, for all temporary differences between the tax balance sheet values and the carrying amounts of assets and liabilities. Deferred taxes are measured at the tax rates (and tax laws) that apply or have been substantively enacted on the balance sheet date and that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets in relation to allowable temporary differences are recognised to the extent that deferred tax liabilities exist. If the amount of the deferred tax assets in relation to allowable temporary differences exceeds this figure, the deferred tax assets are only recognised to the extent that it is likely that the deferred tax assets will be used by future profits. Deferred tax assets in relation to any tax losses carried forward are also only capitalised to the extent that it is likely that they will be utilised by future profits.

(p) Accruals and deferrals for public subsidies

Accounts receivable in the form of public subsidies are capitalised provided a corresponding claim exists and the amount thereof can be estimated with sufficient reliability. According to IAS 20, the item must be presented as deferred revenue and recognised in the income statement over a period of three to ten years, depending on the depreciation period applied. If at the time when the subsidy entitlement comes into being, the property, plant and equipment in question has already been depreciated either in whole or in part, it will be recognised immediately. For further details, please refer to note 24 “Trade accounts payable, other liabilities and accruals”.

(q) Exercise of management discretion

We provide the following details pursuant to IAS 1.113:

The statement and calculation of provisions depends on estimates. Provisions for passive legal disputes in particular are created on the basis of the assessment of the lawyers representing the Group companies.

An evaluation of the value of the receivables was carried out for establishing suitable valuation adjustments for trade accounts receivable. These assessments were based mainly on past experience as well as on the age structure and on the status of receivables in the dunning and collection process.

In the Broadband segment, for the purpose of defining the sourced services for provision costs, past experience is used as the basis for estimating the probability with which the order will subsequently become an active customer relationship. This probability is then used as the basis for accruing the provision costs which will be incurred once for activating and releasing the customer.

With regard to determining the results from the discontinued operations “DSL business”, it had to be taken into consideration that considerable parts of these activities were recognised at freenet AG in 2007 and to a certain extent also in 2008. Because other activities and also the holding activities were operated in freenet AG at that time, management had to make assessments of individual cases in instances where it was not possible for transactions of freenet AG to be allocated clearly to specific segments.

In the “Domain-Hosting” segment, fees are generated from the registration and administration of top-level domains for users who are invoiced by DENIC Domain Verwaltungs- und Betriebsgesellschaft eG (“DENIC”), Frankfurt/Main. DENIC repays fees not needed as goods refunds. The amount of the goods refunds to be expected from DENIC is estimated on the basis of the payments on account made during the course of the year.

With regard to the accrual of purchased services from sales commissions for the various products of the Group, estimates are made on the basis of past experience to assess the probability with which final commissions (which can no longer be cancelled) become payable.

There are transactions in relation to which it is not possible to determine the definitive taxation during the normal course of business. The Company determines the extent of provisions for anticipated tax audits on the basis of estimates as to whether, and if so to what extent, additional taxes on income will become due. If the eventual taxation in relation to these transactions differs from the originally assumed figure, this will have an impact on the current and deferred taxes on income in the period in which the taxation is definitively determined.

(r) Forward looking assumptions and uncertainties of estimation

With regard to the most significant forward-looking assumptions and margins of error inherent in the consolidated financial statements, we hereby make the following statements pursuant to IAS 1.116:

With regard to the forward-looking assumptions made within the framework of the tests relating to potential goodwill impairments (carrying amount as of 31 December 2008: 1,120.2 million euros) as well as impairments of intangible assets with an indefinite useful economic life (carrying amount as of 31 December 2008: 311.0 million euros), please refer to note 12 "Test for impairment of non-monetary assets". A sensitivity assessment regarding the impairment test for the assets allocated to the mobile communications "CGU" has established that the fair value less costs to sell would decline by approx. 301 million euros if the WACC were increased by 0.5 percentage points and would increase by approx. 301 million euros if the WACC were decreased by 0.5 percentage points and that, if earnings before interest and taxes (EBIT) were to be reduced or increased by 10 percent in the planning period, the fair value less costs to sell would decrease or increase by approx. 534 million euros; this would not result in any impairment with regard to the assets allocated to this CGU.

During the purchase price allocation carried out on the debitel acquisition, forward-looking assumptions were made essentially in relation to growth assumptions, interest rates as well as the useful economic lives of intangible assets.

The deferred tax assets relating to losses carried forward are based on corporate planning which recognises forward-looking assumptions, for instance with regard to macro-economic developments as well as the development of the telecommunications market. With regard to the capitalised deferred taxes in relation to losses carried forward and the extent of the losses carried forward in relation to which no deferred tax assets have been shown, please refer to note 16 "Deferred tax assets and liabilities".

With regard to the creation of the provision for contingent losses for any vacancy of rented shops and office buildings, assumptions have been made in relation to the possibility of these areas being sublet in future.

With regard to the assumptions and estimates made in the binomial model used for determining the provisions for outstanding stock options and stock appreciation rights according to IFRS 2 as of 31 December 2008, please refer to note 23 "Employee participation programmes".

With regard to pension provisions and similar obligations, note 28 describes how forward-looking assumptions have been made for the valuation of the provisions for pensions and similar obligations. This involves the recognition of a discount rate, the trend in pensions, the assessment of the future development of the pensionable income of the beneficiary as well as an assessment of an expected return on the plan assets.

With regard to the measurement of restructuring provisions for paying severance payments, it was necessary to make estimates regarding the number of employees who will receive severance payments after the balance sheet date from the restructuring programme in relation to the acquisition of the debitel Group, and it was also necessary to make estimates regarding the amount of the severance payment which will probably be payable for each employee. These estimates were made on the basis of experience gained with previous restructuring programmes. Please refer to note 29, "Other provisions".

(s) Discontinued operations and held-for-sale long-term assets

Discontinued operations and held-for-sale long-term assets, which are classified as held-for-sale, are shown at the lower of carrying amount and fair value less costs to sell if it is generally more likely that their carrying amount can be realised by way of a sale than by way of further use. At the point of reclassification under discontinued operations and held-for-sale long-term assets, depreciation of the corresponding asset is discontinued.

The held-for-sale assets or the held-for-sale group of assets are reclassified as "Continued operations" when the criteria of IFRS 5 are not longer satisfied. The assets or the group of assets are shown at the lower of carrying amount less depreciation or revaluations which would have been carried out if the assets or group of assets had not been classified as "discontinued operations" and the recoverable amount at the time of reclassification. The adjustments to the revaluation of the group of assets are shown in the income statement as part of continued operations.

(t) Comparable figures and changes in the accounting policies

The consolidated financial statements 2008 can only be compared to a limited extent with the consolidated financial statements for the previous year because the companies of the debitel Group which account for a considerable percentage of the assets, liabilities, expenses and income of the Group were included in the consolidated financial statements for the first time in the financial year 2008 (consolidation as of 5 July 2008; 24:00 hours).

Compared with the published consolidated financial statements 2007, the Group no longer capitalises customer acquisition costs in accordance with IAS 38, and also no longer defers certain one-off revenues in relation to these costs. The conditions of IAS 38 are no longer applicable after freenet decided in the financial year 2008 that it would no longer collate data for determining the customer acquisition costs at the level of individual customers. The failure to collate these data constitutes a change of method for the purposes of IAS 8.14b. With regard to the background and reasons for this change of method, please refer to our comments relating to the accounting and valuation methods, section (d), intangible assets, customer acquisition costs.

As a result of this change of method, the previous year comparison figures in these consolidated financial statements have been adjusted retrospectively, which means that this issue has not had any negative impact on the extent to which figures are comparable.

When the debitel Group was acquired, a comparison was made between the accounting and valuation methods of freenet and the accounting and valuation methods of the debitel Group. In the case of any differences, most of the accounting and valuation methods of the freenet Group were retained unchanged; however, this comparison resulted in a significant change with regard to the structure of balance sheet issues. Previously, freenet had adopted a relatively narrow interpretation for allocating items to the balance sheet items "trade accounts receivable" as well as "trade accounts payable", in that these items were used mainly for showing claims and liabilities when invoices were available, so that the justification for and extent of the claims were very certain. The Company has the opinion that the net assets position is better presented by the method used by the debitel Group, which mainly allocates items to trade accounts receivable or trade accounts payable if a clear contractual basis exists, irrespecitve of whether deliveries and services have already been billed on the closing date. The change relating to this structure has resulted in the following adjustments to the corresponding previous year comparison figures: In the previous year comparison figures as of 31 December 2007, compared with the published consolidated financial statements, a figure of 38,097 thousand euros was reclassified under trade accounts receivable whereas it had previously been classified under short term other receivables and other assets, and a figure of 124,217 thousand euros was reclassified as short-term trade accounts payable whereas it had previously been classified under short-term other liabilities and accruals.

A further change of method on the occasion of the debitel acquisition was made in relation to the valuation of inventories: Costs of purchase and costs of production are no longer determined, as was previously the case, on the basis of the first-in-first-out method (FIFO); instead they are now determined on the basis of the moving average. The previous year comparison figures have not been retrospectively adjusted as a result of materiality considerations. For 2008, the fact that the valuation method was changed over to the moving avererage had the effect of increasing earnings by 1.1 million euros.

The previous year comparison figures were also retrospectively adjusted in relation to the presentation of the "DSL business" segment in the income statement as discontinued operations for the purposes of IFRS 5. Please refer to note 21: "Discontinued operations".

F. Segment reporting

The Group adopted IFRS 8 (Operating Segments) already before the point at which it came into force, with effect from 1 January 2007. In accordance with IFRS 8, and on the basis of internal management, operating segments have to be distinguished from group segments whose operating results are regularly reviewed by the main decision-making body of the Company with regard to decisions relating to the allocation of resources to this segment and the measurement of its profitability.

The Board of Managing Directors organises and manages the Company on the basis of the differences between the individual products and services offered by the Company. Because the Group exercises its business operations almost exclusively in Germany, there is no organisation and management based on geographical regions. The Group operated in the following operating segments in 2008:

- Mobile Communications: Activities as a mobile service provider
- Broadband: Range of broadband Internet connections and accesses, range of broadband voice services (Voice-over-IP)
- Portal: Portal services are broken down into E-commerce/advertising services, the range of paid services for end customers as well as the rendering of sales services. E-commerce/advertising services comprise the range of online shopping (for instance: Revenues generated with sales commissions, monthly fees and customer acquisiton premiums) as well as the marketing of advertising (banners and other types of advertising) on websites.
- Hosting: Registration of top level domains, provision of web space, implementation of related software solutions
- B2B: Range of value added services for business customers, development of communication services, IT services and other services for business customers
- Narrowband: Range of narrowband voice services (call-by-call, pre-selection) and data services.

The individual operating segments each also provide services to other operating segments. These services are charged on the basis of transaction prices which are the subject of commercial negotiation.

Income and expenses are allocated to the segments on the basis of selected criteria and economic relevance. In the case of revenues, cost of materials and gross profit, this allocation can clearly be made on the basis of the dimensions of the cost centre; this means that the entire Group gross profit has been completely allocated to segments. All other positions of the income statement, as well as net assets, liabilities and asset additions and disposals, have not been allocated to segments in internal reporting which is available for the decision makers of the Group (with the exception of the calculation of EBITDA, EBIT and investments for the segments Mobile Communications and Hosting as well as, since 2008, the calculation of EBITDA and EBIT for the Portal segment).

For purposes of segment reporting, the figures and measurements shown for the corresponding expenses and income do not differ from the figures and measurements shown in the consolidated balance sheet and the consolidated income statement.

Within the framework of mass business conducted by the freenet Group which focuses primarily on private customers, there is no reliance on individual customers. In added-value service business which belongs to the B2B segment, a significant percentage of revenues is generated with a small number of large customers.

Segment report 1.1.2008 – 31.12.2008 €'000s	**Mobile Communications**	**Broadband**	**Portal**
Third-party revenue	**2,643,863**	**302,555**	**43,421**
Intersegment revenue	10,839	7	4,399
Revenue, total	2,654,702	302,562	47,820
Cost of materials, third parties	**–2,184,035**	**–225,860**	**–10,530**
Intersegment cost of materials	–1,774	–12,577	–2,081
Cost of materials, total	–2,185,809	–238,437	–12,611
Segment gross profit	**468,893**	**64,125**	**35,209**
Other operating income			
Other capitalised own work			
Personnel expenses			
Depreciation and impairments			
Other operating expenses			
Share of results of associates			
Consolidated result before financial result and taxes on income			
Consolidated financial result			
Taxes on income			
Consolidated result of continued operations			
Consolidated result of discontinued operations			
Consolidated result			
freenet AG's shareholders' share in the consolidated result			
Minority shareholders' share in the consolidated result			

Of the figure of 82,215 thousand euros shown for EBIT in continued operations, 28,545 thousand euros are attributable to the Mobile Communications segment, 28,020 thousand euros are attributable to the Hosting segment, 6,919 thousand euros are attributable to the Portal segment and 18,731 thousand euros are attributable to the Fixed Network segment (consisting of the sum of the Broadband, B2B and Narrowband segments).

Of the figure of 207,106 thousand euros shown for EBITDA in continued operations, 124,049 thousand euros are attributable to the Mobile Communications segment, 35,029 thousand euros are attributable to the Hosting segment, 7,547 thousand euros are attributable to the Portal segment and 40,481 thousand euros are attributable to the Fixed Network segment.

Of the figure of 41.4 million euros shown for investments in continued operations (excl. the payments for the acquisition of subsidiaries and equity participations), 25.5 million euros are attributable to the Mobile Communications segment, 4.7 million euros are attributable to the Hosting segment and 11.2 million euros are attributable to Fixed Network segment.

Hosting	**B2B**	**Narrowband**	**Elimination of intersegment revenues and costs**	**Effects re. IFRS 5**	**Total**
83,553	**99,308**	**75,972**	**0**	**–374,846**	**2,873,826**
4,159	1,739	1	–21,144	0	0
87,712	101,047	75,973	–21,144	–374,846	2,873,826
–15,271	**–73,330**	**–27,077**	**0**	**303,860**	**–2,232,243**
–797	–2,110	–2	19,341	0	0
–16,068	–75,440	–27,079	19,341	303,860	–2,232,243
71,644	**25,607**	**48,894**	**–1,803**	**–70,986**	**641,583**
					176,016
					1,382
					–223,139
					–124,891
					–390,295
					1,559
					82,215
					–87,884
					154,042
					148,373
					–36,775
					111,598
					112,182
					–584

Segment report 1.1.2007 – 31.12.2007 (adjusted) **€'000s**	**Mobile Communications**	**Broadband**	**Portal**
Third-party revenue	**1,272,533**	**273,712**	**49,087**
Intersegment revenue	1,167	0	7,587
Revenue, total	1,273,700	273,712	56,674
Cost of materials, third parties	**–1,046,051**	**–278,301**	**–13,892**
Intersegment cost of materials	–1,673	–8,131	–2,101
Cost of materials, total	–1,047,724	–286,432	–15,993
Segment gross profit	**225,976**	**–12,720**	**40,681**
Other operating income			
Other capitalised own work			
Personnel expenses			
Depreciation and impairments			
Other operating expenses			
Share of results of associates			
Consolidated result before financial result and taxes on income			
Consolidated financial result			
Taxes on income			
Consolidated result of continued operations			
Consolidated result of discontinued operations			
Consolidated result			
freenet AG's shareholders' share in the consolidated result			
Minority shareholders' share in the consolidated result			

Of the figure of 173,435 thousand euros shown for EBIT in continued operations, 118,039 thousand euros are attributable to the Mobile Communications segment, 20,095 thousand euros are attributable to the Hosting segment and 35,301 thousand euros are attributable to the Fixed Network segment (consisting of the sum of the Broadband, B2B and Narrowband segments).

Of the figure of 213,721 thousand euros shown for EBITDA in continued operations, 127,941 thousand euros are attributable to the Mobile Communications segment, 27,520 thousand euros are attributable to the Hosting segment and 58,260 thousand euros are attributable to the Fixed Network segment.

Of the figure of 39.7 million euros shown for investments in continued operations (excl. the payments for the acquisition of subsidiaries and equity participations), 4.6 million euros are attributable to the Mobile Communications segment, 6.1 million euros are attributable to the Hosting segment and 29.0 million euros are attributable to Fixed Network segment.

Hosting	B2B	Narrowband	Elimination of intersegment revenues and costs	Effects re. IFRS 5	Total
75,512	**133,979**	**149,288**	**0**	**–263,286**	**1,690,825**
4,351	939	0	–14,044	0	0
79,863	134,918	149,288	–14,044	–263,286	1,690,825
–15,337	**–103,342**	**–62,581**	**0**	**274,357**	**–1,245,147**
–821	–410	0	13,136	0	0
–16,158	–103,752	–62,581	13,136	274,357	–1,245,147
63,705	**31,166**	**86,707**	**–908**	**11,071**	**445,678**
					122,385
					571
					–132,714
					–40,286
					–223,274
					1,075
					173,435
					7,051
					–119,600
					60,886
					–111,949
					–51,063
					–51,444
					381

G. Notes to the consolidated income statement

1. Revenues

A breakdown of revenues (2,874 million euros; previous year: 1,691 million euros) is shown in section F: Segment reporting.

Of the figure shown for external revenues of the Mobile Communications segment, 1,960 million euros (previous year: 985 million euros) relate to license fees and charges, 464 million euros (previous year: 188 million euros) relate to fees for premiums and commissions and 219 million euros (previous year: 100 million euros) relate to revenues generated with the sale of mobile telephones and accessories.

2. Other operating income

Other operating income mainly includes income from the release of provisions and accrued liabilities, from late payment and charge-back charges, advertising cost subsidies and also income from the invoicing of payment in kind to employees in the form of the use of company cars and rental income.

In addition, as a result of DSL business being reclassified as discontinued operations in accordance with IFRS 5, this item also includes income from the rendering of services from Group companies to the broadband segment.

3. Cost of materials

Cost of materials are broken down as follows:

€'000s	2008	2007 adjusted
Costs of purchased goods	401,045	249,558
Costs of purchased services	1,831,198	995,589
	2,232,243	**1,245,147**

Costs of purchased goods principally comprise the cost value of mobile telephones sold under term contracts and also bundles from prepaid business.

The costs of purchased services mainly comprise charges for mobile telephony, commissions and premiums for sales partners.

4. Personnel expenses

Personnel expenses are broken down as follows:

€'000s	2008	2007 adjusted
Wages and salaries	193,870	113,807
Social contributions	29,269	18,907
	223,139	**132,714**

The average number of people employed by the Group rose by 50.9 percent, from 3,749 to 5,658 compared with the previous year.

In the course of the financial year, personnel expenses linked to the performance of the share price amounted to –10,436 thousand euros (previous year: 11,001 thousand euros).

€'000s	2008	2007
Stock appreciation rights	–10,398	10,777
Stock options (former mobilcom AG)	–38	224
	–10,436	**11,001**

The stock appreciation rights programme of the Company has resulted in a reduction of 10,398 thousand euros in personnel expenses due to a reversal of the provision (previous year: Personnel expenses 10,777 thousand euros). With regard to the valuation of the stock options in accordance with IFRS 2 (Equity-Settled), it was also necessary to reduce the personnel expenses because there was also a decline in the fair value of the stock options. For an explanation of the stock option programme as well as the stock appreciation programme, please refer to our comments to note 23 "Employee participation programmes" as well as section (n) in "Accounting and valuation methods".

Personnel expenses also include costs of defined benefit plans of 854 thousand euros (previous year: 566 thousand euros); please also refer to note 28: "Pension provisions and similar obligations".

Personnel expenses include a figure of 14,635 thousand euros as the employer's social insurance contribution as costs of defined contribution benefit plans (previous year: 8,917 thousand euros).

5. Depreciation and impairments

The following table sets out the depreciation and impairments:

€'000s	2008	2007 adjusted
Depreciation on intangible assets	95,499	18,055
Depreciation on property, plant and equipment	29,392	22,231
	124,891	**40,286**

As was the case in the previous year, no impairments were recognised in relation to intangible assets or property, plant and equipment.

6. Other operating expenses

Other operating expenses mainly comprise marketing costs, costs of premises, network costs, postage costs and legal and consultancy costs.

In the financial year, costs of impairments and the default of receivables totalling 24,893 thousand euros (previous year: 235 thousand euros) were incurred. Of this figure, trade accounts receivable accounted for 24,980 thousand euros (previous year: −744 thousand euros) and other assets accounted for −87 thousand euros (previous year: 979 thousand euros).

Payments of 68,485 thousand euros (previous year: 41,806 thousand euros) were recognised in the income statement within the framework of rental and leasing agreements.

No costs of foreign currency translations were shown under other operating expenses (previous year: 30 thousand euros).

7. Other interest and similar income

Other interest and similar income consists of the following items:

€'000s	2008	2007 adjusted
Interest receivable from banks, debt collection and similar income	6,804	14,312
Compund interest from assets	1,155	0
Interest of tax refund	671	121
Market valuation of money market investments (write-up)	0	99
Interest income from finance leases	0	13
	8,630	**14,545**

8. Interest and similar expenses

Interest and similar expenses are broken down as follows:

€'000s	2008	2007 adjusted
Interest payable to banks and similar costs	62,250	2,156
Cost of market valuation of derivative financial instruments	30,517	40
Expense of cumulative interest in relation to liabilities	2,119	44
Interest on supplementary tax payments	941	5,144
Interest on pension obligations	648	65
Interest on finance leases	39	45
	96,514	**7,494**

9. Taxes on income

This item comprises paid and outstanding taxes on income as well as deferred taxes:

€'000s	2008	2007 adjusted
Current tax expense for the financial year	–16,665	–14,022
Current tax income (previous year: tax expense) for previous years	1,405	–9,037
Deferred tax income (previous year: tax expense) due to the write-up (previous year: impairment) of deferred tax assets	146,768	–39,109
Deferred tax income (previous year: tax expense) due to temporary differences	22,660	–12,828
Deferred tax expense attributable to tax rate changes	–126	–44,604
	154,042	**–119,600**

For further details concerning deferred taxes, please refer to note 16 "Deferred tax assets and liabilities".

Applying the average tax rate of the consolidated companies to the consolidated result before taxes on income would result in anticipated tax income of 12.6 million euros (previous year: tax expenses of 26.5 million euros). The difference between this amount and the actual tax expense) of 154.0 million euros (previous year: tax income of 119.6 million euros) is shown in the following reconciliation.

€'000s	2008	2007 adjusted
Result of continued and discontinued operations before taxes on income	**–42,444**	**68,537**
Expected tax income (previous year: tax expense) applying a tax rate of 29.8% (previous year: 38.5%)	12,648	–26,455
Change in the allowance for deferred tax assets and non-recognised deferred tax assets in relation to losses carried forward	146,768	–39,109
Tax effect of non-allowable expenses and tax-free income	–6,969	–429
Effects from changes in tax rate	–126	–44,604
Tax income (previous year: tax expense) from previous years	1,405	–9,037
Other income	316	34
Actual tax income (previous year: tax expense)	**154,042**	**–119,600**
Effective rate in percent	362.93	174.50

In the financial year 2008, a corporation tax rate of 15 percent (previous year: 25 percent) was used at the Group companies for calculating the current and deferred taxes on income. A solidarity surcharge of 5.5 percent based on the corporation tax and also an average trade tax assessment base of 400.09 percent (previous year: 397.03 percent) were also used. Deferred taxes in the financial year 2008 were calculated with an average tax rate of 29.8 percent (previous year: 29.7 percent).

10. Earnings per share

Undiluted earnings per share

Undiluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation during the financial year. In future, it is possible that undiluted earnings per share might be reduced as a result of the possible utilisation of contingent capital.

	2008	2007 adjusted
Group result attributable to shareholders of freenet AG in €'000s	112,182	–51,444
Weighted average of shares in circulation	110,727,683	96,061,016
Earnings per share in € (undiluted)	**1.01**	**-0.54**
Thereof for continued operations in €	1.34	0.63
Thereof for discontinued operations in €	–0.33	–1.17

Diluted earnings per share

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

The number of potentially diluting shares is calculated as the difference between the potential ordinary shares attributable to employee stock option programmes valued at the subscription price and the ordinary shares issuable at fair value.

	2008	2007 adjusted
Group result attributable to shareholders of freenet AG in €'000s	112,182	–51,444
Weighted average of shares in circulation	110,727,683	96,061,016
Potential number of diluting shares	0	15,148
Weighted average of shares in circulation plus potential number of diluting shares	110,727,683	96,076,164
Earnings per share in € (diluted)	**1.01**	**-0.54**
Thereof for continued operations in €	1.34	0.63
Thereof for discontinued operations in €	–0.33	–1.17

H. Notes to the consolidated balance sheet

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

Movements in property, plant and equipment and intangible assets are shown in the schedule of non-current assets. Technical equipment and machinery which is leased and which is shown under property, plant and equipment had a residual carrying amount of one euro as of 31 December 2008 (previous year: 2 thousand euros).

The main carrying amounts of intangible assets relate to brand rights and customer relations attributable to the purchase price allocation on the occasion of the acquisition of the debitel Group. Please also refer to our comments in point 33: "Business combinations".

The following table sets out the carrrying amounts of these brand rights and customer relations as of 31 December 2008:

€'000s	Residual carrying amount
"debitel" brand	293,204
"Talkline" brand	32,173
"_dug" brand	2,978
"callmobile" brand	1,273
Customer relations debitel postpaid	231,220
Customer relations debitel prepaid	22,552
Customer relations Talkline postpaid	154,678
Customer relations Talkline prepaid	8,874
Customer relations callmobile	4,107
	751,059

In addition to the brand rights and customer relations of the debitel acquisition, further intangible assets of 178.1 million euros are shown as of 31 December 2008.

Research and development costs charged to the income statement were insignificant.

The following table sets out the breakdown of goodwill recognised in relation to cash generating units:

€'000s	31.12.2008	31.12.2007
Mobile Communications	1,111,770	13,889
Broadband	0	88,025
Hosting	3,717	3,717
Others	4,675	4,673
	1,120,162	**110,304**

12. Impairment test for non-monetary assets

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

Goodwill of 1,111,770 thousand euros has been allocated to the cash generating unit (CGU) "Mobile Communications" and, with the debitel brand, intangible assets with an indefinite useful economic life of 293,204 thousand euros were also allocated to the cash-generating unit "Mobile Communications". The business models "Postpaid", "Prepaid", "No frills" as well as "White Card" are combined in the "Mobile Communications" CGU.

The fair value less costs to sell has been used as the recoverable amount of the "Mobile Communications" CGU. Planning which covers the period up to and including 2012 and which was approved by management was used for calculating the fair value. The detailed planning phase was extrapollated in the perpetual yield.

Planning is based on detailed assumptions derived from previous experience and future expectations in relation to the main performance and value drivers. In principle, the gross profit of the "Mobile Communications" CGU can be broken down into two earnings flows, the contribution to results made by existing customers and customer retention. This is opposed by the costs of purchased services, in particular in relation to the mobile network operators. The contribution to earnings of new customers and customer retention is dominated by costs of acquiring or retaining the customers. This is opposed by costs for procuring the hardware as well as commissions payable to sales partners as a result of acquisition and customer retention. freenet is assuming slightly higher customer acquisition and customer retention costs in the planning period.

Goodwill of 3,717 thousand euros as well as intangible assets with an indefinite service life (brand rights) of 17,704 thousand euros were allocated to the "Hosting" CGU. The recoverable amount of the "Hosting" CGU has been calculated as the CGU's fair value less costs to sell. Planning which covers the period up to and including 2012, which was approved by management and which was based on past experience and future expectations is used as the basis for determining the value. The detailed planning phase has been extrapolated in the perteputual yield.

The "Hosting" segment comprises two principal products: Shared hosting and dedicated hosting. In shared hosting, bandwidth and memory are shared with other users, whereas dedicated hosting provides sole use of a complete server. The target groups for dedicated hosting are professional users and businesses, which lease their own server and use it for hosting purposes. By way of contrast, shared hosting is chiefly designed for private individuals who have their own domain but not their own server, whether leased or owned. Future growth will be geared to the development of internet penetration. Revenue planning is based primarily on two value drivers: The first of these, namely overall user numbers and user retention is important for future business, but careful attention has also been given to the second, namely average customer revenue. Increasing revenues have been assumed in the planning period.

The weighted average cost of capital (WACC) after tax which has been derived from the special risk structure of the CGUs "Mobile Communications" and "Hosting" on the basis of market data and which has been used for calculating the fair value is in the range of 7.3 to 7.4 percent. With regard to the capitalisation rate used in the subsequent phase (starting in the year 2013), a discount of 1 percent has been assumed as a result of growth assumptions.

The impairment test 2008 carried out in relation to the "Mobile Communications" and "Hosting" CGUs established that no impairment has to be recognised in relation to the allocated goodwill as well as the intangible assets with an indefinite service life.

Goodwill of 88,025 thousand euros was allocated to the “Broadband” CGU. As a result of the intention to sell the “DSL Business” segment shown in this CGU, offers for this segment were obtained in the course of the financial year. The fair value less costs to sell of the “Broadband” CGU was defined as the highest purchase price shown for this segment, which is considerably higher than the carrying amount of the net assets allocated to this CGU. The impairment test for the “Broadband” CGU established that there is no impairment requirement.

No impairment costs were recognised in the financial year 2008, as in the previous year 2007 (after the retrospective adjustment of the previous year comparison figures).

13. Joint Ventures

The consolidated financial statements include an investment in three joint ventures, namely FunDorado GmbH, Hamburg, (FunDorado), which was established in the financial year 2001 and in which the freenet Group holds a 50.0 percent stake (previous year: 50.0 percent). FunDorado operates a fee-based internet portal.

The following assets, liabilities, income and expenditure are shown as of 31 December 2008 or in the financial year 2008:

€’000s	FunDorado GmbH	Attributable to the Group
Current assets	2,674	1,337
Non-current assets	988	494
	3,662	**1,831**
Current liabilities	2,036	1,018
Non-current liabilities	104	52
	2,140	**1,070**
Income	8,334	4,167
Expenses	7,226	3,613

The following assets, liabilities, income and expenditure are shown as of 31 December 2007 or in the financial year 2007:

€’000s	NetCon Media s. r. o.	Attributable to the Group
Current assets	2,580	1,290
Non-current assets	614	307
	3,194	**1,597**
Current liabilities	2,076	1,038
Non-current liabilities	104	52
	2,180	**1,090**
Income	7,624	3,812
Expenses	7,100	3,550

As was the case in the previous year, no contingent liabilities or capital obligations existed in connection with the Group's holding in this joint venture as of 31 December 2008. In the financial year 2008, FunDorado GmbH employed an average of 34 persons (previous year: 28).

FunDorado GmbH holds a stake of 50 percent in NetCon Media s.r.o. with registered offices in Hlucin, the Czech Republic (referred to in the following as: NetCon). The Company produces content which is designed primarily to be used in the fee-based internet portal of FunDorado. NetCon in turn owns a 100 percent stake in its sales company siXXup new Media GmbH, Pulheim (referred to in the following as siXXup). NetCon as well as siXXup are both included as joint ventures in the consolidated financial statements.

Including the balances of its subsidiary siXXup, NetCon shows the following assets, liabilities, income and expenses as of 31 December 2008 and for the financial year 2008:

€'000s	**NetCon Media s.r.o.**	**Attributable to the Group**
Current assets	215	54
Non-current assets	207	52
	422	**106**
Current liabilities	79	20
Non-current liabilities	0	0
	79	**20**
Income	1,539	385
Expenses	1,556	389

Including the balances of its subsidiary siXXup, NetCon shows the following assets, liabilities, income and expenses as of 31 December 2007 and for the financial year 2007:

€'000s	**NetCon Media s.r.o.**	**Attributable to the Group**
Current assets	160	40
Non-current assets	238	60
	398	**100**
Current liabilities	52	13
Non-current liabilities	0	0
	52	**13**
Income	1,405	351
Expenses	1,383	346

NetCon, including its subsidiary, employed an average of 58 persons (previous year: 57) in the financial year 2008.

As of 31 December 2008, there were no contingent obligations or capital commitments in connection with the Group interest in these joint ventures.

14. Investments in associates

The carrying amount of associates as of 31 December 2008 was 3,462 thousand euros (previous year: 3,174 thousand euros); as was the case in the previous year, this related to KielNET GmbH Gesellschaft für Kommunikation, Kiel (referred to in the following as KielNET). The Group owns a 50 percent stake in this company. If voting in the case of resolutions is tied, the deciding vote is held by Stadtwerke Kiel AG, Kiel. KielNET supplies telecommunication services within the license area in the Kiel region.

In the financial year 2008, KielNET generated revenues of 20,818 thousand euros (previous year: 20,666 thousand euros) as well as net income of 3,118 thousand euros (previous year: 2,072 thousand euros). As of 31 December 2008, the assets of this company amounted to an aggregate 19,079 thousand euros (previous year: 19,585 thousand euros), and the liabilities amounted to an aggregate 12,206 thousand euros (previous year: 13,289 thousand euros).

The 288 thousand euros increase in the carrying amount of associates compared with 31 December 2007, in conjunction with earnings of 1,559 thousand euros generated by the associates in 2008, is due to the fact that a dividend payment of 1,271 thousand euros was received from KielNET; this has to be treated as a reduction in the equity participation.

15. Other investments

The other financial investments shown as of the balance sheet date mainly comprise the investment in Libri.de GmbH, Hamburg with an unchanged carrying amount of 304 thousand euros as well as the investment in Pocketfilm Media Entertainment GmbH, Frechen, of 398 thousand euros (which was acquired in the financial year 2008). These investments were shown at cost.

No impairments had been recognised in relation to the other financial assets as of the balance sheet date and also as of the previous year closing date. Moreover, no disposals have taken place.

16. Deferred tax assets and liabilities

After temporary differences were taken into consideration, deferred tax assets and liabilities were calculated using the liability method with a total tax rate of 29.8 percent (previous year: 29.7 euros percent).

The following amounts are shown in the consolidated balance sheet:

€'000s	31.12.2008	31.12.2007		
		Adjusted	Adjustment	As reported
Deferred tax assets	14,878	82,657	30,354	52,303
Deferred tax liabilities	0	0	0	0
	14,878	**82,657**	**30,354**	**52,303**

The overhang of 14.9 million euros shown for deferred tax assets is considered to be entirely of a short-term nature because tax losses carried forward are expected to be utilised in 2009. In the previous year, of the total amount of tax assets, 6.5 million euros were classified as short-term and 76.1 million euros were classified as long-term.

Changes in the disclosed deferred tax assets and liabilities for the financial year 2008 and 2007 are shown in the following two tables:

Changes in deferred tax assets and liabilities in 2008 €'000s	**1.1.2008**	**Changes in group of consolidated companies**	**Income and expenses from taxes on income**	**31.12.2008**
Property, plant and equipment	–398	–304	–408	–1,110
Intangible assets	–18,292	–250,852	17,474	–251,670
Financial assets	–1,020	2	90	–928
Loss carry-forwards	102,484	0	131,619	234,103
Provisions	–30	12,582	2,315	14,867
Other liabilities and accruals	–140	–4,472	6,066	1,454
Debt	0	0	–547	–547
Other liabilities and accruals	53	5,963	12,693	18,709
	82,657	**–237,081**	**169,302**	**14,878**

Movements during 2007:

Changes in deferred tax assets and liabilities in 2007 €'000s	**1.1.2007**			**Income and expenses from taxes onincome**	**31.12.2007**
	As reported	**Adjustment**	**Adjusted**		**adjusted**
Fixed assets from finance leases	–16	0	–16	16	0
Other property, plant and equipment	–717	0	–717	319	–398
Intangible assets	–29,116	2,778	–26,338	8,046	–18,292
Financial assets	–978	0	–978	–42	–1,020
Loss carry-forwards	207,080	0	207,080	–104,596	102,484
Provisions	584	0	584	–614	–30
Other liabilities and accruals	–418	0	–418	278	–140
Other	1	0	1	52	53
	176,420	**2,778**	**179,198**	**–96,541**	**82,657**

The summarised net development of deferred taxes is shown in the following table:

€'000s	2008	2007		
		Adjusted	Adjustment	As reported
As of 1.1.	82,657	179,198	2,778	176,420
Change in group of consolidated companies	–237,081	0	0	0
Tax income (previous year: expense)	169,302	–96,541	27,576	–124,117
As of 31.12.	**14,878**	**82,657**	**30,354**	**52,303**

The existing tax loss carry-forwards exceed the sum of the forecast cumulative result of the subsequent financial years. Accordingly, the consolidated balance sheet only shows a deferred tax asset to the extent that it is considered probable that the asset will be realised. The expected results are based on the Company's forecast for pre-tax result applicable as of the balance sheet date. As of 31 December 2008, deferred taxes relating to tax loss carry-forwards amounted to 234,103 thousand euros (previous year: 102,484 thousand euros). Of this figure, 114,775 thousand euros (previous year: 54,520 thousand euros) are attributable to corporation tax losses carried forward and 119,328 thousand euros (previous year: 47,964 thousand euros) are attributable to trade tax losses carried forward. Other losses carried forward for which no deferred tax asset has been shown in the consolidated balance sheet are as follows: 2.1 billion euros (corporation tax) and 1.6 billion euros (trade tax) (previous year: 2.9 billion euros corporation tax and 2.4 billion euros trade tax).

17. Inventories

Inventories are broken down as follows:

€'000s	31.12.2008	31.12.2007
Mobile telephones/accessories	40,875	12,360
Bundles and voucher	20,009	4,709
SIM cards	8,891	3,881
DSL hardware	0	8,618
Other	3,607	1,880
	73,382	**31,448**

An impairment of 4,904 thousand euros (previous year 120 thousand euros) has been recognised in relation to year-end stocks of inventories.

18. Receivables and other assets

This item is broken down as follows:

€'000s	31.12.2008	31.12.2007 adjusted
Trade accounts receivable	540,736	238,139
Other assets	42,831	14,943
Advance payments	26,415	30,280
	609,982	**283,362**

Trade accounts receivable exist in relation to third parties as well as the discontinued operation "DSL Business", and comprise mainly receivables attributable to fees, equipment sales and fixed network and internet services.

The total of trade accounts receivable and the other non-derivative financial assets, less impairments which had been recognised, amounted to 565,923 thousand euros as of 31 December 2008 (previous year 253,082 thousand euros). In the freenet Group, the most significant item in this category are trade accounts receivable. These are due mainly from end customers, and to a lesser extent they are due from business customers, agents, sales partners as well as the discontinued operation "DSL Business".

Invoices are issued by the Group itself in the segments Mobile Communications, Broadband, Portal and Hosting.

In the segments B2B and Narrowband, some invoices are issued by the Group itself, and the collection facility of Deutsche Telekom AG (DTAG) is used for some other invoices.

Where invoices are issued to end customers by the Group itself, they are mostly due immediately after the invoice is raised. The invoices submitted to DTAG have a payment term of 30 days.

Last year, in the case of trade accounts receivable which were not impaired and which were not overdue, no renegotiations were held in relation to existing receivables.

As of 31 December 2008, trade accounts receivable and other non-derivative financial assets of 330,890 thousand euros were neither impaired nor overdue (31 December 2007: 208,175 thousand euros).

Trade accounts receivable as well as other non-derivative financial assets of 28,489 thousand euros (31 December 2007: 13,631 thousand euros) are overdue but not impaired. These receivables are due from various customers who have not defaulted in the past.

The maximum default risk as of the balance sheet date corresponds to the carrying amount of the above-mentioned trade accounts receivable.

The Group does not have any securities which have been provided to it.

In the course of the financial year, costs of 3,128 thousand euros were incurred in connection with the sale of receivables (previous year: income of 3,754 thousand euros). All major risks and opportunities associated with ownership of these receivables were transferred to the buyer.

The following information relates to the age structure of this category of trade accounts receivable and non-derivative financial assets:

€'000s	Carrying amount 31.12.2008	Thereof: On closing date neither impaired nor overdue	Thereof: Not impaired on closing date and overdue by		
			Fewer than 90 days	91 and 180 days	More than 180 days
Trade accounts receivable	540,736	314,513	21,210	1,723	2,278
Other non-derivative financial assets	25,187	16,377	2,422	312	544
	565,923	**330,890**	**23,632**	**2,035**	**2,822**

€'000s	Carrying amount 31.12.2007	Thereof: On closing date neither impaired nor overdue	Thereof: Not impaired on closing date and overdue by		
			Fewer than 90 days	91 and 180 days	More than 180 days
Trade accounts receivable	238,139	194,534	4,925	2,709	4,866
Other non-derivative financial assets	14,943	13,641	0	18	1,113
	253,082	**208,175**	**4,925**	**2,727**	**5,979**

The following table sets out information concerning the movement in impairments for the category of trade accounts receivable as well as non-derivative financial assets:

€'000s	
Impairments created as of 31 December 2007	94,911
Impairments transferred as a result of business combinations	78,895
Impairments reclassified under discontinued operations DSL	–29,866
Impairments created as of 31 December 2008	125,397
Net reversal of impairments in financial 2008	**–18,543**

€'000s	
Impairments created as of 31 December 2006	83,783
Impairments created as of 31 December 2007	94,911
Net allocation to impairments in financial 2007	**11,128**

Trade accounts receivable include receivables attributable to finance leases based on the following anticipated payment streams:

€'000s	31.12.2008	31.12.2007
Within one year	8,078	3,939
Between one year and five years	3,738	1,404
	11,816	**5,343**
As yet unrealised financing income (discount)	–528	–221
Present value of finance lease receivables	**11,288**	**5,122**

A risk rate of 6.0 percent has been used for discounting the reveivables from fianance leases. In view of the short-term nature of the receivables attributable to finance leases, it is assumed that the market value of the receivables roughly corresponds to the carrying amount which has been recognised. For further information, please refer to the disclosures relating to the accounting and valuation methods, section E. Accounting and valuation methods, (g) Leases – the Group as lessor. An impairment test was not carried out because there are no indications of the existence of any impairments.

Other assets include accounts due from fiscal authorities. Other assets show equity bonds of 961 thousand euros which are pledged to owners of shops as rent security as well as money market funds of 4,389 thousand euros, which are used as security for defined benefit pension obligations. These assets are shown with their fair value in equity.

Of the figure stated for receivables and other assets, 192 thousand euros (previous year: 203 thousand euros) are attributable to related parties, see note 34 "Transactions with related parties".

19. Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

€'000s	31.12.2008	31.12.2007
Cash in hand and cash at banks	132,218	53,034
Securities (money market paper)	6	710
	132,224	**53,744**

The following is a reconciliation of cash and cash equivalents according to the balance sheet with cash and cash equivalents in accordance with IAS 7, consisting of cash at banks, cash in hand, cheques and current money market paper and stocks which can be liquidated at any time as well as current financial liabilities with an original term of up to three months:

€'000s	31.12.2008	31.12.2007
Liquid assets of continued operations	132,224	53,744
Liquid assets of discontinued operations	244	0
Liabilities as part of current finance scheduling due to banks	–152,418	–90,179
	–19,950	**–36,435**

20. Current tax assets

The current tax assets mainly comprise receivables attributable to the corporation tax netting process and tax on unearned income for the year 2008 as well as anticipated repayments of corporation tax and trade tax resulting from tax audits.

21. Discontinued operations

As a result of the decision of the Board of Managing Directors to put the Company's "DSL Business" operations up for sale, the assets, liabilities, costs and income of this segment were reclassified as "discontinued operations" as of 30 September 2008 in accordance with IFRS 5. At the point at which these financial statements were prepared, these activities had not yet been sold, although the intention to sell the activities still exists. The value of the discontinued operations "DSL Business" was confirmed as of the balance sheet as a result of purchase offers.

The balance sheet items of the discontinued operations "DSL Business", which is shown mostly in the broadband segment, are as follows:

Assets €'000s	31.12.2008
Non-current assets	
Intangible assets	7,696
Goodwill	88,025
Property, plant and equipment	3
	95,724
Current assets	
Inventories	3,566
Receivables, other assets and advanced payments	18,894
Cash and cash equivalents	244
	22,704
	118,428

Liabilities €000´s	31.12.2008
Current liabilities	
Trade accounts payable, other liabilities and deferrals	83,552
Current income tax liabilities	55
Other provisions	334
	83,941
	83,941

With the contract of 23 October 2008, the Dutch KPN and debitel AG reached agreement regarding the acquisition of debitel Nederland B.V. (referred to in the following as "debitel Niederlande"). This acquisiton was completed on 30 December 2008. Approximately 300,000 contract customers as well as around 230,000 prepaid customers who already use the KPN network were transferred within the framework of this transaction.

debitel Niederlande was included in the group of consolidated companies of the freenet Group between 5 July 2008 and 30 December 2008. It has been shown in the income statement under "Result of discontinued operations" in accordance with IFRS 5.

The assets and liabilities of this subsidiary are not shown in the balance sheet as of 31 December 2008 as a result of the sale.

The balance sheet items of debitel Niederlande, which was shown in the Mobile Communications segment, are as follows as of the time of the sale, namely 30 December 2008:

Assets €'000s	30.12.2008
Non-current assets	
Intangible assets	5,464
Deferred tax assets	6,360
	11,824
Current assets	
Inventories	733
Receivables, other assets and advanced payments	12,443
Cash and cash equivalents	21,751
	34,927
	46,751

Liabilities €'000s	30.12.2008
Non-current liabilities	
Pension provisions	45
	45
Current liabilities	
Trade accounts payable, other liabilities and deferrals	71,781
Other provisions	3,144
	74,925
	74,970

The comparison of the purchase price for the sale of debitel Niederlande (8,291 thousand euros) and the negative net carrying amount of the assets and liabilities of this segment (28,219 thousand euros) results in a realised capital gain of 36,510 thousand euros. Of the purchase price, a figure of 8,117 thousand euros had been paid in cash by 31 December 2008 whereas, as can be seen in the table above, debitel Niederlande had cash and cash equivalents of 21,751 thousand euros as of the reference date of the sale; these cash and cash equivalents are no longer available to the Group as a result of the sale.

In the consolidated cash flow statement, the sale of debitel-Niederlande is thus shown in cash flow from investing activities with a net outflow of funds of 13,634 thousand euros.

The result for the period attributable to discontinued operations consists of the results of the "DSL Business" segment as well as debitel Niederlande. It is broken down as follows:

€'000s	2008			2007
	DSL business	debitel Niederlande	Total	DSL business
Revenue	304,589	84,325	388,914	281,488
Other operating income	4,240	0	4,240	3,432
Profit from the disposal of discontinued operations	0	36,510	36,510	0
Cost of materials	–258,019	–80,433	–338,452	–310,231
Personnel expenses	–1,174	–3,834	–5,008	–1,853
Depreciation / amortisation	–3,980	–1,416	–5,396	–3,283
Other operating expenses	–110,170	–7,469	–117,639	–81,592
Interest and similar income	900	6	906	278
Interest and similar expenses	–850	0	–850	–188
Taxes on income	0	0	0	0
Taxes on the profit from the disposal of discontinued operations	0	0	0	0
Result of discontinued operations	**–64,464**	**27,689**	**–36,775**	**–111,949**

The cash flow statement shows figures for the overall Group (continued and discontinued operations). Of the figure shown for cash flow from operating activities, cash outflows of 85.8 million euros in 2008 (previous year: cash outflows of 142.0 million euros) are attributable to the discontinue operations “DSL Business”. Of the figure shown for cash outflows from investing activities, 0.0 million euros (previous year: 14.8 million euros) are attributable to the discontinued operation “DSL Business”. And finally, 0.0 million euros (previous year: 0.0 million euros) of the cash flow from financing activities are attributable to the discontinued operations “DSL Business”.

In 2008 debitel Niederlande (which has been sold) accounts for outflows of 69.8 million euros under cash flow from operating activities, an inflow of 30.5 million euros under cash flow from investing activities as well as an inflow of 12.6 million euros under cash flow from financing activities.

22. Share capital and additional paid-in capital

	Number of shares 000	Share capital €'000s	Additional paid-in capital €'000s	Retained earnings €'000s	Total €'000s
As of 1.1.2007	**62,417**	**65,702**	**254,561**	**36**	**320,299**
Recognition of share-based compensation	0	0	857	0	857
Merger into freenet AG and acquisition of minority interest in the former freenet.de AG	33,644	30,359	134,726	–36	165,049
As of 31.12.2007	**96,061**	**96,061**	**390,144**	**0**	**486,205**
As of 1.1.2008	**96,061**	**96,061**	**390,144**	**0**	**486,205**
Recognition of share-based compensation	0	0	18	0	18
Capital increase due to acquisition of debitel AG	32,000	32,000	349,760	0	381,760
Transaction cost of the capital increase	0	0	–2,386	0	–2,386
Changes in value of financial assets recognised directly in equity at fair value	0	0	33	0	33
As of 31.12.2008	**128,061**	**128,061**	**737,569**	**0**	**865,630**

The issued share capital of the Company amounted to 128,061 thousand euros on the balance sheet date, and consisted of 128,061,016 no-par value shares with a theoretical value of 1.00 euro in the share capital. The entire share capital is fully paid up. All shares have been issued with equal rights.

50 thousand of these shares are held by MobilCom Logistik GmbH, Schleswig, and the shares of the latter company are in turn wholly owned by the Company. These shares are shown at acquisition cost of 50 thousand euros.

In connection with the debitel acquisition, 32,000,000 shares were issued to the vendor as part of the purchase price, and the share capital of freenet AG was accordingly increased by 32,000 thousand euros. In this connection, additional paid-in capital increased by 347.4 million euros to 737.5 million euros. Of this increase, 349.8 million euros are attributable to the discount for the issue of the new shares; in addition, costs of 2.4 million euros regarding the above-mentioned capital increase were posted against the additional paid-in capital.

Authorised capital

On 19 August 2005, the shareholders' meeting of the Company adopted authorised capital 2005, which was entered in the commercial register on 2 March 2007. According to section 4 (6) of the articles of incorporation, the Board of Managing Directors was initially authorised, subject to the approval of the Supervisory Board, to increase the Company's share capital on one occasion or on several occasions before 18 August 2010 by a total of up to 48,030,508 euros by way of issuing up to 48,030,508 new no-par-value bearer shares in return for a cash and/or non cash contribution (authorised capital 2005). Furthermore the Board of Managing Directors is authorised to exclude shareholders' subscription rights in cases which are permitted by law and which are listed in section 4 (6) of the articles of incorporation.

With the approval of the Supervisory Board, the Board of Managing Directors has utilised the authorised capital 2005 to the extent of 32,000,000 euros with resolutions of 27 April 2008. After the capital increase 2008, the authorised capital 2005 still exists to the extent of 16,030,508 euros.

Contingent capital

In accordance with the resolution of the shareholders' meeting of 20 July 2007, the contingent capital of the Company was increased by up to 318,447 euros (contingent capital 2007/I).

As a result of the merger in accordance with section 23 of the German Transformation Act (Umwandlungsgesetz; UmwG), the Company is obliged to grant equivalent rights to holders of stock options of the former mobilcom AG. In accordance with section 4 of the merger agreement of 8 July 2005, this was achieved by the Company converting the former subscription rights for shares in mobilcom AG into subscription rights for shares of the Company in accordance with the ratio of 1:1 defined in the merger agreement for converting the shares of mobilcom AG into shares of the Company.

In order to be in a position to issue new shares of the Company to the option holders in accordance with the regulations set out in the option conditions if the above-mentioned stock options are exercised, contingent capital of 318,447 euros was created. The contingent capital increase is only carried out to the extent that the holders of the option rights actually exercise their right to subscribe for shares of the Company and only to the extent that the Company does not grant any of its own shares or pay cash in order to fulfil the option rights. The new shares participate in profits from the beginning of the financial year in which they are issued.

So far, no shares have been issued out of contingent capital 2007/I.

23. Employee participation programmes

The Group offers the following employee participation programmes:
- Stock appreciation rights of freenet AG
- Stock options of the former mobilcom AG

Stock appreciation rights of freenet AG

In the course of 2006, freenet AG introduced a so-called stock appreciation programme by issuing a total at present of 5,145,000 stock appreciation rights (Aktienwertsteigerungsrechte – AWRs) to senior executives, including members of the Board of Managing Directors (referred to as programme 1 in the following). In the financial year 2008, stock appreciation rights were issued in two further programmes: In a programme 2, 720,000 stock appreciation rights were issued to senior executives on 1 April 2008; as of 30 September 2008, 400,000 stock appreciation rights (programme 3) were granted to Mr. Joachim Preisig on the occasion of his appointment to the Board of Managing Directors of freenet AG.

The stock appreciation rights programmes do not provide for any authorisation to receive shares; instead, the programmes envisage a cash payment for each stock appreciation right equivalent to the difference between the share price of the Company applicable at the point of exercising, which however is subject to a cap in the individual programmes, and a strike price. The extent of the cap and the strike price for each programme are set out in the table stated further below.

The value of dividend payments to the shareholders and other benefits for the shareholders are each deducted from the strike price in accordance with recognised methods for the total shareholder return approach. Assuming that the employment contract is still in existence, the shut-out period for 20 percent of the stock appreciation rights to which a beneficiary is entitled ends on 7 November of each year, starting on 7 November 2006 for the first tranche (programme 1), on 1 April of each year, starting 1 April 2009 for the first tranche (programme 2) and on 31 August of each year, starting 31 August 2009 (programme 3) if certain performance targets are met.

For each first tranche of a programme, the relevant target is that the price of the Company's shares must exceed the strike price (under the total shareholder return approach) by at least five percent (programme 1) or by at least ten percent (programmes 2 and 3) at least on one occasion in the period starting immediately before the corresponding stock appreciation rights become exercisable and ending with the expiry of the term in February 2012. For the stock appreciation rights in the tranches two to five, the percentage is increased by five percentage points for each tranche (programme 1) or by 10 percentage points for each tranche (programmes 2 and 3), up to 25 percent increase in relation to the strike price for tranche five (programme 1) or 50 percent increase in relation to the strike price for tranche 5 (programmes 2 and 3).

If a change of control takes place at the Company, the above waiting periods are no longer applicable; however, the targets are retained.

The term of all stock appreciation rights is due to end on 2 February 2012 (programme 1), 1 April 2014 (programme 2) and 1 September 2014 (programme 3) respectively. The exercise period in each instance is defined as the period which commences 31 stock exchange trading days on the stock exchange in Frankfurt am Main after the end of the first ordinary shareholders' meeting of the Company after the end of the corresponding waiting period until the end of the term.

Details of stock appreciation rights which have so far been issued are set out in the following table:

Stock appreciation rights programme 1	**Strike price €**	**Target price €**	**Cap €**	**Maturity**	**Balance SARs 31.12.2007**	**Issued**	**Exercised**	**Disposals**	**Balance SARs 31.12.2008**	**Provisions 31.12.2008 €'000s**
Tranche 1	11.16	11.72	27.00	2.2.2012	9,000	0	0	0	9,000	
Tranche 2	11.16	12.28	27.00	2.2.2012	1,024,000	0	0	10,000	1,014,000	
Tranche 3	11.16	12.84	27.00	2.2.2012	1,024,000	0	0	10,000	1,014,000	
Tranche 4	11.16	13.40	27.00	2.2.2012	1,024,000	0	0	10,000	1,014,000	
Tranche 5	11.16	13.95	27.00	2.2.2012	1,024,000	0	0	10,000	1,014,000	
					4,105,000	**0**	**0**	**40,000**	**4,065,000**	**1,789**

Stock appreciation rights programme 2	**Strike price €**	**Target price €**	**Cap €**	**Maturity**	**Balance SARs 31.12.2007**	**Issued**	**Exercised**	**Disposals**	**Balance SARs 31.12.2008**	**Provisions 31.12.2008 €'000s**
Tranche 1	11.33	12.46	21.00	1.4.2014	0	144,000	0	6,000	138,000	
Tranche 2	11.33	13.60	21.00	1.4.2014	0	144,000	0	6,000	138,000	
Tranche 3	11.33	14.73	21.00	1.4.2014	0	144,000	0	6,000	138,000	
Tranche 4	11.33	15.86	21.00	1.4.2014	0	144,000	0	6,000	138,000	
Tranche 5	11.33	17.00	21.00	1.4.2014	0	144,000	0	6,000	138,000	
					0	**720,000**	**0**	**30,000**	**690,000**	**210**

Stock appreciation rights programme 3	**Strike price €**	**Target price €**	**Cap €**	**Maturity**	**Balance SARs 31.12.2007**	**Issued**	**Exercised**	**Disposals**	**Balance SARs 31.12.2008**	**Provisions 31.12.2008 €'000s**
Tranche 1	11.46	12.61	21.46	1.9.2014	0	80,000	0	0	80,000	
Tranche 2	11.46	13.75	21.46	1.9.2014	0	80,000	0	0	80,000	
Tranche 3	11.46	14.90	21.46	1.9.2014	0	80,000	0	0	80,000	
Tranche 4	11.46	16.04	21.46	1.9.2014	0	80,000	0	0	80,000	
Tranche 5	11.46	17.19	21.46	1.9.2014	0	80,000	0	0	80,000	
					0	**400,000**	**0**	**0**	**400,000**	**55**

The obligation arising from the stock appreciation rights programme was determined in accordance with IFRS 2 using an option price model (binomial model). In the financial year 2008, this programme has resulted in a reduction of 10,398 thousand euros in personnel expenses, due exclusively to the reduction in the provision compared with 31 December 2007. In 2008, no stock appreciation rights were exercised, and no cash payments were accordingly made as a result of exercising. A sundry provision of 2,054 thousand euros, including 983 thousand euros current provisions and 1,071 thousand euros non-current provisions, was shown for the outstanding stock appreciation rights as of 31 December 2008.

For the stock appreciation rights of programme 1, option prices for each stock appreciation right of between 0.22 euro (tranche 1) and 0.84 euro (tranche 5) were fixed as of 31 December 2008. The range of option prices for programme 2 is 0.90 euro to 1.25 euro and 1.26 euro to 1.45 euro for programme 3.

The valuation parameters of the option price model were fixed as follows for all three programmes: The closing date price of the Company of 4.15 euros was used as the stock price. The expected volatility was defined as 74.0 percent – it was determined using an estimate of the future performance of the share price of the Company taking account of a mean value between the average historical volatility as well as the implied volatility of the shares of freenet AG or the shares of the former parent company of the Group mobilcom AG. The risk-free interest rate was determined on the basis of the yield structure curve of German Federal Bonds as of the balance sheet date. As of 31 December 2008, a risk-free interest rate of between 1.74 and 2.03 percent was applicable for the individual tranches of programme 1, a risk-free interest rate of between 2.05 and 2.36 percent was applicable for programme 2, and a risk-free interest rate of between 2.16 and 2.47 percent was applicable for programme 3. For each of the measured tranches of the individual programmes, the expected remaining term of the stock appreciation rights was determined as the remaining waiting time as of the valuation reference date plus half of the remaining term after the end of the waiting time is attained. Further parameters such as the relative profit targets for the individual tranches of the programmes were also taken into consideration.

Stock options of the former mobilcom AG

The former mobilcom AG granted stock options to the Board of Managing Directors, the executive bodies of the subsidiaries and selected employees of mobilcom AG and the following companies affiliated with mobilcom AG. In accordance with section 4 (1) of the merger agreement of 8 July 2005, which was signed by the Company as well as mobilcom AG and freenet.de AG, freenet AG grants identical rights to all holders of options in accordance with section 23 UmwG, because the mobilcom shares were converted in a ratio of 1:1 into shares of freenet AG.

All stock options are subject to the following issue conditions: The options are not permitted to be exercised before the expiry of two years after the point at which they are issued (shut-out period). Assuming that a relative performance target is met, namely an increase of 20 percent in the share price compared with the strike price, up to 50 percent of the option rights which have been granted can be exercised after the shut-out period; a further 25 percent may be exercised for the first time after a period of three years and the remaining options can only be exercised four years after the time at which they were issued. After the expiry of the corresponding shut-out period, a further period of three years is defined as the period in which the rights can be exercised.

Details concerning the options which have been issued so far are set out in the following table:

Stock options	**Exercise price €**	**Target price €**	**Term until**	**Balance stock options 1.1.2008**	**Expiry**	**Exercised**	**Disposals**	**Balance stock options 31.12.2008**
Tranche 2001	20.33	24.40	12.11.2008	8,600	8,600	0	0	0
Tranche 2004	17.09	20.51	31.3.2011	127,694	0	0	17,789	109,905
				136,294	**8,600**	**0**	**17,789**	**109,905**

The 109,905 (previous year: 136,294) share options which had not been exercised as of the balance sheet date are options which are linked to the employee's relationship within the Group. At the end of the financial year, all (previous year: 104,371) option rights were vested.

During last financial year, no stock options were exercised because the exercise conditions were not satisfied.

The difference to be granted for each option of tranche 2001 is defined as the difference between the average XETRA closing price of the shares of the Company on the last ten trading days before the exercise date and the exercise price of 24.40 euros. These stock options expired on 12 November 2008.

The difference to be granted for each option of tranche 2004 is defined as the difference between the average XETRA closing price of the shares of the Company on the last ten trading days before the exercise date and the exercise price of 20.51 euros. An average share price of 23.88 euros was applicable for the 162,490 options of the tranche 2004 which were exercised in the previous year.

The options recognised as disposals (17,789 options; previous year: 15,432 options) had been issued to employees whose employment contract with a Group company had been terminated before the end of the exercise period.

In addition, the financial year saw the expiry of 8,600 (previous year: 8,600) stock options, for which the contractually defined exercise period ended or for which the expiry date was attained.

A binomial model was used for valuing options of the tranche 2004. In these models, possible developments of a stock price are modelled using a binomial decision tree. The valuation is based on the following assumptions: With the exercise price of 20.51 euros, the closing price of freenet shares on the Frankfurt stock exchange (XETRA) on 30 December 2008 was used (4.15 euros). The expected volatility was set at 74.0 percent – it was estimated using an estimate of the future performance of the share price of freenet AG in XETRA trading of the Frankfurt stock exchange, including the average historical volatility. The no-risk interest rate for matching maturities was determined separately for the vested options and also for the non-vested options on the basis of the yield structure curve of Federal German Bonds as of the balance sheet date. In this way, a risk-free rate of approx. 2.0 percent was determined for the programme as of 31 December 2008. The period until the expiry date was used as the expected remaining term of the options. The expected dividend yield is specified as 1.51 percent. Due consideration was also given to additional parameters, such as the relative performance objectives of the programme.

A provision of 1 thousand euros was shown as of 31 December 2008 for the stock option programme of the former mobilcom AG. The option price for each option amounted to 0.01 euro as of that date. In the financial year 2008, personnel expenses were reduced by 38 thousand euros as a result of this option programme.

24. Trade accounts payable, other liabilities and accruals

The trade accounts payable as well as other liabilities and accruals are broken down as follows:

€'000s	31.12.2008	31.12.2007 adjusted
Trade accounts payable	425,444	227,221
Advance payments received	102,839	63,473
Other liabilities and accruals	98,703	32,870
	626,986	**323,564**

The other liabilities and accruals include public sector subsidies. These relate to accrued income for investment subsidies in accordance with the Investitionszulagengesetz (Investment Subsidy Act) as well as subsidies from the Gemeinschaftsaufgabe Ost programme.

In the financial year 2008, new subsidies of 472 thousand euros (previous year: 412 thousand euros) were granted, and a figure of 829 thousand euros (previous year: 1,399 thousand euros) was recognised as income in the income statement from the pro-rata reversal of deferred liabilities, as described in E. Accounting and valuation methods, note (p). Deferrals of 1,275 thousand euros for public subsidies (previous year: 1,632 thousand euros) were shown as of 31 December 2008.

Liabilities due to related parties amount to 58 thousand euros (previous year: 94 thousand euros); please refer to note 34 "Transactions with related parties".

Of the overall figure stated for liabilities, 616,554 thousand euros (previous year: 322,067 thousand euros) are due during the next 12 months. Liabilities in the amount of 10,432 thousand euros (previous year: 1,412 thousand euros) have a maturity of between one year and five years; liabilities in the amount of 0 thousand euros (previous year: 85 thousand euros) are due after more than five years.

Other liabilities which fall due after 31 December 2009 in an amount of 3,924 thousand euros are discounted using a discount rate of 6.24 percent. The market value of these liabilities is approximately equivalent to the carrying amount recognised in the balance sheet as of 31 December 2008. For the remaining long-term other liabilities of 6,157 thousand euros, the market value is also approximately equivalent to the carrying amount shown in the balance sheet.

Of the figure shown for the liabilities in the categories trade accounts payable and other non-derivative financial liabilities, 512,617 thousand euros (previous year: 249,140 thousand euros) are due within one year, 5,556 thousand euros (previous year: 1,412 thousand euros) are due between one year and five years and 0 thousand euros (previous year: 85 thousand euros) are due more than five years after the balance sheet date.

25. Current income tax liabilities

The current income tax liabilities mainly comprise additional payments of corporation tax and trade tax expected for previous financial years.

26. Debt

Debt is structured as follows:

€'000s	31.12.2008	31.12.2007
Non-current		
Liabilities due to banks	1,145,044	0
Liabilities due to shareholders (vendor loan)	138,198	0
Liabilities from finance leases	505	614
	1,283,747	**614**
Current		
Liabilities due to banks	152,418	90,179
Liabilities from finance leases	109	103
	152,527	**90,282**
	1,436,274	**90,896**

With regard to the maturity of the finance lease liabilities shown in the category of liabilities due to banks and other financial debt under IFRS 7, please refer to our comments on note 27 "Finance leases".

The long-term debt of approx. 1,284 million euros shown in the Group as of 31 December 2008 is mainly attributable to two long-term bank loans totalling 1,125 million, the above-mentioned vendor loan including accrued interest of approx. 138 million euros as well as liabilities due to banks from financial instruments (swaps) of approx. 21 million euros. The short-term debt shown as approx. 153 million euros as of 31 December 2008 mainly comprises a revolving credit line of approx. 147 million euros at the banks which financed the debitel acquisition as well as debt of approx. 6 million euros in relation to a vehicle fleet frame agreement of the debitel Group.

Of the debt, 138.2 million euros are attributable to related parties, please refer to note 34.

27. Finance leases

The minimum lease payments are due as follows:

€'000s	31.12.2008	31.12.2007
Minimum lease payments		
Within one year	142	142
Between one year and five years	567	568
More than five years	0	142
	709	**852**
Interest content of future leasing payments		
Within one year	33	39
Between one year and five years	62	91
More than five years	0	5
	95	**135**
Present value of the total liabilities from finance leases	**614**	**717**

The maturities of the total liabilities of finance leases are shown in the following:

€'000s	31.12.2008	31.12.2007
Within one year	109	103
Between one year and five years	505	477
More than five years	0	137
	614	**717**

As was the case in the previous year, the finance lease obligations shown as of the balance sheet date relate to a rental agreement for technical fittings in a data centre of the STRATO Group. The value shown in the balance sheet is equivalent to the present value of the contractual minimum lease payments, including the first option right for extension in favour of the STRATO Group, which is expected to be exercised. The interest rate used as the basis for recognising the resultant finance lease obligations is unchanged at 5.5 percent.

28. Pension provisions and similar obligations

The benefit obligations are based on direct benefit commitments. The pension benefit provided in each case is the payment of a lifetime retirement pension upon reaching the age of 60 or 65 as well as a payment of a pension to surviving dependants. The pension benefits are partly financed by a reinsured benevolent fund. All pension commitments are always determined by the amount of salary and the time of service at the Company.

The amount of the provision in the consolidated balance sheet is calculated as follows:

€'000s	**31.12.2008**	**31.12.2007**
Present value of funded obligations	1,830	1,550
Present value of unfunded obligations	21,411	82
Fair value of plan assets	–1,122	–829
Actuarial losses (profits)	–51	26
Provision shown in balance sheet	**22,068**	**829**

It is expected that these obligations will be fulfilled in the long term.

The following table sets out the development in the present value of the funded and unfunded obligations:

€'000s	**2008**	**2007**
As of 1.1.	**1,632**	**1,531**
Past service costs	0	359
Current service cost	1,015	242
Interest expense	1,046	65
Employees' contributions	236	0
Actuarial profits	–593	–565
Payments made	–188	0
Business combinations	32,398	0
Disposals due to deconsolidation	–12,305	0
As of 31.12.	**23,241**	**1,632**

The business combinations comprise the acquisition of the debitel Group as of 5 July 2008 – please refer to our comments to item 33: "Business combinations". The disposals due to deconsolidation are shown as a result of the sale of debitel Niederlande – please refer to item 21: "Discontinued operations".

The following amounts have been shown for the defined benefit plans for the current reporting period and the previous reporting periods:

€'000s	2008	2007	2006	2005	2004
Present value of funded obligation	1,830	1,550	1,453	1,283	552
Present value of unfunded obligation	21,411	82	78	74	25
Fair value of plan assets	–1,122	–829	–699	–400	–188
Net income/(net loss) of the plan	**22,119**	**803**	**832**	**957**	**389**
Experience-based adjustments to the liabilities of the plan	–5	4	4	0	0
Experience-based adjustments to the assets of the plan	–97	–255	–22	–89	0

The plan assets consist of a reinsurance policy concluded by the benevolent fund set up for this purpose with a fair value of 1,122 thousand euros (31 December 2007: 829 thousand euros). The following table sets out the development in fair value:

€'000s	2008	2007
As of 1.1.	**829**	**699**
Business combinations	12,156	0
Expected income from plan assets	373	36
Difference between expected and actual income from plan assets	–25	–255
Employers' contribution to plan assets	490	349
Employees' contributions to plan assets	70	0
Payments made	–25	0
Disposals due to deconsolidation	–12,746	0
As of 31.12.	**1,122**	**829**

The actual income from the plan assets amounts to 348 thousand euros (2007: costs of 219 thousand euros), and is calculated as the sum of the expected income from the plan assets and the actuarial profits or losses.

For the financial year 2009, freenet is expecting payments into the plan assets of 349 thousand euros as well as payments out of the plan assets for pensions of 350 thousand euros.

The following items are recognised in the consolidated income statement:

€'000s	2008	2007
Current and past service cost[1]	1,015	601
Interest expense	1,046	65
Actuarial losses (realised)	0	9
Expected income from plan assets	–373	–35
Total cost of defined benefit plans	**1,688**	**640**
thereof recognised in personnel expenses (note 4)	854	566
thereof recognised in other operating expenses	0	9
thereof recognised in interest and similar expenses (note 8)	648	65
thereof recognised in the result of discontinued operations	186	0

1 Of the figure shown for actual service costs in the financial year 2007, 242 thousand euros are attributable to current service costs, and 359 thousand euros are attributable to past service costs.

Movements in the amounts recognised as provisions are shown in the following:

€'000s	2008	2007
As of 1.1.	**829**	**538**
Business combinations	20,242	0
Total cost recognised in the consolidated income statement	1,688	640
Payments made in relation to plan assets	–653	–349
Employees' contributions	166	0
Disposals due to deconsolidation	–204	0
As of 31.12.	**22,068**	**829**

The main actuarial assumptions are as follows:

In percent	31.12.2008	31.12.2007
Discount rate	6.00	5.70
Anticipated income from plan assets	5.0	5.0
Future salary increases (debitel)	2.5	0.0
Future salary increases (freenet)	0.0	0.0
Future pension increases	2.0	2.0

The discount rate of 6.00 percent has been determined on the basis of the iBoxx index. The figure has been adjusted by securities which had already been downgraded as of the closing date and also securities put on watch for downgrade at Moody's and subordinate bonds. In addition, the figure has been extrapollated by swap rates in order to achieve reconciliation with a longer term of obligations.

The anticipated income from the plan assets has been determined on the basis of a consideration of the underlying historical prices of the plan assets as well as the anticipated average performance of the plan assets until the end of the term of the pension plan.

29. Other provisions

The following overview sets out a breakdown of the development of provisions:

Schedule of provisions 2008 €'000s	1.1.2008	Business combinations	Consumption	Reversal	Compounding	Allocation	Disposals due to deconsolidation	Reclassification as discontinued operations	31.12.2008
Restructuring	0	28,068	10,799	1,200	0	42,732	744	0	58,057
Exclusive distribution right	0	24,248	0	0	961	0	0	0	25,209
Mobile network operator agreement	0	25,995	0	0	935	0	2,400	0	24,530
Contingent losses	0	9,985	0	55	173	11,064	0	0	21,167
Obligations to restore assets to original condition	1,507	1,867	14	4	50	2,386	0	0	5,792
Litigation risks	6,955	518	3,035	2,962	0	1,684	0	334	2,826
Outstanding stock options and stock appreciation rights	12,508	0	0	10,453	0	0	0	0	2,055
Warranty / guarantee	0	1,198	0	1,032	0	322	0	0	488
Interest cost for tax audit	2,597	0	2,597	0	0	0	0	0	0
Other	0	479	0	0	0	61	0	0	540
	23,567	**92,358**	**16,445**	**15,706**	**2,119**	**58,249**	**3,144**	**334**	**140,664**

The provisions for restructuring mainly comprises personnel costs incurred in connection with the integration of the acquired debitel Group. The outflow of assets for these provisions is expected for 2009.

The provision for an exclusive distribution right relates to the extension option for a contract for ensuring exclusivity with a trading line. The outflow of assets for this provision is expected in the years 2010 to 2011.

The provisions for the mobile network operator agreement has been created in relation to a mobile network operator for future payments. The outflow of assets will probably take place in the years 2010 to 2013.

The provisions for contingent losses mainly relate to vacancy costs for rented shops and office buildings, anticipated losses attributable to tariffs with negative margins as well as costs for software licences which are no longer used. The probable outflow of assets is expected to be seen in 2009 (9,809 thousand euros) and in the years 2010 to 2017 (11,358 thousand euros).

Of the figure stated for dismantling obligations, 632 thousand euros relate to the present value of costs of obligations for dismantling tenant fittings in data centres of STRATO. As was the case in the previous year, a rate of 6.0 percent has been used for discounting purposes. The outflow of funds is expected after the presumed expiry of the long-term leases on which they are based in 2012 or 2013. Of the figure stated for the provision for dismantling obligations, 5,160 thousand euros relate to obligations for dismantling tenant fittings and various technical and administration locations of the Group. After the probable expiry of the underlying tenancy agreements, the outflow of funds for this part of the provision is expected to be 1,553 thousand euros in 2009 and 3,607 thousand euros in the years 2010 to 2018. The provisions have again been discounted with a rate of 6.0 percent.

The provisions for litigation risks primarily concern the presumed costs from various legal actions against group companies. Most of the provisions are attributable to litigation with former trading partners and customers as well as issues of Competition Law. The Group expects that the majority of the disputed questions will be settled during the financial year 2009. More information is not given here so that the legal and negotiating position is not announced ahead of time, thereby creating a risk for the position.

Further details concerning the creation of provisions for outstanding stock options and stock appreciation rights are documented under note 23 “Employee participation programmes”.

The current tax audit for major companies of the freenet Group for the assessment periods 2000 to 2004, in relation to which a provision of 2,597 thousand euros for tax audit payments was created as of 31 December 2007, were completed in 2008. Please refer to our comments on note 25 “Current income tax liabilities”.

I. Other details

30. Other financial obligations, contingencies, and securities for loans

At the end of the financial year, there are operating lease obligations (which cannot be terminated) from leases and leasing agreements as well as maintenance, support and other obligations and order commitments in the following amounts:

€'000s	31.12.2008	31.12.2007
Rent and leasing obligations		
Due within one year	48,184	39,997
Due between one year and five years	101,909	28,946
Due term greater than five years	47,797	8,487
	197,890	**77,430**
Maintenance, support and other obligations		
Due within one year	24,754	4,706
Due between one year and five years	8,459	7,356
Due term greater than five years	5,500	6,785
	38,713	**18,847**
Acceptance obligations from orders		
Regarding intangible assets	5,582	789
Regarding property, plant and equipment	590	4,573
Regarding inventories, expenses and services	46,627	29,290
	52,799	**34,652**
	289,402	**130,929**

The liabilities from leases and leasing agreements result essentially from the leasing of office space and shops as well as leases for fixed network lines and hardware leasing. As of the balance sheet date, there were options for extending the majority of leases and leasing agreements. The conditions of these extension options are in all cases freely negotiable or identical to the current conditions of the agreements. The liabilities attributable to maintenance, support and other agreements are mainly connected with agreements for maintaining IT hardware and databases, building technology and the network infrastructure.

The acceptance obligations from orders at the end of the financial year amounted to 52,799 thousand euros (previous year: 34,652 thousand euros). Of this figure, 6,172 thousand euros (previous year: 5,362 thousand euros) are attributable to the procurement and creation of fixed assets. Further acceptance obligations of 46,627 thousand euros (previous year: 29,290 thousand euros) mainly relate to products purchased for resale (e.g. mobile telephones and accessories). Financial obligations attributable to data centre services are also included.

Major assets of the Group have been provided as security for the debt raised within the framework of the debitel acquisition. freenet AG as well as major Group companies have entered into the loan agreement as guarantors. These companies have primarily assigned their receivables due from credit institutions in the form of liquid assets, major parts of their receivables and other assets as well as certain intangible assets as security to the lenders. With regard to the balance sheet as of 31 December 2008, this means that most of the trade accounts receivable and the other receivables and other assets as well as a minor percentage of intangible assets have been provided in the form of security.

Further contingencies exist in relation to rent guarantees, and amounted to 7,272 thousand euros as of the balance sheet date (previous year: 3,683 thousand euros).

31. Notes to the consolidated cash flow statement

In the consolidated cash flow statement, the figures are reported for the overall Group (continued and discontinued operations). Separate details relating to discontinued operations are set out in note 21 “Discontinued operations”.

Cash and cash equivalents consist of cash at banks, cash in hand, checks and short-term money market papers and financial securities which can be liquidated at any time and current financial liabilities, each with an original maturity of less than three months.

Cash flows are broken down separately according to cash flow from operating activities, investing activities and financing activities. The indirect-calculation method was chosen for presenting the cash flow from ongoing business activities.

In connection with a change of method in accordance with IAS 8.14b for recognising customer acquisition costs, please refer to our comments in section (d) of the accounting and valuation methods.

As a result of the decision that customer acquisition costs would no longer be capitalised in these consolidated financial statements, and would thus be classifed under investing activities, the cash flow from operating activities in 2007 declined from the previously reported figure of 285.1 million euros to the retrospectively adjusted figure of 49.1 million euros. The cash flow from investing activities increased by the same amount, namely by 236.1 million euros to the retrospectively adjusted figure of −37.4 million euros.

Cash flow from ongoing business activities

Compared with the corresponding previous year period, the cash flow from ongoing business activities increased by 24.5 million euros to 73.6 million euros.

Based on an increase of 70.7 million euros in earnings before interest, taxes, depreciation and amortisation (EBITDA) to 175.7 million euros for the overall Group including discontinued operations, the increase of 87.3 million euros in current assets and the adjustment of 36.5 million euros relating to the proceeds of the sale of subsidiaries (the inflows from the sale of subsidiaries are shown under investing activities) were the main factors with a negative impact on the cash flow from ongoing business activities. In addition, cash outflows resulted from the reduction of operating liabilities (by 5.8 million euros) and tax payments (by 3.8 million euros). A major compensatory effect is to be seen in the 38.4 million euros increase in provisions.

Cash flow from investing activities

During the financial year 2008, the outflow of cash attributable to investment activities increased 27.3 million euros compared with the previous year to –10.0 million euros.

Whereas the outflows for fixed assets last year were not opposed by any major inflows, inflows were reported for 2008, including the acquisition of the debitel Group of 26.6 million euros (net), consisting of transferred cash (37.4 million euros) less ancillary costs of purchase (10.8 million euros) as well as cash inflows of 10.9 million euros attributable to the disposal of fixed assets – mainly the sale of shops.

Further inflows attributable to investing activities consist mainly of interest (6.9 million euros; previous year: 13.4 million euros).

And finally, the sale of debitel Niederlande, as described in note 21 “Discontinued operations”, has also had a negative impact of 13.6 million euros on the cash flow from investing activities.

Cash flow from financing activities

The cash flow from financing activities increased by 536.4 million euros compared with the corresponding previous year period from –583.5 million euros to –47.1 million euros.

Whereas the outflow of the previous year mainly reflected a dividend payment (576.1 million euros), the outflows in 2008 are almost exclusively attributable to interest payments (42.6 million euros). In addition, cash outflows of 4.4 million euros which are connected with the acquisition of the debitel Group and which represent costs of the capital increase and credit procurement are classified under financing activities.

32. Additional information concerning financial instruments

Disclosures in accordance with IFRS 7

This section provides an overview of the significance of financial instruments for the Group, and provides additional information on balance sheet items which include financial instruments.

We have set out the following information for the presentation of the financial instruments in the Group as of 31 December 2008 and as of 31 December 2007, the related allocation to classes and reconciliation with the corresponding valuation categories under IAS 39:

Financial instruments according to classes as of 31 December 2008 €'000s	Valuation category according to IAS 39	Carrying amount 31.12.2008	Approach				Fair Value 31.12.2008
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	132,218	132,218				132,218
Financial instruments measured at market value	FIPL	6			6		6
Total cash and cash equivalents		**132,224**	**132,218**		**6**		**132,224**
Other financial assets	HFS	730		730			–
Trade accounts receivable	LR	540,736	540,736				540,736
Other non-derivative financial assets	LR	25,187	25,187				25,187
Held-for-sale other assets	HFS	5,350				5,350	5,350
Non-financial assets		38,709					
Sum of other receivables and other assets		**69,246**					
Liabilities							
Trade accounts payable	FLAC	425,444	425,444				425,444
Financial debt (liabilities due to banks and shareholders)	FLAC	1,414,091	1,414,091				1,414,091
Liabilities from finance leases	FLAC	614	614				614
Derivative financial liabilities	FIPL	21,569			21,569		21,569
Sum of financial liabilities		**1,436,274**					
Other non-derivative financial liabilities	FLAC	92,729	92,729				92,729
Non-financial liabilities		108,813					
Sum of other liabilities and deferrals		**201,542**					
Thereof aggregated by valuation categories according to IAS 39:							
Held-for-sale financial instruments (HFS)	HFS	6,080		730		5,350	5,350
Loans and receivables (LR)	LR	698,141	698,141				698,141
Financial instruments measured at value through profit or loss (FIPL)	FIPL	–21,563			–21,563		–21,563
Financial liabilities measured at amortised cost (FLAC)	FLAC	–1,932,878	–1,932,878				–1,932,878

Financial instruments according to classes as of 31 December 2007 €'000s	Valuation category according to IAS 39	Carrying amount 31.12.2007 adjusted	Approach				Fair Value 31.12.2007
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	53,034	53,034				53,034
Financial instruments measured at market value	FIPL	710			710		710
Total cash and cash equivalents		**53,744**	**53,034**		**710**		**53,744**
Other financial assets	HFS	304		304			–
Trade acccounts receivable	LR	238,139	238,139				238,139
Other non-derivative financial assets	LR	14,943	14,943				14,943
Non-financial assets		30,280					
Sum of other receivables and other assets		**45,223**					
Liabilities							
Trade accounts payable	FLAC	227,221	227,221				227,221
Financial debt (liabilities due to banks)	FLAC	90,179	90,179				90,179
Liabilities from finance leases	FLAC	717	717				717
Sum of financial liabilities		**90,896**	**90,896**				**90,896**
Other non-derivative financial liabilities	FLAC	23,416	23,416				23,416
Non-financial liabilities		72,927					
Sum of other liabilities and deferrals		**96,343**					
Thereof aggregated by valuation categories according to IAS 39:							
Held-for-sale financial instruments (HFS)	HFS	304		304			–
Loans and receivables (LR)	LR	306,116	306,116				306,116
Financial instruments measured at value through profit or loss (FIPL)	FIPL	710			710		710
Financial liabilities measured at amortised cost (FLAC)	FLAC	–341,533	–341,533				–341,533

The non-financial assets constitute that part of the balance sheet item "Other receivables and other assets" which is not covered by the scope of IFRS 7.

The non-financial liabilities constitute that part of the balance sheet item "Other payables" not covered by the scope of IFRS 7.

The market value of cash and cash equivalents, trade accounts receivable, other current financial assets, accounts payable and other current financial obligations is roughly equivalent to the carrying amount. This is due to the short remaining terms of these financial instruments.

The market values of the non-current receivables and other financial assets with remaining terms of more than one year correspond to the carrying amounts of the payments associated with these assets, with due consideration being given to the relevant interest parameters. The carrying amounts of these financial instruments are approximately equivalent to the market values.

For those financial instruments measured at market value, the Group uses the price in an active market as the market value.

The other financial assets are normally measured at cost because it is not possible to reliably determine the fair value. The shares are not listed on a stock exchange, and no active market exists for them. There are no plans at present to sell these assets. If there are any indications of lower fair values, these are recognised.

For the held-for-sale other assets, the Group uses the price in an active market as the market value.

The market value of the financial debt is equivalent to the carrying amount as a result of the short remaining terms involved.

The Group determines the market value of liabilities arising from finance leases by discounting the expected future cash flows with the rates applicable for similar debt with an equivalent remaining term. The market values of the liabilities attributable to finance leases are approximately equivalent to the corresponding carrying amounts.

The market value of the derivative financial instruments which are not exchange-traded is determined by the Group on the basis of recognised actuarial methods (discounted cash flow method). The anticipated future cash flows from the financial instrument are calculated on the basis of the relevant interest structure and forward curves and then discounted to the closing date. The internally calculated market values are periodically compared with market value confimations of the external contract partners.

Trade accounts payable and other financial liabilities and accruals normally have short remaining terms; the recognised figures are approximately equivalent to the market value. In the financial year 2008 as well as in the previous year, the following net results were shown for the individual categories of financial instruments in accordance with IAS 39:

Net results by valuation categories 2008 (€'000s)	**From interest**	**From subsequent measurement**			**From disposal**	**Net result**
		At fair value (income statement)	**At fair value (in equity)**	**Impairment/ receivable losses**		
Valuation category						
Held-for-sale financial instruments (HFS)	0	0	33	0	0	33
Loans and receivables (LR)	5,491	0	0	–21,765	–3,128	–19,402
Financial instruments measured at fair value through profit or loss (FIPL)	1,313	–30,517	0	0	0	–29,204
Financial liabilities measured at amortised cost (FLAC)	–62,250	0	0	0	0	–62,250
	–55,446	**–30,517**	**33**	**–21,765**	**–3,128**	**–110,823**

Net results by valuation categories 2007 (€'000s)	From interest	From subsequent measurement			From disposal	Net result
		At fair value (income statement)	At fair value (in equity)	Impairment/ receivable losses		
Valuation category						
Held-for-sale financial instruments (HFS)	0	0	0	0	0	0
Loans and receivables (LR)	0	0	0	–3,989	3,754	–235
Financial instruments measured at fair value through profit or loss (FIPL)	14,277	59	0	0	0	14,336
Financial liabilities measured at amortised cost (FLAC)	–2,063	0	0	0	0	–2,063
	12,214	**59**	**0**	**–3,989**	**3,754**	**12,038**

Net gains and losses from loans and receivables include changes in the impairments, gains and losses attributable to derecognition as well as payment inflows and increases in the value of loans and receivables which had originally been written off.

Net gains and losses attributable to the category of financial instruments measured at fair value through profit or loss comprise the income and expenses attributable to interest as well as the market value of the interest swap as well as the income from the market valuation of money market securities.

Net gains and losses in the category of held-for-sale financial instruments comprise impairments and profits and losses attributable to derecognition.

Net gains and losses attributable to financial liabilities at cost comprise profits or losses of derecognition.

In addition, information is provided with regard to interest income and interest expenses of financial assets and financial liabilities not measured at fair value through profit or loss using the effective interest method.

Principles and objectives of financial risk management and capital risk management

With its assets, liabilities and planned transactions, the freenet Group is exposed in particular to market risks, liquidity risks and default risks.

The objective of financial risk management is to constantly monitor these risks and to limit them by operational and finance-oriented activities.

The fundamental aspects of financial policy are defined by the Board of Managing Directors. In addition, certain financial transactions require the prior approval of the Board of Managing Directors.

The Group Treasury department provides services to the operating segments and coordinates access to the financial markets. In addition, it monitors and manages the market and liquidity risks associated with the operating segments of the Group by way of regular internal risk reporting which analyses the risks on the basis of degree and extent. The overriding priority for the Group Treasury department is the principle of risk minimising; optimising net interest income is considered to be a further important objective. Prudent liquidity management which is managed by the Group Treasury department comprises the holding of an adequate reserve of liquid assets, the possibility of financing by way of an adequate amount of committed credit lines and the possibility of closing open market positions. Liquidity risks are reduced by permanent monitoring of the finance status and adequate reserves in the form of credit lines.

The Debtor Management department is responsible for monitoring the default risks as well as regular internal risk reporting in relation to these risks. One of its main objectives is to minimise the costs attributable to the failure or impairment of receivables due from end customers and sales partners.

The primary aim of capital risk management of the Group is to monitor the financial covenants set out in the syndicate loan agreement; if the Group fails to meet these covenants, the loans may under certain circumstances have to be repaid immediately. The main financial covenants are defined in relation to the interest cover (ratio between recurring EBITDA and net interest income) in the Mobile Communications segment as well as the debt cover (ratio between net debt and recurring EBITDA) in the Mobile Communications segment.

At the Group level, the ratio between Group net debt and the Group's equity under IFRS (gearing) is a relevant management parameter for capital risk management. As of the balance sheet date, gearing was 1.65.

In order to actively manage the capital structure, management is able to sell assets in order to reduce debt in this way, and is also able to take other measures, for instance issuing new shares.

Market risk

The activities of our Group mean that it is primarily exposed to financial risks attributable to changes in interest rates and currency exchange rates.

i. Interest rate risk

The Group is exposed to interest rate risks because the Group companies take on debt with fixed and variable interest rates. The most serious interest rate risk is attributable to the long-term debt. For these long-term financial liabilities with a floating interest rate, the risk of rising interest costs has been considerably reduced as a result of taking out an interest swap. This interest swap, which covers 70 percent of the two long-term bank loans with a nominal amount of 1,125 million euros, essentially converts floating-interest liabilities into fixed-interest liabilities. When the interest swap was taken out, the Group reached agreement with third parties to swap the difference between the contractually agreed interest and the prevailing floating interest in relation to the nominal amount at fixed intervals.

The Group Treasury department constantly monitors the various opportunities available for investing the liquid assets as well as the various scheduling possibilities with regard to the financial debt on the basis of the daily liquidity planning at its disposal. Demand for and the investment of liquid funds in the Group are managed centrally on the basis of several existing internal cash pooling agreements in which the main companies of the freenet Group participate.

The short-term and long-term bank borrowings which had been raised as of the balance sheet date are exclusively of a floating-rate nature, and have been extended on the basis of the terms set out in the loan agreement on the occasion of the funding of the debitel acquisition (fixed margins based on EURIBOR and LIBOR).

Changes in market interest rates for the net interest income of financial instruments which were originally subject to interest at a variable rate might have an impact on net interest income and are included in the process of calculating the result-related sensitivities.

In order to present the market risks, the Group uses a sensitivity analysis which shows the effects of theoretical changes in relevant risk variables on the result and shareholders' equity.

The periodic effects are determined by relating the theoretical changes in the risk variables to the financial instrument holdings as of the closing date.

In the balance sheet, bank liabilities and liabilities due to shareholders (excluding derivative financial liabilities) of 1,414.1 million euros are shown under the current and non-current financial debt as of 31 December 2008. Interest in a range of 5.6 to 6.4 percent was charged on these bank borrowings as of the closing date.

It is expected that 152,418 thousand euros will be repaid in relation to the above-mentioned bank liabilities and liabilities due to shareholders during 2009. Based on an interest rate expected as a result of market estimates, namely in a range of between 5.4 and 6.1 percent for the individual loans, outflows for interest in relation to the above-mentioned bank borrowings of 65,207 thousand euros would be recognised in 2009. With regard to the net position of floating-rate assets and liabilities, taking account of the hedging instruments which have been taken out, a parallel upward shift of the interest curve by 50 basis points would have an impact of 5,491 thousand euros (previous year: 170 thousand euros) on net income after taxes, and a downward shift in the interest curve of 50 basis points would have an impact of –5,561 thousand euros (previous year: –170 thousand euros) on net income after taxes.

Money market funds are subject to marginal interest rate fluctuations so that there is always a possibility of price losses. However, the risk is not significant as the moneys have been invested in funds on a very short-term basis. There are no contractually defined maturity dates or interest adjustment dates; a return results from the change in the price of the instrument and any dividend payments. With regard to the financial investments in money market funds and equity bonds shown in the balance sheet under short-term other receivables and other assets, a 5 percent increase in the price of the acquired shares would have an impact of 188 thousand euros on capital, and a 5 percent decline in the price would have an impact of –188 thousand euros on capital.

The risk of interest rate changes is negligible for the other interest-bearing assets and liabilities.

ii. Foreign currency risk

Foreign currency trades are conducted to a minor extent within the Group. If necessary, foreign exchange hedging takes place by way of cash holdings in foreign currency.

Overall, the Group considers that the foreign currency risk is of negligible significance.

Liquidity risk

The liquidity risk of the Group is defined as the risk that the Company might not be able to meet its financial obligations, for instance it might not be able to repay debt, pay purchase obligations and obligations arising from finance leases.

Comprehensive financing planning instruments are used throughout the Group to monitor and control liquidity. Different planning horizons are considered in this respect, ranging up to one year. The short-term liquidity planning and control are done on a daily basis for the following three months. The planning is updated daily by the Group Treasury department following liaison with Accounting and Controlling on the basis of actual data.

The Group also manages liquidity risks by holding appropriate reserves, credit lines at banks and also by constantly monitoring the forecast and actual cash flows. Furthermore reconciliations are performed for the maturity profiles of the financial assets and liabilities.

The Group anticipates that it will be able to meet its other obligations out of operating cash flows and the proceeds of maturing financial assets.

As of the balance sheet date, the Group has drawn down 146.6 million euros out of the granted revolving credit line of 150.0 million euros. Under certain conditions, freenet AG is able to take advantage of additional loans up to half of the amount of the revolving credit line under the syndicate loan agreement.

Securities (money market funds) can be liquidated at short notice. There are no plans to sell any of the holdings. If it became necessary to sell these holdings, their sale at short notice would possibly be more difficult as there is no organised capital market for these interests.

In the Group, there are contingencies arising from warranties for liabilities of a subsidiary provided to business customers; these amounted to 12.3 million euros as of the balance sheet date (previous year: 16.0 million euros).

Major assets of the Group have also been provided as security for the debt raised as part of the debitel acquisition. freenet AG as well as major Group companies are borrowers in relation to this loan agreement, or have issued a guarantee in relation to the loan agreement. These companies have primarily assigned their receivables due from credit institutions in the form of liquid assets, major parts of their receivables and other assets as well as certain intangible assets as security to the lenders.

The following tables show the contractually agreed undiscounted interest and redemption payments of the original financial liabilities of the Group at the end of the financial year 2008 and 2007:

Financial liabilities (€'000s)	**Carrying amount 31.12.2008**	**Cashflows 2009**			**Cashflows 2010**			**Cashflows 2011 and later**		
		Interest (fixed)	**Interest (variable)**	**Repayment**	**Interest (fixed)**	**Interest (variable)**	**Repayment**	**Interest (fixed)**	**Interest (variable)**	**Repayment**
Trade accounts payable	425,444			425,093			351			
Debt (liabilities due to banks and shareholders)	1,414,091		65,207	152,418		69,255	66,667		244,434	1,195,006
Financial debt (derivative financial liabilities)	21,569	13,866			8,238					
Liabilities from finance leases	614	33		109	26		115	36		390
Other non-derivative financial liabilities	92,729			87,524			5,205			

Financial liabilities (€'000s)	**Carrying amount 31.12.2007**	**Cashflows 2008**			**Cashflows 2009**			**Cashflows 2010 and later**		
		Interest (fixed)	**Interest (variable)**	**Repayment**	**Interest (fixed)**	**Interest (variable)**	**Repayment**	**Interest (fixed)**	**Interest (variable)**	**Repayment**
Trade accounts payable	227,221			227,221						
Debt (liabilities due to banks and shareholders)	90,179		1,530	90,179						
Liabilities from finance leases	717	39		103	33		109	62		505
Other non-derivative financial liabilities	23,416			21,919			1,412			85

Default risk

A credit risk is defined as the unexpected loss of cash or revenues. This risk materialises if the customer is not able to meet his obligations within the agreed period.

Trade accounts receivable from end customers are the main item in the freenet Group with regard to default risks. In the mass business of our Group, particular attention is devoted to the creditworthiness of customers and sales partners. Credit checks are carried out for major contract customer areas before a contract is taken out with the customer.

Once a contract has been entered into, the performance of a rapid and regular dunning and collection process with several collection companies in benchmarking and long-term collection monitoring as well as high-spender monitoring are key measures for minimising the default risk in our Group.

A dunning and collection process is also ongoing with regard to receivables due from agents and franchise partners. Credit limits are also defined and monitored. Where appropriate, a delivery restriction is imposed if the limit is reached.

In addition, major credit risks are covered by commercial credit insurance. In order to minimise the credit risk, the Group has insured a certain percentage of revenues with key accounts (agents and distributors in the Mobile Communications segment) of a certain creditworthiness. Every month, the Group Treasury department reports the current revenues of the corresponding key accounts to the insurer. The insurer uses this notification to calculate the volume of revenues to be insured. The risks attributable to key accounts which are not insured are limited by way of an internal limit system – in general, key accounts with a poor credit standing have to pay upfront, as otherwise the transaction is not carried out.

In order to determine an impairment of trade accounts receivable, due account is taken of any change in creditworthiness between the point at which the terms of payment were granted and the balance sheet date. There is no significant concentration of credit risk because the customer base is broad and because there are no correlations.

An appropriate creation of impairments takes account of default risks. Receivables and other assets are derecognised if the Group considers the receivable is irrecoverable.

Securities and liquid assets are mainly invested at major German banks. There is no significant risk of default. The Group Treasury department constantly monitors the current and expected future yields of the investments.

With regard to those trade accounts receivable which are neither impaired nor overdue for payment, there are no indications as of the closing date that the debtors will not meet their payment obligations.

With regard to the other financial assets of the Group, such as cash and cash equivalents and held-for-sale investments, the maximum credit risk in the case of counterparty default is equivalent to the carrying amount of these instruments.

33. Business combinations

On 27 April 2008, freenet AG signed an agreement for acquiring 100 percent of the shares in debitel Konzernfinanzierungs GmbH, Stuttgart, the parent company of the debitel Group. The debitel Group is a mobile service provider, and operates primarily within Germany. Major operating companies of this Group are debitel AG, Stuttgart, _dug telecom aktiengesellschaft, Oberkrämer, as well as callmobile GmbH & Co. KG, Hamburg. The vendor is debitel (Netherlands) Holding B.V., which is subject to the majority control of the Permira funds. The acquisition was completed on 5 July 2008. The date of completion is simultaneously the start of initial consolidation (which was defined as 5 July 2008, 24:00 hours) of the debitel Group in the consolidated financial statements of freenet AG, because freenet since that time has been able to exert a controlling influence on the debitel Group.

In return for the acquisition of the debitel Group, freenet granted 32 million new freenet shares out of authorised capital to the vendor (please refer to note 22 of our explanations). This component of the purchase price was measured with a price of 11.93 euros of 7 July 2008, the first market trading day after the reference date of the acquisition. The value of this component is thus a total of 381.8 million euros. freenet has also taken out a long-term interest-bearing vendor loan of 132.5 million euros. Plus ancillary purchase costs of 10.8 million euros, the purchase costs of the transaction amounted to 525.1 million euros. Provisional purchase costs of 523.6 million euros had been shown in the interim financial statements for the period ending 30 September 2008, and subsequent ancillary purchase costs of 1.5 million euros were capitalised in the fourth quarter of 2008.

In addition to the provisional ancillary costs of purchase of 10.8 million euros, which are shown in the cash flow statement as outflows for the acquisition of subsidiaries under investing activities, additional cash payments of 4.4 million euros related to the costs of the capital increase and the raising of borrowings – the latter are shown in the cash flow statement under cash flow from financing activtities.

The purchase price allocation carried out in accordance with IFRS 3 in relation to the acquisition of the debitel Group is of a provisional nature as detailed in IFRS 3.62, and is based on the best estimates of management. The provisional purchase price allocation will be finalised in the course of 2009.

The following table provides information concerning the assets and liabilities of the debitel Group transferred at the time of initial consolidation:

Assets €'000s	**5.7.2008**	
	Carrying amount	**Fair value**
Non-current assets		
Intangible assets	399,774	918,550
Goodwill	1,066,351	1,097,881
Property, plant and equipment	47,707	47,707
Receivables, other assets and advanced payments	14,720	14,720
	1,528,552	**2,078,858**
Current assets		
Inventories	58,340	58,340
Current income tax assets	6,299	6,299
Receivables, other assets and advanced payments	243,913	243,913
Cash and cash equivalents	37,385	37,385
	345,937	**345,937**
	1,874,489	**2,424,795**

Liabilities €'000s	**5.7.2008**	
	Carrying amount	**Fair value**
Non-current liabilities		
Trade accounts payable, other liabilities and deferrals	33,307	33,307
Financial debt	1,108,160	1,108,160
Pension provisions	24,690	20,083
Other provisions	24,248	47,843
Deferred tax liabilities	78,838	230,721
	1,269,243	**1,440,114**
Current liabilities		
Trade accounts payable, other liabilities and deferrals	370,434	370,434
Financial debt	44,665	44,665
Other provisions	42,115	44,515
	457,214	**459,614**
	1,726,457	**1,899,728**

In accordance with the purchase price allocation, there is goodwill of 1,098 million euros, which is mainly attributable to synergy potential in mobile service provider business and the acquired work force. The acquired intangible assets mainly comprise customer relations at fair values of approx. 474 million euros and brand rights at fair values of approx. 338 million euros which were used as part of the purchase price allocation. A figure of 11 million euros has been shown in this purchase price allocation for software which has been transferred. As a result of the subsequent depreciation of the intangible assets shown as part of the purchase price allocation, depreciation of approx. 31 million euros will have to be recognised in every quarter for the next few financial years.

The provisions which have been transferred include an amount of 26.0 million euros for contingent liabilities. Pension provisions of 20.1 million euros have been transferred.

With the acquisition of the debitel Group, freenet acquired debt of 1,153 million euros as of the date of initial consolidation (of this figure: 1,108 million euros is of a long-term nature).

Between the date of initial consolidation and 31 December 2008, the debitel Group contributed a loss after tax of 92.2 million euros to the consolidated result.

Based on the assumption that the acquisition of the debitel Group had taken place on 1 January 2008, the Group would have generated revenues of 4,422.9 million euros as well as a consolidated profit of 50.4 million euros.

In the Company's segment reporting, the debitel Group is completely allocated to the Mobile Communications segment. The goodwill resulting from this business combination is completely allocated to the Mobile Communications cash generating unit.

34. Transactions with related parties

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

€'000s	2008	2007
Sales and income attributable to services		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	1,538	1,698
FunDorado GmbH, Hamburg	157	237
Prof. Dr. Helmut Thoma, Hürth-Berrenrath	2	0
LGB & Vogel GmbH, Düsseldorf	n. a.	4
Purchased services and onward charging		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	608	682
siXXup new Media GmbH, Pulheim	50	49
FunDorado GmbH, Hamburg	21	210
NetCon Media s. r. o., Hlucin, Czech Republic	21	7
Jaschinski Biere Brexl, Berlin	n. a.	236
Notariat Ballindamm, Hamburg	n. a.	65

The following major receivables due from and liabilities due to related parties existed as of the end of the financial year:

€'000s	2008	2007
Receivables		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	168	190
FunDorado GmbH, Hamburg	24	13
Liabilities		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	52	34
FunDorado GmbH, Hamburg	4	0
NetCon Media s.r.o., Hlucin, Czech Republic	2	0
Jaschinski Biere Brexl, Berlin	n.a.	60
Financial debt		
Telco (Netherlands) Holding B.V., Hoofddorp, Netherlands	138,198	n.a.

If the parties were not to be classified in the financial year as related in accordance with IAS 24, no comparison was made (n.a.). All transaction prices were negotiated under commercial terms.

Compensation for the Board of Managing Directors

Compensation paid to the members of the Board of Managing Directors of the Company and its predecessors is broken down as follows:

Compensation for the financial year 2008 €'000s	Fixed compensation	Variable compensation from stock option and stock appreciation rights[1]	Other variable compensation	Total compensation
Eckhard Spoerr	641	–3,310	410	–2,259
Axel Krieger	361	–2,069	155	–1,553
Stephan Esch	254	–1,034	60	–720
Eric Berger	253	–620	60	–307
Joachim Preisig[2]	105	55	100	260
	1,614	**–6,978**	**785**	**–4,579**

1 Incl. non-cash compensation valued in accordance with IFRS 2.
2 Compensation after being appointed to the Board of Managing Directors of freenet AG, i.e. for the period 30 September to 31 December 2008.

Compensation for the financial year 2007 €'000s	**Fixed compensation**	**Variable compensation from stock option and stock appreciation rights[1]**	**Other variable compensation**	**Total compensation**
Eckhard Spoerr	642	3,408	358	4,408
Axel Krieger	357	2,130	142	2,629
Stephan Esch	257	1,065	53	1,375
Eric Berger	211	639	53	903
	1,467	**7,242**	**606**	**9,315**

1 Incl. non-cash compensation valued in accordance with IFRS 2.

In the financial year 2008, 400,000 stock appreciation rights were issued to Mr. Preisig, who commenced his activity as a member of the Board of Managing Directors of freenet AG on 30 September 2008. The stock appreciation rights which were issued to Mr. Preisig in 2008 had a total value of 1,391 thousand euros at the point at which they were granted on 1 September 2008. No new stock appreciation rights or stock options were issued to the other members of the Board of Managing Directors of the Company in the financial year 2008.

Negative figures are shown for the compensation of the members of the Board of Managing Directors in 2008, (Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger); this is attributable to the decline in the provision for stock appreciation rights due essentially to reference date price factors. Disregarding the non-cash-effective compensation components of stock options and stock appreciation rights, compensation of 1,051 thousand euros would have been reported for Mr. Spoerr in the financial year 2008, a figure of 516 thousand euros would have been reported for Mr. Krieger, a figure of 314 thousand euros would have been reported for Mr. Esch, a figure of 313 thousand euros would have been reported for Mr. Berger and a figure of 205 thousand euros would have been reported for Mr. Preisig.

In addition, it was agreed that Mr. Spoerr would receive a payment of 2,000 thousand euros in settlement of his contractual claims arising from his service agreement as a result of the premature termination of his employment contract as of 23 January 2009 in the financial year 2008.

Overall, the compensation for the Board of Managing Directors in 2008 in accordance with section 341 (1) no. 6a HGB amounted to 5,790 thousand euros (cash-effective compensation including the payment to Mr. Spoerr in settlement of his contractual claims plus the new stock appreciation rights which were issued shown at their total value at the point at which they were granted in the financial year).

As of 31 December 2008, the provision for stock options and stock appreciation rights for Mr. Spoerr was 563 thousand euros (previous year: 3,873 thousand euros); the provision for Mr. Krieger was 352 thousand euros (previous year: 2,421 thousand euros), the provision for Mr. Esch was 176 thousand euros (previous year: 1,210 thousand euros), the provision for Mr. Berger was 106 thousand euros (previous year: 726 thousand euros) and the provision for Mr. Preisig was 55 thousand euros (previous year: 0).

In the financial year 2008, no cash-effective compensation was paid as a result of stock options and stock appreciation rights. In the previous year 2007, stock options and stock appreciation rights resulted in payments of 4,272 thousand euros to Mr. Spoerr, 3,402 thousand euros to Mr. Krieger, 1,022 thousand euros to Mr. Esch and 732 thousand euros to Mr. Berger.

In November 2004, a direct pension commitment was granted to Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger. As of 31 December 2008, the defined benefit obligation (DBO) for Mr. Spoerr was 894 thousand euros (previous year: 835 thousand euros), the corresponding figures were 473 thousand euros for Mr. Krieger (previous year: 442 thousand euros), 164 thousand euros for Mr. Esch (previous year: 137 thousand euros) and 163 thousand euros for Mr. Berger (previous year: 136 thousand euros). As of 1 September 2008, freenet AG took on the pension commitment granted to Mr. Preisig by debitel AG. As of 31 December 2008, the DBO for Mr. Preisig was 137 thousand euros.

Total current and subsequent service time expenses of 222 thousand euros (previous year: 597 thousand euros) are shown in personnel expenses for the members of the Board of Managing Directors as a result of the pension commitments.

No loans were extended to any of the members of the Board of Managing Directors, and no guarantees or other warranties were issued for any of the members of the Board of Managing Directors.

Compensation for the Supervisory Board

The compensation of the Supervisory Board is defined in the articles of association. Accordingly, the compensation in 2008 consisted of three components:

- Basic compensation
- Fees for attending meetings
- Performance-based compensation

The Supervisory Board members receive basic compensation of 12,000 euros for each full financial year of membership on the board from the company. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half time this amount.

Every Supervisory Board member receives in addition an attendance fee of 1,000 euros for each Supervisory Board meeting he/she attends. Supervisory Board members who belong to a Supervisory Board committee – with the exception of the committee formed in accordance with section 27 (3) of the German Codetermination Act – receive in addition an attendance fee of 1,000 euros for each meeting of the committee. The committee chairperson receives double this amount.

The Supervisory Board members also receive, after the end of each financial year, variable compensation in the amount of 500 euros for each 0.01 euro in dividends in excess of 0.10 euro per share of the company stock which is distributed to the shareholders for the previous financial year. The extent of the variable compensation is limited to that amount which is payable in the form of basic compensation. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times this amount.

For their activity during the financial year 2008, the members of the Supervisory Board of the Company received fixed compensation of 161.9 thousand euros as well as 214 thousand euros in the form of allowances for attending meetings. In addition, performance-based compensation of up to the amount of the cap (equivalent to the fixed compensation) of 161.9 thousand euros was recognised as an expense. The extent to which this performance-based compensation will be paid out depends on the profit appropriation resolution for the financial year 2008. The total compensation paid for Supervisory Board activities was thus 537.8 thousand euros.

Furthermore, Supervisory Board members are reimbursed for expenses incurred as a result of exercising their office as well as for value added taxes.

Individual 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 final totals, because the figures have been rounded to one decimal point.

Compensation for the financial year 2008 (€'000s)	**Basic compensation**	**Attendance fees**	**Performance-based compensation**	**Total**
Active members				
Prof. Dr. Helmut Thoma	24.0	39.0	24.0	87.0
Franziska Oelte[1]	14.7	16.0	14.7	45.4
Claudia Anderleit[1]	5.8	11.0	5.8	22.6
Joachim Halefeld[1]	5.8	11.0	5.8	22.6
Hans-Jürgen Klempau[1]	5.8	6.0	5.8	17.6
Thorsten Kraemer	12.0	12.0	12.0	36.0
Dr. Dieter Leuering	12.0	14.0	12.0	38.0
Prof. Dr. Hans-Joachim Priester	12.0	16.0	12.0	40.0
Lars P. Reichelt	4.8	4.0	4.8	13.5
Richard Roy	12.0	21.0	12.0	45.0
Matthias Schneider[1]	5.8	11.0	5.8	22.6
Steffen Vodel[1]	5.8	8.0	5.8	19.6
	120.5	**169.0**	**120.5**	**410.1**
Former members				
Oliver Brexl	7.3	11.0	7.3	25.6
Birgit Geffke[1]	9.3	9.0	9.3	27.6
Sascha Lucht[1]	6.2	9.0	6.2	21.4
Andreas Neumann[1]	6.2	6.0	6.2	18.4
Kai Petersen[1]	6.2	5.0	6.2	17.4
Ulrike Scharlach[1]	6.2	5.0	6.2	17.4
	41.4	**45.0**	**41.4**	**127.7**
	161.9	**214.0**	**161.9**	**537.8**

1 Employee representatives in accordance with section 7 (1) sent 1 no. 1 MitbestG of 4 May 1976.

Compensation for the financial year 2007 (€'000s)	Basic compensation	Attendance fees	Performance-based compensation[4]	Total
Active members				
Prof. Dr. Helmut Thoma	22.3	23.0	22.3	67.6
Birgit Geffke[1]	15.5	19.0	15.5	50.0
Oliver Brexl	12.0	14.0	12.0	38.0
Thorsten Kraemer	5.4	4.0	5.4	14.8
Dr. Dieter Leuering	5.4	5.0	5.4	15.8
Sascha Lucht[1]	10.4	15.0	10.4	35.7
Andreas Neumann[1]	10.4	10.0	10.4	30.7
Franziska Oelte[1]	10.4	14.0	10.4	34.7
Kai Petersen[1]	10.4	8.0	10.4	28.7
Prof. Dr. Hans-Joachim Priester	10.0	10.0	10.0	30.0
Richard Roy	5.4	7.0	5.4	17.8
Ulrike Scharlach[1]	10.4	7.0	10.4	27.7
	127.8	**136.0**	**127.8**	**391.6**
Former members				
Christian Burger[2]	1.0	0.0	1.0	2.1
Andrew John Dechet	5.5	2.0	5.5	13.1
Bastian Frederik Lueken	4.7	3.0	4.7	12.3
Prof. Klaus-Dieter Scheurle[2]	1.6	0.0	1.6	3.1
Prof. Dr. G. Konrad Schmidt	6.4	4.0	6.4	16.8
Prof. Dr. Dieter H. Vogel[3]	3.5	5.0	3.5	12.0
	22.7	**14.0**	**22.7**	**59.4**
	150.5	**150.0**	**150.5**	**451.0**

1 Employee representatives in accordance with section 7 (1) sent 1 no. 1 MitbestG of 4 May 1976.
2 Member of the Supervisory Board of the former freenet.de AG.
3 Member of the Supervisory Board of the former mobilcom AG.
4 Variable compensation in accordance with section 11 (5) of the articles of incorporation was not paid because no dividend for 2007 was adopted by the shareholders' meeting. The provision which had been created was reversed in the financial year 2008.

35. Disclosures in accordance with section 315a HGB

The list of the companies included in the consolidated financial statements in accordance with section 313 (2) to (3) HGB is shown in a separate list of shareholdings, instead of in the notes, in accordance with section 313 (4) HGB. This separate list is submitted to the electronic Federal Gazette.

The average number of employees in the Group (section 314 (1) no. 4 HGB) has been shown in note 4 “Personnel expenses”.

With regard to the disclosures concerning compensation of the executive bodies of the Company (section 314 (1) no. 6 HGB), please refer to note 34 “Transactions with related parties”.

In accordance with section 314 (1) no. 8 HGB, we hereby declare that the declaration of conformity in accordance with section 161 AktG was submitted by the Board of Managing Directors and Supervisory Board of the Company in December 2008. It has been made permanently accessible to the shareholders on the Company’s website at the address *http://www.freenet.ag/media/Entsprechenserklaerung_freenet_AG_2008.pdf*

A total of 2,387 thousand euros in fees was paid to the auditor in accordance with section 314 (1) no. 9 HGB during the financial year. Of this figure, 1,001 thousand euros were paid for the audit of the annual accounts and consolidated annual accounts, 666 thousand euros for other certification or assessment services and 720 thousand euros for other services.

36. Significant events occurring after the balance sheet date

At the end of January 2009, the Group signed an agreement which specifies that the exclusive sales partnership in the electronic department stores Saturn and Media Markt will be prematurely extended until the end of 2011. freenet AG will thus continue to exclusively sell the mobile products of the network operators T-Mobile, Vodafone and E-Plus as well as its own products in these stores.

Büdelsdorf, 25 March 2009
freenet AG

The Board of Managing Directors

Joachim Preisig   Axel Krieger

Stephan Esch   Eric Berger

3.8 Auditor's report

We have audited the consolidated financial statements prepared by freenet AG, Büdelsdorf, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, 25 March 2009
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Niklas Wilke
Wirtschaftsprüfer (German Public Auditor)

ppa. Marko Schipper
Wirtschaftsprüfer (German Public Auditor)

3.9 Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Büdelsdorf, 25 March 2009

Joachim Preisig

Axel Krieger

Stephan Esch

Eric Berger

4. Further information

4. Further information

4.1 Historical time series of quarterly figures Q1/2007 to Q3/2008 according to IFRS (retrospective adjustment) as well as Q4/2008

As evidenced by this consolidated financial statement, freenet no longer capitalises the costs of customer acquisition and customer retention and the accrual on the liabilities side of certain one-off revenue components related to such costs. freenet has decided to no longer collect the necessary information about costs of customer acquisition and retention per customer in accordance with IAS 8.14(b). This necessitated a retrospective adjustment of the previous year's figures.

Further, the Group balance sheet 2008 shows the DSL business, for which the sale process has been initiated, and debitel Nederland B.V., which was sold before the reporting date, as "discontinued operations" in accordance with IFRS 5. Showing the DSL business as discontinued operations necessitated a retrospective adjustment to the previous year's income statement.

To increase transparency, the company is making a historical time series available in the following table, with retrospectively adjusted quarterly figures Q1/2007 to Q3/2008 and the latest quarterly figures for Q4/2008.

Results in € million	**Q1/2007[1]**	**Q2/2007[1]**	**Q3/2007[1]**	**Q4/2007[1]**	**Q1/2008[1]**	**Q2/2008[1]**	**Q3/2008[1]**	**Q4/2008**
Third-party revenue	426,878	428,641	417,849	417,457	376,426	364,863	1,042,419	1,090,118
Gross profit	115,522	122,624	106,528	101,004	98,538	93,536	227,817	221,692
EBITDA	59,394	58,648	53,110	42,569	51,832	31,706	107,358	16,210
EBIT	49,693	47,647	44,146	31,949	41,954	22,072	55,851	–37,662
EBT	54,645	53,091	41,062	31,688	40,254	21,518	18,664	–86,105
Group result from continued operations	**55,792**	**48,451**	**–6,609**	**–36,748**	**27,112**	**23,375**	**165,895**	**–68,009**
Group result from discontinued operations	**–22,394**	**–24,461**	**–27,017**	**–38,077**	**–12,531**	**–13,967**	**–25,670**	**15,393**
Group result	**33,398**	**23,990**	**–33,626**	**–74,825**	**14,581**	**9,408**	**140,225**	**–52,616**

Business performance by sector in € million	**Q1/2007[1]**	**Q2/2007[1]**	**Q3/2007[1]**	**Q4/2007[1]**	**Q1/2008[1]**	**Q2/2008[1]**	**Q3/2008[1]**	**Q4/2008**
Third-party revenue for the group[2]	**426,878**	**428,641**	**417,849**	**417,457**	**376,426**	**364,863**	**1,042,419**	**1,090,118**
1. Revenue mobile communications	307,345	327,178	318,669	320,508	289,391	290,385	1,016,741	1,058,185
2. Revenue broadband	59,487	66,647	70,199	77,379	79,898	77,953	75,942	68,769
3. Revenue portal	15,102	13,307	12,402	15,863	12,704	14,177	9,392	11,547
4. Revenue hosting	19,412	19,871	20,094	20,486	20,923	21,929	22,492	22,368
5. Revenue B2B	38,501	29,502	33,498	33,417	29,861	20,969	22,742	27,475
6. Revenue narrowband	47,530	39,959	33,948	27,851	24,840	19,513	16,336	15,284
Group gross profit[2]	**115,522**	**122,624**	**106,528**	**101,004**	**98,538**	**93,536**	**227,817**	**221,692**
1. Gross profit mobile communications	53,845	68,411	52,680	51,040	48,312	47,451	187,680	185,450
2. Gross profit broadband	–1,933	–1,084	–2,948	–6,755	16,703	17,588	18,711	11,123
3. Gross profit portal	10,845	10,145	8,438	11,253	9,573	10,163	6,349	9,124
4. Gross profit hosting	16,560	14,794	15,920	16,431	17,947	17,605	18,302	17,790
5. Gross profit B2B	7,737	6,862	9,715	6,852	6,899	7,268	5,269	6,171
6. Gross profit narrowband	27,060	23,141	20,244	16,262	16,334	12,486	10,403	9,671

1 These are retrospectively adjusted figures. For one, the costs of customer acquisition and customer retention and the accrual on the liabilities side of revenue components related to such costs were no longer capitalised in 2008, and the figures were accordingly adjusted retroactively for 2007. Secondly, the discontinued operations are shown retroactively in accordance with IFRS 5.

2 The differences in revenue/gross profit between the sum of the individual segments and the total segments are the result of interdivision settlements and effects under IFRS 5.

4.2 Mobile Communications segment: Historical time series of pro-forma quarterly figures Q1/2007 to Q3/2008 as well as Q4/2008

Due to the debitel acquisition, an assessment of the operating performance of the Mobile Communications segment is only possible to a limited degree. To increase the comparability and visibility of the segment figures, a historical pro-forma time series is shown in the following table. It shows the development over time of the key figures as if freenet-mobilcom and debitel (including talkline and _dug) had been consolidated from the beginning of 2007. In addition, one-off expenses and income are excluded and accounted for separately.

Mobile Communications segment	**Q1/2007 pro-forma**	**Q2/2007 pro-forma**	**Q3/2007 pro-forma**	**Q4/2007 pro-forma**	**Q1/2008 pro-forma**	**Q2/2008 pro-forma**	**Q3/2008 pro-forma**	**Q4/2008**
Total customer development								
Mobile Communications customers (incl. Netherlands) in thousand	18,420	18,457	18,854	19,526	19,647	19,861	19,968	19,119
Thereof Credit (incl. no-frills) in thousand	8,247	8,355	8,432	8,573	8,608	8,704	8,670	8,829
Thereof no-frills in thousand	478	576	689	818	881	962	1,062	1,212
Thereof Debit in thousand	9,231	9,203	9,571	10,103	10,234	10,436	10,607	10,291
Thereof Netherlands in thousand	942	899	851	850	806	721	691	0
Gross-additions in thousand	1,266	1,376	1,479	1,740	1,207	1,312	1,230	1,418[1]
Net-additions in thousand	–113	–45	341	601	123	271	107	–849
Business performance								
Total revenue in € million	1,117.3	1,181.4	1,195.4	1,189.1	1,028.0	1,064.1	1,056.5	1,058.2
Thereof Netherlands in € million	66.4	65.3	64.3	51.4	49.8	49.8	46.4	37.3
Total gross profit in € million	186.7	201.2	214.1	199.4	168.5	176.5	194.3	185.5
EBITDA in € million	65.8	62.9	95.7	47.5	50.9	72.2	79.0	26.7
Non recurring items in € million	–4.7	–14.0	–5.6	–52.6	–19.4	–11.7	–9.4	–73.5
EBITDA-adjusted/recurring in € million	70.5	76.9	101.3	100.1	70.3	83.9	88.5	100.2
Thereof Netherlands in € million	–1.4	–3.2	1.6	2.4	–1.4	3.3	–5.3	–2.5
EBIT in € million	39.0	30.8	73.6	–2.8	24.5	44.0	32.9	7.8
Non recurring items in € million	–4.7	–14.0	–5.6	–55.3	–19.5	–11.7	–9.4	–73.5
EBIT-adjusted/recurring in € million	43.7	44.8	79.2	52.5	44.0	55.7	42.4	81.3
ARPU Germany								
ARPU Credit in €	27.9	28.7	29.0	27.2	26.0	26.3	26.5	25.2
ARPU no-frills in €	8.0	8.9	7.5	6.4	6.0	6.5	6.4	5.5
ARPU Debit in €	4.5	4.7	4.4	3.9	3.4	3.3	3.3	3.0
ARPU Netherlands in €	33.9	33.5	34.4	28.8	27.9	29.4	29.1	26.6
Recurring Capex in € million	–2.3	–8.4	–9.7	–16.6	–3.4	–5.2	–15.3	–3.9

1 Correction to the version published on 26 March 2009 due to a printing error: Gross-additions in thousand in Q4/2008: 1,418 (previously published: 695).

4.3 Glossary

AGOF	German abbreviation for “Arbeitsgemeinschaft Online Forschung”. Working group for online research.
Alternative network operators	All network operators, except for Deutsche Telekom AG.
ARPU	Average Revenue Per User.
Directory services	This facility is an information service with nationwide availability at all times without the need for any prefix; it is used for providing information concerning the number, name and address and additional details of telecommunication users. Such services are reached via a number 118xy.
B2B	Business with business customers (B2B = Business to Business).
BITKOM	German Association for Information Technology, Telecommunications and New Media.
Bundesnetzagentur	Federal Network Agency for Electricity, Gas, Telecommunication, Posts and Railways (german: Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen).
Broadband	Digital data transmission with a speed of more than 128 kbps.
Compliance	Ensuring, for example, that a company is complying with regulatory requirements, and that the company and its employees are complying with internal policies and procedures.
D&O	Directors’ and Officers’ Liability Insurance (often called D&O) is insurance payable to the directors and officers of a company, or to the corporation itself, to cover damages or defense costs in the event they are sued for wrongful acts while they were with that company.
D-Netz	Digital mobile network (GSM-900 network) in Germany.
DBO	Defined Benefit Obligation.
debitel Niederlande	debitel Nederland B.V.
DENIC e.G.	Central registry for all domains under the country-code top-level domain for Germany, .de.
DSL	A Digital Subscriber Line is used by households and companies for transmitting and receiving data at high transmission speed (up to 50,000 kbps). This is a major increase in speed compared with modem or ISDN connections of up to 128 kbps.
DSL access line	The DSL line between the subscriber network operator (TNB) and the user.
DTAG	Deutsche Telekom AG.

EBIT	Earnings before interest and taxes less depreciation and amortisation plus the share of results of associates.
EBITDA	EBIT (see above) plus depreciation and amortisation.
EBT	Earnings before taxes.
EMEA	EMEA is an abbreviation for Europe, the Middle East and Africa.
EPS	Earnings per share; this ratio specifies the portion of consolidated net profit or loss which is attributable to an individual share. It is calculated by dividing the consolidated net income/net loss by the weighted average number of issued shares.
Fixed-line network	In general language, this concept is used to describe a telecommunications network which is used for providing line-borne services.
Freefloat	The Freefloat of a public company is an estimate of the proportion of shares that are not held by large owners and that are not stock with sales restrictions.
GewStG	German Trade Tax Law (Gewerbesteuergesetz).
GSM	Pan-European standard for second generation digital mobile communications in the 900 and 1800 MHz range (GSM = Global System for Mobile Communication).
HGB	German Commercial Code.
IFO-Index	IFO is an acronym from Information and Forschung (research). As one of Germany's largest economic think-tanks, it analyses economic policy and is widely known for its monthly IFO Business Climate Index for Germany.
IFRS	International Financial Reporting Standards.
Interconnection	Interconnection of switching telephone networks.
IP	Internet Protocol; a data interchange protocol which is widespread in computer networks.
IP-Bitstreaming	IP-Bitstream: Unbundled broadband access based on the Internet Protocoll.
ISDN	ISDN integrates services such as telephony, fax or data communication in the fixed network. Digital technology improves transmission quality and increases transmission speed compared with analogue connections. ISDN also permits packet-switched data transmission (ISDN = Integrated Services Digital Network).
ISIN	International Securities Identification Number.

IT	Information Technology (IT) describes any technology that helps to produce, store and communicate information with the use of electronic computers and computer software.
IT-Migration	IT-Migration involves moving a set of instructions or programs, from one platform to another within a company.
KPN	Royal KPN NV is the leading telcommunications an ICT services based in Den Haag.
KStG	Coporation Tax Act (german: Körperschaftsteuergesetz).
KUDOS-Award	The KUDOS Award was created by MobileMonday Germany e. V. (a worldwide mobile community).
M&A	Mergers & Acquisitions.
Mbit/s	Megabit per second.
MitbestG	Codetermination Act (Mitbestimmungsgesetz).
MMS	Multimedia Messaging Service.
MNO	Mobile Network Operator (Mobilfunk-Netzbetreiber).
Mobile network	A public mobile network offering mobile communications services in accordance with the GSM 900 or GSM 1800 standard, or for the third generation range of mobile communications services (UMTS/IMT 2000).
Mobile service provider	Provider of mobile communications without their own mobile network; they sell mobile telephony minutes, SIM cards and mobile telephones as well as value-add services, such as SMS in their own name and for their own account.
Multi-SIM cards	A set of multiple (two or three) SIM-cards independent of each other, operating under the same contract sharing one mobile number. The customer enjoys the conveniance of using one mobile number across multiple handsets and devices.
No frills	No frills is a term used to describe any service or product for which the non-essential features have been removed.
Paid services	Paid Services are the not-free electronic commerce of digital services and information goods in digital media.
Penetration (mobile communications market)	Total number of issued SIM cards expressed as a percentage of the total number of inhabitants.

Portal	Central web site which generally comprises a comprehensive range of navigation functions, aggregated content and additional services, such as e-mail.
POS marketing	Point of Sale. POS marketing relates to all promotional acitivities undertaken at the Point of Sale.
Prepaid	Mobile communications service paid in advance.
Pre-selection	Permanent default setting of the subscriber line to a specific connection network operator.
PricewaterhouseCoopers AG WPG	PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. Auditing and consulting services organisation in Germany.
Roaming	Feature of cellular radio networks which ensures that activated mobile stations, irrespective of location, can be reached in all radio cells of the entire area of coverage of a network. Roaming can also cover equivalent networks of various network operators (national roaming) and also cover cross-border networks (international roaming).
Narrowband	Analogue or digital data transmission with a speed of up to 128 kbps.
SIM card	Subscriber Identity Module; chip card with a processor and memory of GSM telephones, storing various information, including the user number allocated by the network operator, and which identifies the user in the mobile network.
SMS	Digital short message via mobile telephone (SMS = Short Message Service).
TAL	Describes the twin copper wire between the main distributor of DTAG and the end user; TAL = Teilnehmeranschlussleitung (subscriber access line).
TKG	TKG: abbreviation for Telekommunikationsgesetz = Telecommunication Act.
UMTS	UMTS is a new high-performance standard which permits all types of communication and multi-media applications via mobile telephones; also known generally as 3G mobile phones (UMTS = Universal Mobile Telecommunications System).
UmwStG	Reorganisation Tax Act (Umwandlungssteuergesetz).
VATM	The Association of Telecommunications and Value-Added Service Providers (VATM).
VDSL	High-speed DSL connection which permits higher transmission speeds as a result of increasing the fibre content of the transmission channel (VDSL = Very High Bit Rate Digital Subscriber Line).
VoIP	Telephony via a computer network (e.g. the Internet) based on the Internet Protocol (IP) (VoIP = Voice over IP).

VPN	Virtual Private Network.
Webhosting	Hosting of web sites on the server of an Internet service provider (provider or web hoster).
Wholesale DSL	Agreement with DTAG for selling on broadband DSL access lines (DSL lines) of DTAG.
Wi-Fi	Wireless connection based on the IEEE 802.11 standards (also called Wireless LAN (WLAN) and Wi-Fi).
WiMax	Worldwide Interoperability for Microwave Access: Telecommunications technology based on the IEEE 802.16 standard (also called Broadband Wireless Access).

4.4 Financial calender

13 May 2009[1]
Publication of interim report I/2009

June 2009[1]
Annual shareholders' meeting

August 2009[1]
Publication of interim report II/2009

November 2009[1]
Publication of interim report III/2009

1 Probable dates

4.5 Imprint, contact, publications

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