freenet GROUP

mobilcom debitel

freenet

freeXmedia

TALKLINE

klarmobil.de

4PLAYERS.DE

MFE Energie

Annual Report 2011

Consolidated financial statements of freenet AG

freenet AG • Hollerstraße 126 • 24782 Büdelsdorf

Key financials: overview Group

Result

Figures in € million	2011	2010	Q4/2011	Q3/2011	Q4/2010
Revenue	3,217.9	3,339.5	842.6	829.0	857.7
Gross profit	715.8	720.3	202.1	178.0	187.8
EBITDA	337.4	334.9	90.9	84.2	88.0
Recurring EBITDA	360.3	366.5	96.4	90.1	96.0
EBIT	168.5	145.5	57.5	40.1	40.7
EBT	117.3	102.6	46.5	28.1	30.9
Group result from continued operations	143.8	118.8	66.2	30.9	43.2
Group result from discontinued operations	0.1	–6.3	0.0	0.0	–3.7
Group result	144.0	112.5	66.2	30.9	39.5
Earnings per share (€)	1.12	0.88	0.51	0.24	0.31

Balance sheet

	31.12.2011	31.12.2010	31.12.2011	30.9.2011	31.12.2010
Balance sheet total in € million	2,528.4	2,542.4	2,528.4	2,446.8	2,542.4
Shareholders' equity in € million	1,171.3	1,134.5	1,171.3	1,109.9	1,134.5
Equity ratio in %	46.3	44.6	46.3	45.4	44.6

Finances and investments

Figures in € million	2011	2010	Q4/2011	Q3/2011	Q4/2010
Free cash flow [1,2]	241.0	211.7	56.7	60.1	63.3
Depreciation and amortisation	168.9	189.4	33.4	44.0	47.3
Investments [2]	22.5	26.6	7.2	4.6	8.0
Net cash [2,3,4]	–529.4	–623.1	–529.4	–575.2	–623.1

Share

	31.12.2011	31.12.2010	31.12.2011	30.9.2011	31.12.2010
Closing price XETRA (€)	10.00	7.90	10.00	8.80	7.90
Number of ordinary shares (in thousand)	128,061	128,061	128,061	128,061	128,061
Market capitalisation (in €'000s)	1,280,610	1,011,682	1,280,610	1,126,937	1,011,682

Employees

	31.12.2011	31.12.2010	31.12.2011	30.9.2011	31.12.2010
Employees	4,057	3,972	4,057	4,052	3,972

1 Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.
2 This information relates to the overall Group (including discontinued operations).
3 At the end of period.
4 Balance of cash and cash equivalents and financial liabilities.

Key financials: overview Mobile Communications segment

Customer development

Figures in million	2011	2010	Q4/2011	Q3/2011	Q4/2010
Mobile Communications customers[1]	15.19	15.65	15.19	15.16	15.65
Thereof contract customers	5.75	6.11	5.75	5.80	6.11
Thereof prepaid customers	7.07	7.58	7.07	7.15	7.58
Thereof no-frills customers	2.37	1.97	2.37	2.22	1.97
Gross new customers	4.32	4.25	1.23	1.06	1.34
Net change	−0.47	−1.93	0.03	−0.04	−0.19

Result

Figures in € million	2011	2010	Q4/2011	Q3/2011	Q4/2010
Revenue	3,149.7	3,265.6	825.0	812.4	839.8
Gross profit	676.9	674.4	192.4	168.4	176.6
EBITDA	339.6	328.7	95.6	86.5	86.1
Non recurring items	−19.6	−26.7	−3.2	−4.5	−5.2
Recurring EBITDA	359.2	355.3	98.8	91.0	91.3
EBIT	177.5	151.0	65.4	43.6	42.0
Non recurring items	−19.6	−26.7	−3.2	−4.5	−5.2
Recurring EBIT	197.1	177.6	68.6	48.1	47.2

Monthly average revenue per user (ARPU)

Figures in €	2011	2010	Q4/2011	Q3/2011	Q4/2010
Contract customer	23.8	24.0	23.7	24.6	24.3
Prepaid customer	3.1	3.2	3.0	3.2	3.3
No-frills customer	4.6	4.9	4.2	4.9	4.6

1 At the end of period.

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Experience, expertise, innovation—freenet AG as a service provider

Twenty years ago, mobile communications opened as a new and exciting market segment in Germany with the liberalisation of telecommunications. About two dozen companies, most of them offshoots of large international IT and communications companies, launched at the time. Only a handful of companies have survived the very intense competition in the industry since then and helped to shape it—and mobilcom and debitel are among them.

Now combined into the main brand of freenet AG, they reflect the tremendous momentum that has characterised the communications market in the last two decades:

- the rapid technological development of mobile phones and mobile communications into essential companions in our work and private lives,
- the explosive advance of the internet as an unlimited mobile resource for information and communication,
- the massive consolidation in the industry with numerous acquisitions and mergers that both mobilcom and debitel actively helped to shape. Today, the two companies are combined as one brand under the umbrella of freenet AG, the former mobilcom subsidiary.

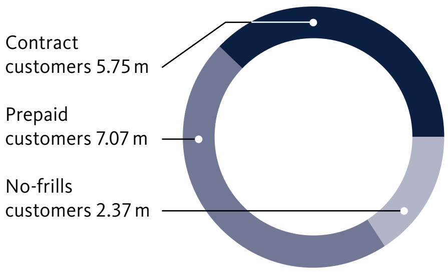
What made freenet the largest network-independent telecommunications company in Germany? And what, therefore, are the future factors of its success?

A systematic focus on the needs and wishes of the customer is and always was a top priority at freenet AG. All the other criteria stem from this:

- an attractive portfolio of products and services,
- closeness to the customer, based on 550 own shops, 5,600 retail partners, a presence in major electronics markets, and online channels,
- efficient business processes that allow for a quick response to market and customer requirements,
- a sustained orientation towards stakeholder value, geared towards the interests of shareholders, business partners, employees and the social and ecological environment.

With a current customer base of around 15.2 million and a committed, competent team of around 4,000 employees, freenet AG looks back on a successful financial year 2011—and is full of optimism regarding the opportunities and challenges in the coming months and years.

Attractive, innovative tariffs



Mobile Communications customers per segment (Source: freenet AG, 31 December 2011)

As a service provider, freenet AG markets, for its own account, mobile communications services for the four network operators Deutsche Telekom, Vodafone, E-Plus and O_2, as well as tariffs and services in its own brand portfolio. freenet's special positioning in the German market as a network-independent provider is aptly reflected in the "free" tariff launched in 2010 by the main mobilcom-debitel brand: it provides high flexibility at low prices, a combination that makes it unique in the German mobile communications market.

Using a modular principle, customers can adjust their tariff every month to individually suit their current calling habits, and choose or switch freely between the four national mobile networks—without minimum contract period, monthly subscription fee or minimum charge.

Other highlights in the current mobilcom-debitel range are the "Flat 4 You", "Flat Smart" and "Flat Allnet" tariffs, which launched in the first half of 2011. At the current monthly price of 29.90 euros they offer various flat rates for unlimited mobile calls to mobile communications networks and landlines, mobile browsing, SMS and MMS. In the second half of 2011 one in every two new customers chose these new, innovative tariffs at the point of sale.

For an additional 10 or 20 euros per month users can acquire a modern smartphone on a two-year contract.

As part of the business strategy it has now systematically pursued for several years, freenet AG uses its main "mobilcom-debitel" brand to mainly address valuable contract customers. Beyond this, the company is also active on the market with four no-frills brands:

- "klarmobil" as an umbrella brand in the discount segment with all major telephony, data and surfstick rates in the postpaid and prepaid sector,
- "freenetMobile" focusing more on data traffic/internet,
- "callmobile" with a focus on the voice and prepaid sector, and
- the "debitel light" brand launched in 2011, with a more conservative/safe positioning.

Closeness to the customer

The company's positioning as Germany's largest network-independent telecommunications provider gives freenet customers the widest possible choice of tariffs—a prerequisite for independent consultation and support. However, intensive support requires closeness to the customer. In recent years, freenet AG has therefore optimised the number and structure of its shops during the course of its corporate consolidation. The company now has 550 own shops. It also cooperates with about 5,600 specialist retailers who offer mobilcom-debitel products as well as no-frills brands, and it is represented in around 400 Media/Saturn markets.

But freenet also works continuously to improve its offer and services in the shops themselves, particularly in the context of the successful Retail+ project. In addition to improving performance, it also pursues the expansion of the range, cooperations and service as a crucial lever for systematic customer focus. For instance, in the shops customers can now find an extensive range of mobile phones and smartphones, a correspondingly wide range of original accessories, as well as low-cost generic brands. In addition, the shops offer a repair and warranty service, hire purchase of mobile phones/smartphones also without a new contract, and the purchase of used mobile phones in exchange for shopping vouchers.

The collaboration agreement signed in autumn 2011 with GRAVIS Computervertriebsgesellschaft—the largest independent retail chain for Apple products in Germany—clearly upgrades freenet's position as a premium supplier as well as the range on offer in its own shops. As part of the cooperation, freenet AG retrofitted about 100 of its mobilcom-debitel shops with shop-in-shop systems for the Apple world, while Gravis now offers mobilcom-debitel products at its branches.

Supplementary portal business


Pocket Auskunft


Pocket Liga


Pocket Fahrschule

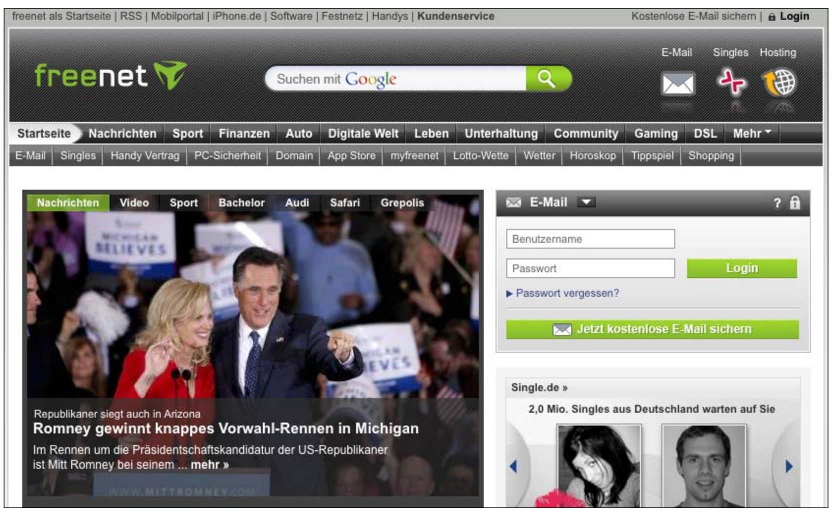
As part of the restructuring with a focus on mobile communications/mobile internet, in the past few years freenet AG had divested from business segments that were no longer part of its core business, selling the subsidiaries in question. This mainly affected the DSL, webhosting and interactive telephony services businesses.

However, on the online portal freenet.de and the mobile portal m.freenet.de, the freenet.de GmbH subsidiary still offers all internet users high-performance services, comprehensive information and entertainment—based around the areas of communications, hosting, search, shopping, community and content. At year-end 2011 freenet.de was one of the top 20 general-interest portals with almost 6.9 million active registered members and an average of about 3.6 million unique users per month.

The focus of future development is now on establishing and expanding the mobile internet activities, and in particular more apps. In the financial year 2011, freenet expanded its range of attractive apps, among other things with:

- "Pocket Auskunft" (Pocket Information) with a phone directory, addresses, hotels/restaurants, traffic jam reports, ATMs, etc.,
- "Pocket Liga" with a livestream radio link to 1st and 2nd division Bundesliga games,
- "Pocket Fahrschule" (Pocket driving school) with all the official exam questions and learning and checking modes with a progress overview.

The Group also has one of Germany's leading online marketers in freeXmedia, which reached around 16.4 million unique users in 2011 in the areas of Automotive, Sports, Digital Entertainment, Active Living and freenet Social Media. This corresponds to a market reach of 32.7 percent.

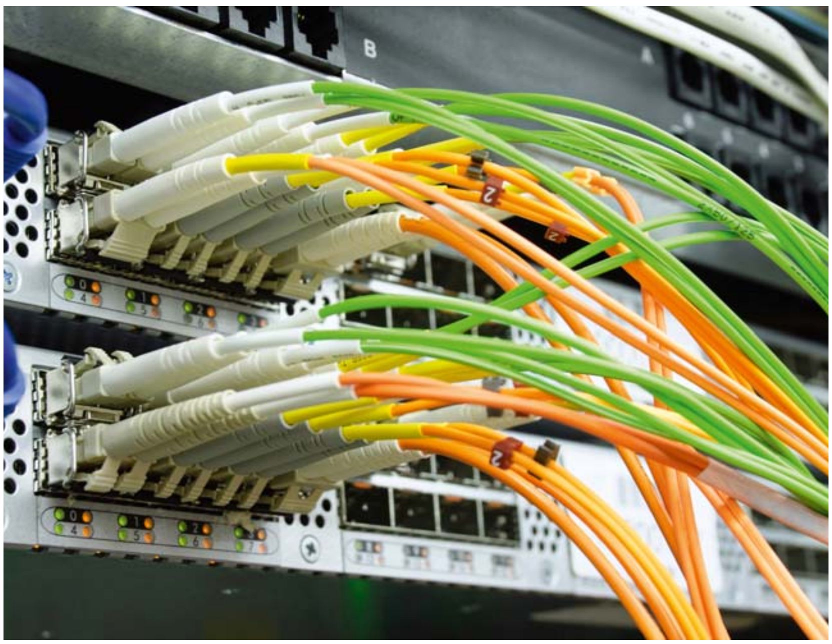


Lean, efficient processes

In recent years, in the course of its corporate acquisitions, freenet AG has carried out a comprehensive consolidation of its sites. In the context of business re-engineering, key business processes were tested for their efficiency and for the most part were re-designed or optimised. This affected major operational units such as product development, customer service, sales and logistics.

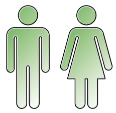
In addition, in 2011 the company successfully completed one of the largest IT migration projects in the German telecommunications industry with "Rainbow". It began in 2009 after the completion of "Tristar"—the merging of the debitel and talkline IT landscapes—as the migration of Tristar with mobilcom IT, and merged three service providers with very different systems into one. The project had tied up significant company resources since its launch—a total of 65,000 man-days, involving around 500 employees, over 450 restructured process flows and interfaces to over 12 million customer relationships.

Today freenet AG is in an excellent position to meet the very complex requirements of a company with more than 15 million customers, thousands of sales points/partners, hundreds of hardware products and tariffs in four mobile communications networks. After all, in 2011, for instance over 3 billion text messages were sent on our systems, and 71 million electronic documents were created. The total number of electronic documents in the archive at the end of 2011 stood at 1.4 billion—the equivalent of about 7 million folders that would stretch from Hamburg to Munich if laid end to end.



Data processing centre Düsseldorf

Data migration facts



500 employees

65,000 man-days
(it would have taken a single employee with regular working hours about 300 years)

2,000 test cases

450 process flows and interfaces (120 functional adaptations)

12 million customer relationships

240 million call data records
(20 terabyte data)

Committed and competent employees

As a TecDax-listed technology company, freenet AG is an attractive employer. The company goes to great effort to ensure the highest possible quality in its employees' workstations, motivation and expertise. Employees

- participate in decision-making processes via a flat hierarchy, the intranet, CEO dialogues/blogs, ideas competitions, innovation management and in-house suggestion schemes,
- who perform at a high level are promoted through specific development programmes,
- benefit from a variety of additional benefits, flexible parental leave/working hours and home-office arrangements,
- have ergonomically designed workstations, as well as health days, posture training, physiotherapy and sports offers.

In the financial year 2011 alone, more than 15,000 applications were received for about 550 job offers.

Nevertheless, in spite of the government's efforts it is difficult in Germany to find suitably qualified professionals, especially for the very demanding IT jobs within the company. freenet AG is therefore steadily training its own skilled workers: at year-end 2011 it employed a total of 125 trainees from Chamber of Industry and Commerce degree programmes in computer science, logistics, retail and sales. Furthermore, four dual-degree programmes are offered at vocational colleges.

Participants in the "freenet talents" development programme

Social and environmental responsibility

With comprehensive stakeholder value in mind, freenet AG not only has a direct responsibility towards its customers, shareholders and employees, but also to society and the environment.

Therefore, for years the company has supported about a dozen foundations/associations, each with five to six-figure amounts, that work for children, youth, sports and social services in places where the company has sites. In the financial year 2011, these included the Albert Schweitzer Kinderdorf (Children's Village) in Erfurt, an initiative for parents of children with cancer in Kaiserslautern, and the Olga Hospital for children/teens in Stuttgart.

Since 2001, the company's Büdelsdorf site has equipped computer rooms in schools and other public facilities with modern PCs, projectors, printers, internet access and computer tables, with the aim of helping users learn how to handle the possibilities of multimedia in a fun way.

As part of its environmental responsibility efforts, freenet has converted its data centre in Düsseldorf to energy-saving systems. The Group's very complex logistics are provided by a service provider geared to sustainability. A variety of other measures—online invoices and reports, collection of used mobile phones, recycling of packaging, and a preference for video/telephone conferences wherever possible—round off the company's ecological orientation. In addition, since 2010 freenet has offered inexpensive green electricity to customers through its shops across Germany.

Donation to the Hospiz-Initiative Kiel e. V.

Social project Nokia Helping Hands supporting a kindergarten

“…rapid technological progress and intense competition are what makes our industry so incredibly exciting…”

Christoph Vilanek, CEO

To our shareholders

To our shareholders

Letter to shareholders

From left to right: Joachim Preisig, Chief Financial Officer (CFO); Christoph Vilanek, Chief Executive Officer (CEO); Stephan Esch, Chief Technical Officer (CTO)

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

We began the financial year 2011 with an extensive agenda, challenging targets and great verve. Major elements included:

- the expansion of our product and tariff range for mobile voice and data services, with a focus on valuable contract customers and stabilising our ARPUs,
- the completion of our multi-year, complex IT migration with the final merger of the two remaining IT landscapes,
- the expansion of our Retail+ programme with which we had achieved double-digit performance increases in our own shops in the previous year,
- securing the long-term profitability of the company while continuing our qualitative alignment of the contract customer base, and the positive development of the no-frills segment,
- freenet AG's long-term financing with the intention of extending our room for manoeuvre in future business decisions as best as possible and of sustainably securing the company's stability as a result.

This was linked to very specific targets for the key financial indicators that we had set ourselves for 2011: recurring EBITDA of 325 million euros, free cash flow of over 200 million euros, and an expected reduction in the postpaid customer base of less than 500,000—the latter as a consequence of our strategic focus on valuable customers.

Today we can draw a very positive balance of the last financial year: we have achieved all of our goals—and clearly exceeded the key financial indicators.

- Recurring EBITDA of 360.3 million euros and free cash flow of 241.0 million euros were above the guidance that was revised upward again in the autumn of 355 million euros and of over 230 million euros,
- Group result increased year-on-year by 28 percent to 144.0 million euros,
- ARPU in the postpaid segment stabilised compared to the previous year's figure of 24.0 euros at 23.8 euros,
- the customer development in the contract customer segment proved much more positive than expected at the beginning of 2011, with a reduction by only 366,000.

We want our shareholders, too, to profit from this success once again—in accordance with our dividend policy of distributing between 40 and 60 percent of the free cash flow generated in a given year. Therefore we have decided to propose to the Supervisory Board a dividend payment in the amount of 1.00 euro per share for the financial year 2011—an increase of 25 percent compared to last year's dividend.

At the same time, we strengthened our competitive position with a product and service campaign and newly signed or early extended sales collaborations.

In the second half of 2011, one in every two new customers at the point of sale chose the "Flat 4 You", "Flat Smart" and "Flat Allnet" smartphone tariffs launched in the first half of 2011, which for 29.90 euros a month include internet use, SMS, on-net or network-specific calls and free minutes. In conjunction with these and other tariffs, we also offer the option to select a high-quality smartphone from our wide range for an additional monthly fee.

On the sales side freenet AG also made some very important strategic decisions during the course of the year. At the beginning of 2011 we began by signing a new agreement with Media-Saturn Deutschland GmbH that will continue our successful cooperation until at least the end of 2013.

Another veritable milestone for the future development of our company is the exclusive cooperation with GRAVIS Computervertriebsgesellschaft mbH, which was signed last October. GRAVIS has sold Apple products for over 20 years and has established itself as the largest Apple retailer with iPhones, iPads and Macs on the German market.

As part of this strategically important cooperation, we initially equipped around 30 of our shops with shop-in-shop systems for the Apple world in the following months, and will follow this up with at least another 70 in the current year. The focus of the collaboration is the sale of mobile devices like the iPhone, iPad or MacBook, including accessories and services, which we will also process via

GRAVIS. In turn, GRAVIS will equip its branches with mobilcom-debitel products and specially trained personnel.

There is also good news regarding our in-house IT migration project—one of the largest ever in the German telecommunications sector. Three existing IT systems had to be merged into one in several steps, thereby merging the original three service providers into a single one—a consequence of acquisitions completed in previous years. The final data migration was carried out last May, and in the second half of 2011 we further stabilised the newly implemented processes, completed several supplementary projects and carried out improvements and programme updates.

Further improvements made by the company involved our customer service. In July last year freenet inaugurated "Campus Erfurt", one of the most innovative and high-performance training centres in the German telecommunications sector. The new training centre combines state-of-the-art infrastructure and presentation spaces on a total of 600 m² and serves as a further step towards ensuring the systematic development of our consultation and sales quality.

In 2010 we achieved the above-mentioned significant performance gains in our own shops with the Retail+ programme. At the beginning of 2011, we added our franchise partners to this programme. In addition, a catalogue of measures based on the results of "mystery shopping" brought a strong improvement in the quality of consultation and service in our shops. And finally, we also tested additional format extensions very successfully—especially our range of accessories and the shop window displays focused on accessories.

With a view to greater financial security and room for manoeuvre, in April 2011 we successfully carried out an extensive refinancing of our company. It completely replaced the financing scheme dating back to private equity times and is based on a 240-million-euro bank loan to be repaid over a three-year period and a 400-million-euro corporate bond with a five-year maturity. In addition, a revolving credit facility in the amount of 100 million euros was agreed with the banks. As a result freenet AG is now solidly funded through 2016.

All these measures have given freenet AG an excellent competitive position and laid the foundations for a successful financial year 2012. The excellent performance of the freenet share in an otherwise weak market in 2011 is the best proof that the financial markets share our assessment.

We are accordingly optimistic about the current financial year and beyond. We are confident that in 2012 we will stabilise both the postpaid customer base and the postpaid ARPU, and we even expect a slight growth in our customer base for 2013. At the same time, in 2012 and 2013 we aim to achieve revenues at the level of the past financial year.

On this basis, we expect a Group EBITDA of 340 million euros and free cash flow of 240 million euros for both financial years. Now that the integration of the IT systems to a single platform has been successfully completed, restructuring-related one-off expenses will only have a very limited impact on results and will no longer be shown separately, so that the recurring Group EBITDA will be identical to the reported Group EBITDA.

What remains unchanged is our above-mentioned dividend policy. We plan to continue distributing 40 to 60 percent of future free cash flow as dividends to our shareholders.

With the above-mentioned guidelines and targets, we are resolutely sticking to our strategy of continuing to help design and shape the still-challenging but also highly fascinating telecommunications market in Germany, as a sustainable company. We do this in the interests of our customers, business partners and of course our shareholders. We – the Executive Board and all freenet AG employees will work hard and with complete dedication to ensure that we succeed at this again in 2012.

Sincerely,

Christoph Vilanek Joachim Preisig Stephan Esch

Büdelsdorf, March 2012

Interviews with the Executive Board

Christoph Vilanek:

"Working in this industry is a great privilege!"

Christoph Vilanek, CEO

Mobile communications launched in Germany about 20 years ago. Was the overwhelming success of mobile phones at all foreseeable back then?
There were at least some visionaries who were firmly convinced that this emerging market promised enormous opportunities despite all the risks. But no one could have possibly or accurately predicted how massively the mobile phone would change our lives in just two decades. Today, four out of five people in the world own a mobile phone, while the share of landlines has declined steadily in the last few years, to only about 17 percent of households worldwide.

Why are mobile phones still so attractive?
You have to strongly differentiate by the type and place of use. In developed countries, the number of mobile phone contracts has more than tripled since the year 2000, to over 1.6 billion at this point. With the concentration of mobile phones per head now at more than 114 percent this has created a mobile, digital lifestyle for us that is increasingly formative in our professional and private life, for example with business and social media networks. We carry our mobile phones with us as indispensable companions to stay connected to family, friends, colleagues and business partners—basically the whole world—via the Internet and virtually around the clock as we go about our business. Among young people, we observe that having a first-rate smartphone or iPad often even takes priority over obtaining a driver's licence or their first car. This is already very remarkable. And even for Chancellor Merkel, short, concise text messages are apparently a much-used means of communication and management tool.

What about in the developing countries and around the world?
Interestingly, usage in the Third World has a completely different focus in some cases—mobile phones are used especially in business, money transfers, health and education. These countries are sometimes already ahead of us technologically. In Indonesia, for example, your mobile phone will automatically sign up for the necessary car insurance along certain routes as you drive, with the GPS information determining the price of the policy. In parts of Africa money transfers via mobile phones are a matter of course, and mobile health hotlines in Kenya and South Africa are showing a positive impact on the health of the population.

In the US, Apple is currently expanding its "iTunes U" education platform—initially for the domestic market and later for other countries—into a learning programme, where people can work on the likes of term papers and homework or communicate with the professor or teacher. And interactive digital e-books for the iPad will give textbooks and individual learning a whole new quality.

What do these developments mean for the German market and for freenet's business?
Today we use mobile phones and smartphones to make phone calls, to text, e-mail and surf the internet. But this is changing at a dramatic pace. Smartphones are not only increasingly enriching our leisure time, by serving as an always-ready camera at your fingertips, a navigation device for favourite restaurants and clubs, for playing our favourite music and DVDs or for displaying photos. They are also developing into real managers of our lives, and even reflections of our identity. Education, health, and "smart homes" are some of the key topics. We want to help shape these issues—and of course profit from them too!

How is freenet contributing to that today, and where are things headed?
In education, for example, for some time freenet has been equipping entire classrooms with the latest IT and internet access at its Büdelsdorf site. Last autumn we also signed an exclusive sales cooperation with GRAVIS, the largest retail chain for Apple products in Germany. This not only brings us new, valuable customers, but also creates a corresponding image transfer based on digital lifestyle. This has already created a good basis for future business.

And what are the prospects in areas like health, life management and smart homes?
On the health front, in future the smartphone will carry our entire physical identity, so to speak. It will know our detailed health status, measure our blood pressure, warn against related risks, give us dietary and behavioural recommendations or send us to the doctor. It can even take our mood into consideration when accepting calls and e-mails, to give just a few examples.

In the other areas of our day-to-day lives, smartphones manage appointments, contacts, or our portfolio, even our car and finances. We can pay parking fees on our mobiles, as well as fuel, shopping and just about everything else. In combination with new smart energy networks—"smart grids"—our mobile phones increasingly create remotely managed "smart homes": a touch of a button on a smartphone can turn on the heating, air conditioning, refrigerator, appliances or lights in the house, open the shutters, or even help the police to arrest burglars, as in the recent case of the Australian on holiday in Bali who watched his bungalow being broken into live on his smartphone via a camera. With these services, we will especially target middle-aged people on good incomes.

And that also answers the question of the industry's future growth potential, given the high mobile phone subscription density of more than 100 percent in developed countries?
Yes. Especially since the new technology LTE has now been introduced to the market as the successor to UMTS. With up to 300 megabits per second this allows for data transfer at much faster speeds than the fastest DSL connections up till now. And all without a single cable being laid to or in the house. This will

bring the mobile internet to a real mass market and open up many rural areas that have been poorly supplied so far, or not connected at all. At the same time mobile access to the internet and social contacts is increasingly becoming a personal competitive edge – especially for our youth as yet another target group.

And freenet is leading the way!
Indeed! As a service provider we are in an excellent position: we offer the full spectrum of products and networks and can therefore give our customers truly independent expert advice. And with an extensive network of our own shops and retail partners and online channels, we are always just around the corner.

How expensive will the new digital future be for the customer?
In essence, no more expensive than it is today. Despite its constant evolution, mobile communications today cost scarcely more than it did when it started 20 years ago, not least because of intense competition within the industry. Our “Flat Smart” tariff, for instance, offers three flat rates for mobile browsing, on-net calls and texting as well as 100 free minutes per month on all German networks—all for 30 euros a month. The additional costs for mobile surfing are also offset by significantly cheaper phone calls and texting. In this respect, the smartphone is also a great democratiser—in the industrialised countries as well as in the Third World.

This enormous dynamism, rapid technological progress and intense competition are what makes our industry so incredibly exciting and working at freenet a great privilege—for me in managing the company, but surely also for our employees!

Joachim Preisig:

"We are resolutely focusing our finances on capital strength, independence and stability."

Congratulations! With an increase of 26.6 percent freenet was the fourth best German stock in an otherwise weak 2011—and the strongest in the TecDax!
I'm happy to pass your congratulations along to our employees. Because each and every one of them—regardless of whether they work in product development, customer service, sales, logistics or finance—contributed their expertise and dedication to the fact that we can now look back on a successful 2011. And that was one of the crucial factors in the excellent performance of our shares—in conjunction with other factors such as continuous debt reduction, successful refinancing and an attractive dividend policy.

And all this despite the mobile business in Germany continuing to be tough, with intense competition, ever cheaper comprehensive flat rates, and discounter offers that push down the average revenue per customer (ARPU).
Indeed! Against this background, our strategy of increasingly relying on valuable customer relationships and separating from less profitable customers has once again paid off. Though revenues decreased slightly to 3.22 billion euros in the financial year 2011, we are now much more profitable than last year, with a Group result of 144 million euros.

Which probably had a positive impact on the consolidated balance sheets…
Absolutely! For instance, with free cash flow at 241 million euros, we resolutely continued our policy of paying down the Group's debt, making principal payments in 2011 that reduced Group debt by almost 85 million euros to around 715 million euros. Net debt decreased by 93.7 million euros and is now at 529.4 million euros, and with a debt factor that fell from 1.7 to 1.5 we are at the lower end of our target range. At the same time, we also made great progress with our equity ratio during the year, improving it by 1.7 percentage points to 46.3 percent.

The refinancing mentioned earlier apparently did not harm the balance sheets, either.
On the contrary! The measure taken in April 2011—with a 240 million euros syndicated bank loan to be repaid over a three year period, a 400 million euros corporate bond maturing after five years and an overdraft of 100 million euros as the three main pillars—has extended our financing to 2016 at a comparable interest expense. At the same time we reduced future interest rate risks, diversified our debt and released ourselves from the very tight private-equity corset of the old financing. So this is an important step toward our goal of orienting freenet towards long-term financial strength, independence and financial stability!

freenet shareholders should also benefit from this in the form of more attractive dividends!
And they do! Our dividend policy provides for paying out 40 to 60 percent of free cash flow, which covers all the operative cash transactions, to shareholders each year without thereby curtailing financial flexibility for future growth. Last summer, we paid 80 cents per share entitled to dividends, for a total payout of 102.4 million euros. That puts us within our stated target range here, too.

Joachim Preisig, CFO

All this good news has been well received by the financial markets, as freenet's stock price performance proves!
Yes, and in the past financial year we have also been carrying out particularly intensive investor relations activities—partly against the backdrop of the aforementioned refinancing with placement of the corporate bond. For instance, we took our road show to places including London, New York, Boston, Paris, Zurich, Vienna, and of course Frankfurt. During the year a total of 19 international financial analysts did the necessary research on our company—and all 19 issued recommendations to buy!

What a wonderful outlook for the shareholders!
And not just because of that. We are also very well positioned against the competition in the operating business with a number of successful initiatives. In recent quarters we added attractive offers to our product and hardware portfolio; invested heavily in improved customer service and employee training; optimised our chain of shops and sales channels; and last but not least agreed an exclusive collaboration with GRAVIS, the largest German retail chain for the popular Apple products. The objective is to jointly market the mobilcom-debitel offer as well as the products from the Apple world in the respective retail stores.

What has been your experience after taking all these measures?
A very positive one! For example, despite difficult market conditions we were able to stabilise the average revenue per customer as well as our customer base. At the beginning of 2011 we forecasted a loss of 500,000 customers as a consequence of our focus on valuable contracts. In the end the attrition was much lower—366,000. In return, we have repeatedly raised our guidance for results and cash flow.

And what are your objectives for the current year?
In 2012 we want to further stabilise our customer base, particularly in the valuable postpaid and no-frills segments, the discount segment. We are also aiming to stabilise ARPU and net revenues at the level of 2011.

Stephan Esch:

“We are now optimally positioned to face future challenges!”

In 2011 the freenet Group successfully completed “Rainbow”, one of the largest IT projects in the German telecommunications landscape. In retrospect, how was it?
Overall, it was an exciting but very challenging time. The project ran for two years, and in 2009 we had already tackled a similarly complex project with “Tristar”—the systemic merging of the debitel and talkline IT landscapes. The aim of Rainbow was to then consolidate Tristar and mobilcom IT. In other words, a project whose magnitude was uncharted territory for our team.

Can you give us a picture of its size?
Something like an engineer who is just designing a new car, simultaneously managing the ongoing production in the production halls and continuously providing maintenance services for millions of cars on the street. But the team across the whole Group did a great job—with external support—and I would like to take this opportunity to thank all freenet employees—not just the IT department—for this extraordinary performance.

And what happens now that the project is finished?
We are now essentially exiting the “project mode” and are looking forward to “normal” day-to-day business again—i. e., dynamic operations in the market. New products and improving our operations are now our main focus once again. And after some organisational changes at the end of 2011 we are now in very good shape to do this.

Isn’t the day-to-day business a bit too quiet after such major projects and the challenges associated with them?
It might seem like that at first glance. But the business model of a service provider is very complex. We don’t just sell contracts and let the network operators take care of the rest.

So what exactly do you do, then?
In detail, a lot of process steps have to interlock smoothly and efficiently so that customers get a contract tailored to their needs and the right mobile phone or smartphone for them, can immediately make calls, and receive a traceable, accurate monthly bill. We not only offer products from the four network operators but also our own. Besides, the processing for our sales channels can sometimes vary widely, and we have to take into account differentiated offerings and campaigns, individual schemes for dealer remuneration and things like reliable merchandise availability. In the end, our customer service team needs all this information in order to be able to offer our customers the best possible support, for example when they have questions or requests for changes to their contracts.

Stephan Esch, CTO

How do you achieve this?
By constantly striking a balance between speed and quality. Our business offers great flexibility on the one hand, but on the other we are also increasingly under pressure to cover the entire spectrum of the market as a full-range supplier. We need to ensure the rapid introduction of new products, as well as a consistently high quality service. We serve over 15 million customers, but this means that any small error in the system directly has a major impact. A lot of our processes are automated and standardised, and at various points in the supply chain there are so-called “quality gates” to ensure that the quality is right.

And what kind of manpower do you have behind this?
Our team is comprised roughly of one-third each project and analysis, development and operations expertise. We develop the core processes in the company ourselves, right down to the billing system—which has been found to be optimal in various benchmark comparisons and makes us faster. We rely on a modern, service-oriented architecture that reduces development costs and allows for easy adjustments. The operative business is therefore a true mass business: around 250 million SMS messages pass through our systems per month. We produce about 71 million (electronic) documents a year and process almost 1 billion data sets every month that form the basis of our customer bills.

Cloud computing is the buzzword of the day. What role does this play for freenet?
We look less at what a technology is called, and more at its content. Cloud computing has existed in its original form for a long time, but in recent years there has been an almost unprecedented hype about it in the IT world. Everyone feels they have to be doing something with “cloud” no matter how absurd or meaningless. Nowadays many things have “cloud” as part of their name to give the impression of technological progress; but basically everything is based on protocols and procedures of which some are many years old. Nevertheless, the great deal of attention that has been created by “cloud computing” is good for the industry. Many services that were developed are only now coming into proper focus.

How is freenet benefiting from this?
We are also taking advantage of this trend in our internal tools. Limited resources require us to devote ourselves to our core competencies and service these as best as possible. Cloud services come in very handy for us in this respect, and we don’t have to operate each system ourselves. This in turn helps the speed of our internal company processes. However, we are of course active not only as a user, but also as a provider of cloud services.

For example?
Our free e-mail product “freenetMail” has for a long time offered features that are now being sold elsewhere as “cloud”, such as online data storage.

What challenges does freenet face in executing all these complex tasks?
All of this wonderful technology is useless if you don't have the right people to orchestrate the whole thing and usefully bring it to life. Unfortunately, it is still extremely difficult to find well-trained staff. And in the last 15 years, this has unfortunately not improved, despite the government's efforts to solve this home-grown problem with IT campaigns, immigration of specialists and other approaches. Obviously, a complex educational system cannot fundamentally change within two years, but you do sometimes wonder why higher education is still so little practice-oriented.

What is freenet doing to counter this?
We are increasingly training skilled workers ourselves—and we have had good experiences with our trainees in recent years. A practically orientated education is worth a lot, and most trainees end up staying with us, which is one of those true win-win situations for both sides.

Beyond this, we are making great efforts to be an attractive employer for these sought-after professionals. A change has taken place here in Germany: salary is no longer the sole decisive factor when an applicant chooses a company. Instead, "soft" factors are now more important. As a large company, freenet is called on to furnish holiday arrangements and other benefits, and we regularly check on how we can meet our responsibilities and market positioning in this area.

So, the prospects for freenet are good?
With all its innovations, our industry stays exciting and offers new challenges every year. But with our employees' expertise and creativity, we are optimally prepared for this—and full of optimism about being able to keep our customers, our business partners and new employees excited about our company.

Supervisory Board report

Dear Ladies and Gentlemen,

In the following, the Supervisory Board reports on its activities during the financial year 2011.

Maarten Henderson
Chairman of the Supervisory Board

Supervision and advice in an ongoing dialogue with the Executive Board

In the financial year 2011 too, the Supervisory Board diligently performed the supervisory and advisory functions incumbent upon it by law and the articles of association. Many substantive issues were discussed and decided upon in the various Supervisory Board meetings. The consultations during the first half of 2011 with the Executive Board focused especially on

- the continuation and completion of the integration of the mobile communications business and the IT system landscapes,
- the refinancing of the company and
- the introduction of a new remuneration system for the Executive Board.

In the second half of the year, the Supervisory Board focused on strategic options for the Group.

The Supervisory Board regularly advised the Executive Board in its decision-making regarding the management of the company and constantly monitored and supervised its management of the company. The Executive Board involved the Supervisory Board in all fundamental decisions on the management of the company at an early stage and regularly and comprehensively reported on the company's business development, corporate planning, strategic development and current situation both verbally and in writing. To this end, the Executive Board provided reports and documents to the Supervisory Board, both on request and proactively, and answered questions at Supervisory Board plenary and committee meetings. In particular, the Supervisory Board discussed in detail with the Executive Board the deviations of the business development from what has been planned and targeted, and reviewed these on the basis of the documentation provided.

Furthermore, the Executive Board continued the company's strategic alignment, with regard to the focus on the mobile communications business and the identification of possible new business segments, in close consultation with the Supervisory Board. All business transactions of material significance to the company were discussed in full by the Supervisory Board based on the Executive Board's reports. Based likewise on the Executive Board's reports and after review and deliberation, the Supervisory Board passed formal resolutions where necessary. Where current business transactions required consideration, meetings were convened at short notice. The Executive Board also kept the Supervisory Board members informed outside of formal meetings of the latest business developments. Furthermore, the Chairman of the Supervisory Board discussed the company's prospects and future strategic alignment in meetings with the Executive Board and was kept informed of current issues and events.

The proper, effective and efficient running of the company by the Executive Board gave no cause for complaint.

In the financial year 2011, the Supervisory Board held ten actual meetings and two conference calls and additionally took decisions by written procedure.

Attendance at the Supervisory Board meetings averaged almost 90 percent during the year under review: at four meetings the Supervisory Board met in full and in four additional meetings eleven out of twelve members attended. The two conference calls were attended by ten, and nine members respectively, and at one meeting that was fixed at short notice and another meeting, nine members attended. Accordingly, no Supervisory Board member attended fewer than half of the meetings. In 2011, the committees met in full except for one conference call of the audit committee.

Pursuant to clause 5.5.3 of the German Corporate Governance Code, in its report to the Annual General Meeting, the Supervisory Board shall provide information about any incidence of conflicts of interests and how they were handled. The Supervisory Board of freenet AG has deliberated on the existence of a conflict of interests in the case of Mr. Rauscher with regard to the approval of the Annual Financial Statements for 2011. In his function as chairman of the company's audit committee among others, Mr. Rauscher's tasks included reviewing questions of accounting that are faced in similar form at Drillisch AG. Mr. Rauscher is a member of the Executive Board of BDO AG Wirtschaftsprüfungsgesellschaft, which audits Drillisch AG's accounts. To rule out any risk, Mr. Rauscher resigned from his seat on the audit committee on 23 February 2012 and did not participate in the audit committee's discussion of the Annual Financial Statements 2011. The Supervisory Board has appointed Mr. Maarten Henderson to chair the audit committee in Mr. Rauscher's place for the time until the Annual General Meeting 2012. No other circumstances that could cause conflicts of interests on the part of Executive and Supervisory Board members, and requiring disclosure to the Supervisory Board and notice to the Annual General Meeting, were disclosed to the Supervisory Board.

Supervisory Board meetings

The regular content of plenary meetings included:

- the current business and financial situation,
- compliance with loan clauses in the financing agreements with the lending banks and
- progress reports on the integration of the IT system landscapes.

In addition, the Supervisory Board members discussed the evolution of the compensation system for the Executive Board during several of its meetings. This was also an item on the agenda of the Annual General Meeting on 30 June 2011, and is described in the compensation report starting on page 43.

In its session on 27 January 2011, the Supervisory Board dealt with anonymous allegations against the Chief Executive Officer, by commissioning the auditing firm KPMG to carry out an independent investigation involving spot checks. At the meeting on 24 March 2011, the investigators' findings were reported to the Supervisory Board and the investigation was closed. The Supervisory Board saw the results of the investigation as proof that the anonymous accusations lacked substance.

The annual and consolidated financial statements as of 31 December 2010 were also a topic of discussion on 24 March 2011. The results of the annual audit were discussed with the external auditors from the auditing firm PricewaterhouseCoopers. Based on its own examination, the Supervisory Board raised no objections to the auditors' findings and in accordance with the audit committee's recommendation it approved the annual and consolidated financial statements. As a result they were formally adopted. Other agenda items of this meeting included updating the five-year plan, the approval of the refinancing by replacement of the existing credit agreements with a new credit agreement and the issuance of a corporate bond. The Executive Board reported to the Supervisory Board on the status of online marketing and the marketing of energy (products), and presented the mission statement. The Supervisory Board also approved the Group's internal integration of major mobile communications companies at the corporate entity level.

At the meeting of 12 May 2011, the Supervisory Board appointed Nicole Engenhardt-Gillé as deputy chairperson, replacing Franziska Oelte who resigned from the Supervisory Board. The Supervisory Board also discussed the agenda for the Annual General Meeting 2011 and the Supervisory Board's resolutions to be proposed to the Annual General Meeting. It also took a decision on the system of Executive Board compensation that was submitted for approval at the Annual General Meeting on 30 June 2011, and extended Executive Board member Joachim Preisig's appointment to 31 December 2014 and the appointment of Christopher Vilanek as CEO to 31 December 2015. In this connection, a decision was also taken about Executive Board employment contracts.

In two conference call sessions on 18 May 2011 and 20 May 2011, the Supervisory Board members discussed the Supervisory Board's nominee proposals for the Annual General Meeting, which had become necessary following the resignation statements of Thorsten Kraemer and Prof. Dr. Helmut Thoma. They proposed Dr. Hartmut Schenk and Niclas Rauscher for election to the Supervisory Board.

The meeting of 30 June 2011, which was held immediately prior to the Annual General Meeting, served to prepare for the Annual General Meeting. During this session, the results of review of the Supervisory Board's efficacy were also presented. That same day, a constituent meeting was held after the Annual General Meeting at which Maarten Henderson was elected Supervisory Board Chairman and positions on the committees were re-filled.

On 19 August 2011, the Supervisory Board discussed possibilities of cooperation with GRAVIS Computervertriebsgesellschaft mbH in the marketing of mobile communications offers and of products from the Apple world. An exclusive cooperation agreement was signed in October 2011.

In the session on 20 September 2011, the Supervisory Board members were informed in detail about sales issues and especially online sales. Another focal point was a discussion of possible cooperations in the mobile communications industry.

This discussion was continued at the meeting of 18 October 2011. At this meeting the Supervisory Board members also discussed updates to the five-year plan.

On 7 December 2011 the Supervisory Board discussed the company's strategy for 2012 and the next few years in great depth, had the Executive Board give a presentation about the possibilities of expanding and extending the current product and service portfolio in the telecommunications, internet and energy sectors into the general area of ”digital lifestyle”.

In the session on the following day, 8 December 2011, the budget for 2012 was approved and a resolution passed regarding the statement of compliance with the German Corporate Governance Code. At the same time, the IT and Networks committee was dissolved following the completion of restructuring in the internet unit and the successfully implemented IT migration.

After the end of the financial year, in a phone session on 24 February 2012 Maarten Henderson was elected to succeed Niclas Rauscher as chairman of the audit committee. Furthermore, a plenary meeting was held on 22 March 2012. Its main focus was the discussion about the annual and consolidated financial statements as of 31 December 2011. Details are set out in the section ”Audit of the annual and consolidated financial statements for the financial year 2011” of this report. Other topics included the efficiency audit of the Supervisory Board, the agenda for the Annual General Meeting 2012 and the proposed Supervisory Board resolutions at the Annual General Meeting.

Work of the Supervisory Board committees

In order to efficiently fulfil its duties, the Supervisory Board has set up one executive committee and five committees. The general tasks and members of each committee are described in greater detail in the corporate management statement on page 39.

Executive committee

The executive committee met twice in 2011.

Apart from current business developments, topics discussed at the first meeting were the development of the company's capital market communications, and intra-Group mergers of subsidiaries as part of the integration of the mobile communications division. At the second meeting, the committee members dealt with a project that led to the successful signing of a cooperation agreement with GRAVIS Computervertriebsgesellschaft mbH.

Personnel committee

Members of the personnel committee met for seven actual meetings in 2011.

The focus of the committee's work in the first half of 2011 was the reform of long-acting components in the compensation system of for Executive Board members. The committee members dealt with the details of this in a total of six meetings. Given the complexity of the issue, the personnel committee received support from Supervisory Board members Achim Weiss and Matthias Schneider as well as an external consulting firm. In another meeting the Committee determined the parameters of the agreed targets for the financial year 2012 with the Executive Board members, and proposed them to the Supervisory Board for approval.

Audit committee

In six actual meetings and one conference call, the audit committee regularly discussed the latest accounting and audit issues with the auditors. The members of the committee dealt intensively with the annual report, the half-year report and interim reports. In the process, the financing situation and the status of risk management, internal audit and compliance issues were regularly discussed, and the managers responsible reported to the committee.

The focus of the audit committee's work was to facilitate and support the annual audit. For this purpose the committee

- sought a statement of independence by the auditors in accordance with section 7.2.1 of the German Corporate Governance Code,
- monitored the independence of the auditor and the execution of the audit,
- determined the main points of the audit and
- prepared the Supervisory Board resolutions on the annual and consolidated accounts, as well as the proposal for profit distribution and the agreements with the auditor.

Beyond this, the committee supported the review of financial statements for the first half of 2011. In the first months of the year the committee members also dealt with the investigation of the anonymous accusations against the Chief Executive Officer, which led to the conclusion that the accusations lacked substance.

Mediation committee

The mediation committee was not convened in 2011.

Nominations committee

The nominations committee held one conference call and one actual meeting in 2011. Prior to the Annual General Meeting 2011, the committee members deliberated on nominations in the wake of Thorsten Kraemer and Prof. Dr. Helmut Thoma's resignations. On the recommendation of the committee, the Supervisory Board proposed Dr. Hartmut Schenk and Niclas Rauscher for election to the Supervisory Board at the Annual General Meeting. Dr. Schenk, who was at that time chairman of the Supervisory Board of Drillisch AG, declared to the Supervisory Board that he would resign from his positions in the Drillisch Group in the event of his election to the Supervisory Board of freenet AG. At the second committee meeting, the committee members discussed a comprehensible and transparent process for selecting suitable candidates. The background to this was the ending of the terms of offices of all shareholder representatives on the Supervisory Board at the Annual General Meeting 2012.

IT/Networks committee

The IT and networks committee met three times in 2011 and monitored the progress of the IT migration project, its risks, and technical details. The committee was disbanded in December 2011 after its task had been fulfilled with the successful completion of the IT migration in the mobile division.

Audit of the annual and consolidated financial statements for the financial year 2011

The annual financial statements for the financial year from 1 January 2011 to 31 December 2011 prepared by the Executive Board in accordance with the rules of the German Commercial Code (HGB) and the freenet AG management report were audited by the auditing firm PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. The audit was commissioned by the chairman of the Supervisory Board in accordance with the resolution passed by the Annual General Meeting on 30 June 2011. The auditors issued an unqualified auditor's report. The freenet AG consolidated financial statements as of 31 December 2011 were prepared in accordance with section 315a HGB based on the IFRS international accounting standards. The audit of these consolidated financial statements and of the Group management report was also unqualified.

The reports on these matters were sent on time to all Supervisory Board members. They were discussed within the audit committee on 27 February 2012 and in the meeting of the Supervisory Board on 22 March 2012. The auditors took part in the discussion of the annual and consolidated financial statements in the meetings of both the audit committee and the Supervisory Board. They reported on the material findings of the audit 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 the concluding results of its audit of the annual and the consolidated financial statements, the management report and the Group management report, as well as the Executive Board's proposal for the appropriation of profit, the Supervisory Board raised no objections and agreed with the results of the auditors' audit. In accordance with the recommendation of the audit committee, the Supervisory Board approved the annual and consolidated financial statements at the meeting on 22 March 2012. The annual financial statements are thus formally adopted.

Furthermore, the Supervisory Board has passed—in accordance with the recommendation of the audit committee of 27 February 2012—a resolution concerning the Executive Board's proposal for the appropriation of profit. In its meeting on 22 March 2012, the Supervisory Board examined the Executive Board's proposal for the appropriation of profit and discussed it with the auditors. Following this, the Supervisory Board agreed with and supports the Executive Board's proposal for the appropriation of cumulative profit.

Changes to the Supervisory Board and the Executive Board

Executive Board

No changes were made to the composition of the Executive Board in the financial year 2011.

Supervisory Board

On 30 April 2011 Franziska Oelte left the Supervisory Board. She was replaced by Nicole Engenhardt-Gillé who was appointed to the Supervisory Board by a Kiel district court order of 9 May 2011. Nicole Engenhardt-Gillé was elected deputy chairperson on 12 May 2011.

Thorsten Kraemer and Prof. Dr. Helmut Thoma left the Supervisory Board with effect from the end of the Annual General Meeting on 30 June 2011. The Annual General Meeting elected Dr. Hartmut Schenk and Niclas Rauscher to the Supervisory Board in their place. The Supervisory Board then elected Maarten Henderson as the new chairman of the Supervisory Board.

The Supervisory Board thanks the departed members of the Supervisory Board for their good cooperation, constructive support of the company, and long-standing service to the Group.

The Supervisory Board would also like to express its thanks and appreciation to the members of the Executive Board and all employees of the Group for their personal commitment and hard work.

Büdelsdorf, 22 March 2012
The Supervisory Board

Maarten Henderson
Chairman of the Supervisory Board

Corporate Governance report

In the following section the Executive Board—also on behalf of the Supervisory Board—reports on Corporate Governance in the freenet Group in accordance with section 3.10 of the German Corporate Governance Code. This section also contains the corporate governance statement in accordance with § 289a HGB (German Commercial Code), and the compensation report.

Corporate Governance at a glance

freenet AG and its management and supervisory bodies are committed to the principles of good and responsible corporate governance; they identify themselves with the objectives of the German Corporate Governance Code as well as the principles of transparent, responsible and value-driven management and control of the company. The Executive Board and Supervisory Board and all executives and employees of the freenet Group are committed to these objectives.

Corporate management statement

In accordance with § 289a HGB, freenet AG's corporate management statement illustrates its current statement of compliance according to § 161 AktG and elucidates the relevant details relating to corporate management practices applied over and above the legal provisions. Furthermore, the functioning of the Executive Board and Supervisory Board is described and there is an illustration of the composition and functioning of the Supervisory Board's committees. freenet AG made the following corporate management statement in accordance with § 289a HGB, which is also part of the company's management report for the financial year 2011.

Statement in accordance with § 161 AktG

Since issuing its last statement of compliance in December 2010, 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 18 June 2009/as amended on 26 May 2010) and intends also to comply in future with the recommendations of the 26 May 2010 version of the German Corporate Governance Code, 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 Board members. With regard to the members of the Supervisory Board, an agreement of an excess is not intended, as there is no visible benefit to the company associated with this. Acting responsibly is a given duty for all Supervisory Board members. Moreover, an excess would have to be set uniformly on account of the

equality principle, although the personal circumstances of the Supervisory Board members vary. An excess would therefore have a varying impact on the Supervisory Board members. Given that their duties are the same, this seems inappropriate. (clause 3.8, paragraph 3 of the Code)

2. No age limit is laid down for Executive Board and Supervisory Board members. 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)
3. The Supervisory Board has not established now or for the future definite targets for its composition in consideration of specific themes described in the Code as "diversity" or "appropriate degree of female representation". The Supervisory Board deems such restrictions on other criteria for proposals about the election of Supervisory Board members inappropriate and wishes to make decisions concerning proposals about its composition individually in each specific situation. (clause 5.4.1, paragraph 2 and paragraph 3 of the Code)
4. A member of the Supervisory Board has taken on advisory functions for a significant competitor of the company. (clause 5.4.2, sentence 4 of the Code)

In connection with clause 5.4.2 sentence 4 of the Code, the Supervisory Board also states that:

Dr. Hartmut Schenk, who was elected to the freenet AG Supervisory Board by the Annual General Meeting on 30 June 2011, chaired the Supervisory Board of Drillisch AG, a key competitor, until 30 June 2011. Prior to the election, Dr. Schenk had irrevocably declared that, in the event of his election to the Supervisory Board of freenet AG, he would abdicate all of his positions on the board of Drillisch AG as well as its affiliated companies no later than the conclusion of the Annual General Meeting of freenet AG on 30 June 2011 and would not accept a position on the board of Drillisch AG or any of its affiliated companies for the duration of his term on the Supervisory Board of freenet AG.

Relevant details relating to corporate management practices

freenet AG has a Group-wide compliance function that is continuously being expanded and developed. The freenet Group's Chief Compliance Officer reports directly to the Executive Board. He supports the Executive Board in arranging and developing the necessary structures for a compliance management function that is fit for purpose. The Chief Compliance Officer also reports regularly to the audit committee of the Supervisory Board. The Supervisory Board is informed by Compliance in the event of risks that endanger the existence of the freenet Group.

The freenet Group is fully committed to compliance with the law. For the freenet Group compliance means that legal requirements are met, self-imposed regulations and internal company policies are observed, and violations are avoided. The company does everything in its power to prevent corruption and violation of competition rules, to resolve wrongdoing and to respond to it decisively.

The compliance organisation is available to all contacts for advice on specific questions. In addition, the compliance organisation has run various training sessions in which it explained relevant statutory provisions and the internal company guidelines it developed, giving all contacts the necessary security on key issues for the freenet Group, and establishing the appropriate transparency.

Functioning of the Executive Board and Supervisory Board

freenet AG's Executive Board and Supervisory Board cooperate closely and in a spirit of mutual trust to control and monitor the company's business.

As the management body of the Group's parent company, the Executive Board is bound by the company's best interests and currently has three members. The work of the Executive Board is regulated by its rules of procedure. The members of the Executive Board together have responsibility for the overall management of the company. They work together as a team and keep each other informed on a continuous basis at regular Board meetings about events and developments in their business areas. Furthermore, the members of the Executive Board participate in regular specialist meetings. The Supervisory Board establishes, within the framework of a company schedule of responsibilities, the areas of responsibilities of the individual members of the Executive Board.

The Supervisory Board is convened at least twice per calendar half-year. It normally passes resolutions in session, in exceptional cases also by way of conventional means of communication. The Supervisory Board regularly advises the Executive Board in its decision-making regarding the management of the company and oversees it in its management of the company. The Executive Board involves the Supervisory Board in all fundamental decisions on the management of the company and reports regularly about the business development, corporate planning, strategic development and the company's situation. The Supervisory Board examines any deviations of business development from what has been planned and targeted, on a case-by-case basis, and discusses them with the Executive Board. Moreover, the Supervisory Board examines business transactions that are significant for the company in detail on the basis of Executive Board reports, discusses them and, if required, passes resolutions. The Supervisory Board members are also kept informed about the current business development outside of meetings by the Executive Board.

Composition and functioning of committees

The Executive Board has not established any committees.

The Supervisory Board has established a total of one executive committee and five committees. These committees prepare topics to be addressed in plenary session and resolutions to be passed by the Supervisory Board. The committees meet in session to do this. In exceptional cases, the meetings can also be carried out by telephone. The committees advise on the agenda items and pass resolutions where necessary. The chairperson of the committee reports to the Supervisory Board plenary meeting on the content of committee meetings.

Executive committee

The executive committee advises on key issues and prepares resolutions of the Supervisory Board. The executive committee can pass resolutions in place of the Supervisory Board where approval is required for measures and transactions to be carried out by the Executive Board in accordance with the Executive Board's rules of procedure, provided that the matter can bear no delay and a resolution of the Supervisory Board cannot be taken in good time.

Members: Maarten Henderson (Chair), Dr. Hartmut Schenk, Nicole Engenhardt-Gillé, Matthias Schneider

Members who left in 2011: Thorsten Kraemer (Chair) (up to 30 June 2011), Franziska Oelte (up to 30 April 2011)

Personnel committee

The personnel committee prepares the Supervisory Board's personnel resolutions. It submits proposals for resolution to the Supervisory Board concerning the compensation of the Executive Board, the compensation system and its regular review. The committee passes resolutions in place of the Supervisory Board about personnel matters regarding members of the Executive Board, subject to the mandatory responsibilities of the Supervisory Board.

Members: Maarten Henderson (Chair), Dr. Hartmut Schenk, Claudia Anderleit, Joachim Halefeld

Members who left in 2011: Thorsten Kraemer (Chair) (up to 30 June 2011), Prof. Dr. Helmut Thoma (up to 30 June 2011)

Audit committee

The audit committee is concerned with the monitoring of the accounting process, the effectiveness of the internal control system, risk management system, and internal audit function as well as the annual audit, in particular the auditors' independence and the auditors' additional services. The committee also deals with questions of compliance.

Members: Maarten Henderson (Chair) (up to 30 June 2011 and from 24 February 2012), Niclas Rauscher (Chair from 30 June 2011 up to 23 February 2012), Dr. Christof Aha, Matthias Schneider, Steffen Vodel

Mediation committee
The mediation committee is established in accordance with section 27 (3) MitbestG with the purpose of achieving the task described in section 31 (3) clause 1 MitbestG.

Members: Maarten Henderson (Chair), Dr. Arnold Bahlmann, Claudia Anderleit, Nicole Engenhardt-Gillé

Members who left in 2011: Thorsten Kraemer (Chair) (up to 30 June 2011), Franziska Oelte (up to 30 April 2011)

Nominations committee
The nominations committee is charged with the task of proposing suitable candidates for upcoming elections to the Supervisory Board for recommendation to the Annual General Meeting.

Members: Maarten Henderson (Chair), Dr. Arnold Bahlmann, Achim Weiss

Member who left in 2011: Thorsten Kraemer (Chair) (up to 30 June 2011)

IT/networks committee
The IT and networks committee was set up to monitor and support IT integration projects that are of particular importance for the Group. With the successful completion of the IT integration projects, the committee has fulfilled its task and was disbanded in December 2011.

Members: Achim Weiss (Chair), Dr. Christof Aha, Nicole Engenhardt-Gillé, Matthias Schneider

Members who left in 2011: Thorsten Kraemer (Chair) (up to 30 June 2011), Franziska Oelte (up to 30 April 2011)

Compensation report

Executive Board compensation

Basic principles of compensation
The compensation system for members of the company's Executive Board consists of three elements, namely (A) an annual target salary, (B.) supplementary payments, and (C) a pension plan.

A. Annual target salary
The salary of Executive Board members consists of an annual target salary structured around a fixed salary component (fixed salary) and a variable component. The annual target salary is stipulated in each Executive Board contract. The achievement of the annual target salary with regard to the variable salary components depends on the degree in percentage points to which the respective targets were achieved. If the target is exceeded or is not achieved this results in a correspondingly higher or lower actual annual salary. The details are described in the following.

1. Fixed salary component (fixed salary)
   The salary consists on the one hand of a fixed salary, paid in monthly instalments.

2. Variable salary component
   The variable salary component consists of two elements, namely one that is dependent on achieving certain agreed goals in a year, and one that is dependent on the achievement of objectives spanning several years.
   a) Compensation based on annual target agreement
      The annual target agreement is agreed at the beginning of each financial year on the basis of a proposal submitted by the Supervisory Board, taking the respective business plan into account. It currently includes a short-term target parameter related to recurring Group EBITDA, and one related to the postpaid customer base that is geared towards the company's long-term development—each with equal weighting of 40 percent. The remaining 20 percent is to be determined for special annual targets by the Supervisory Board. The target parameters take their cue from significant strategic and financial parameters of the business plan; usually, if these are met, this leads to a 100 percent target attainment of the respective parameters. In each case, a 100 percent goal, and a maximum and minimum goal are set, each of which leads to an achievement of 100 percent, 150 percent or 0 percent. Goal attainment between the minimum and the 100 percent target, and between 100 percent and the maximum target is to be linearly interpolated between the two. The target achievement is set separately for each parameter. An over-achievement beyond the maximum goal fulfilment is not possible (cap). 100 percent goal achievement of the annual agreed target goal corresponds to an annual variable component of no more than the fixed salary.
   b) Compensation based on agreed targets spanning several years
      In addition to the annual target setting, a five-year agreement of goals is signed. Based on the business plan, it declares Group EBITDA as the target parameter for the next five financial years beginning with the financial year in which the agreement is signed. In the case of acquisitions that are financed by issuing new shares, the targets will be adjusted proportionally to the effective net dilutive effect on the issue date of the new shares. A base amount is determined in the service contract for this compensation component. As described below, in accordance with the achievement of objectives for each financial year, this is deposited in a virtual account for each Executive Board member as a positive or negative amount and paid in annual increments, depending on its value development over time, in the event of a credit balance. If the respective Group EBITDA target is achieved for a financial year, 100 percent of the base amount in is deposited in the virtual account. If the Group EBITDA for 120-percent goal achievement is achieved, 200 percent of the base amount is deposited in the virtual account. If the 120 percent

target value is exceeded this also leads to no more than 200 percent of the base amount being deposited in the virtual account. In the case of a goal achievement of between 90 percent of the target value and 100 percent of the prescribed Group EBITDA a linear lower percentage of the base amount is deposited in the virtual account. If only 90 percent of the target is achieved, nothing is credited to the virtual account for that financial year. In the event that Group EBITDA is lower than 90 percent of the target value, a negative amount of up to a maximum of 200 percent of the base amount (if 80 percent or less of the target value is achieved) is deposited in the virtual account. The respective sum in the virtual account balance is converted into virtual shares based on the average Xetra closing price of the 20 trading days following the date the consolidated financial statements for the relevant financial year are approved. Beginning with the end of the second financial year following the introduction of this compensation component, 25 percent of the balance in the account is paid out annually provided the account shows a credit balance, in each case after the entry of a (positive or negative) sum for the financial year in the virtual account. For this purpose, the respective account balance of virtual shares, based on the average Xetra closing price of the 20 trading days following the date the consolidated financial statements for the relevant financial year are approved, will be converted into the cash equivalent. In doing so the share price is only taken into account up to a certain share price (cap). When converting into virtual shares, dividend payments and circumstances under which dilution protection provisions apply due to marketable stock value-dependent financial instruments, are included. If the virtual account shows a negative balance on a payment date, the Executive Board member shall only receive a payment (again) once the negative amount has been fully offset again as a result of achieving the corresponding target parameters for the following year(s).

c) Other provisions for compensation
In the event of an Executive Board member withdrawing from the Board during the course of the year their goal attainment is considered on a pro rata basis. The company will not issue new stock appreciation rights or stock options to the Executive Board member.

B. FRINGE BENEFITS

The company shall take out appropriate accident insurance in favour of the Executive Board members, as well as pecuniary damage liability insurance (D&O) comparable to that for Executive Board members of comparable companies. For the D&O insurance, a deductible is agreed that conforms to the minimum legal requirements of section 93 (2) clause 3 AktG (currently at least 10 percent of the damage up to at least at least one and a half times the fixed annual salary of the Executive Board member). The company pays the premiums and any associated taxes. The company also provides Executive Board members with a company car.

The taxes arising from private use are borne by the respective Executive Board member. If at the commencement of their activities Executive Board members have and maintain a different place of residence from their office, travel expenses between their place of work and home will be refunded to a contractually agreed extent. Executive Board service contracts provide for a post-contractual competition clause against a monthly compensation at a level that is considered usual in the industry.

C. Pension provisions

The members of the Executive Board receive an indirect pension commitment from the company, provided existing pension plans were not carried over from previous employment relationships.

D. Focus on sustainable business development

The Supervisory Board sees the compensation system as providing adequate incentive, free of conflicts of objectives, and workable. Giving equal weight to annual results and customer acquisition in the annual target agreement sets an essential cornerstone for a focus on sustainable business development. The compensation component with agreed goals spanning several years underscores this orientation. Due to the virtual accounts (in which positive or negative amounts are deposited depending on goal attainment) and their value over time being dependent on the share price, Executive Board compensation is to a considerable extent dependent on their capacity to create long-term value. At the same time, poor performance has a direct impact on their claim to compensation. Ultimately, the Executive Board members are directly participating in the risk of stock price performance.

The compensation of the company's Executive Board members is structured as follows:

Compensation for the financial year 2011

Figures in €'000s	Fixed compensation	Variable cash compenation	Sub-total cash compensation	Variable compensation with long-term incentive effect[1]	Total compensation
Christoph Vilanek	621	574	1,195	361	1,556
Joachim Preisig	444	574	1,018	331	1,349
Stephan Esch	445	222	667	533	1,200
	1,510	**1,370**	**2,880**	**1,225**	**4,105**

1 Variable compensation from the stock appreciation programme and LTIP programme, including non-cash compensation measured in accordance with IFRS 2 in the financial year

Compensation for the financial year 2010

Figures in €'000s	Fixed compensation	Variable cash compenation	Sub-total cash compensation	Variable compensation with long-term incentive effect[2]	Total compensation
Christoph Vilanek	615	400	1,015	28	1,043
Joachim Preisig	425	400	825	–205	620
Stephan Esch	365	230	595	–362	233
Axel Krieger	575	299	874	–663	211
	1,980	**1,329**	**3,309**	**–1,202**	**2,107**

2 Variable compensation from the stock appreciation programme, including non-cash compensation measured in accordance with IFRS 2 in the financial year

In the financial year 2011 the members of the company's Executive Board were each granted new variable compensation components with long-term incentives through the "LTIP" programme. We refer to item 27.3 of the Notes to the Consolidated Financial Statements. At the time they were granted, at 1 June 2011, the fair value in accordance with IFRS 2 totalled 3,586 thousand euros, of which 1,823 thousand euros was for Mr. Vilanek, 1,216 thousand euros for Mr. Preisig and 547 thousand euros for Mr. Esch. Also with effect from 1 June 2011, Mr. Vilanek and Mr. Preisig agreed, with respect to the existing stock appreciation programme, to partially forfeit stock appreciation rights, diverging from the previous rules for the term of the options. For Mr. Vilanek this led to the forfeiture of 300,000 of 400,000 stock appreciation rights, with a fair value of 732 thousand euros. Mr. Preisig forfeited 240,000 of 400,000 stock appreciation rights, with a fair value of 244 thousand euros. As at 31 December 2010, Mr. Esch possesses 300,000 stock appreciation rights, which were extended on 1 January 2011 until 31 December 2014 (previously: 2 February 2012). This extension of the term of stock appreciation rights for Mr. Esch led to an increase in the fair value by 389 thousand euros. We refer to the new regulations relating to directors' stock appreciation rights in item 27.1 of the Notes to the Consolidated Financial Statements, "Stock appreciation rights of freenet AG".

As a result of the new regulations concerning the life of the stock appreciation rights of Mr. Vilanek and Mr. Preisig, there was a reduction in the provision for stock appreciation rights in 2011, and this also resulted in negative variable compensation arising from the stock appreciation rights programme. In the previous year, the variable compensation from the stock appreciation rights programme for Mr. Preisig, Mr. Esch and Mr. Krieger were reported as negative figures, due to the reduction in the provision for stock appreciation rights, resulting mainly from share price considerations at that time.

The compensation of the Executive Board with a long-term incentive effect, based on the stock appreciation programme as well as the LTIP programme, was not cash-effective in the financial year 2011. Without these components of compensation which were not cash-effective, compensation of the Executive Board in 2011 amounted to 2,880 thousand euros, as shown in the above table. In addition to the amounts shown in the above table, payments of 400 thousand euros were made in the financial year 2011 to Mr. Krieger who retired as of 31 December 2010 when his Executive Board employment agreement expired; these payments were attributable to post-contractual non-competition agreements. Overall, Executive Board compensation in accordance with clause 314 paragraph 1 no. 6a HGB amounted to 6,279 thousand euros in 2011 (cash compensation, payments from the LTIP programme at fair value upon granting, changes in the fair values of the stock appreciation rights resulting from changes to the exercise conditions as well as payments to former members of the Executive Board as a result of post-contractual non-competition agreements). In 2010, the Executive Board compensation in accordance with clause 314 paragraph 1 no. 6a HGB amounted to 3,509 thousand euros.

As of 31 December 2011, the provisions for stock appreciation rights were as follows: 332 thousand euros for Mr. Vilanek (previous year: 452 thousand euros), 191 thousand euros for Mr. Preisig (previous year: 181 thousand euros) and 419 thousand euros for Mr. Esch (previous year: 30 thousand euros). Provisions for stock appreciation rights totaling 273 thousand euros were shown as of 31 December 2011, for Mr. Spoerr, Mr. Krieger and Mr. Berger as former members of the Executive Board (previous year: 204 thousand euros).

In November 2004, an indirect pension commitment was granted to Mr. Esch. In the financial year 2009, an indirect pension commitment was granted to Mr. Vilanek on the occasion of his appointment as Chief Executive Officer as of 1 May 2009. As of 31 December 2011, the Defined Benefit Obligations (DBOs) were as follows: 453 thousand euros for Mr. Vilanek (previous year: 265 thousand euros) and 832 thousand euros for Mr. Esch (previous year: 518 thousand euros). As of 1 September 2008, freenet AG took over the pension commitment granted to Mr. Preisig by debitel AG. As of 31 December 2011, the DBO for Mr. Preisig amounted to 468 thousand euros (previous year: 347 thousand euros). The DBOs for Mr. Spoerr, Mr. Krieger and Mr. Berger as former members of the Executive Board totalled 4,014 thousand euros as of 31 December 2011 (previous year: 3,512 thousand euros).

The personnel expenses also include pension obligations to members of the Executive Board for ongoing and past service costs totalling 454 thousand euros (previous year: 373 thousand euros). For 2011, 138 thousand euros went to Mr. Vilanek, 84 thousand euros to Mr. Preisig and 232 thousand euros to Mr. Esch, and for 2010, 121 thousand euros to Mr. Vilanek, 78 thousand euros to Mr. Preisig, 67 thousand euros to Mr. Esch and 107 thousand euros to Mr. Krieger.

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

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

Compensation provisions in the event of premature termination of employment contracts and pension plans are as follows:

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

- From their 60th birthday, the abovementioned members of the Executive Board shall receive a pension amounting to 2.5 percent of final annual fixed salary for each year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, to a maximum of one-third of final annual fixed salary (guaranteed pension).
- Survivor annuity for the spouse or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, remained in place.

For the Chief Executive Officer Christoph Vilanek, the following rules apply from 1 June 2011:

- From his 60th birthday, Mr. Vilanek shall receive a pension amounting to 2.5 percent of final annual fixed salary for each contractual year commenced on the Executive Board of the company, to a maximum of one-third of final annual fixed salary (target pension).
- Survivor annuity for the spouse or life companion, and orphan's pension for any children until the end of their schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension or the value of pension entitlements Mr. Vilanek would obtain if he were to die.
- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the position is revoked, Mr. Vilanek can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to § 626 BGB, or that the revocation of his appointment to the position does not form part of the termination of the service contract on the part of the company, for which there is good cause under § 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

For the member of the Executive Board Stephan Esch, the following rules apply from 1 January 2011:

- From his 60th birthday, Mr. Esch shall receive a pension amounting to 2.5 percent of final annual fixed salary for each contractual year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, to a maximum of one-third of final annual fixed salary (guaranteed pension).
- Survivor annuity for the spouse or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- In the event of Mr. Esch terminating his service contract for any 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.
- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the position is revoked, Mr. Esch can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to § 626 BGB, or that the revocation of his appointment to the position does not form part of the termination of the service contract on the part of the company, for which there is good cause under § 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

For the member of the Executive Board Joachim Preisig, the following rules apply from 1 June 2011:

- Upon retirement on reaching the age of 60, Mr. Joachim Preisig shall receive a pension in the amount of 9,333.00 euros (guaranteed monthly 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 guaranteed pension for Joachim Preisig. Widow's and orphan's 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 orphan's pension is paid.

- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the position is revoked, Mr. Preisig can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to § 626 BGB, or that the revocation of his appointment to the position does not form part of the termination of the service contract on the part of the company, for which there is good cause under § 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

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

Please also refer to item 36 in the notes for further information, in particular about compensation amounts, stock appreciation rights held, share ownership and other details.

Supervisory Board compensation

Basic principles of compensation

The Supervisory Board compensation is governed by the articles of association, and consists of three components:

- Basic compensation,
- Attendance fees and
- Performance-linked compensation.

The Supervisory Board members receive fixed basic compensation of 30,000 euros for each full financial year of membership on the Supervisory Board. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times 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) MitbestG—receive in addition an attendance fee of 1,000 euros for each meeting of the committee. The committee chairperson receives double this amount.

As part of a voluntary self-restraint agreement, the Supervisory Board waived attendance fees for Supervisory Board and committee meetings held as conference calls, as well as for phone participation in actual meetings with effect from the third quarter of 2010.

The Supervisory Board members also receive, after the end of each financial year, variable performance-based 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 which is distributed to the shareholders for the previous financial year. The extent of the 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 2011, the members of the Supervisory Board of the company received fixed compensation of 404.1 thousand euros and attendance fees of 183.0 thousand euros. Performance-based compensation of 403.6 thousand euros was also recognised as an expense. Whether this performance-based compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2011. The total compensation paid for Supervisory Board activities was thus 990.7 thousand euros.

Furthermore, Supervisory Board members are reimbursed for expenses incurred as a result of exercising their office as well as for turnover taxes.

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

Compensation for the financial year 2011

Figures in €'000s	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Maarten Henderson[1]	45.1	25.0	45.0	115.1
Nicole Engenhardt-Gille[3]	28.9	8.0	28.9	65.8
Dr. Christof Aha	30.0	11.0	30.0	71.0
Claudia Anderleit[3]	30.0	16.0	30.0	76.0
Dr. Arnold Bahlmann	30.0	7.0	30.0	67.0
Joachim Halefeld[3]	30.0	16.0	30.0	76.0
Hans-Jürgen Klempau[3]	30.0	9.0	30.0	69.0
Niclas Rauscher	15.1	7.0	15.1	37.2
Dr. Hartmut Schenk	15.1	6.0	15.1	36.2
Matthias Schneider[3]	30.0	19.0	30.0	79.0
Steffen Vodel[3]	30.0	15.0	30.0	75.0
Achim Weiss	30.0	9.0	30.0	69.0
	344.2	**148.0**	**344.1**	**836.3**
Former members				
Thorsten Kraemer[2]	30.0	22.0	29.8	81.8
Franziska Oelte[3]	15.0	4.0	14.8	33.8
Prof. Dr. Helmut Thoma	15.0	9.0	14.9	38.9
	60.0	**35.0**	**59.5**	**154.5**
	404.1	**183.0**	**403.6**	**990.7**

1 Chairman of the Supervisory Board since 30 June 2011.
2 Chairman of the Supervisory Board until 30 June 2011.
3 Employee representative in accordance with section 7 (1) clause 1 no. 1 MitbestG of 4 May 1976.

Compensation for the financial year 2010

Figures in €'000s	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Thorsten Kraemer	60.0	30.0	60.0	150.0
Franziska Oelte[1]	45.0	12.0	45.0	102.0
Dr. Christof Aha	30.0	11.0	30.0	71.0
Claudia Anderleit[1]	30.0	12.0	30.0	72.0
Dr. Arnold Bahlmann	30.0	5.0	30.0	65.0
Joachim Halefeld[1]	30.0	11.0	30.0	71.0
Maarten Henderson	30.0	21.0	30.0	81.0
Hans-Jürgen Klempau[1]	30.0	6.0	30.0	66.0
Matthias Schneider[1]	30.0	18.0	30.0	78.0
Prof. Dr. Helmut Thoma	30.0	12.0	30.0	72.0
Steffen Vodel[1]	30.0	11.0	30.0	71.0
Achim Weiss	30.0	9.0	30.0	69.0
	405.0	**158.0**	**405.0**	**968.0**

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

freenet AG on the capital market

Performance of the freenet share over the past twelve months

(indexed; 100 = XETRA closing price on 30 December 2010)

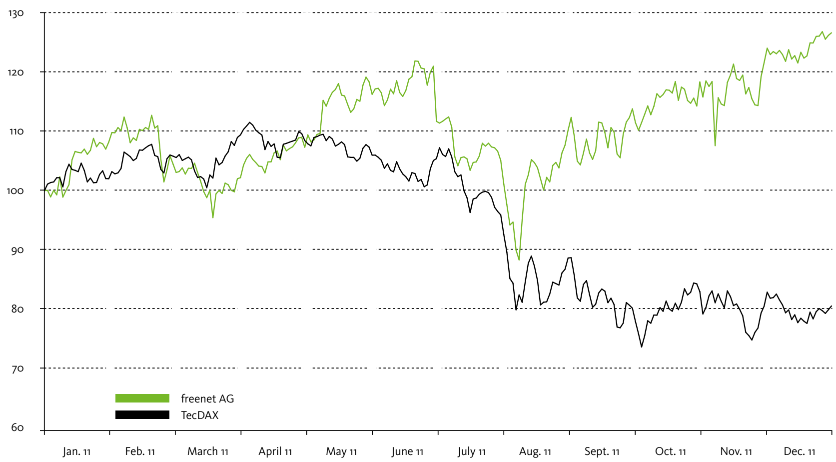


Figure 1: Performance of the freenet share over the past twelve months

International financial markets

In the past financial year, the international financial markets were mainly dominated by political developments in the European sovereign debt crisis. Against this background, in spite of the strong real economic growth in Germany, the German stock market experienced one of the worst years in its history.

The DAX lost 14.7 percent over the year and ended 2011 with a closing price of 5,898 points. The MDAX also lost 12.1 percent. The TecDAX, which lists the 30 largest technology stocks in Germany, suffered a loss of 19.5 percent.

freenet share

freenet shares began trading in 2011 with an opening price of 7.90 euros and increased to as much as 9.63 euros during the first half of the year. Against the backdrop of a market downturn, at the beginning of the second half, the stock price dropped down again to as low as 6.97 euros on 9 August 2011. The after-hours announcement of an increase in guidance for the financial year 2011 on 9 August 2011 set off an upward trend, causing the freenet share to rise to 10.02 euros at 27 December 2011. With a closing price of 10.00 euros at the year-end, the freenet share saw an overall increase of 27 percent over the year 2011, making it the strongest title in the TecDAX that year.

On the Hamburg HASPAX index, which combines the top 25 listed companies in the metropolitan region of Hamburg, freenet AG was the top performer in the financial year 2011, with a (dividend-adjusted) performance of 35.7 percent, and was therefore honoured with the HASPAX Award.

In all, 162.4 million freenet shares were traded via the XETRA system over the course of the year, compared to 203.3 million shares in the previous year. The average daily trading volume during the past financial year was 632.1 thousand shares, versus 794.1 thousand shares in 2010.

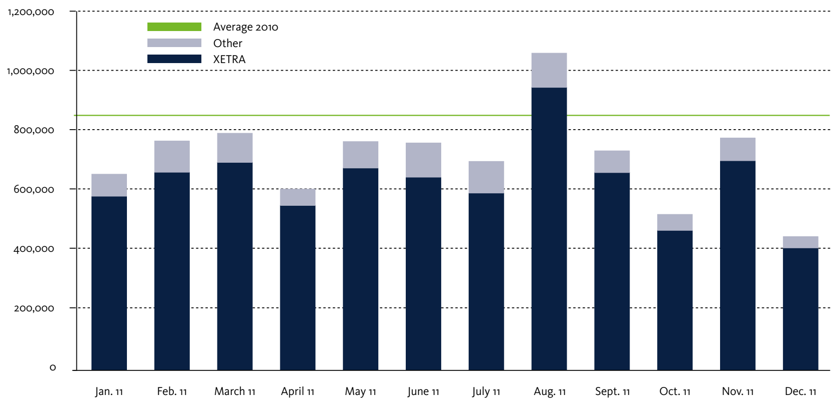


Figure 2: Average daily trading volume of the freenet share in 2011

Shareholder structure

freenet AG's share capital totals 128,061,016 euros and is divided into 128,061,016 registered shares. Each share represents 1.00 euro of the share capital.

Current shareholder structure

According to the notifications of voting rights received pursuant to section 21 WpHG, freenet AG's shareholder structure changed as follows during the financial year 2011:

In January 2011, DWS Investment GmbH announced that its voting rights in freenet AG had fallen below the 3-percent threshold.

In May 2011 Drillisch AG notified us that its share of voting rights amounted to 15.20 percent (exceeding the 15-percent threshold) of which 4.63 percent were attributable to MSP Holding GmbH. In June 2011 we received another voting rights notification from Drillisch AG that it now owned 21.86 percent altogether (exceeding the 20-percent threshold), of which 11.29 percent were attributable to MSP Holding GmbH. In addition, Drillisch AG reported for its subsidiary MSP

Holding GmbH that its share of voting rights in freenet AG exceeded the thresholds of 5 percent and 10 percent, and at that time came to 11.29 percent.

With reference to this notification of voting rights, Drillisch AG also notified us of the objectives pursued with this acquisition and the origin of the funds used for the acquisition in a so-called investor's statement pursuant to section 27a WpHG. The statements in question may be viewed online at *www.freenet-group.de/investor/share/voting-rights-notifications*.

In the months that followed, Janus Capital Management LLC and Classic Fund Management Aktiengesellschaft announced that their share of voting rights in freenet AG had fallen below the 3-percent threshold.

In August 2011 IPConcept Fund Management S. A. notified us that its share of voting rights had exceeded the threshold of 3 percent and at that time was 3.02 percent. At the end of October 2011 the company reported that its share of voting rights had fallen below the 3-percent threshold. A few days later, it announced that its share of voting rights stood at 3.0316 percent (exceeding the 3-percent threshold).

In December, Norges Bank notified us that its share of voting rights came to 3.01 percent (exceeding the 3-percent threshold).

That same month, United Internet AG and Mr. Ralph Dommermuth notified us that their share of voting rights had fallen below the 3-percent threshold.

As a result of the notifications of voting rights received in the year under review, the shareholder structure as of 31 December 2011 is as follows:

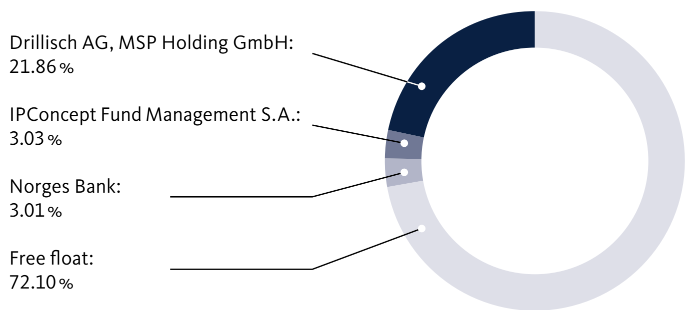


Figure 3: Shareholder structure of freenet AG as of 31 December 2011 (Source: freenet AG, 31 December 2011)

Geographical distribution

With 51 percent of the shares issued, the high German ownership reflects the German focus of the company. The largest foreign ownership is to be found in the United Kingdom and Ireland as well as in the Rest of Europe.

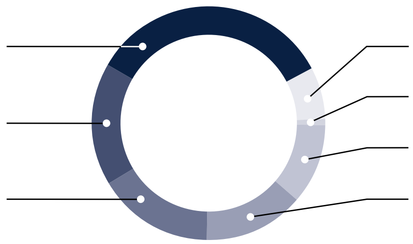


Figure 4: Shareholder structure of freenet AG by country in February 2012 (Source: German retail investors according to the share register, regional distribution according to Shareholder Identification; As of February 2012)

Earnings per share

Undiluted/diluted earnings per share (EPS) in the year under review stood at 1.12 euro compared to 0.88 euro in 2010.

Undiluted/diluted EPS from continued operations in 2011 stood at 1.12 euro (0.93 euro in 2010) and the undiluted/diluted EPS from discontinued operations was 0.00 euro for the past financial year (–0.05 euro in 2010).

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

	2011	2010
Undiluted earnings per share in €	**1.12**	**0.88**
Diluted earnings per share in €	**1.12**	**0.88**
Earnings per share from continued operations in € (undiluted)	1.12	0.93
Earnings per share from continued operations in € (diluted)	1.12	0.93
Earnings per share from discontinued operations in € (undiluted)	0.00	–0.05
Earnings per share from discontinued operations in € (diluted)	0.00	–0.05
Weighted average of shares outstanding in thousand (undiluted)	128,061	128,061
Weighted average of shares outstanding in thousand (diluted)	128,061	128,061

Dividend

On 30 June 2011, the freenet AG Annual General Meeting approved the payment of a dividend for the financial year 2010 in the amount of 0.80 euro per dividend-entitled share, representing a payout ratio of 48 percent of free cash flow. The dividend was paid out on 1 July 2011.

The Executive Board and the Supervisory Board have decided to propose to the Annual General Meeting on 9 May 2012 the payment of a dividend for the financial year 2011 in the amount of 1.00 euro per share from retained earnings. This represents a payout ratio of 53 percent of free cash flow.

Analyst recommendations

The recommendations of financial analysts are an important decision-making basis for both institutional and private investors. During the financial year 2011, some 19 financial analysts reported regularly on the shares of freenet AG and according to our surveys at the end of 2011 all 19 made recommendations to buy. A list of banks and securities firms that regularly issued commentaries, reviews and recommendations about the freenet share is available on the investor relations website at *www.freenet-group.de/investor/share/analysts*.

Investor relations

freenet AG cultivates an ongoing dialogue with institutional and private investors as well as analysts.

In numerous national and international road shows and investor conferences, the management and investor relations team personally presented the freenet Group's current business development, strategic direction and objectives to the capital market in numerous individual and group meetings.

Information on the freenet share

Master data

Name:	freenet AG NA
Type of share:	No-par-value share
ISIN:	DE000A0Z2ZZ5
WKN:	A0Z2ZZ
Sector:	DAXsector Telecommunication, DAXsubsector Wireless Communication
Transparency standard:	Prime standard
Market segment:	Regulated market

Information on the security

Class:	Registered shares without par value
Index:	TecDAX, Midcap Market Index, CDAX, HDAX, Prime All Share, Technology All Share
Share capital:	128,061,016.00 euros
Quantity of shares:	128,061,016
Stock exchanges:	Regulated market/Prime standard: Frankfurt Over-the-counter market: Berlin, Hamburg, Stuttgart, Düsseldorf, Hannover, Munich

XETRA trading parameters

Symbol:	FNTN
Reuters instrument code:	FNTGn.DE
Trading model type:	Continuous Trading
Designated sponsor:	Close Brothers Seydler Bank AG, equinet Bank AG

Further information on the freenet share is available at *www.freenet-group.de/investor*.

Corporate bond

In April 2011 freenet AG completely replaced its existing financing, which dated back to private equity times. In this connection, the company successfully placed a five-year corporate bond with a volume of 400 million euros on the capital market; it was named the best German placement of Corporate Bonds in 2011 by "Bond Magazine".

Performance of the freenet bond 2011 (XETRA closing prices)

Figure 5: Performance of the freenet bond 2011

For more information about freenet AG's corporate bond please refer to the following table:

Listing:	Regulated market of Luxembourg stock exchange
Issue volume:	400 million euros
Denomination:	1,000 euros
ISIN:	DE000A1KQXZ0
WKN:	A1KQXZ
Term:	20 April 2011 to 20 April 2016
Coupon:	7.125 percent p. a.
Interest payments:	annually, starting on 20 April 2012
Repayment price:	100.0 percent
Security:	non-subordinated corporate bond

Detailed financial information available online

Shareholders and interested members of the public can find detailed information about the freenet share and corporate bond on our website at *www.freenet-group.de/investor*.

The website was redesigned and its content expanded at the beginning of last year. In addition to company announcements, financial reports and capital market presentations, the information on offer also includes documents regarding the Annual General Meeting and a financial calendar. The website also features a variety of services and dialogue offers, including a contact and order form and an interactive share analysis tool.

Interested users can also learn more about the company and about freenet AG's press relations at *www.freenet-group.de/en*.

“…the business model of a service provider is very complex. We don’t just sell contracts…”

Stephan Esch, CTO

Group management report

Important note:
This Group management report (management report) should be read in context with the audited consolidated financial statements and notes.

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 report" section and in other parts of this report.

Business and macroeconomic conditions

Business operations

The freenet Group is the biggest network-independent telecommunications provider in Germany. The Group offers its customers a comprehensive portfolio of services and products, primarily in the field of mobile voice and data services.

As a mobile service provider, the freenet Group has no network infrastructure of its own but markets, under its own name and for its own account, mobile communications services for the mobile network operators Telekom, Vodafone, E-Plus and O_2 in Germany. The network operator contracts signed with the above mentioned companies form the basis of the operative business: Under these contracts, the company buys mobile communications services from the network operators and markets them to its end customers. In addition to its own network-independent postpaid, prepaid and no-frills services and rates, the company also offers the network operators' rates.

In addition, the freenet Group particularly sells mobile communications devices and additional services in the field of mobile data communications.

freenet's primary sales channels are its around 550 branded shops, about 6,000 additional sales points at retailers, electronics dealers and superstores, as well as online and direct-to-customer sales; notable sales channels are the Group's collaboration with Media-Saturn Deutschland GmbH, and the exclusive cooperation with GRAVIS Computervertriebsgesellschaft mbH signed in October 2011. This makes the Group the largest network-independent sales and distribution platform for mobile communications products in Germany. Its marketing focus is essentially on the B2C business with private households in Germany.

The company also operates an online portal and increasingly offers content for mobile internet as well. The freenet Group's Portal business is rounded off by the online marketing agency freeXmedia.

Group structure

In the past financial year, the Group completed the integration of its IT systems to a single platform in order to be able to improve its cost efficiency as well as transparency. Against the same backdrop, an integration of the key mobile communications companies was also carried out at the corporate entity level. mobilcom-debitel AG and debitel Konzernfinanzierungs GmbH were merged into mobilcom-debitel GmbH. klarmobil GmbH, formerly a subsidiary of freenet AG, and callmobile GmbH & Co. KG, now operating as callmobile GmbH, were consolidated under the mobilcom-debitel GmbH umbrella.

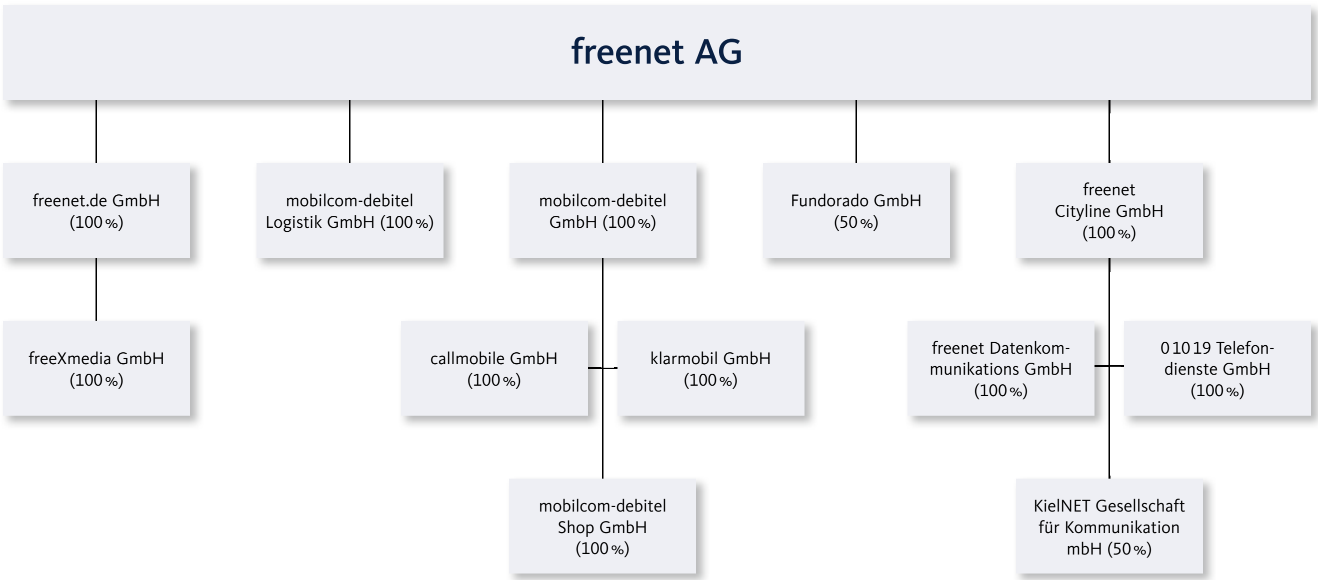


Figure 6: Major companies in the freenet Group as of 31 December 2011

Strategic direction, Group objectives and management

Measured by mobile communications revenues, freenet AG is number 3 in the German mobile communications market. We also aim to stabilise our Group revenue based on the stabilisation, initiated in 2011, of our customer base in the valuable postpaid and no-frills segments.

Against this backdrop, the company will continue on its successful path, and will focus on valuable customers in its new customer acquisition, as well as target its customer loyalty programmes to stabilise the customer base and maximise customer quality. The sale of data products and high-end handsets will be pushed forward in this context. freenet AG can hereby rely on a nationwide distribution presence throughout Germany, as well as on its online platforms and its service centre, which are continually being optimised.

In addition, the company will evaluate additional areas of action for achieving its objectives. This includes for example tapping into potential new areas of growth as well as examining options for inorganic growth, close to the core business and within defined narrow specifications in terms of profitability.

In implementing this strategic approach, freenet AG equally takes into account the different needs and expectations of all stakeholders. Our shareholders expect a reasonable and reliable return on their invested capital. Creditors expect us to be able to repay our debts and to provide an adequate return on their invested capital. Our customers want attractive products and good counsel. Our employees expect long-term, secure jobs with the opportunity of being able to play a part and be promoted.

Financial strategy

This strategic direction is supported by freenet AG's adopted financial strategy. Through this, the company wants to ensure its ability to invest in its core business and other strategic growth opportunities.

The capital structure plays a major role in freenet AG's financial strategy and is measured by the following three parameters:

- The debt factor, i.e. the ratio of economic net debt to recurring EBITDA. In this regard we are aiming for a target corridor of 1.5 to 2.5.
- The interest cover, i.e. the relationship between recurring EBITDA and net interest income. It allows the company to ensure that the necessary interest payments from the debt can be covered from the operative business. The company intends to not fall below a factor of 5.0.

- The equity ratio, i.e. the ratio of shareholders' equity to total assets. The company strives to increase its equity ratio to over 50 percent long-term.

	Target	Actual 2010	Actual 2011
Debt factor	1.5—2.5	1.7	1.5
Interest cover	>5	8.6	7.0[1]
Equity ratio	> 50 %	44.6 %	46.3 %

1 The reduction of the interest cover from 8.6 in the previous year to 7.0 is caused by two special effects. For more detailed information, please refer to our comments on the results regarding net interest income.

To ensure operational freedom of action, the company must always have an adequate cash reserve available. This protects the company against temporary fluctuations. freenet AG feels that a liquidity reserve of around 50 million euros is appropriate and adequate.

Moreover we have defined a dividend policy that, without prejudice to value creation and financial liquidity, allows our shareholders to participate in the success of the company by way of an attractive annual cash return. In early 2011, the Executive Board adopted a dividend policy in agreement with the Supervisory Board that stipulates 40—60 percent of future free cash flow to be distributed as dividends.

Adherence to the target corridors, which we have defined for our relevant financial ratios, will enable freenet AG to achieve all of the above objectives.

Specific objectives

Based on the strategic direction and in adherence to the cornerstones of its financial strategy, the company has set the following specific goals for the financial year 2012:

- Substantial stabilisation of the customer base, particularly in the valuable postpaid and no-frills segments
- Stabilisation of ARPU at the previous year's level
- Revenue stabilisation at the previous year's level
- Group EBITDA of 340 million euros
- Free cash flow of 240 million euros

Group management

In order to measure the medium and long-term success of our strategic direction, we use the following key control parameters:

- EBITDA
- Free cash flow
- Customer ownership (postpaid and no frills)
- Postpaid ARPU
- Customer acquisition costs
- Customer retention costs
- Profitability of a customer over the contract period
- Number of gross new customers per sales channel

EBITDA

EBITDA corresponds to earnings before interest, taxes, depreciation and amortisation. It reflects the operational performance of the company and is therefore a value driver that focuses both on growth (through the effect of gross profits) and on cost efficiency.

From the financial year 2012 on, there will no longer be any significant one-off expenses and thus recurring Group EBITDA is identical to Group EBITDA.

Free cash flow

freenet AG defines free cash flow as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets. This indicator is a priority for our shareholders, creditors and employees. Free cash flow includes all of the company's operational financial obligations and is also an indicator of the company's potential ability to repay debt, pay interest on the debt and make dividend payments.

One of the main tasks of our Group's finance department is to improve liquidity. The key objective here is to reduce net working capital, based on detailed cash planning.

Customer ownership

The measurement of the customer ownership customer base in the valuable postpaid segment and in the growing no-frills segment is used for the medium and long-term management of the company. freenet AG can maintain its shareholder value and position in the German mobile market by continually attracting new customers and retaining existing ones. As part of the strategic direction of its business towards intrinsic value, freenet AG is focusing on valuable customer relationships in its acquisition of new customers and management of the existing customer base.

Postpaid ARPU

We define postpaid ARPU as the average monthly revenue per contract customer. ARPU generally depicts the willingness of consumers to pay suitable fees for market offers. Revenues from the mobile phone option are not included in the ARPU. ARPU is significantly influenced by the market and the competitive situation.

Other control parameters

freenet AG also uses a variety of other control parameters. These primarily include customer acquisition and retention costs, which significantly affect the profit contribution of customers and customer retention. In addition, the profitability of the customer during the contract period and the number of gross new customers per sales channel are also key parameters.

Non-financial performance indicators

Product brands, new products

freenet AG systematically pursues a multi-brand strategy to serve all segments of the mobile market in a targeted way. Its main brand is “mobilcom-debitel”, under which the company markets postpaid and prepaid tariffs for all four German mobile communications networks. The strengths of the brand include network-independent, demand-oriented customer consultation for selected mobile communications products and services, and great customer proximity thanks to the biggest network-independent distribution platform for mobile communications products in Germany. In addition, freenet AG addresses the “no-frills” segment with the discount brands “klarmobil”, “freenetMobile”, “callmobile” and “debitel light” for customers more interested in affordable tariffs than special services or subsidised devices. The products are mainly sold via the internet.

In marketing its product and service portfolio, freenet AG pays particular attention to the growth market of mobile data services. Against this background, the company made important strategic decisions during the financial year 2011, especially in the high-end smartphone market, and expanded and enhanced its product portfolio accordingly.

The new “Flat 4 You”, “Flat Smart” and “Flat Allnet” tariffs proved to be particularly successful in the market. “Flat 4 You” launched with five flat rates for mobile calls on the caller’s own mobile network plus another mobile network of their choice for surfing, text messaging and network-internal MMS. “Flat Smart” consists of three flat rates for mobile browsing, network-internal calls and text messaging as well as 100 free minutes per month to all German networks. “Flat Allnet” offers flat rates for calls to all German mobile networks, German landlines and mobile surfing. The Stiftung Warentest consumer organisation recommended it as one of the cheapest rates for heavy users in August 2011. For a monthly premium, customers of all three tariffs can also choose a high-quality smartphone from mobilcom-debitel’s wide range. These new tariffs were very well received by the market.

Another highlight was the introduction of the revised “free” tariff, which allows customers to compile various modules into a tailor-made mobile communications tariff to suit their individual requirements, while also allowing them to change their mobile network at any time. The “free” tariff takes advantage of freenet AG’s special position as a network-independent telecommunications company. The revised edition also allows customers to switch to the Deutsche Telekom network. During the past financial year, freenet AG also introduced its restructured portfolio of data tariffs. With this new range of tariffs, the company optimally covers the diverse needs of its users in the field of mobile data usage with netbooks, surfsticks and the like.

Strategic partnerships

In October 2011, freenet AG and GRAVIS Computervertriebsgesellschaft mbH signed an exclusive cooperation agreement. GRAVIS has sold Apple products in its stores since 1991 and has established itself as Germany's largest Apple dealer with iPhones, iPads and Macs. Under the cooperation, freenet AG is initially upgrading its mobilcom-debitel stores with shop-in-shop systems for the Apple world. This means the shops now offer the entire range of Apple products, not only iPhones and iPads, but iPods, Macs and accessories as well. In turn, GRAVIS equips its stores with mobilcom-debitel products and specially trained personnel.

freenet AG expects the cooperation to significantly strengthen its competitiveness, and in particular to effectively support its positioning in the premium segment. The expense in implementing the cooperation with GRAVIS remains manageable, as a considerable number of mobilcom-debitel shops and sales staff already has been certified by Apple for the iPhone.

Sales

With about 550 directly controlled stores, some 6,000 additional sales points at specialist dealers, and a wide range of online and direct-to-customer sales, freenet AG has the largest network-independent sales platform for mobile communications products in Germany. In the financial year 2011, the company successfully worked to keep improving its sales force with a variety of initiatives.

At the beginning of 2011, the existing long-standing cooperation with Media-Saturn-Deutschland GmbH was extended until the end of 2013. As part of the cooperation, mobilcom-debitel AG will continue to exclusively offer mobile communications products for the network operators T-Mobile, Vodafone and E-Plus, along with its own range, at all Media Markt and Saturn stores in Germany. This underscores freenet Group's importance as the third-largest mobile communications provider for mobile communications sales in German retail.

In its own chain of shops, freenet AG last year introduced a new shop concept focusing on accessories. In selected shops, the company offers a wide variety of headphones, bags, cases, anti-slip mats and docking stations, thereby reflecting the growing demand for mobile phone accessories. At the same time the new shop concept supports freenet AG's core business by increasing footfall in the shops. After this year's success, more accessory shops will open next year. The company also plans to introduce new shop formats to be known as "percentage and discount shops" and "select shops".

Modelled on the Retail+ performance improvement programme, which was successfully concluded in 2010, the Franchise+ programme was launched in February 2011. In this programme freenet AG franchise partners jointly developed ideas and measures to significantly and sustainably boost sales at franchises. The programme also gave franchise partners the opportunity to temporarily work at another workplace to get new ideas for their own shop.

Specialist retailers as well as the Media Markt and Saturn stores were also given a new, comprehensive training programme at the beginning of the year. In addition to training in the areas of energy consulting, DSL, BlackBerry, iPhone and mobile data, the new training catalogue includes training for the TÜV certification as a "Mobile Multimedia Specialist". mobilcom-debitel is currently the only mobile communications provider in Germany to offer this.

In July of last year, mobilcom-debitel opened Campus Erfurt, an innovative and high-performance training centre. In collaboration with Sales and Customer Service and with the support of all relevant hardware manufacturers, the centre combines state-of-the-art presentation spaces with a very efficient infrastructure on a total of 600 m². Workshops are offered on new products and sales methods, as well as human resources management and leadership.

These initiatives were complemented by the "High Five" action programme in the second half of 2011. Based on the results of "mystery shopping", it teaches five key measures to improve the quality of advice and service in the mobilcom-debitel retail business. One of these measures is the newly launched "Wer fragt, verkauft!" workshop series that trains shop employees in demand analysis and techniques for closing a sale.

Research and development

As a mobile communications service provider, freenet AG has no network infrastructure of its own. In its core business the company essentially markets the mobile communications services provided by the network operators, as described in detail under "Business operations" on page 65. So the company does not maintain a separate traditional research and development department. Nevertheless, the company keeps abreast of the rapid technological progress and trends in the mobile voice and data services sector in order to maintain its long-term competitiveness in this innovative market environment.

Against this backdrop, in the past financial year freenet AG adapted its own range of products and services to the rapidly changing market and customer requirements, and developed or further developed its own innovative services. We explain this in detail in the "Product brands, new products" section on page 71.

Employees

freenet AG's employees are one of the company's key success factors. The goal of our HR work is therefore primarily to continuously increase the attractiveness of freenet AG as an employer both in-house and externally. The HR department's job is to create an environment to recruit, qualify and further develop suitable staff members for freenet AG. At the end of 2011 the freenet Group employed 4,057 people, compared with 3,972 at the end of the financial year 2010.

Given its history of different companies, freenet AG has harmonised its recruitment methods. Since 2011 all vacancies are advertised on the joint *www.freenet-group.de/karriere* online portal to ensure a common, coordinated employer branding. The Group-wide work on a common recruitment system leverages potential synergies and coordinated selection techniques.

In 2011 a total of 15,000 applications were received for some 550 advertised positions. 34 percent of the applicants were women, who comprised 37 percent of the subsequently selected candidates, which is consistent with our principle of promoting equality between women and men.

The company supports its employees with demand-based measures. It also identifies and further promotes top performers. In the area of customer service, freenet AG also has a 6-month development programme for young high performers, specifically adapted to the needs and particularities of customer service.

At the end of 2011 the Group employed a total of 125 trainees in various professions based on Chamber of Industry and Commerce degrees ranging from logistics, computer science, and sales to retail. Furthermore, four dual-study degree programmes are offered at vocational colleges.

Economic environment

Market development 2011

Despite the international debt crisis, 2011 was a good year for the German economy. Gross domestic product increased year-on-year by 3.0 percent, mainly due to Germany's high domestic demand. In November 2011, the GfK consumer research association confirmed its forecast that private consumption would rise in real terms by presumably 1.5 percent in 2011. Germany therefore benefited from strong consumer confidence during the crisis—a reflection of the declining savings rate, which is triggered by a general low level of interest rates. Rising incomes and record high levels of employment (41 million are in work) also contributed to this development.

In the German telecommunications market, the VATM industry association and Dialog Consult consulting firm estimate that revenues fell slightly last year by 0.8 percent to 60.3 billion euros. This affected both the traditional landline business—with a decline of 0.9 percent to 32.6 billion euros—and the mobile sector, which declined by 1.2 percent to 23.9 billion euros. The reduction of mobile communications revenues is especially due to the halving of termination fees. In 2010, mobile communications segment revenues grew slightly again for the first time since 2005.

Overall, last year German consumers made 288 million minutes in mobile phone calls each day. This rise of almost 5 percent in comparison to 2010 is due to the increasing spread of flat rates.

Mobile surfing also enjoyed growing popularity in 2011. Of all mobile phones sold in Germany now, 43 percent are smartphones, which considerably simplify mobile internet browsing. As a result, data transmission volumes grew by 82 percent last year to 166 megabytes per postpaid customer per month, and data transmission accounted for 18 percent of mobile revenues in 2011.

Competitive situation

freenet AG's competitors in the German mobile communications market are the network operators Deutsche Telekom, Vodafone, E-Plus and O_2 as well as the mobile service provider Drillisch AG. Measured by revenue share, freenet AG is the number 3 in the German mobile communications market, behind Telekom and Vodafone.

Assets, financial position and results

Management's summary statement on the business performance in 2011

In the financial year 2011, the revenue of the freenet Group slightly declined, as expected. With almost stable gross profits, however, the company was still able to increase key earning figures such as the Group EBITDA, EBIT and EBT, as well as the Group result. The 2011 Group result is reported as 144.00 million euros, which corresponds to an increase from 2010 by 31.5 million euros or 28.0 percent respectively.

Free cash flow also significantly improved from last year to 241.0 million euros; consequently, the net debt of 623.1 million euros (at the end of the financial year 2010) was reduced to 529.4 million euros as of 31 December 2011.

freenet AG exceeded its projected targets for the financial year 2011, i.e. recurring EBITDA, free cash flow and postpaid customer base.

	Original guidance 2011	Actual 2011
Recurring EBITDA in m€	325	360.3
Free cash flow in m€	>200	241.0
Postpaid customers	<–500,000	–366,000

These results confirm the company in the successful continuation of the intentional concentration on its core business, the mobile communication segment, with focus on profitable contracts and the superior objective of guaranteeing sustainable profitability.

Key drivers of the business development

Customer development

Figures in million	31.12.2011	31.12.2010
Mobile Communications customers	15.19	15.65
thereof prepaid customers	7.07	7.58
thereof ownership customers	8.12	8.08
thereof contract customers	5.75	6.11
thereof no-frills customers	2.37	1.97

In 2011, freenet AG continued to focus on valuable customer relationships in its contract customer segment. As a result, the number of contract customers has continued to decrease. With a decline of 366,000 contract customers, freenet AG was, however, able to clearly fall below the projection of <500,000, communicated at the beginning of 2011. This is particularly due to the successful completion of the IT integration as well as the successful work, both in terms of new customer acquisition and management of existing customers. At the end of the financial year 2011, the number of contract customers amounted to 5.75 million.

By continuing to focus on data and flat-rate products in the discount segment, in 2011 freenet AG was able to report an increase in the no-frills segment. The number of customers increased from 1.97 million at the end of 2010 to 2.37 million on 31 December 2011.

With regard to ownership customers, which is the sum of all contract and no-frills customers, the company was able to increase the number of customers over the course of the past financial year by 43,000 customers to 8.12 million.

In the prepaid segment a so-called technical churn, due mainly to the deactivation of inactive SIM cards by the network operators, again caused considerable customer losses in 2011, like in the previous two years, which however did not affect earnings. As a result, the customer base decreased from 7.58 million as of 31 December 2010 to 7.07 million as of 31 December 2011.

Overall, the mobile communications customer base decreased from 15.65 million at the end of 2010 to 15.19 million at the end of 2011.

ARPU

Figures in €	2011	2010
Contract customer	23.8	24.0
No-frills customer	4.6	4.9
Prepaid customer	3.1	3.2

The focus on valuable customer relationships in the contract customer segment, which was continued in the financial year 2011, allowed the company to stabilize its ARPU almost at the level of the previous year. The monthly average revenue per user (ARPU) in the contract customer segment changed from 24.0 euros in 2010 to 23.8 euros in 2011 and in the no-frills segment from 4.9 euros in 2010 to 4.6 euros 2011. The ARPU in the prepaid segment remained almost unchanged with 3.1 euros in 2011 compared to 3.2 euros in 2010.

Revenue and results

The following overview shows the Group's key financials:

Figures in €'000s	2011	2010	Change
Revenue	3,217,901	3,339,504	–121,603
Gross profit	715,794	720,305	–4,511
EBITDA	337,383	334,943	2,440
EBIT	168,485	145,501	22,984
EBT	117,339	102,640	14,699
Group result from continued operations	143,848	118,762	25,086
Group result from discontinued operations	140	–6,295	6,435
Group result	143,988	112,467	31,521

The GROUP REVENUE decreased by 3.6 percent compared to the previous year from 3,339.5 million euros to 3,217.9 million euros. Almost 98 percent of the segments' revenue was generated by the mobile communications segment. With an almost stable ARPU, the decline in Group revenue is mainly due to the decrease of subscribers in the contract customer segment, which had been planned for by the Group due to its focus on valuable contract relationships.

The GROSS PROFIT MARGIN increased by 0.6 percentage points to 22.2 percent. Due to the decreased revenue in a year-on-year comparison, gross profits decreased in the financial year 2011 to 715.8 million euros, compared with 720.3 million euros in 2010. Our smartphone and data services such as our smartphone tariffs "Flat 4 You", "Flat Smart" and "Flat Allnet" significantly contributed to the stabilization of our gross profits.

The OTHER OPERATING INCOME and OTHER OWN WORK CAPITALIZED remained at approximately the same level as in 2010. The main reason for the increase in PERSONNEL EXPENSES, by 13.6 million euros to 162.9 million euros, was the high degree to which employees with variable salary components reached their targets due to the very successful financial year 2011. In addition, personnel expenses from the previous year had been low especially due to the release of provisions in the amount of 6.5 million euros, which were mainly caused by the stock appreciation programme.

The decrease of OTHER OPERATING EXPENSES compared to the previous year, by 18.8 million euros to 314.3 million euros, is related to the decline of negative on-off effects on profits caused by the restructuring. These amounted to 31.6 million euros in 2010, and were decreased to 22.9 million euros in 2011 in connection with the successfully executed IT integration. In addition, the decrease of other operating expenses can also be explained by further efficiency increases in the management of overhead expenses.

As a result of the cited effects, the GROUP EBITDA of 337.4 million euros is higher than that of the previous year, which was 334.9 million euros.

Year-on-year, the DEPRECIATIONS AND AMORTISATIONS decreased by 20.5 million euros to 168.9 million euros, which can be explained by the comparably lower investment level among others. As in the previous year, the amortisations can mainly be attributed to intangible assets such as customer relationships and trademarks, which were included in the consolidated balance sheet in 2008 on the occasion of the purchase price allocation connected to the debitel acquisition: whereas 117.2 million euros were deducted as an amortisation in the financial year 2011, the amortisations that were deducted from these assets in the previous year amounted to 121.6 million euros.

The NET INTEREST INCOME calculated as the balance between the interest income and interest expenses changed from –42.9 million euros in the previous year to –51.1 million euros. However, two special effects must be taken into account when considering this decrease in net interest income by 8.3 million euros: On the one hand, income from the market valuation of derivative financial instruments (swaps/caps) in the amount of 13.2 million euros had been reported in 2010 (2011: expenses in the amount of 0.8 million euros); on the other hand, freenet AG had been able to redeem its old financing in 2011 and replace it with a new long-term financing. Within this context, on-off, non-cash-effective interest expenses of 6.9 million euros were incurred. As a result of the two special effects mentioned above, the interest cover as one of the important control parameters decreased from 8.55 in the previous year to 7.04.

Consequently, PRE-TAX GROUP EARNINGS attributable to the continued operations of 117.3 million euros were achieved in 2011. This constitutes an increase by 14.7 million euros compared to the previous year (102.6 million euros).

The RESULT FROM TAXES ON INCOME improved by 10.4 million euros compared with 2010; whereas tax income in the amount of 16.1 million euros had been reported in the previous year, tax income amounted to 26.5 million euros in the financial year under review. With current tax expenses almost the same as the previous year, the improvement is mainly due to the current taxes from prior years, which were decreased by 7.2 million euros. The reason for the reporting of income from taxes on income lies in the earnings from deferred taxes, which—as in the previous year—are due to temporary differences from the debitel purchase price allocation and to appreciations of deferred income tax assets from tax loss carryforwards.

As a result, the GROUP RESULT FROM CONTINUED OPERATIONS after taxes rose by 25.1 million euros from 118.8 million euros in 2010 to 143.8 million euros in 2011.

The GROUP RESULT FROM DISCONTINUED OPERATIONS had amounted to –6.3 million euros in 2010 and could mostly be attributed to the “Next ID” business segment. This segment was sold with effect from 1 January 2011. The subsequent earning contributions generated 0.1 million euros from the discontinued “Next ID” operations due to its final consolidation in 2011.

The GROUP RESULT from continued and discontinued operations reported for 2011 adds up to 144.0 million euros. This represents an increase by 31.5 million or 28.0 percent respectively, compared to the Group result of 112.5 million euros achieved in the previous year.

Assets and financial position

The following overview shows some of the Group's balance sheet figures:

Assets

Figures in m€	31.12.2011
Non-current assets	1,822.9
Current assets	705.6
Balance sheet total	**2,528.4**

Figures in m€	31.12.2010
Non-current assets	1,848.4
Current assets	694.0
Balance sheet total	**2,542.4**

Shareholders' equity and liabilities

Figures in m€	31.12.2011
Shareholders' equity	1,171.3
Non-current and current liabilities	1,357.1
Balance sheet total	**2,528.4**

Figures in m€	31.12.2010
Shareholders' equity	1,134.5
Non-current and current liabilities	1,407.9
Balance sheet total	**2,542.4**

As of 31 December 2011, the Group's BALANCE SHEET TOTAL amounted to 2,528.4 million euros and was therefore slightly (by 0.5 percent) below the balance sheet total from the end of the previous year (31 December 2010: 2,542.4 million euros).

The NON-CURRENT ASSETS decreased by 25.5 million euros to 1,822.9 million euros (31 December 2010: 1,848.4 million euros).

Like in the previous year, these are dominated by intangible assets and goodwill. The decrease of the non-current assets is mainly attributable to the amortisation and impairment of intangible assets in the amount of 154.7 million euros in the financial year 2011, of which amortisations of 117.2 million euros related to the assets recognized on the occasion of the purchase price allocation connected to the debitel acquisition such as customer relationships and trademarks, whereas the total of the other net additions to intangible assets (additions minus disposals at amortised costs), mostly pertaining to distribution rights, amounted to 61.3 million euros.

The decrease in property, plant, and equipment by 8.4 million euros to 29.3 million euros is predominantly caused by depreciations of existing property, plant and equipment with few new investments.

A reversed effect is the increase of the deferred income tax assets by 51.1 million euros from 79.8 million euros to 130.9 million euros. Here it must be taken into account, that the item includes deferred tax assets from tax loss carryforwards, which have increased by 24.1 million euros compared to 31 December 2010. On the other hand, this item includes the total deferred tax liabilities relating to temporary differences between the fiscal values and the book values of assets and liabilities. Here, the decrease was mainly caused by the amortisation of customer relationships and trademarks, which had been allocated on the occasion of the purchase price allocation connected to the debitel acquisition.

The increase of non-current as well as current trade accounts receivable resulted mainly from the increase of mobile phone option contracts. These receivables reflect all the claims for payment from the mobile communication contracts that are attributed to the component "high-end mobile telephone device," and are paid by the customer within the context of the contractual term. At the same time, the increased popularity of the option to select high-end devices in return for an additional monthly fee is also one of the main reasons for the increased liabilities for trade accounts payable.

The CURRENT ASSETS increased by 11.5 million euros to 705.6 million euros (31 December 2010: 694.0 million euros). In addition to the increase of trade accounts receivable as explained above, the increase in cash and cash equivalents by 11.3 million euros to 185.7 million euros as well as the decrease of the assets of disposal group classified as held-for-sale by 12.3 million euros (which is the amount of the assets of the "Next ID" operations which was for sale as of 31 December 2010) should be mentioned in this context.

On the liabilities side, there was an increase in SHAREHOLDERS' EQUITY: as of 31 December 2011, the shareholders' equity amounted to 1,171.3 million euros (31 December 2010: 1,134.5 million euros). This increase by 36.8 million euros resulted mainly from Group net profit of 144.0 million euros achieved in 2011 and from the dividend payments (–102.4 million euros) made during the financial year 2011, which had been approved by the company's Annual General Meeting on 30 June 2011.

Consequently, the equity ratio increased by 1.7 percentage points from 44.6 percent in the previous year to 46.3 percent in 2011.

With regard to NON-CURRENT AND CURRENT LIABILITIES, which decreased by 50.8 million euros from 1,407.9 million euros (as of 31 December 2010) to 1,357.1 million euros as of 31 December 2011, the decrease of the borrowings by 84.9 million euros to 715.1 million euros must be highlighted, which was mostly effected by principal payments.

Consequently, the Group's NET DEBT was decreased over the course of the financial year 2011 by 93.7 million euros to 529.4 million euros (2010: 623.1 million euros). As a result, the debt factor as the ratio of net debt to recurring EBITDA decreased from 1.70 in 2010 to 1.47 in 2011.

The sum of all trade accounts payable, other liabilities and payables as well as other provisions amounts to 594.5 million euros as of 31 December 2011 (31 December 2010: 545.6 million euros) and is, compared to the previous year, 48.9 million euros higher. The increase in trade accounts payable by 44.2 million euros was a significant contributor. Please refer to our explanations above regarding trade accounts receivable.

As of 31 December 2010, liabilities in the amount of 10.3 million euros pertaining to the discontinued "Next ID" operations were recognized as liabilities of disposal group classified as held-for-sale; after the disposal of the “Next ID Group”, this item no longer shows any liabilities as of 31 December 2011.

Cash flow

The following overview shows some of the Group’s key cash flow financials:

Figures in m€	2011	2010	Change
Cash flow from operating activities	262.0	236.3	25.8
Cash flow from investing activities	–16.2	0.4	–16.6
Cash flow from financing activities	–190.4	–537.8	347.3
Change in cash and cash equivalents	**55.4**	**–301.1**	**356.5**
Free cash flow	241.0	211.7	29.2

Compared to the same period last year, the CASH FLOW FROM OPERATING ACTIVITIES improved by 25.8 million euros to 262.0 million euros. Compared to the previous year, the EBITDA for the Group as a whole, including discontinued operations adjusted for the included income from the sale of subsidiaries (the payments received from the sale of subsidiaries are recognized under investment activity), increased by 11.1 million euros. Apart from that, the increased cash inflow from operating activities compared to the previous year is primarily due to a lower increase in net working capital by 45.7 million euros in 2011 (2010: increase of net working capital by 82.7 million euros). The increase in net working capital by 45.7 million euros in 2011 is mainly attributable to the planned reduction of liabilities and payables to distribution partners (relating to distribution rights) as well as to a mobile network operator, to the increased sales of high-quality hardware and the associated increase of receivables from hardware sales, and to the payment-related reduction of other provisions. In addition, net cash outflows of 29.7 million euros (previous year: 10.4 million euros) resulted from payments and/or reimbursements of taxes on income in 2011.

Compared to the same period in the previous year, the CASH FLOW FROM INVESTING ACTIVITIES decreased by 16.6 million euros from +0.4 million euro to –16.2 million euros in financial year 2011. The main reason for this development were the payments of 19.1 million euros received from the sale of subsidiaries (subsequent purchase price payments for the disposal of the “DSL business” and the “STRATO Group” as well as payments received from the sale of the “Next ID” operations) in the previous year. On the other hand, cash outflows for investments in intangible assets of fixed assets as well as in property, plant and equipment, offset against the payments received for the disposal of such assets, have decreased by 3.5 million euros to 21.1 million euros compared to the previous year. Of the investments in intangible assets and property, plant and equipment of

69.0 million euros shown in the consolidated statement of movements in non-current assets 2011, 22.5 million euros were cash-effective. They were fully funded with equity capital and mainly related to internally developed software relating to the IT integration, the modernization and expansion of the furnishings in our mobile communication shops, as well investments in IT hardware. The non-cash-effective investments of 46.5 million euros mainly related to the extension of a distribution right.

Compared to the same period in the previous year, the CASH FLOW FROM FINANCING ACTIVITIES improved by 347.3 million euros from –537.8 million euros to –190.4 million euros. In April 2011, the freenet Group has completely replaced its existing financing, dating back to private equity times, by a new financing. The new financing comprises a new bank loan of 240 million euros with variable interest rates (repayable over a period of three years), a revolving credit facility of 100 million euros, and the placement of a five-year corporate bond with a volume of 400 million euros and a coupon rate of 7.125 percent per annum. This way, the Group was able to extend its financing through 2016, and is now less exposed to future interest risks, which enables a higher planning reliability. Cash inflow of 631.6 million euros from the new financing shown in the cash flow from financing activities consists of the 640.0 million euros for the bank loan and the corporate bond minus fees deducted from the borrowings charged for arranging these borrowings in the amount of 8.4 million euros. The net principal payments (payments made from the redemption of borrowings offset against the payments received from the new borrowings in connection with the new financing of April 2011) have decreased by 385.0 million euros in comparison with the previous year, from 454.0 million euros to 69.0 million euros. While the repayments in 2011 were scheduled, the high repayment amounts in 2010 can be mostly explained by the unscheduled payments related to payments received for the disposals of the "DSL business" and the "STRATO Group", which were concluded at the end of 2009.

In the financial year 2011, dividend payments debited the cash flow from financing activities with 102.4 million euros (previous year: 25.6 million euros).

The interest payments in 2011, which mostly related to non-current bank loans, amounted to 19.0 million euros. The decrease from the previous year, in which 58.1 million euros were used for interest payments, was caused mainly by the Group's comparably low average net financial debt and also by changes made to the payment interval: The interest on the corporate bond placed in the financial year 2011 is paid annually in arrear, with the result that non-cash-effective interest of 20.5 million euros accrued in the previous financial year.

The FREE CASH FLOW, defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets, amounted to 241.0 million euros in the financial year 2011. Compared to 2010, it has increased by 29.2 million euros or 13.8 percent, respectively.

Significant events after the reporting date

In January 2012, Flossbach von Storch SICAV, Luxemburg-Strassen, Luxemburg, announced that its share of voting rights in freenet AG had exceeded the 3-percent threshold and at that time amounted to 3.07 percent. The Flossbach von Storch SICAV is an externally managed SICAV and is managed by IPConcept Fund Management S. A..

In February 2012, Norges Bank (central bank of Norway), Oslo, Norway, reported that its share of voting rights in freenet AG had fallen below the 3-percent threshold and was 2.82 percent at that time.

Information required under takeover law according to section 315 (4) HGB

Composition of share capital
The share capital (capital stock) of freenet AG amounts to 128,061,016 euros and is divided into 128,061,016 individual registered shares. Each share confers one vote at the Annual General Meeting.

Share transfer and voting restrictions
The Executive Board is not aware of any restrictions on voting rights or the transfer of shares.

Shareholdings exceeding 10 percent of the voting rights
Drillisch AG holds a total of 21.86 percent of the voting rights of the company, directly and indirectly via MSP Holding GmbH.

Shares vested with special rights or powers of control
There are no shares vested with special rights which confer powers of control.

Type of control of voting rights in the event of employees' participation
Employees cannot claim any special rights if they are shareholders.

Appointment and dismissal of members of the Executive Board, amendments to the Articles of Association
The appointment and dismissal of members of the Executive Board of freenet AG is subject to sections 84, 85 AktG and section 31 MitbestG in conjunction with section 5 (1) of the Articles of Association. The clauses governing amendments to the Articles of Association are sections 133, 179 AktG and section 16 in the Articles of Association of freenet AG.

Authorisation of the Executive Board to issue and buy back shares
The Annual General Meeting of 6 July 2010 authorised the Executive Board to buy back shares up to 10 percent of the current share capital on or before 5 July 2015. This authority may be exercised by the Group or its subsidiaries or by third parties on account of the Group or its subsidiaries. The Executive Board chooses whether the buyback shall take place through the stock exchange, by means of a public purchase offer, by means of a public invitation to submit tenders, by issuing delivery rights to the shareholders, or using equity derivatives (put or call options or a combination of the two).

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 AG took on upon the transfer of the syndicated loan. In some cases, freenet AG 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 the cancellation of the syndicated loan contract, freenet AG 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 AG.

Indemnity agreement of the company

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

Compensation report of the Executive Board and the Supervisory Board

Executive Board compensation

Basic principles of compensation

The compensation of the company's Executive Board members is broken down as follows. The following table shows the directors' compensation in accordance with § 314 para 1 item 6a HGB (German commercial code). It includes remuneration paid in the financial year. Changes in the value of the stock appreciation programme, or LTIP programme, which are not based on a change in the vesting conditions, are not included, in accordance with § 314 para 1 item 6a HGB.

Compensation for the financial year 2011

Figures in €'000s

	Fixed compensation	Variable cash compensation	Total cash compensation	Total compensation with long-term incentive effect	Total compensation
Christoph Vilanek	621	574	1,195	1,091	2,286
Joachim Preisig	444	574	1,018	972	1,990
Stephan Esch	445	222	667	936	1,603
	1,510	**1,370**	**2,880**	**2,999**	**5,879**

Compensation for the financial year 2010

Figures in €'000s

	Fixed compensation	Variable cash compensation	Total cash compensation	Total compensation with long-term incentive effect	Total compensation
Christoph Vilanek	615	400	1,015	0	1,015
Joachim Preisig	425	400	825	0	825
Stephan Esch	365	230	595	0	595
Axel Krieger	575	299	874	0	874
	1,980	**1,329**	**3,309**	**0**	**3,309**

In the financial year 2011 the members of the company's Executive Board were each granted new variable compensation components with long-term incentives through the "LTIP" programme. We refer to item 27.3 of the Notes to the Consolidated Financial Statements. At the time they were granted, at 1 June 2011, the fair value in accordance with IFRS 2 totalled 3,586 thousand euros, of which 1,823 thousand euros was for Mr. Vilanek, 1,216 thousand euros for Mr. Preisig and 547 thousand euros for Mr. Esch. Also with effect from 1 June 2011, Mr. Vilanek and Mr. Preisig agreed, with respect to the existing stock appreciation programme, to partially forfeit stock appreciation rights, diverging from the previous rules for the term of the options. For Mr. Vilanek this led to the forfeiture of 300,000 of 400,000 stock appreciation rights, with a fair value of 732 thousand euros. Mr. Preisig forfeited 240,000 of 400,000 stock appreciation rights, with a fair value of 244 thousand euros. As at 31 December 2010, Mr. Esch possesses 300,000 stock appreciation rights, which were extended on 1 January 2011 until 31 December 2014 (previously: 2 February 2012). This extension of the term of stock appreciation rights for Mr. Esch led to an increase in the fair value by 389 thousand euros. We refer to the new regulations relating to directors' stock appreciation rights in item 27.1 of the Notes to the Consolidated Financial Statements. Executive compensation with long-term incentives, based on the stock appreciation programme and the LTIP programme, were noncash in the financial year 2011.

Beyond the salaries listed in the table above, in the financial year 2011 payments were also made to Mr. Krieger, who resigned from the Executive Board on 31 December 2010 at the end of his contract, from post-contractual non-competition clauses totalling 400 thousand euros. In all, executive compensation in 2011 as defined by § 314 paragraph 1 item 6a HGB (cash compensation; cash withdrawals from the LTIP programme at fair value at grant date; changes in the fair value of stock appreciation rights through changes in the terms of exercise; and payments to former directors for post-contractual non-competition clauses) totalled 6,279 thousand euros. In 2010, compensation paid to members of the Executive Board amounted to 3,509 thousand euros in accordance with § 314 paragraph 1 item 6a HGB.

As of 31 December 2011, the provisions for stock appreciation rights were as follows: 332 thousand euros for Mr. Vilanek (previous year: 452 thousand euros), 191 thousand euros for Mr. Preisig (previous year: 181 thousand euros) and 419 thousand euros for Mr. Esch (previous year: 30 thousand euros). Provisions for stock appreciation rights totaling 273 thousand euros were shown as of 31 December 2011, for Mr. Spoerr, Mr. Krieger and Mr. Berger as former members of the Executive Board (previous year: 204 thousand euros).

In November 2004, an indirect pension commitment was granted to Mr. Esch. In the financial year 2009, an indirect pension commitment was granted to Mr. Vilanek on the occasion of his appointment as Chief Executive Officer as of 1 May 2009. As of 31 December 2011, the Defined Benefit Obligations (DBOs) were as follows: 453 thousand euros for Mr. Vilanek (previous year: 265 thousand euros) and 832 thousand euros for Mr. Esch (previous year: 518 thousand euros). As of 1 September 2008, freenet AG took over the pension commitment granted to Mr. Preisig by debitel AG. As of 31 December 2011, the DBO for Mr. Preisig amounted to 468 thousand euros (previous year: 347 thousand euros). The DBOs for Mr. Spoerr, Mr. Krieger and Mr. Berger as former members of the Executive Board totalled 4,014 thousand euros as of 31 December 2011 (previous year: 3,512 thousand euros).

The personnel expenses also include pension obligations to members of the Executive Board for ongoing and past service costs totalling 454 thousand euros (previous year: 373 thousand euros). For 2011, 138 thousand euros went to Mr. Vilanek, 84 thousand euros to Mr. Preisig and 232 thousand euros to Mr. Esch, and for 2010, 121 thousand euros to Mr. Vilanek, 78 thousand euros to Mr. Preisig, 67 thousand euros to Mr. Esch and 107 thousand euros to Mr. Krieger.

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

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

Compensation provisions in the event of premature termination of employment contracts and pension plans are as follows:

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

- From their 60th birthday, the abovementioned members of the Executive Board shall receive a pension amounting to 2.5 percent of final annual fixed salary for each year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, to a maximum of one-third of final annual fixed salary (guaranteed pension).
- Survivor annuity for the spouse or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, remained in place.

For the Chief Executive Officer Christoph Vilanek, the following rules apply from 1 June 2011:

- From his 60th birthday, Mr. Vilanek shall receive a pension amounting to 2.5 percent of final annual fixed salary for each contractual year commenced on the Executive Board of the company, to a maximum of one-third of final annual fixed salary (target pension).
- Survivor annuity for the spouse or life companion, and orphan's pension for any children until the end of their schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension or the value of pension entitlements Mr. Vilanek would obtain if he were to die.

- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the position is revoked, Mr. Vilanek can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to § 626 BGB, or that the revocation of his appointment to the position does not form part of the termination of the service contract on the part of the company, for which there is good cause under § 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

For the member of the Executive Board Stephan Esch, the following rules apply from 1 January 2011:

- From his 60th birthday, Mr. Esch shall receive a pension amounting to 2.5 percent of final annual fixed salary for each contractual year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, to a maximum of one-third of final annual fixed salary (guaranteed pension).
- Survivor annuity for the spouse or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- In the event of Mr. Esch terminating his service contract for any 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.
- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the position is revoked, Mr. Esch can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to § 626 BGB, or that the revocation of his appointment to the position does not form part of the termination of the service contract on the part of the company, for which there is good cause under § 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

For the member of the Executive Board Joachim Preisig, the following rules apply from 1 June 2011:

- Upon retirement on reaching the age of 60, Mr. Joachim Preisig shall receive a pension in the amount of 9,333.00 euros (guaranteed monthly 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 guaranteed pension for Joachim Preisig. Widow's and orphan's 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 orphan's pension is paid.
- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the position is revoked, Mr. Preisig can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to § 626 BGB, or that the revocation of his appointment to the position does not form part of the termination of the service contract on the part of the company, for which there is good cause under § 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

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

Please also refer to item 36 in the notes for further information, in particular about compensation amounts, stock appreciation rights held, share ownership and other details.

Supervisory Board compensation

Basic principles of compensation

The Supervisory Board compensation is governed by the articles of association, and consists of three components:

- Basic compensation,
- Attendance fees and
- Performance-linked compensation

The Supervisory Board members receive fixed basic compensation of 30,000 euros for each full financial year of membership on the Supervisory Board. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times 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) MitbestG—receive in addition an attendance fee of 1,000 euros for each meeting of the committee. The committee chairperson receives double this amount.

As part of a voluntary self-restraint agreement, the Supervisory Board waived attendance fees for Supervisory Board and committee meetings held as conference calls, as well as for phone participation in actual meetings with effect from the third quarter of 2010.

The Supervisory Board members also receive, after the end of each financial year, variable performance-based 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 which is distributed to the shareholders for the previous financial year. The extent of the 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 2011, the members of the Supervisory Board of the company received fixed compensation of 404.1 thousand euros and attendance fees of 183.0 thousand euros. Performance-based compensation of 403.6 thousand euros was also recognised as an expense. Whether this performance-based compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2011. The total compensation paid for Supervisory Board activities was thus 990.7 thousand euros.

Furthermore, Supervisory Board members are reimbursed for expenses incurred as a result of exercising their office as well as for turnover taxes.

Opportunities and risk report

Opportunities

In the financial year 2011 freenet AG systematically continued its focus on mobile voice and data services. In the marketing of smartphones and flat rate tariffs, the main focus was to ensure customer quality and to stabilise the contract customer base. In addition, the harmonisation of IT systems was successfully completed.

The company sees opportunities in the following market developments in particular:

- Increased willingness of customers to pay for mobile devices;
- Mobile internet usage trends;
- The trend towards more expensive devices (smartphones) and associated higher usage, and related sales of flat rate products.

Further opportunities for the company could arise from:

- The steady intensification of business relations with suppliers to stabilise existing models for terms and conditions and develop new ones;
- The consolidation and development of IT systems to further increase customer satisfaction;
- The testing and implementation of strategic options, mainly in mobile communications;
- Continuous process and quality improvements to sustainably reduce cost structures;
- The strengthening of the distribution power by expanding existing sales channels and exploiting new sales partnerships;
- Further improving the performance of the shops by also marketing additional products.

Risk report

Risk management

An effective risk management system is vital for safeguarding the long-term continuity of freenet AG. The risk management system is meant to ensure that risks to the company's future development are detected early on by each of our executives and communicated in a systematic, logical way to the right decision-maker in the company. The timely communication of risks to the responsible executive is designed to ensure that appropriate measures are taken to deal with the identified risks, thereby averting damage to our company, employees and customers.

To this end, the freenet AG Executive Board has set up an efficient early-warning, monitoring and management system within the Group, which complies with all statutory requirements for a risk management system. The systems and methods of risk management systems are an integrative part of the overall organisation of freenet's structure and processes.

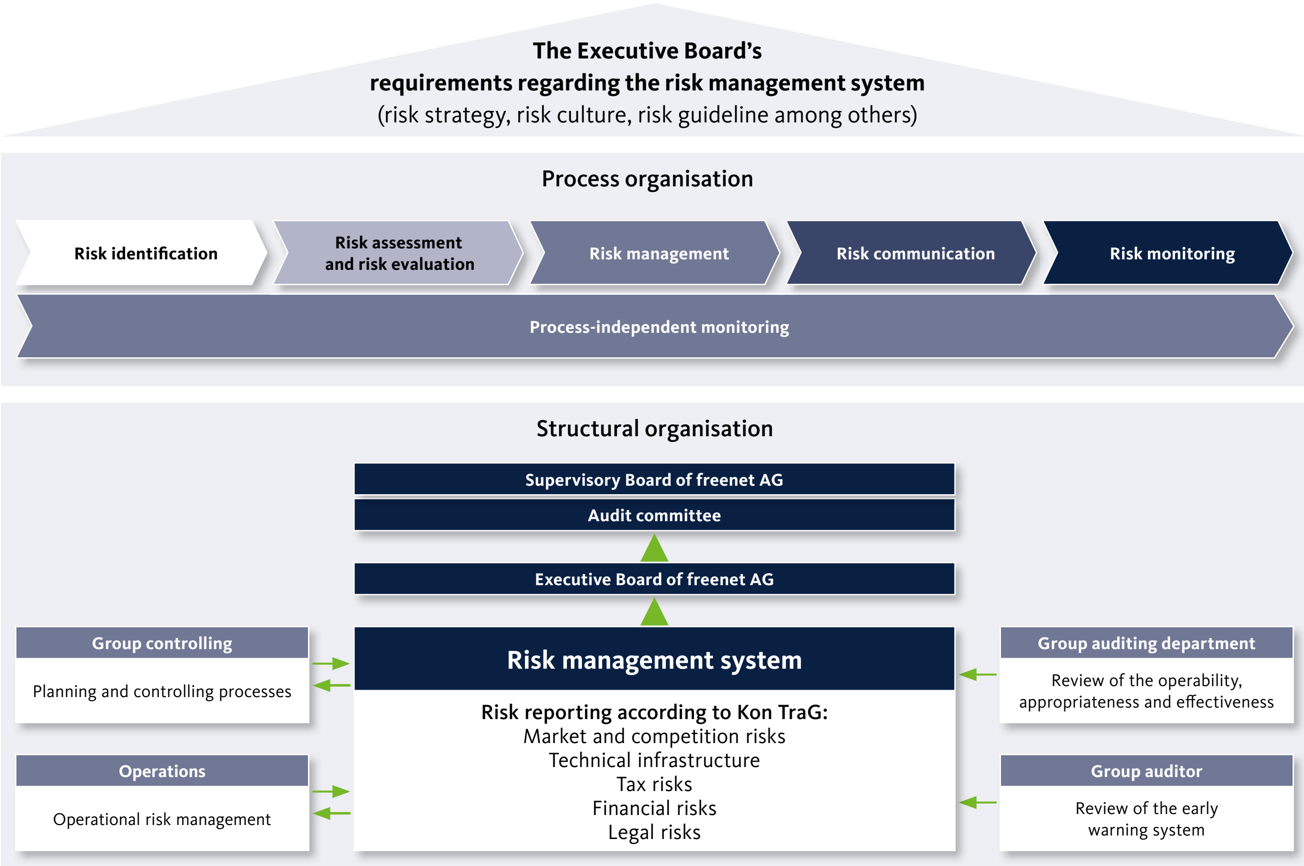


Figure 7: Process and structural organisation of the risk management system of freenet AG

At regular intervals, freenet's individual departments and subsidiaries identify or update existing and new risks in formalised risk reporting. These risk reports describe specific risks and investigate the probability of their occurrence, and their implications for the company should they occur. The individual risk reports are combined into a risk report for the whole Group, which is submitted to the Executive Board.

In a manual that is continually amended and improved, the Executive Board has defined the major risk categories for the Group along with a strategy for dealing with these risk categories, and documented the distribution of tasks and responsibilities of risk management within the Group. Employees are familiar with this manual and it is used to systematically build their risk awareness.

The Supervisory Board, and in particular the freenet AG audit committee, monitors the effectiveness of the risk management system pursuant to the rules governing stock corporations. The Supervisory Board is involved through regular reporting and updates as needed from the Executive Board.

The risk management methods and systems are constantly reviewed, developed and adapted. The freenet AG internal audit department plays a supporting role here, with the regular inspections of the KonTraG risk reporting company forming the main focus. During the audit of the annual financial statements for the financial year 2011, the early warning system of freenet AG was reviewed by the Group auditors.

Beyond the risk management system, 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 indicators in the Group. The Executive Board is kept informed about operational developments in a timely manner at regular "jourfixe" meetings, which are held for all relevant operations. 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 Executive Board, ensuring timely notification of risks to the appropriate decision maker at all times.

Key features of the internal control and risk management system in relation to the Group accounting process (section 289 (5) and section 315 (2) no. 5 HGB)

Definition and elements of the internal control system in the freenet Group

The freenet Group's internal control system follows the internationally recognized framework of COSO (Committee of Sponsoring Organizations of the Treadway Commission). It comprises all the processes and measures that are applied to secure effective, economical and proper accounting and compliance with the pertinent legal provisions in particular.

To manage the control process, the Executive Board of freenet AG has entrusted responsibility for the Group's internal control system to the Controlling, Accounting, Treasury and Human Resources departments in particular.

These departments permanently analyse the process also with regard to new legal requirements and other standards to be followed, derive internal guidelines and train the employees in charge.

Key elements in freenet Group's internal monitoring system are based on automated IT control processes via error files and probations on the one hand, and on the other hand on manual process controls to check the plausibility of the automatically aggregated results. As part of the internal control system, the risk management system includes not only the operating risk management, but also the systematic early detection, management and monitoring of risks across the Group. Please refer to the "Risk management" section of the risk report for further explanatory remarks on the risk management system.

Structure of the Group accounting process

Accounting processes for the company financial statements of freenet AG's subsidiaries are essentially recorded using local accounting systems by SAP and CSS. freenet AG uses SAP's "EC-CS" module as its consolidation system at the top Group level. When preparing the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the capital, debt as well as expense and income consolidations etc., the data reported by the subsidiaries is entered into the consolidating system in various ways—automatically via the SAP module "FI" and sometimes manually by entering reported data that had previously been obtained automatically from the CSS accounting and then summarised in MS Excel in various subgroup accounts. In each case, the individual notes are taken from the standardised reporting packages, which are managed in MS Excel. Also the consolidation of the notes is carried out in MS Excel.

freenet AG's Group auditing department regularly reviews the accuracy and access authorisations of the SAP EC-CS consolidation system. The freenet AG Group auditor regularly inspects the interface between SAP-FI and the SAP EC-CS consolidation system, as well as the transition from the subsidiaries' standardised reporting packages to the freenet AG consolidated financial statements.

Key regulation and control activities to ensure proper and reliable Group accounting

The internal control measures aimed at securing proper and reliable Group accounting ensure that business transactions are fully recorded in a timely manner in accordance with the legal provisions and the Articles of Association.

The regular elements in the Group's internal control system are aimed at an extensive automation of the formation and crosschecking of all relevant data, ranging from invoicing-relevant raw data via the invoicing of customers to value adjustments, accruals and depreciation. These automated controls are supplemented by manual plausibility checks of all relevant interim results and random checks of the underlying detailed data. This ensures proper inventory stocktaking and an accurate recognition, measurement and disclosure of assets and liabilities in the consolidated financial statements. In addition, there are extraordinary control elements including the process-independent reviews by the Group audit of freenet AG on behalf of the Supervisory Board, in particular under the monitoring of the audit committee of freenet AG's Supervisory Board. An in-depth audit of the internal control system in 2011 revision by the Group audit department yielded a picture of a functioning, constantly evolving internal control system in relation to all relevant key indicators and processes, also at the level of the Group's key divisions.

The Group auditor and other review bodies are also involved in the freenet Group's monitoring with process-independent review activities.

In particular, the audit of the consolidated financial statements as well as the review of the consolidated half-year financial statements by the Group's auditor and the review of the included financial statement forms from the subsidiaries represent the final process-independent monitoring measure with regard to the Group accounting process.

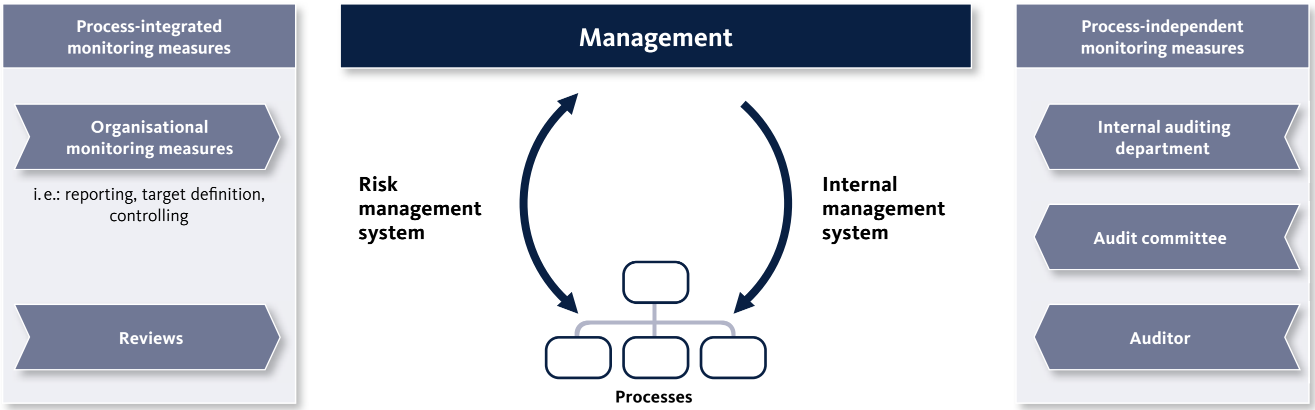


Figure 8: freenet AG's internal control system

Major risks

Of all of the risks identified for 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 assets, financial position and results.

Market and competition risks

Mobile communications is by far the most important sector for the freenet Group in terms of both revenues and earnings. Accordingly, the most significant market and competitive risks arise from this sector.

The telecommunications markets continue to be fraught with intensive competition and the customers' high willingness to switch. This can lead to shortfalls in revenue, to loss of market share and to pressure on margins in any given operation and/or can make it more difficult to gain market share.

Strong competition also leads to higher costs on new customer acquisition, while revenue continues to fall and customers are very ready to switch. Should this trend arise, this will have a negative impact on the company's assets, financial position and results. freenet AG 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 assets, financial position and results.

Margins in the mobile service provider business are largely dependent on how the network operators structure their calling plans. Apart from this, mobile network operators are increasingly moving over to marketing their products themselves and to forcing mobile service providers out of the market. Moreover, due to their business structure, mobile network operators are partly able to offer better rates than mobile service providers. This can lead to a loss of sales channels and customers.

A further reduction of the "termination charges" by the Federal Network Agency will reduce revenue per customer in the market. The resulting overall reduction in price levels in the market could also have a negative impact on freenet's margins.

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 AG also does business in this segment with the "klarmobil", "freenet-Mobile", "callmobile" and "debitel-light" brands, in order to participate in this growth market.

Since 2008, mobile communications revenue from "non-voice services" increased considerably due to the strong rise in use of data services. freenet AG plans to use the growth opportunities of mobile internet to offset price-related declines in revenue from voice services. If freenet AG does not manage to generate appropriate mobile reach or if the network operators do not offer attractive purchasing models, this can have a sustained negative impact on the company earnings prospects.

There are price risks attendant on expanding the business with mobile communication devices. A reduction of network operator premiums in this area will also likely result in a higher capital commitment and marketing risk.

On 4 August 2009, the law to counteract unauthorised telemarketing and to improve consumer protection from special forms of marketing went into effect. This means that consumers may be contacted by phone for advertising purposes only after explicit prior agreement (known as "OPT-IN"). Consumers have to explicitly agree to their information being used for promotional purposes. Apart from new customer acquisition, this new regulation will considerably impact the management of existing customers, as many existing customers did not explicitly give their agreement. It is since then no longer possible to phone these customers for purely promotional purposes.

The loss of sales channels and partners could also lead to gross activations at other existing or new partnerships having to be implemented at higher terms.

According to a German Federal Court of Justice judgment issued at the beginning of 2011, in future freenet AG can only block the SIM card of defaulting customers if their debt has grown to 75 euros and the debtor has been additionally warned about the card being blocked. This could adversely affect the company's assets, financial position and results.

On the basis of the proposed amendment to the German Telecommunications Act, waiting times for the customer service hotline will be free of charge in the future. This could have an adverse impact on the company's results.

According to a Kiel district court judgment, freenet AG cannot charge a fee to customers after termination and the end of the lease term if they did not send their SIM card back to freenet AG in time. Upon confirmation of the judgment on appeal, this could have an adverse impact on the company's assets, financial position and results.

According to a Kiel district court judgment, freenet AG cannot bill its customers if they have not made a call on their mobile phone contract for three consecutive months nor written an SMS (non-use). Upon confirmation of the judgment on appeal, the company would be obligated to refrain from charging a non-use fee in the future, which would have an adverse impact on the company's assets, financial position and results.

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. 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.

Tax risks

For assessment periods that have not yet been finally audited, it is always possible that changes will occur that result in tax arrears payments 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 the types of taxes that may not yet have even been audited, in particular because they usually are not subject to external tax audits.

The risk of divergent interpretations and valuations applies in particular to any restructuring of corporate legal status. Therefore it cannot be totally ruled out that the corporation and trade 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 section 8 (4) KStG (old version), if applicable in conjunction with section 10a (9) GewStG, and section 12 (3), sentence 2 UmwStG (old version), if applicable in conjunction with section 19 (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 section 8c KStG, if applicable in conjunction with section 10a (9) 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.

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 shareholder. The same risk exists if 25 percent or more of the shares or voting rights are first united through other measures under a single shareholder or several shareholders with parallel interests. The above-described legal consequences apply accordingly.

Financial risks

The liabilities to banks shown under borrowings stem partly from a variable-interest loan, and partly from a fixed-coupon corporate bond. As of 31 December 2011, the Group's liabilities from these two loans total approximately 614.1 million euros. In addition, there is a revolving credit line of 100 million euros. The covenants of the credit agreements restrict the company's financial leeway.

freenet AG is in each case the borrower and mobilcom-debitel GmbH the guarantor; in the case of the revolving credit line, mobilcom-debitel GmbH can also draw down money directly. The company is permitted to raise loans beyond these credit agreements only within stringent restrictions, e. g. in order to finance future strategic investments.

Furthermore, freenet AG's financial and operating leeway is limited by certain contractual restrictions (undertakings and covenants), to which freenet AG agreed in view of continuing the credit agreements. For example, the company is subject to restrictions regarding changes to the Group's business activities, the implementation of measures to change the Group's structure under corporate law, the provision of collateral, as well as any acquisitions or sales of assets, especially shareholdings.

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 AG's assets, financial position and results.

Interest rate risks from variable-interest loans are limited to 100 percent as of 31 December 2011 by using an interest cap.

The freenet Group consolidated balance sheet shows major amounts of goodwill and intangible assets such as customer relationships and trademarks. There is a risk that impairment testing in subsequent periods can result in major write-downs.

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

If the macroeconomic conditions should undergo a negative development, this could under certain circumstances result in the Group no longer being able to deliver on its agreements with the financing banks. Under certain circumstances this could lead to a right for the financing banks to declare the loans due and payable.

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

Legal risks

Former shareholders of mobilcom AG and freenet.de AG have applied for a court review according to section 15 UmwG (Reorganisation Act) 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 in these legal proceedings that the exchange ratio was inappropriate, the difference will be settled in cash. The cash adjustment will have to be paid to all affected shareholders, even if they were not among the plaintiffs in the compensation claim.

However, it is the company's assumption that the share exchange 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 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 hold the view that the capital increase through contribution in kind of mobilcom AG, the company's legal predecessor, in November 2000 was flawed and/or that the contribution in kind rendered was not 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 capital increase through contribution in kind was performed in a valid manner. The company therefore likewise assumes that this will also have no impact on the share evaluation review proceedings.

Forecast

Market development 2012

Economic research institutes and experts expect gross domestic product to grow by −0.1 percent to 1.3 percent in 2012. As in 2011, domestic demand will remain the strongest support pillar of economic growth. For 2012, GfK GeoMarketing expects a continued decrease in unemployment along with positive wage growth and therefore predicts a 2-percent increase in purchasing power. As the inflation rate is expected to reach 1.8 percent in 2012, real purchasing power will stagnate; consumer spending should, however, continue at the high level of previous years.

With regard to the telecommunications market, VATM and Dialog Consult experts expect the overall market to decline by a maximum of one percent in 2012. Furthermore, it is expected that LTE expansion in urban centres and the intense competition seen in non-voice mobile devices will provide new impetus.

freenet Group

The freenet Group's businesses operate in fiercely competitive markets, with varying growth rates and in some cases declining user numbers. The company currently expects the following developments for 2012 and 2013:

The company will continue to focus on valuable customers in its new customer acquisition, as well as target its customer loyalty programmes to maximise customer quality. This has previously led to a reduction of the customer base. The company assumes a stable development of its customer base in 2012, and expects slight growth in 2013.

The company aims to counter the expected market-wide price decline and associated decline in ARPU by improving the quality of the customer base and by marketing data tariffs. For 2012 and 2013, the company expects a stabilisation of the postpaid ARPU on the level of 2011.

The company also aims to stabilise Group revenue for 2012 and 2013 on the level of 2011. For this the crucial factors are the expectation of a stable customer base, the continued successful marketing of valuable postpaid contracts in conjunction with data products, and the marketing of high-end devices. In addition, the company will evaluate additional areas of action. This includes for example tapping into potential new areas of growth as well as examining options for inorganic growth, close to the core business and within defined narrow specifications in terms of profitability.

Now that the integration of the IT systems to a single platform has been successfully completed, restructuring-related one-off expenses will only have a very limited impact on results from 2012 on and will therefore no longer be shown separately. As a result, recurring Group EBITDA is identical to Group EBITDA.

The freenet Group expects Group EBITDA of 340 million euros and free cash flow of 240 million euros for 2012 and 2013.

In accordance with the financial policy adopted in 2011, the Executive Board plans to continue distributing 40 to 60 percent of future free cash flow as dividends.

The Executive Board has decided to propose to the Supervisory Board the payment of a dividend for the financial year 2011 in the amount of 1.00 euro per share from retained earnings. This represents a payout ratio of 53 percent of free cash flow.

Summary statement on the prospective development of the Group

The Executive Board of freenet AG expects to see a positive overall development of the company based on the stabilisation of the customer base in the valuable postpaid and no-frills segments initiated in 2011, and the successful completion of the integration of the IT systems to a single platform. The company will continue its focus on valuable customer relationships.

The core elements of this business approach are to secure and enhance its long-term profitability and strong cash flow and to continue paying down its debt. In addition, the company will systematically continue to pursue tapping into potential new areas of growth and examining options for inorganic growth.

Büdelsdorf, 2 March 2012
The Executive Board

Christoph Vilanek Joachim Preisig Stephan Esch

“We are also very well positioned against the competition in the operating business with a number of successful initiatives.”

Joachim Preisig, CFO

Consolidated financial statements

Overview

Consolidated income statement and consolidated statement of comprehensive income for the period from 1 January to 31 December 2011

Figures in €'000s	Note	1.1.2011 — 31.12.2011	1.1.2010 — 31.12.2010
Revenue	4	3,217,901	3,339,504
Other operating income	5	86,857	85,692
Other own work capitalised	6	10,838	9,991
Cost of materials	7	–2,502,107	–2,619,199
Personnel expenses	8	–162,918	–149,312
Depreciation and impairment write-downs	9	–168,898	–189,442
Other operating expenses	10	–314,275	–333,064
Operating result		**167,398**	**144,170**
Share of results of associates	18	1,087	1,331
Interest receivable and similar income	11	4,956	18,163
Interest payable and similar expenses	12	–56,102	–61,024
Result before taxes on income		**117,339**	**102,640**
Taxes on income	13	26,509	16,122
Group result from continued operations		**143,848**	**118,762**
Group result from discontinued operations	25	**140**	**–6,295**
Group result		**143,988**	**112,467**
Group result attributable to shareholders of freenet AG		143,764	112,433
Group result attributable to non-controlling interest		224	34
Earnings per share (undiluted) in €	14.1	**1.12**	**0.88**
Earnings per share (diluted) in €	14.2	**1.12**	**0.88**
Earnings per share from continued operations (undiluted) in €	14.1	1.12	0.93
Earnings per share from continued operations (diluted) in €	14.2	1.12	0.93
Earnings per share from discontinued operations (undiluted) in €	14.1	0.00	–0.05
Earnings per share from discontinued operations (diluted) in €	14.2	0.00	–0.05
Weighted average of shares outstanding in thousand (undiluted)		128,061	128,061
Weighted average of shares outstanding in thousand (diluted)		128,061	128,061

Figures in €'000s	1.1.2011 — 31.12.2011	1.1.2010 — 31.12.2010
Group result	**143,988**	**112,467**
Change in fair value of held-for-sale financial instruments	–53	22
Taxes on income recognised directly in equity	16	–7
Change in value recognised directly in equity	–37	15
Consolidated comprehensive income	**143,951**	**112,482**
Consolidated comprehensive income attributable to shareholders of freenet AG	143,727	112,448
Consolidated comprehensive income attributable to non-controlling interest	224	34

Consolidated balance sheet as of 31 December 2011

Assets

Figures in €'000s

	Note	31.12.2011	31.12.2010
Non-current assets			
Intangible assets	15, 16	485,325	578,722
Goodwill	15, 16	1,116,868	1,115,924
Property, plant and equipment	15, 16	29,280	37,678
Investments in associates	18	3,060	3,403
Other investments	19	1,915	2,258
Deferred income tax assets	20	130,900	79,828
Trade accounts receivable	22	43,039	19,530
Other receivables and other assets	22	12,482	11,006
		1,822,869	**1,848,349**
Current assets			
Inventories	21	51,537	51,897
Current income tax assets	24	3,278	3,486
Trade accounts receivable	22	428,471	407,539
Other receivables and other assets	22	36,601	44,500
Cash and cash equivalents	23	185,673	174,334
Assets of disposal group classified as held-for-sale		0	12,283
		705,560	**694,039**
		2,528,429	**2,542,388**

Shareholders' equity and liabilities

Figures in €'000s

	Note	31. 12. 2011	31. 12. 2010
Shareholders' equity			
Share capital	26.1	128,061	128,061
Capital reserve	26.2	737,536	737,536
Revaluation reserve		19	56
Retained earnings	26.3	305,398	268,811
Capital and reserves attributable to shareholders of freenet AG		**1,171,014**	**1,134,464**
Capital and reserves attributable to non-controlling interest		279	0
		1,171,293	**1,134,464**
Non-current liabilities			
Trade accounts payable	28	407	387
Other payables	28	36,608	11,796
Borrowings	30	514,777	584,583
Pension provisions	31	25,428	24,638
Provisions for other liabilities and charges	32	11,173	19,211
		588,393	**640,615**
Current liabilities			
Trade accounts payable	28	399,370	355,191
Other payables	28	124,775	132,082
Current income tax liabilities	29	22,108	27,339
Borrowings	30	200,302	215,435
Provisions for other liabilities and charges	32	22,188	26,929
Liabilities of disposal group classified as held-for-sale		0	10,333
		768,743	**767,309**
		2,528,429	**2,542,388**

Schedule of changes in equity for the period from 1 January to 31 December 2011

Figures in €'000s	Share capital	Capital reserve	Revaluation reserve	Retaines earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1. 1. 2010	**128,061**	**737,536**	**41**	**181,980**	**1,047,618**	**141**	**1,047,759**
Dividend payment	0	0	0	–25,602	–25,602	0	–25,602
Deconsolidation due to sale of subsidiaries	0	0	0	0	0	–175	–175
Group result	0	0	0	112,433	112,433	34	112,467
Change in fair value of held-for-sale financial instruments	0	0	15	0	15	0	15
As of 31. 12. 2010	**128,061**	**737,536**	**56**	**268,811**	**1,134,464**	**0**	**1,134,464**
As of 1. 1. 2011	**128,061**	**737,536**	**56**	**268,811**	**1,134,464**	**0**	**1,134,464**
Dividend payment	0	0	0	–102,409	–102,409	0	–102,409
First-time consolidation of subsidiaries	0	0	0	0	0	55	55
Entry of option liabilities in connection with acquisitions	0	0	0	–4,768	–4,768	0	–4,768
Group result	0	0	0	143,764	143,764	224	143,988
Change in fair value of held-for-sale financial instruments	0	0	–37	0	–37	0	–37
As of 31. 12. 2011	**128,061**	**737,536**	**19**	**305,398**	**1,171,014**	**279**	**1,171,293**

Consolidated statement of cash flows from 1 January to 31 December 2011

Figures in €'000s	Note	1.1.2011 — 31.12.2011	1.1.2010 — 31.12.2010
Result from continued and discountinued operations before interest and taxes (EBIT)		**168,644**	**139,058**
Adjustments			
Depreciation and impairment on items of fixed assets	9	168,898	191,624
Share of results of associates	18	–1,087	–1,331
Proceeds from the sale of subsidiaries	25	0	–4,251
Loss on disposals of fixed assets		1,106	4,259
Increase in net working capital not attributed to investing or financing activities	21, 22, 31, 32, 34.1	–45,719	–82,658
Other non-payment components		–83	–49
Income taxes paid	13, 20	–29,735	–10,400
Cashflow from operating activities	34.1	**262,024**	**236,252**
Investments in property, plant and equipment and intangible assets		–22,495	–26,561
Proceeds from the disposal of property, plant and equipment and intangible assets		1,433	2,044
Purchase of subsidiaries		–763	0
Proceeds from the sale of subsidiaries	25	0	19,062
Return of capital from associates	18	1,430	1,573
Interest received		4,174	4,275
Cashflow from investing activities	34.2	**–16,221**	**393**
Dividend payment		–102,409	–25,602
Proceeds from new borrowings	30	631,644	0
Cash repayments of borrowings	30	–700,670	–454,047
Interest paid		–18,992	–58,117
Cashflow from financing activities	34.3	**–190,427**	**–537,766**
Cash-effective change in cash and cash equivalents		**55,376**	**–301,121**
Cash and cash equivalents at 1.1.		**30,297**	**331,418**
Cash and cash equivalents at 31.12.		**85,673**	**30,297**

Derivation of cash and cash equivalents Figures in €'000s		31.12.2011	31.12.2010
Cash and cash equivalents of continued operations		185,673	174,334
Cash and cash equivalents of discontinued operations		0	2,588
Liabilities as part of current finance scheduling due to banks		–100,000	–146,625
		85,673	**30,297**
Cash flow from operating activities		262,024	236,252
Investments in property, plant and equipment and intangible assets		–22,495	–26,561
Proceeds from the disposal of property, plant and equipment and intangible assets		1,433	2,044
Free cash flow (FCF)		**240,962**	**211,735**

Consolidated statement of movements in non-current assets as of 31 December 2011

Figures in €'000s

	Cost of purchase or production					
	1.1.2011	Change in companies included in consolidation	Additions	Transfers	Disposals	31.12.2011
Intangible assets						
Internally-generated software	45,732	122	10,953	890	2,060	55,637
Software and licences	223,126	0	51,636	–1,686	44,412	228,664
Trademarks	335,035	0	0	0	0	335,035
Customer relationships	488,898	0	0	0	2,588	486,310
Goodwill	1,116,377	944	0	0	453	1,116,868
	2,209,168	**1,066**	**62,589**	**–796**	**49,513**	**2,222,514**
Property, plant and equipment						
Land, facilities on land and buildings	14,979	0	117	51	24	15,123
Switches and networks	111,969	0	0	960	3,892	109,037
Technical equipment and machinery	29,830	0	452	–1,802	7,490	20,990
Other office equipment	109,128	98	5,573	1,961	21,767	94,993
Payments on account and assets under construction	218	0	293	–374	0	137
	266,124	**98**	**6,435**	**796**	**33,173**	**240,280**
	2,475,292	**1,164**	**69,024**	**0**	**82,686**	**2,462,794**

Depreciation and impairment write-downs						Net book amounts	
1.1.2011	Additions	Impairment write-downs	Transfers	Disposals	31.12.2011	31.12.2011	1.1.2011
26,624	9,666	0	0	1,637	34,653	20,984	19,108
187,495	32,609	153	0	44,257	176,000	52,664	35,631
17,849	4,851	0	0	0	22,700	312,335	317,186
282,101	107,455	0	0	2,588	386,968	99,342	206,797
453	0	0	0	453	0	1,116,868	1,115,924
514,522	**154,581**	**153**	**0**	**48,935**	**620,321**	**1,602,193**	**1,694,646**
6,365	576	0	37	24	6,954	8,169	8,614
111,219	42	919	136	3,681	108,635	402	750
25,175	1,502	215	–573	7,440	18,879	2,111	4,655
85,687	10,508	2	400	20,067	76,530	18,463	23,441
0	2	0	0	0	2	135	218
228,446	**12,630**	**1,136**	**0**	**31,212**	**211,000**	**29,280**	**37,678**
742,968	**167,211**	**1,289**	**0**	**80,147**	**831,321**	**1,631,473**	**1,732,324**

Consolidated statement of movements in non-current assets as of 31 December 2010

Figures in €'000s	Cost of purchase or production				
	1.1.2010	**Additions**	**Transfers**	**Disposals**	**31.12.2010**
Intangible assets					
Internally-generated software	36,763	10,175	4,068	5,274	45,732
Software and licences	242,619	5,365	–4,037	20,821	223,126
Trademarks	335,035	0	0	0	335,035
Customer relationships	489,072	0	0	174	488,898
Goodwill	1,116,505	0	0	128	1,116,377
	2,219,994	**15,540**	**31**	**26,397**	**2,209,168**
Property, plant and equipment					
Land, facilities on land and buildings	14,914	65	0	0	14,979
Switches and networks	177,910	65	–4,799	61,207	111,969
Technical equipment and machinery	23,605	2,596	3,704	75	29,830
Other office equipment	120,479	8,078	1,190	20,619	109,128
Payments on account and assets under construction	129	217	–126	2	218
	337,037	**11,021**	**–31**	**81,903**	**266,124**
	2,557,031	**26,561**	**0**	**108,300**	**2,475,292**

Depreciation and impairment write-downs						Net book amounts	
1.1.2010	Additions	Impairment write-downs	Transfers	Disposals	31.12.2010	31.12.2010	1.1.2010
20,588	11,126	0	0	5,090	26,624	19,108	16,175
163,290	42,278	2,545	26	20,644	187,495	35,631	79,329
12,998	4,851	0	0	0	17,849	317,186	322,037
171,531	110,585	0	0	15	282,101	206,797	317,541
0	0	453	0	0	453	1,115,924	1,116,505
368,407	**168,840**	**2,998**	**26**	**25,749**	**514,522**	**1,694,646**	**1,851,587**
5,801	564	0	0	0	6,365	8,614	9,113
176,984	118	120	–4,799	61,204	111,219	750	926
19,398	1,899	226	3,727	75	25,175	4,655	4,207
82,751	16,569	290	1,046	14,969	85,687	23,441	37,728
0	0	0	0	0	0	218	129
284,934	**19,150**	**636**	**–26**	**76,248**	**228,446**	**37,678**	**52,103**
653,341	**187,990**[1]	**3,634**[1]	**0**	**101,997**	**742,968**	**1,732,324**	**1,903,690**

1 The additions to depreciation in the amount of 187,990 €'000s and the impairment write-downs in the amount of 3,634 €'000s are included in the income statement as follows:

Depreciation and impairment write-downs on property, plant and equipment and intangible assets	189,442
Group result from discontinued operations	2,182
	191,624

Notes to the consolidated financial statements of freenet AG for the financial year 2011

1. General information

1.1. Business activity and accounting standards

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 Germany focussing on mobile communications/mobile internet.

The consolidated financial statements for the financial year 2011 were prepared in accordance with the IFRS of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as applied in the European Union as of 31 December 2011. The regulations of commercial law applicable in accordance with clause 315a HGB have additionally been taken into consideration.

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) or million euros.

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 statements of the companies included in the consolidated financial statements are subject to uniform accounting and valuation principles. They have all been prepared in relation to the balance sheet date of 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 2011, or which have been the subject of early voluntary adoption since 1 January 2011, and their related impact on the Group:

Standard/Interpretation		Mandatory application	Adoption by EU Commission	Impact
IAS 32	Change to IAS 32, Financial Instruments: Classification of Subscription Rights	1 February 2010	23 December 2009	None
IFRS 1	Change to IFRS 1, first-time adoption of IFRS: Limited Exemption from Comparison Figures under IFRS 7 for First-Time Adopters	1 July 2010	30 June 2010	None
IAS 24	Change to IAS 24, Related Party Disclosures	1 January 2011	19 July 2010	No material impact
IFRIC 14	Change to IFRIC 14: Advance Payments as Part of Minimum Funding Requirements	1 January 2011	19 July 2010	None
IFRIC 19	Repayment of Financial Liabilities with Equity Instruments	1 July 2010	23 July 2010	None
Various	Annual Improvements Project 2010—Improvements to the IFRS	1 January 2011 (partially sooner)	18 February 2011	No material impact

The following table shows the new or modified standards (IAS/IFRS) or interpretations (IFRIC) which are not yet the subject of mandatory adoption in the financial year 2011 and their probable impact on the Group:

Standard/Interpretation		Mandatory application	Adoption by EU Commission	Impact
IFRS 7	Changes to IFRS 7, Financial Instruments: Information on Transfers of Financial Assets	1 July 2011	Pending	Being reviewed by management
IFRS 1	Changes to IFRS 1, first-time adoption of IFRS: Hyperinflation and Removal of Fixed Times of Adoption for First-Time Adopters	1 July 2011	Pending	None
IAS 19	Changes to IAS 19, Employee Benefits	1 January 2013	Pending	Being reviewed by management
IAS 12	Changes to IAS 12, Deferred Taxes: Realisation of Underlying Assets	1 January 2012	Pending	Being reviewed by management
IAS 1	Presentation of Financial Statements: Presentation of Individual Items of Other Results	1 July 2012	Pending	Being reviewed by management
IFRS 9	Financial Instruments: Classification and Valuation of Financial Assets and Liabilities	1 January 2015	Pending	Being reviewed by management
IFRS 9 and IFRS 7	Changes to IFRS 9 and IFRS 7: Mandatory Time of Adoption and Information Concerning Change-over	1 January 2015	Pending	Being reviewed by management
IFRS 10	Consolidated Financial Statements	1 January 2013	Pending	Being reviewed by management
IFRS 11	Joint Arrangements	1 January 2013	Pending	Being reviewed by management
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013	Pending	Being reviewed by management
IFRS 13	Fair-Value Measurement	1 January 2013	Pending	Being reviewed by management
IAS 27	Parent Company Financial Statements	1 January 2013	Pending	None
IAS 28	Investments in Associates and Joint Ventures	1 January 2013	Pending	Being reviewed by management
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	Pending	None
IAS 32	Changes to IAS 32, Financial Instruments: Presentation: Netting of Financial Assets and Financial Liabilities	1 January 2014	Pending	Being reviewed by management
IFRS 7	Changes to IFRS 7, Financial Instruments: Disclosures: Netting of Financial Assets and Financial Liabilities	1 January 2013	Pending	Being reviewed by management

1.2 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 clause 315a HGB in item 38.

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.

01019 Telefondienste GmbH, 01024 Telefondienste GmbH, freenet.de GmbH, freeXmedia GmbH, freenet Cityline GmbH, freenet Datenkommunikations GmbH, 01050.com GmbH, tellfon GmbH, 01083.com GmbH, new directions GmbH, freenet Direkt GmbH, mobilcom-debitel GmbH, MobilCom Multimedia GmbH, mobilcom-debitel Shop GmbH, DEG Logistik GmbH, Stanniol GmbH für IT & PR, MIDRAY GmbH, klarmobil GmbH as well as callmobile GmbH will take advantage of the exemption regulations specified in clause 264 paragraph HGB for the annual financial statements for the period ending 31 December 2011.

1.3 Consolidation principles

Companies are included for the first time in the consolidated financial statements (full consolidation) with effect from the date on which control over the financial and business policy of the subsidiary is transferred to the Group. They are deconsolidated at the time at which such control is terminated. Control is normally associated with a share in voting rights of more than 50 percent. With regard to the assessment as to whether control exists, due consideration is given to the existence and impact of potential voting rights which are currently exercisable or convertible. The Group also checks whether there is an instance of control if the parent company holds fewer than 50 percent of the voting rights, but is able to manage the financial and business policy of the subsidiary as a result of de-facto control. De-facto control may for instance exist in the case of voting right agreements or enhanced minority rights.

Minority interests in the companies are disclosed separately on the balance sheet.

The purchase method was applied to the capital consolidation.

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. In addition, the costs of purchase comprise the fair values of all recognised assets and liabilities which result from an agreement regarding a contingent consideration.

All of the acquired company's identifiable assets, liabilities and contingent 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. For each company acquisition, the Group decides on an individual basis whether the shares in the acquired company which are not controllable are recognised at fair value or on the basis of the percentage of net assets attributable to the acquired company.

When options are granted to enable non-controlling shareholders to serve further shares on group companies, the way in which the options are recognised depends on the way in which opportunities and risks arising from these shares are attributed. If the opportunities and risks are transferred to the freenet Group, this is reflected in a corresponding reduction in the equity of the Group which is attributable to the non-controlling shareholders. In such cases, only a financial liability in relation to the option obligation is recognised. If the opportunities and risks are retained by the non-controlling shareholder, the equity which is attributable to the non-controlling shareholders is recognised. In this case, the financial liability relating to the option obligation is recognised against the equity attributable to the shareholders of freenet AG. The financial liability is initially valued at the present value of the estimated repurchase amount at the expected time of exercising, and the financial liability is subsequently measured at amortised cost of purchase by means of the effective interest rate method.

Acquisition-related costs are recognised in the income statement when they are incurred.

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 contingent 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, income and expenses 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 associate's equity capital which is attributable to the freenet Group. The percentage interest of the Group in profits and losses of associates is recognised in the income statement from the point at which the associate is acquired. Goodwill arising from the acquisition of associates is not disclosed separately.

Internal profits and losses, revenue, expenses and income as well as intercompany receivables and liabilities are eliminated. The elimination of intercompany profits is also applicable for associates.

2. 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 consistently applied compared with the previous year.

2.1 Revenue

The Group mainly provides services for a short period. Revenue is recognised after the services have been rendered completely if the amount of revenue can be reliably determined and if it is probable that a future economic benefit will flow to the Company. Services rendered but not yet invoiced are accrued separately in the consolidated financial statements. Revenue is disclosed net of value added tax and cash discounts. Revenue comprises 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 revenue of the Group are generated with a large number of end users; the remaining revenue are attributable to business clients.

Supplementary notes on revenue:

Revenues in the Mobile Communications segment are generated by the range of mobile communications services offered, one-off provision charges as well as the sale of mobile devices and accessories. Mobile communications revenues (voice communication as well as data transmission) comprise monthly charges, charges for special features as well as connection and roaming charges. The voice communication and data transmission fees are recognised as revenue over the period during which the service is provided. Revenues from the sale of mobile devices and accessories products are recognised when the products are delivered to the customer or the distributor. Revenue attributable to provision fees are realised at the point at which network access is provided to the customer.

Certain end user contracts in the Mobile Communications segment are multiple-component contracts as detailed in IAS 18.13. The “relative-fair-value method” is used for revenue generated with multiple-component contracts. The Group applies the US-GAAP guideline EITF 00-21 in accordance with IAS 8.10 et seq. The price for the entire multiple-component business is broken down over the various valuation entities on the basis of the proportionate fair values. The extent of the revenue to be recognised in relation to the elements which have already been supplied is limited to the extent of the revenue which is not dependent on services to be provided in future (so-called “cash restriction”).

The Group receives commission revenue from the operators of the mobile communications networks particularly for new users who are signed up and for contract extensions. Commission revenue for new customers is 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 the average revenue per user. In addition, advertising cost subsidies are also provided for some advertising campaigns by the network operators and, if the granting of the subsidies is linked to the new customers, these are recognised in the revenue.

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

2.2 Borrowing costs, interest income

Borrowing costs are capitalised if a qualified asset exists. In the financial year 2011, no borrowing costs capable of being capitalised were incurred. Other borrowing costs are recognised as expense. The effective interest rate method is used for interest expenses and interest income.

2.3 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 allocated to cash generating units. It is allocated to 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 breakdown, please refer to item 15 “Intangible assets, property, plant and equipment and goodwill” as well as item 16 “Impairment test for non-monetary assets”.

A trademark with a major residual carrying amount is an asset with an indefinite useful economic life which is not depreciated, and instead is 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 this asset, nor could any time limit be set on its useful life.

The other trademarks, on the contrary, have a definable maturity. These trademarks are carried at their historical cost and are depreciated over their expected useful economic life of 12 to 90 months on a straight-line basis. On the balance sheet date 31 December 2011, the remaining useful life of these trademarks was between 24 and 48 months.

Licences and software are shown at cost and are depreciated using the straight-line method over their expected economic life, in general three years for software and three to ten years for licences.

Costs incurred in developing or maintaining software programs are usually recognised as expenses in the year they are incurred. Costs that are clearly relating to a definable 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 of the software development team as well as expenses on services and fees incurred in creating the asset. Development costs are not capitalised until the point in time when the product’s 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 42 to 66 months using the straight-line method. The main customer relations shown in the consolidated financial statements are written down over a residual useful life of 12 months as of 31 December 2011.

Distribution rights are depreciated using the straight-line method over the expected duration of the underlying agreement.

2.4 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 residual book values and useful economic lives are reviewed at each balance sheet date and adjusted where applicable.

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

Asset	Useful life
Buildings	7 to 25 years
Technical equipment and machinery	3 to 10 years
Motor vehicles	1 to 8 years
IT equipment	2 to 10 years
Telecommunications equipment and hardware	2 to 8 years
Leasehold improvements	1 to 10 years

2.5 Impairment of non-monetary assets

Non-monetary assets are always impaired if the book value 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.

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, because no write-ups are possible in this respect.

2.6 Leases

2.6.1 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 accordance with IAS 17, the leased assets which are attributable to the Group as the beneficial owner under finance leases are capitalised with the lower of fair value of the leased asset and the present value of the minimum lease payments, and are depreciated over the shorter of their normal useful life and the term of the lease. 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. As of the reporting date 31 December 2011, one agreement was classified as a finance lease—this agreement relates to the leasing of various items of software and hardware for our shops.

2.6.2 Finance leases where the Group is the lessor

When beneficial ownership of an asset is transferred to the contractual partner or 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 concluded. Lease instalments which are received are split into an interest component, which is recognized in the income statement, and a redemption component. The interest components are recognised as financial income spread over the relevant periods. As of the closing date 31 December 2011, there are no contracts in which the Group is classified as the lessor in finance leases.

In accordance with IAS 17, the leased assets which are attributable to the Group as the beneficial owner under finance leases are capitalised with the lower of fair value of the leased asset and the present value of the minimum lease payments, and are depreciated over their normal useful life.

2.7 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 principles of consolidation using the equity method, please refer to item 1.3.

2.8 Financial instruments

2.8.1 Definition and classification

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:

- Financial assets measured at fair value through profit or loss,
- Loans and receivables,
- Held-to-maturity financial assets,
- Available-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.

2.8.2 Financial assets measured at fair value through profit or loss

This category comprises financial assets which are classified as held-for-trading right from the start, 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. Derivatives are also included in this category.

The financial assets measured at fair value through profit or loss which existed on the balance sheet date consist of derivative financial assets which are shown under current other receivables and other assets.

2.8.3 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. Such assets are shown as non-current assets. Loans and receivables are shown in the balance sheet under trade accounts receivable, in other receivables and other assets as well as in cash and cash equivalents. They also include services which have been provided but not yet been billed, but for which a contractual claim exists.

2.8.4 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 correspondingly are shown as current assets—have to be shown under non-current assets.

At present, the Group does not classify any financial instruments as held-to-maturity.

2.8.5 Available-for-sale financial assets

Available-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 available-for-sale financial assets. The available-for-sale financial assets which existed on the balance sheet date are shown in the other financial assets as well as the other receivables and other assets.

2.8.6 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.

Financial assets measured at fair value through profit or loss are subsequently measured at 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 and caps 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 and caps are not shown as “hedge accounting” in accordance with IAS 39. Changes in fair value are thus immediately recognised in the income statement.

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, impaired or amortised.

After initial recognition, held-to-maturity investments are shown at fair value plus transaction costs. Profits and losses are recognised in the result for the period if the held-to-maturity investments are derecognised, impaired or amortised.

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

Financial assets and liabilities are only netted and shown as a net figure in the balance sheet if there is a legal entitlement to such treatment and if it is intended that the position will be settled on a net basis or if it is intended that the sale of the respective asset will be used to settle the corresponding liability.

2.8.7 Cash and cash equivalents

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

2.8.8 Liabilities

Liabilities comprise 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 or amortised.

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. 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 at the present value of the minimum lease payments.

2.8.9 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 that are classified as available-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 available-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 in the income statement.

In the case of non-listed shares that are categorised as available 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 book value 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.

2.8.10 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 associated with ownership of the assets to a third party.

2.9 Inventories

Inventories are shown at the lower of purchase and production 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.

2.10 Foreign currency transactions

The items included in the annual financial statements of each Group company are valued on the basis of the currency corresponding to the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statements are prepared in euros, which form the reporting currency of freenet AG.

Foreign currency transactions are translated into the functional currency using the exchange rates applicable on the date of the transaction. Profits and losses which result from the fulfilment of such transactions and also from the process of converting monetary assets and liabilities denominated in foreign currency as of the reference date are recognised in the income statement.

The results and balance sheet items of all Group companies which have a functional currency other than the euro are converted into euros using the modified reference date rate method.

2.11 Shareholders' equity

Ordinary shares, capital reserves, revaluation reserves, group cumulative profit as well as minority interests are shown as shareholders' equity. After the deduction of related current taxes, costs of capital increases are recognised directly in shareholders' equity in capital reserves.

2.12 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 actuarial 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 account not only of the pensions and acquired vested interests known on the balance sheet 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.

Past 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 shown in the income statement using the straight-line method over the period until the rights become vested.

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

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

2.13 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 essentially comprise severance payments to employees. Provisions for contingent losses primarily comprise payments for the premature termination of rental agreements.

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 therefore created to cover the present value of obligations 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 book value of the tenant fittings (upper limit: recoverable amount; lower limit: zero).

2.14 Debt

Upon initial recognition, borrowings are shown with their fair value and after transaction costs. In subsequent periods, they are recognised as amortised cost of purchase. Any difference between the amount paid out (after transaction costs) and the amount repaid is recognised in the income statement over the term of the loan using the effective interest method.

2.15 Employee participation programmes

The following employee participation programmes existed (or still exist) in the Group in the financial year 2011:

- Stock appreciation rights of freenet AG,
- Stock options of the former mobilcom AG,
- Long Term Incentive Programme (also referred to in the following as "LTIP programme").

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

2.15.1 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 item 27.1 “Stock appreciation rights of freenet AG”.

2.15.2 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. Under the facility for exercising option rights, the former mobilcom AG exercised its substitution right whereby the stock options were settled in the form of an equivalent cash payment. The provision was calculated on the basis of the fair value of the options which will probably become exercisable. The amount paid into the provision was recognised by an entry made directly in equity. The estimate of the number of options which would be expected to become exercisable was reviewed on every balance sheet day.

Because this stock option programme has now come to an end, all options still existing on 31 March 2011 have now expired.

2.15.3 LTIP programme

In the financial year 2011, a new compensation programme with a long-term incentive effect, the so-called “LTIP programme”, was set up for members of the Executive Board.

For this purpose, a separate LTIP account is maintained for every member of the Executive Board; this account is used for recording a debit or credit in the form of virtual shares for each financial year, depending on the degree of success in attaining certain objectives defined for the specific financial year. For each financial year, cash payments, less taxes and charges, are then made at a defined time, depending on the balance on the LTIP account. The extent of these payments depends on various factors, including the share price applicable at the time of the payment. The provision is measured at the fair value of the virtual shares which will probably become vested. For details, please refer to our explanations to item 27.3. “LTIP programme of freenet AG”.

2.16 Deferred and current taxes on income

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 book values 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.

Deferred tax liabilities which result from temporary differences in connection with holdings in subsidiaries and associates are recognised, unless the time at which the temporary differences are reversed can be determined by the Group and it is likely that the temporary differences will not reverse in the foreseeable future as a result of this influence.

The current tax expense is calculated in accordance with the German tax regulations which are applicable on the closing date or which will be applicable in the near future. Management regularly reviews tax declarations, particularly with regard to issues which are subject to interpretation and, when appropriate, create provisions based on the likely amounts which will have to be paid to the fiscal authorities.

2.17 Accruals and deferrals for government grants

Accounts receivable in the form of government grants are capitalised provided a corresponding claim exists and the amount thereof can be estimated with sufficient reliability. In accordance with IAS 20, this item is shown as accruals and deferrals in the other liabilities, accruals and deferrals, and is recognised in the income statement in accordance with the period over which the subsidised assets are written down. If, at the time when the grant entitlement comes into being, the assets in question have already been depreciated either in whole or in part, it will be recognised immediately.

2.18 Exercise of management discretion

We provide the following details pursuant to IAS 1.122:

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

An evaluation of the value of the receivables as well as other assets was carried out for establishing suitable valuation adjustments for trade accounts receivable and other assets. 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.

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 Group 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.

2.19 Forward looking assumptions and margins of error

With regard to the most significant forward-looking assumptions and margins of error inherent in the consolidated financial statements, we hereby make the following observations pursuant to IAS 1.125:

With regard to the forward-looking assumptions made within the framework of the tests relating to potential goodwill impairments (book value as of 31 December 2011: 1,116.9 million euros; previous year: 1,115.9 million euros) as well as impairments of intangible assets with an indefinite useful economic life (book value as of 31 December 2011: 293.3 million euros, previous year: 293.3 million euros), please refer to item 16 "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. 232 million euros if the WACC were increased by 0.5 percentage points and would increase by approx. 274 million euros if the WACC were to decline 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 by 515 million euros (if the WACC were to be increased by 0.5 percentage points) or increase by 607 million euros (if the WACC were to be reduced by 0.5 percentage points); this would not result in any impairment with regard to the assets allocated to this CGU.

The deferred tax assets relating to loss carryforwards 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 extent of the capitalised deferred taxes on loss carryforwards and also the extent of the loss carryforwards in relation to which no deferred tax assets have been recognised, please refer to item 20 "Deferred tax assets and deferred tax liabilities". A sensitivity analysis carried out in relation to the deferred tax assets has established that the deferred tax assets would increase by approx. 16.2 million euros if the trade income or corporation tax income were to increase by 10 percent in the relevant planning period, and that they would decline by approx. 16.2 million euros if the trade income or the corporation tax income were to decline by 10 percent in the relevant planning period.

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 valuation of the provision for contingent losses for reducing the landline/internet network, an assumption has been made with regard to the remaining terms of certain rental agreement and thus the extent of future losses in this field.

With regard to the assumptions and estimates made in the binomial model used for determining the provisions for outstanding stock appreciation rights as well as the provision for the LTIP programme (in each case according to IFRS 2) as of 31 December 2011, please refer to item 27 "Employee participation programmes".

With regard to pension provisions and similar obligations, item 31 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 beneficiaries as well as an assessment of an expected return on the plan assets.

With regard to the trade accounts receivable that are attributable to multiple-component agreements relating to the facility for end customers to select more valuable mobile units in return for an additional monthly payment (mobile phone option), and in order to determine the fair value of these receivables, assumptions have been made regarding the interest rate applicable for commensurate terms and levels of risk in order to determine the present value of the expected future cash flows arising from these agreements. This interest rate takes account of the maturity as well as of the default risk of these receivables. A sensitivity analysis in relation to this interest rate has established that these receivables would have been 0.6 million euros lower if the interest rate had increased by 0.5 percentage points and would have been 0.6 million euros higher if the interest rate had declined by 0.5 percentage points.

2.20 Discontinued operations and available-for-sale long-term assets

Discontinued operations and available-for-sale long-term assets, which are classified as held-for-sale, are shown at the lower of book value and fair value less costs to sell if it is generally more likely that their book value can be realised by way of a sale than by way of further use. At the point of reclassification to the discontinued operations and available-for-sale long-term assets, depreciation of the corresponding assets is no longer calculated.

The available-for-sale assets or the available-for-sale group of assets are reclassified as “Continued operations” when the criteria of IFRS 5 are no longer satisfied. The assets or the group of assets are shown at the lower of book value 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.

2.21 Comparable figures

When the consolidated financial statements for 2011 are compared with the consolidated financial statements for 2010, it has to be born in mind with regard to the result of discontinued operations that the Next ID Group which was sold with effect from 1 January 2011, was still fully consolidated in 2010. In addition, follow-up costs and income attributable to the sales of DSL operations and the STRATO Group were also included in the result of discontinued operations in 2010. On the other hand, only one subsequent income item from the final deconsolidation of the Next ID Group was included in the result of discontinued operations in 2011.

3. Segmental reporting

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 Executive Board 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 2011:

Mobile Communications:

- activities as a mobile communications service provider—marketing of mobile communication services (voice and data services) for the mobile communication operators T-Mobile, Vodafone, E-Plus and O_2 in Germany,
- on the basis of the network operator agreement concluded with these network operators, a range of the Company's own independent services and tariffs as well as a range of tariffs of the network operators,
- sale of mobile communications devices as well as additional services for mobile data communications,
- rendering of sales services.

Other:

- rendering of portal services such as E-commerce/-advertising services (these essentially comprise the range of online shopping services and the marketing of advertising banners on web sites) as well as pay services for end users,
- development of communication solutions, EDP services and other services for business customers,
- range of narrowband voice services (call-by-call, pre-selection) and data services,
- rendering of sales services.

Each of the two segments also provide (or used to provide) services to the other segment. 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. As in the previous year, it was possible in the financial year 2011 for all expenses and income to be clearly allocated to the two segments "Mobile Communications" and "Other" by allocating the individual consolidated group companies to one of the segments.

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.

The mass business which is carried out by the freenet Group and which focuses mainly on private customers is not dependent on individual customers.

Segment report 1 January 2011 to 31 December 2011

Figures in €'000s

	Mobile Communi-cations	Other	Elimination of intersegment revenue and costs	Effects regarding IFRS 5	Total
Third-party revenue	**3,145,917**	**71,984**	**0**	**0**	**3,217,901**
Intersegment revenue	3,788	5,571	–9,359	0	0
Revenue, total	3,149,705	77,555	–9,359	0	3,217,901
Cost of materials, third parties	**–2,469,523**	**–32,584**	**0**	**0**	**–2,502,107**
Intersegment cost of materials	–3,328	–4,686	8,014	0	0
Cost of materials, total	–2,472,851	–37,270	8,014	0	–2,502,107
Segment gross profit	**676,854**	**40,285**	**–1,345**	**0**	**715,794**
Other operating income	76,132	15,206	–4,322	–159	86,857
Other own work capitalised	10,004	834	0	0	10,838
Personnel expenses	–134,377	–28,541	0	0	–162,918
Other operating expenses	–289,052	–30,890	5,667	0	–314,275
Share of results of associates	0	1,087	0	0	1,087
Segment EBITDA	**339,561**	**–2,019**	**0**	**–159**	**337,383**
Depreciation and impairment write-downs	–162,564	–6,334	0	0	–168,898
Segment EBIT	**176,997**	**–8,353**	**0**	**–159**	**168,485**
Group financial result					–51,146
Taxes on income					26,509
Group result from continued operations					**143,848**
Group result from discontinued operations					**140**
Group result					**143,988**
Group result attributable to shareholders of freenet AG					143,764
Group result attributable to non-controlling interest					224
Investments in continued operations	**19,806**	**2,689**			**22,495**

Segment report 1 January 2010 to 31 December 2010

Figures in €'000s

	Mobile Communi-cations	Other	Elimination of intersegment revenue and costs	Effects regarding IFRS 5	Total
Third-party revenue	**3,261,682**	**92,910**	**0**	**–15,088**	**3,339,504**
Intersegment revenue	3,953	6,481	–10,434	0	0
Revenue, total	3,265,635	99,391	–10,434	–15,088	3,339,504
Cost of materials, third parties	**–2,588,655**	**–34,450**	**0**	**3,906**	**–2,619,199**
Intersegment cost of materials	–2,531	–6,041	8,572	0	0
Cost of materials, total	–2,591,186	–40,491	8,572	3,906	–2,619,199
Segment gross profit	**674,449**	**58,900**	**–1,862**	**–11,182**	**720,305**
Other operating income	79,323	13,302	–4,162	–2,771	85,692
Other own work capitalised	9,265	726	0	0	9,991
Personnel expenses	–123,161	–34,525	0	8,374	–149,312
Other operating expenses	–311,225	–37,703	6,024	9,840	–333,064
Share of results of associates	0	1,331	0	0	1,331
Segment EBITDA	**328,651**	**2,031**	**0**	**4,261**	**334,943**
Depreciation and impairment write-downs	–177,664	–13,960	0	2,182	–189,442
Segment EBIT	**150,987**	**–11,929**	**0**	**6,443**	**145,501**
Group financial result					–42,861
Taxes on income					16,122
Group result from continued operations					**118,762**
Group result from discontinued operations					**–6,295**
Group result					**112,467**
Group result attributable to shareholders of freenet AG					112,433
Group result attributable to minority interest					34
Investments in continued operations	**21,821**	**4,343**			**26,164**

4. Revenue

A breakdown of revenue of 3,218 million euros (previous year: 3,340 million euros) is set out under item 3 “Segment reporting”.

Of external revenue generated in the Mobile Communications segment, basically 2,037 million euros (previous year: 2,345 million euros) relates to rentals and fees, 591 million euros (previous year: 501 million euros) relates to fees for premiums and commissions, and 484 million euros (previous year: 416 million euros) relates to the sale of mobile communications devices and accessories.

5. Other operating income

The other operating income mainly comprises income from dunning charges and charges for reversing direct debits, advertising cost subsidies (insofar as not linked to new customer activation), income from charging fees to employees for the use of company cars as well as income from the reversal of provisions and accrued liabilities.

This item includes income attributable to other periods arising from changes in estimates (equivalent to a figure of single-digit millions), resulting in non-cash reductions in the other provisions.

6. Other capitalised own work

The other capitalised own work relates essentially to the development of software in the mobile communications field. These are almost exclusively due to IT migrations.

The capitalised costs comprise the directly attributable individual costs (mainly relating to consultancy fees and personnel expenses) as well as proportionate overheads.

7. Cost of materials

The cost of materials is broken down as follows:

Figures in €’000s	2011	2010
Costs of purchased goods	532,152	544,446
Costs of purchased services	1,969,955	2,074,753
	2,502,107	**2,619,199**

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

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

8. Personnel expenses

Personnel expenses are broken down as follows:

Figures in €'000s	2011	2010
Wages and salaries	138,871	124,749
Social contributions and expenses for retirement pensions	24,047	24,563
	162,918	**149,312**

On average, 4,065 persons were employed in the Group in the financial year 2011 (previous year: 4,111). At the end of the financial year 2011, the Group employed 4,057 persons (previous year: 3,972 persons).

The employee participation programme of the Company has resulted in personnel expenses increasing by 1,381 thousand euros in accordance with IFRS 2 (previous year: decline of 4,011 thousand euros in personnel expenses).

With regard to an explanation of the employee participation programme, please refer to our comments to items 2.15 and 27 "Employee participation programme".

Personnel expenses also comprise an expense of 402 thousand euros for defined benefit plans (previous year: 473 thousand euros), see also item 31 "Pension provisions and similar obligations".

Personnel expenses include a figure of 11,691 thousand euros as the employer's social insurance contribution as costs of defined contribution benefit plans (previous year: 11,771 thousand euros).

9. Depreciation and impairments

The following table sets out the depreciation and impairments:

Figures in €'000s	2011	2010
Depreciation on intangible assets	154,581	168,325
Impairment write-downs on intangible assets	153	2,044
Depreciation on property, plant and equipment	12,630	18,938
Impairment write-downs on property, plant and equipment	1,136	135
Impairment write-downs on financial assets	398	0
	168,898	**189,442**

The impairment write-downs on intangible assets and property, plant and equipment relate to the reduction of network equipment in the fixed-network field, and mainly affect licenses, switches and line networks as well as technical equipment and machinery.

The impairment write-downs on financial assets relate to the investment in Pocketfilm Media Entertainment GmbH, Frechen. Further information is included in item 19 “Other financial assets”.

The impairment write-downs on intangible assets reported in the previous year mainly related to a distribution right as well as the right to use a software program. The value of the distribution right has been fully impaired due to the restructuring process at a distribution partner threatened by insolvency and the resultant assessment of the value in use (zero). The partial impairment write-down of a right to use a software program was attributable to the intention to make only limited use of this software in future, which was equivalent to a reduction in the value in use. This software had been primarily used in the former “DSL Business”, which means that the limited use was a consequence of the sale of “DSL Business” which took place in 2009.

All impairment costs of the financial year 2011 are attributable to the segment “Other”.

10. Other operating expenses

Other operating expenses mainly comprise marketing costs, legal and consultancy costs, administration costs, postage costs, costs of impairments and the default of receivables.

In the financial year, costs of impairments and the default of receivables totalling 36,831 thousand euros (previous year: 46,178 thousand euros) were incurred. As was the case in the previous year, these costs were fully attributable to trade accounts receivable.

An amount of 32,141 thousand euros (previous year: 51,929 thousand euros) were recognised in the income statement for rental and leasing contracts.

As was the case in the previous year, the other operating expenses do not include any currency translation costs.

11. Other interest and similar income

Other interest and similar income consists of the following items:

Figures in €'000s	2011	2010
Interest receivable from banks, debt collection and similar income	4,923	3,412
Income from market valuation of derivative financial instruments	0	13,460
Compound interest from assets	0	991
Interest of tax refund	33	300
	4,956	**18,163**

12. Interest and similar expenses

Interest and similar expenses are broken down as follows:

Figures in €'000s	2011	2010
Interest payable to banks and similar costs	41,086	50,419
Expense of cumulative interest in relation to liabilities	12,371	8,111
Interest on pension obligations	1,560	1,502
Expense of the market valuation of derivative financial instruments	792	266
Interest expense of additional tax payments	148	726
Other	145	0
	56,102	**61,024**

Of the figure shown for interest expenses for 2011 resulting from the compounding of liabilities, 6,888 thousand euros are attributable to one-off interest expenses in accordance with the effective interest rate method on the occasion of replacing the former financing arrangement, 4,997 thousand euros are attributable to the compounding of trade accounts payable and other liabilities, and 486 thousand euros are attributable to the compounding of other provisions.

13. Taxes on income

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

Figures ins €'000s	2011	2010
Current tax expenses for the financial year	–24,898	–25,143
Tax income (previous year: tax expense) for previous years	293	–6,924
Deferred tax income due to the write-up of deferred tax assets	24,098	14,563
Deferred tax income due to temporary differences	26,997	34,601
Deferred tax expenses attributable to tax rate changes	0	–1,060
	26,490[1]	**16,037**[2]

1 Of the figure of 26,490 thousand euros for the actual tax income for the year 2011, 26,509 thousand euros is attributable to tax income for the continued operations, and 19 thousand euros is attributable to tax costs for the discontinued operations.

2 Of the figure of 16,037 thousand euros for the actual tax income for the year 2011, 16,122 thousand euros is attributable to tax income for the continued operations, and 85 thousand euros is attributable to tax costs for the discontinued operations.

For further details concerning deferred taxes, please refer to item 20 "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 expenses of 34.5 million euros (previous year: 28.4 million euros). The difference between this amount and the actual tax income of 26.5 million euros (previous year: tax expense of 16.0 million eruos) is shown in the following reconciliation.

Figures in €'000s	2011	2010
Results of continued and discontinued operations before taxes on income	**117,498**	**96,430**
Expected tax expense applying a tax rate of 29.4 percent (previous year: 29.4 percent)	–34,544	–28,350
Change in the allowance for deferred tax assets and non-recognised deferred tax assets in relation to losses carried forward	60,981	50,627
Tax effect of non-allowable expenses and tax-free income	–240	787
Effects due to changes in tax rate	0	–1,060
Tax expense from previous years	293	–6,924
Other income and expenses	0	957
Actual tax income (previous year: tax expense)	**26,490**[1]	**16,037**[2]
Effective tax rate in percent	–22.54	–16.63

1 Of the figure of 26,490 thousand euros shown as actual tax income for the year 2011, 26,509 thousand euros are tax income in relation to continued operations and 19 thousand euros are tax expense for discontinued operations.

2 Of the figure of 16,037 thousand euros shown as actual tax income for the year 2011, 16,122 thousand euros are tax income in relation to continued operations and 85 thousand euros are tax expense for discontinued operations.

For the Group companies, a corporation tax rate of 15 percent (previous year: 15 percent) was used in the financial year 2011 for calculating the current and deferred taxes on income. A solidarity surcharge of 5.5 percent in relation to the corporation tax as well as an average trade tax assessment rate of 389.38 percent (previous year: 387.59 percent) were also used. The deferred taxes in the financial year 2011 were calculated with an average rate of 29.4 percent (previous year: 29.4 percent).

14. Earnings per share

14.1 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 increased as a result of the possible utilisation of contingent capital.

	2011	2010
Group result attributable to shareholders of freenet AG in €'000s	143,764	112,433
Weighted average of shares outstanding	128,061,016	128,061,016
Earnings per share in € (undiluted)	**1.12**	**0.88**
thereof from continued operations in €	1.12	0.93
thereof from discontinued operations in €	0.00	–0.05

14.2 Diluted earnings per share

Diluted earnings per share are calculated by dividing the result attributable to theshareholders 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.

	2011	2010
Group result attributable to shareholders of freenet AG in €'000s	143,764	112,433
Weighted average of shares outstanding	128,061,016	128,061,016
Potential number of diluting shares	0	0
Weighted average of shares outstanding plus potential number of diluting shares	128,061,016	128,061,016
Earnings per share in € (diluted)	**1.12**	**0.88**
thereof from continued operations in €	1.12	0.93
thereof from discontinued operations in €	0.00	–0.05

15. 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.

The main book values of intangible assets relate to trademarks and customer relations attributable to the purchase price allocation on the occasion of the acquisition of the debitel Group in the financial year 2008.

The following table sets out the book values of these trademarks and customer relations as at the end of the financial year:

Figures in €'000s	31.12.2011	31.12.2010
Trademarks	312,127	316,968
Customer relations	99,233	206,632
	411,360	**523,600**

In addition to the trademarks and customer relations from the debitel acquisition, further intangible assets of 74.0 million euros are shown as of 31 December 2011 (31 December 2010: 55.1 million euros).

Impaired intangible assets existed as of 31 December 2011. Software is impaired as a result of the reduction of network technology, and rights to use software are impaired as a result of the intended limited use.

The goodwill recognised in relation to cash generating units is broken down in the following:

Figures in €'000s	31.12.2011	31.12.2010
Mobile Communications	1,111,830	1,111,830
Other	5,038	4,094
	1,116,868	**1,115,924**

The increase of 944 thousand euros shown under "Other" relates to the initial consolidation of MFE Energie GmbH, Berlin (also referred to in the following as "MFE"). Please refer also to item 37 "Company acquisitions".

No research and development costs were recognised in the income statement.

16. 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 1,111,830 thousand euros was allocated to the cash generating unit ("CGU") "Mobile Communications" (previous year: 1,111,830 thousand euros); an intangible asset with an indefinite useful life of 293,204 thousand euros was allocated to a trademark (previous year: 293,204 thousand euros). The business models “Postpaid”, “Prepaid” and “No frills” are combined in the “Mobile Communications” CGU.

Because it is possible for cash flows to be allocated to the trademarks with an undefined useful life, the capital value oriented method in the form of the licence price analogy method was used for determining the fair value less costs to sell. The licence rate for this trademark calculated on the basis of comparable transactions remained at 1.5 percent as in the previous year, with due consideration being given to its specific strength as a premium brand. The planned brand-relevant revenue for this trademark is taken from the planning for the CGU “Mobile Communications” described in the text below. The capitalisation rate (WACC) after tax used for calculating the fair value is 6.6 percent as of the closing date (previous year: 6.6 percent). With regard to the capitalisation rate in the subsequent phase (starting 2016), a discount of 0.5 percent has been assumed as a result of growth assumptions (previous year: 0.5 percent). There was no need for an impairment to be recognised for the trademark with an indefinite useful life allocated to the CGU “Mobile Communications”.

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 2015 and which was approved by management was used for calculating the fair value. The detailed planning phase was extrapolated in the perpetual yield.

Planning is based on detailed assumptions derived from previous experience and future expectations in relation to the main result 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 new customers and customer retention. These are opposed by the costs for purchased services, particularly with regard to the mobile network operators. The costs of acquiring and retaining customers dominate the contribution to earnings made by new customers and customer loyalty. This is opposed by costs for procuring the hardware and dealer commissions to be paid to sales partners as a result of the acquisition or loyalty programmes. freenet is assuming slightly reduced customer acquisition costs and slightly higher customer retention costs in the planning period.

The capitalisation rate after tax derived in relation to the specific risk structure of the CGU “Mobile Communications” on the basis of market data and used in the course of determining the fair value is 6.6 percent (previous year: 6.6 percent). With regard to the capitalisation rate in the subsequent phase (starting 2016), a discount of 0.5 percent has been assumed as a result of growth assumptions (previous year: 0.5 percent).

The impairment test 2011 carried out in relation to the “Mobile Communications” CGU established that no impairment has to be recognised in relation to the allocated goodwill as well as the intangible assets with an indefinite useful life.

In the financial year 2011, impairments of 1,687 thousand euros (previous year: 2,179 euros) were recognised in relation to non-monetary assets for the continued operations—please refer to item 9 “Depreciation and impairments”.

17. Joint ventures

The consolidated financial statements show an investment in three joint ventures, including 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 expenses are shown as of 31 December 2011 or in the financial year 2011:

Figures in €'000s	FunDorado GmbH	Attributable to the Group
Current assets	2,376	1,188
Non-current assets	2,190	1,095
	4,566	**2,283**
Current liabilities	2,764	1,382
Non-current liabilities	76	38
	2,840	**1,420**
Income	8,704	4,352
Expenses	7,984	3,992

The following assets, liabilities, income and expenses are shown as of 31 December 2010 or in the financial year 2010 for FunDorado:

Figures in €'000s	FunDorado GmbH	Attributable to the Group
Current assets	2,179	1,089
Non-current assets	1,826	913
	4,005	**2,002**
Current liabilities	1,922	961
Non-current liabilities	76	38
	1,998	**999**
Income	7,991	3,996
Expenses	6,890	3,445

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 2011. In the financial year 2011, FunDorado GmbH employed an average of 38 persons (previous year: 38).

Effective 13 October 2006, FunDorado GmbH acquired a 50 percent stake in NetCon Media s.r.o. based in Hlucin, the Czech Republic (referred to in the following as “NetCon”). The Company produces content which is designed to be used primarily 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. For the sake of simplicity, 1 November 2006 has been chosen as the date of initial consolidation.

Including the balances of its subsidiary siXXup, NetCon shows the following assets and liabilities as of 31 December 2011, and the following assets, liabilities, income and expenses for the financial year 2011:

Figures in €’000s	Netcon Media s.r.o.	Attributable to the Group
Current assets	344	86
Non-current assets	328	82
	673	**168**
Current liabilities	176	44
Non-currrent liabilities	0	0
	176	**44**
Income	1,839	460
Expenses	1,775	444

Including the balances of its subsidiary siXXup, NetCon shows the following assets, liabilities, income and expenses as of 31 December 2010 and for the financial year 2010 respectively:

Figures in €’000s	Netcon Media s.r.o.	Attributable to the Group
Current assets	266	67
Non-current assets	327	82
	594	**148**
Current liabilities	131	33
Non-currrent liabilities	0	0
	131	**33**
Income	1,652	413
Expenses	1,642	411

In the financial year 2011, NetCon, including its subsidiary, employed an average of 75 persons (previous year: 75).

As of 31 December 2011, there were no contingent obligations or capital commitments in connection with the Group interest in these joint ventures.

18. Investments in associates

The book value of companies accounted for using the equity method as of 31 December 2011 was 3,060 thousand euros (previous year: 3,403 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 2011, KielNET generated revenue of 17,533 thousand euros (previous year: 19,083 thousand euros) as well as net income of 2,118 thousand euros (previous year: 2,662 thousand euros). As of 31 December 2011, the assets of this company amounted to an aggregate of 14,384 thousand euros (previous year: 16,962 thousand euros); the liabilities amounted to an aggregate of 8.315 thousand euros (previous year: 10,208 thousand euros).

The 343 thousand euros decline in the book value of the companies accounted for using the equity method compared with 31 December 2010, in conjunction with earnings of 1,087 thousand euros (previous year: 1,331 thousand euros) generated by the companies accounted for using the equity method in 2011, is due to the fact that a dividend payment of 1,430 thousand euros was received from KielNET; this has to be treated as a reduction in the equity participation.

19. Other investments

The other financial investments shown as of the balance sheet date comprise the investment in Libri.de GmbH, Hamburg, with an unchanged book value of 304 thousand euros as well as a silent partnerhip with an unchanged book value of 500 thousand euros. These investments were measured at cost of purchase.

An impairment of 100% was recognised in the financial year 2011 in relation to the investment in Pocketfilm Media Entertainment GmbH, Frechen, in view of the significantly poor prospects for earnings. This investment had been valued at costs of purchase of 398 thousand euros euros as of 31 December 2010.

The other financial assets continue to show mainly fixed-interest bonds with a long-term maturity of 1,033 thousand euros (previous year: 1,054 thousand euros); these serve as rental collaterals for shops and are measured at fair value.

As of the balance sheet date, with the exception of the impairment in relation to Pocketfilm Media Entertainment GmbH, no impairments had been created in relation to the other financial assets. Moreover, no disposals have taken place. In the previous year, no impairments were recognised in relation to other financial assets.

20. 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 29.4 percent (previous year: 29.4 percent).

The following amounts are shown in the consolidated balance sheet:

Figures in €'000s	31.12.2011	31.12.2010
Deferred tax assets	130,900	79,828
Deferred tax liabilities	0	0
	130,900	**79,828**

The overhang of deferred tax assets which are recognised (130.9 million euros; previous year: 79.8 million euros) is classified as short-term (37.7 million euros; previous year: 34.9 million euros) and long-term (93.2 million euros; previous year: 44.9 million euros) as a result of the anticipated use of tax loss carryforwards.

Changes in the deferred tax assets and liabilities for the financial years 2011 and 2010 are shown in the following tables:

Changes in deferred tax assets and liabilities in 2011

Figures in €'000s	1.1.2011	Change in group of consolidated companies	Shown directly in other result	Income and expenses from taxes on income	31.12.2011
Property, plant and equipment	1,111	0	0	504	1,615
Intangible assets	–160,790	–36	0	33,846	–126,980
Financial assets	–24	0	16	5	–3
Loss carry-forwards	223,696	0	0	24,098	247,794
Provisions	9,529	0	0	–2,186	7,343
Other liabilities and accruals	–460	0	0	138	–322
Debt	–2,136	0	0	920	–1,216
Other	8,902	0	0	–6,233	2,669
	79,828	**–36**	**16**	**51,092**	**130,900**

The income tax expenses and income (51,092 thousand euros) are shown in the consolidated income statement as follows:

Figures in €'000s	2011	2010
Taxes on income	51,092	52,965
Group result from discontinued operations	0	0
	51,092	**52,965**

The income tax expenses and income correspond to the sum of the deferred taxes on income attributable to continued and discontinued operations.

The deferred tax assets and deferred tax liabilities developed as follows in the financial year 2010:

Changes in deferred tax assets and liabilities in 2010

Figures in €'000s	1.1.2010	Change in group of consolidated companies	Shown directly in other result	Income and expenses from taxes on income	31.12.2010
Property, plant and equipment	–272	0	0	1,383	1,111
Intangible assets	–202,085	0	0	41,295	–160,790
Financial assets	–138	0	–7	121	–24
Loss carry-forwards	215,237	–220	0	8,679	223,696
Provisions	6,765	0	0	2,764	9,529
Other liabilities and accruals	9	0	0	–469	–460
Debt	433	0	0	–2,569	–2,136
Other	7,141	0	0	1,761	8,902
	27,090	**–220**	**–7**	**52,965**	**79,828**

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

Figures in €'000s	2011	2010
As of 1.1.	79,828	27,090
Change in group of consolidated companies	–36	–220
Shown directly in other result	16	–7
Tax income	51,092	52,965
As of 31.12.	**130,900**	**79,828**

The existing tax loss carryforwards that can be carried forward without any restriction exceed the sum of the forecasted cumulative result of the following financial years. Accordingly, the consolidated financial statements only recognise a deferred tax asset to the extent that it is considered to be probable that this asset will indeed 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 2011, deferred taxes of 247,794 thousand euros had been created in relation to loss carryforwards (previous year: 223,696 thousand euros). Of this figure, 128,637 thousand euros (previous year: 115,819 thousand euros) is attributable to corporation tax loss carryforwards and 119,157 thousand euros (previous year: 107,877 thousand euros) is attributable to trade tax loss carryforwards. Of the figure shown for other loss carryforwards, for which no deferred tax assets had been created in the consolidated balance sheet, 2.0 billion euros relate to corporation tax and 1.6 billion euros relate to trade tax (previous year: 2.3 billion euros corporation tax and 1.7 billion euros trade tax). As was the case on the previous year balance sheet date, there were no unreported interest carryforwards in accordance with clause 4h paragraph 1 sentence 2 of the German Income Tax Act (Einkommensteuergesetz).

As of 31 December 2011, there are temporary outside basis differences (net shareholders' equity according to IFRS is higher than the corresponding carrying amounts of investments shown for tax purposes) of approx. 18.2 million euros (previous year: approx. 12.3 million euros). No deferred taxes have been created in relation to these differences in view of the fact that they are not expected to reverse in the near future.

21. Inventories

Inventories are broken down as follows:

Figures in €'000s	31.12.2011	31.12.2010
Mobile telephones/accessories	37,966	34,211
SIM cards	10,003	8,821
Bundles and vouchers	3,348	8,377
Other	220	488
	51,537	**51,897**

An impairment of 3,206 thousand euros (previous year: 4,837 thousand euros) has been recognised in relation to year-end stocks of inventories.

22. Receivables and other assets

Receivables and other assets are broken down as follows:

Figures in €'000s	31.12.2011	31.12.2010
Trade accounts receivable	471,510	427,069
Other assets	26,672	35,744
Advance payments	22,411	19,762
	520,593	**482,575**

Trade accounts receivable are due from external parties, 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 485,852 thousand euros as of 31 December 2011 (previous year: 442,170 thousand euros). In the freenet Group, the most significant item in this category is trade accounts receivable. These are due mainly from end customers, and to a lesser extent they are due from business customers, dealers and sales partners.

Invoices in the Mobile Communications segment are issued by the Group itself. In the Other segment, invoices are partially issued by the Group itself; for narrowband services, the collection services of Deutsche Telekom AG (DTAG) are utilised.

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.

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

As of 31 December 2011, trade accounts receivable and other non-derivative financial assets of 253,669 thousand euros (31 December 2010: 352,501 thousand euros) are neither impaired nor overdue.

Trade accounts receivable and other non-derivative financial assets of 8,010 thousand euros (31 December 2010: 7,285 thousand euros) are overdue but are 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 book value of the above-mentioned trade accounts receivable.

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

In the year under review, sales of receivables resulted in costs of 0 thousand euros (previous year: costs of 64 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.

Figures in €'000s

	Carrying amount 31.12.2011	Thereof: on closing date neither impaired nor overdue	Thereof: on closing date not impaired and overdue by less than 90 days	between 91 and 180 days	more than 180 days
Trade accounts receivable	471,510	239,332	7,026	670	162
Other non-derivative financial assets	14,342	14,337	5	0	147
Total	**485,852**	**253,669**	**7,031**	**670**	**309**

Figures in €'000s

	Carrying amount 31.12.2010	Thereof: on closing date neither impaired nor overdue	Thereof: on closing date not impaired and overdue by less than 90 days	between 91 and 180 days	more than 180 days
Trade accounts receivable	427,069	337,608	6,958	46	134
Other non-derivative financial assets	15,101	14,893	0	0	147
Total	**442,170**	**352,501**	**6,958**	**46**	**281**

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:

Figures in €'000s

Impairments created as of 31 December 2010	129,018
Impairments created as of 31 December 2011	135,865
Net allocations to impairments	**6,847**

Figures in €'000s

Impairments created as of 31 December 2009	126,280
Impairments created as of 31 December 2010	129,018
Net allocations to impairments	**2,738**

Of the figure stated for receivables and other assets, 238 thousand euros (previous year: 40 thousand euros) are attributable to related parties, see item 36 "Transactions with related parties".

23. Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

Figures in €'000s	31.12.2011	31.12.2010
Cash in hand and cash at banks	185,673	174,334
	185,673	**174,334**

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

Figures in €'000s	31.12.2011	31.12.2010
Liquid assets of continued operations	185,673	174,334
Liquid assets of discontinued operations	0	2,588
Liabilities as part of current finance scheduling due to banks	–100,000	–146,625
	85,673	**30,297**

24. Current tax assets

The current tax assets mainly comprise receivables attributable to corporation tax netting credit balances from previous years.

25. Discontinued operations

As detailed in the consolidated financial statements of freenet AG for the period ending 31 December 2010, the "Next ID" segment was sold with effect from 1 January 2011; the operations of this segment essentially comprised offering added value services to business customers. A contribution to earnings was again reported for this segment in the financial year 2011, namely 140 thousand euros on the occasion of the final deconsolidation. In the previous year (2010), the discontinued operations "Next ID" resulted in a loss of 6,711 thousand euros. In 2010, the result of discontinued operations included subsequent contributions to earnings in the amount of a profit totalling 416 thousand euros from the "DSL Business" as well as "STRATO Group" segments which were sold at the end of 2009.

The results for the discontinued operations in 2011 and 2010 are broken down as follows:

Figures in €'000s

	2011				2010			
	Next ID	DSL business	STRATO	Total	Next ID	DSL business	STRATO	Total
Revenue	0	0	0	0	12,841	2,383	0	15,224
Other operating income	0	0	0	0	1,368	144	45	1,557
Profit from the disposal of discontinued operations	159	0	0	159	0	4,513	–115	4,398
Cost of materials	0	0	0	0	–4,555	513	0	–4,042
Personnel expenses	0	0	0	0	–5,411	–2,962	0	–8,373
Depreciation	0	0	0	0	–727	0	0	–727
Impairment write-downs	0	0	0	0	–1,455	0	0	–1,455
Other operating expenses	0	0	0	0	–9,005	–4,020	0	–13,025
Interest and similar income	0	0	0	0	233	0	0	233
Taxes on the profit from the disposal of discontinued operations	–19	0	0	–19	0	–85	0	–85
Result from discontinued operations	**140**	**0**	**0**	**140**	**–6,711**	**486**	**–70**	**–6,295**

The cash-flow statement shows the figures for the overall Group (continued and discontinued operations).

In 2011, there was no cash flow in relation to the discontinued operations.

In 2010, the discontinued operation "Next ID" reported an outflow of 3.0 million euros for cash flow from operating activities, an outflow of 0.4 million euros for the cash flow from investing activities and an inflow of 0.2 million euros for the cash flow from financing activities.

Of the figure shown for cash flow from operating activities in 2010, an outflow of 3.6 million euros was attributable to the discontinued operation "DSL Business". There were no cash flows from investing activities and financing activities for the "DSL Business" in the financial year 2010. No cash flows were reported for the "STRATO Group" segment in 2010.

There were no discontinued operations as of 31 December 2011.

26. Shareholders' equity

26.1 Share capital

The issued share capital of the company is 128,061 thousand euros. The share capital consists of 128,061,016 registered no-par-value shares each with a theoretical nominal value of 1.00 euro. The entire share capital is fully paid up. All shares have been issued with equal rights.

Pursuant to clause 71 paragraph 1 no. 8 AktG, the Executive Board was authorised by the Annual General Meeting on 6 July 2010, with the approval of the Supervisory Board, to acquire and use treasury shares equivalent to a total of up to 10 percent of the share capital existing at the time at which the resolution regarding this authorisation is adopted or—if this amount is lower—the share capital existing at the time at which this authorisation is exercised, for every permissible purpose subject to the legal regulations. The authorisation is valid until 5 July 2015.

In addition to the authorisation pursuant to clause 71 paragraph 1 no. 8 AktG, the Executive Board may additionally use equity derivatives in order to acquire treasury shares.

The complete wording of these authorisation resolutions was published on 21 May 2010 under items 7 and 8 on the agenda in the invitation to attend the Annual General Meeting 2010 in the Electronic Federal Gazette.

26.2 Capital reserve

Major components of the capital reserve reported as of 31 December 2011 comprised the capital increase in 2008 due to the acquisition of the debitel Group (349.8 million euros) as well as the merger between mobilcom AG and freenet.de AG to form freenet AG (which became effective in 2007) and the related acquisition of the minority shares in the former freenet.de AG (134.7 million euros).

26.3 Retained earnings

The retained earnings consist of the cumulative group results attributable to the shareholders of freenet AG less the dividend payments. In the reporting year 2011, this item also recorded a liability of 4,768 thousand euros attributable to the option, which was granted to the non-controlling shareholders as part of the acquisition of 51 percent of the shares in MFE, for serving the remaining 49 percent of the MFE shares. Please also refer to the items 37, “Company acquisitions”, as well as 28 “Trade accounts payable, other liabilities and accruals”.

26.4 Authorised capital

The authorised capital 2009 of 20,000,000 million euros expired when the authorisation expired on 6 July 2011. No authorised capital existed as of 31 December 2011.

26.5 Contingent capital

In accordance with the resolution of the Annual General Meeting of 20 July 2007, the contingent capital of the Company was increased by up to 318,447 euros (contingent capital 2007). This contigent capital has been created for the stock option programme of the former mobilcom AG, which however, expired in the financial year 2011, see also item 27.2, stock options of the former mobilcom AG. Nevertheless, the contingent capital 2007 still existed as of 31 December 2011 after the proposal for adopting a resolution to cancel this contingent capital was not able to attract a majority of votes at the Annual General Meeting of the company on 30 June 2011.

According to a resolution of the Annual General Meeting of 7 July 2009, a contingent capital increase of up to 15,000,000 euros was carried out for the share capital by way of issuing up to 15,000,000 new no-par value registered shares, with each individual no-par value share accounting for 1.00 euros of the share capital ("contingent capital 2009"). The purpose of the contingent capital increase is to enable registered shares to be granted to the holders of convertible and/or option bonds which are issued on the basis of the authorisation adopted by the shareholders' meeting of 7 July 2009 under agenda item 10 letter A) and which provide a conversion or option right in relation to the registered shares of the Company or which establish a conversion obligation in relation to these shares.

The issue amount for the new registered shares is based on the regulations set forth in section 4 (9) of the articles of association. The contingent capital increase is only carried out to the extent to which conversion or option rights are utilized or to which holders with conversion obligations meet their conversion obligations and if treasury shares are not used for settlement or if the Company does not provide a cash settlement. The new shares participate in the profits from the beginning of the financial year in which they are created. The Executive Board is authorised to fix the further details for carrying out the contingent capital increase.

27. Employee participation programmes

The Group offers the following employee participation programmes:

- Stock appreciation rights of freenet AG,
- Stock options of the former mobilcom AG,
- LTIP programme of freenet AG.

27.1 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 (SARs) (Aktienwertsteigerungsrechte; AWRs) to senior executives, including former members of the Executive Board (referred to in the following as "programme 1"). In the financial year 2008, stock appreciation rights were issued in two additional programmes: In programme 2, 720,000 stock appreciation rights were issued to senior executives as of 1 April 2008; as of 30 September 2008, 400,000 stock appreciation rights were granted to Mr. Joachim Preisig on the occasion of his appointment to the Executive Board of freenet AG (programme 3). In the financial year 2009, 400,000 SARs were issued to Mr. Christoph Vilanek as of 1 May 2009 on the occasion of his appointment to the Executive Board (Programme 4). In the financial year 2011, and with effect from 1 January 2011, the life of the still outstanding 300,000 SARs that had been granted to Mr. Stephan Esch as part of programme 1 was extended until 31 December 2014. For the sake of simplicity, these SARs have been reclassified from programme 1 to a separate programm 5.

The stock appreciation right programmes do not provide any authorisation to subscribe for shares; instead, they specify a cash payment for each stock appreciation right equivalent to the difference between a strike price and the share price of the company applicable upon exercising, which however is subject to a cap in the individual programmes. The individual caps and the strike price for each programme are set out in the following table.

The value of dividend payments to the shareholders and other benefits for the shareholders are each deducted from the strike price in accordance with recognized methods for the total shareholder return approach. Subject to the condition that the employee is still employed by the Company, 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 with 7 November 2006 for the first tranche (programme 1 and 5), on 1 April of each year starting with 1 April 2009 for the first tranche (programme 2) and on 31 August of each year starting with 31 August 2009 (programme 3), or on 29 April of each year starting with 29 April 2010 (programme 4), providing that certain targets have been attained.

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 (programmes 1 and 5) or by at least ten percent (programmes 2, 3 and 4) at least on one occasion in the period starting immediately when the corresponding stock appreciation rights become exercisable and ending with the expiry of the relevant program. For the stock appreciation rights of the tranches two to five, the percentage is incremented by five percentage points per tranche (programmes 1 and 5) or by ten percentage points per tranche (programmes 2, 3 and 4) up to a 25 percent increase in relation to the strike price for tranche 5 (programmes 1 and 5) and 50 percent increase in relation to the strike price for tranche 5 (programmes 2, 3 and 4).

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

The term of all stock appreciation rights is due to end on 2 February 2012 (programme 1), on 1 April 2014 (programme 2), on 1 September 2014 (programme 3), on 1 May 2015 (programme 4) and 31 December 2014 (programme 5) 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 Annual General Meeting of the Company after the end of the corresponding shut-out 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:

Programme 1

	Strike price in €	Target price in €	Cap in €	Maturity	Balance SARs 31.12.2010	Issued	Exercised	Disposals	Reclassifi-cation	Balance SARs 31.12.2011	Provisions 31.12.2011 in €'000s
Tranche 1	10.16	10.67	27.00	2.2.2012	9,000	0	0	0	0	9,000	
Tranche 2	10.16	11.18	27.00	2.2.2012	709,708	0	0	149,500	–75,000	485,208	
Tranche 3	10.16	11.68	27.00	2.2.2012	709,708	0	0	149,500	–75,000	485,208	
Tranche 4	10.16	12.19	27.00	2.2.2012	709,708	0	0	149,500	–75,000	485,208	
Tranche 5	10.16	12.70	27.00	2.2.2012	709,708	0	0	149,500	–75,000	485,208	
					2,847,832	**0**	**0**	**598,000**	**–300,000**	**1,949,832**	**353**

Programme 2

	Strike price in €	Target price in €	Cap in €	Maturity	Balance SARs 31.12.2010	Issued	Exercised	Disposals	Reclassifi-cation	Balance SARs 31.12.2011	Provisions 31.12.2011 in €'000s
Tranche 1	10.33	11.36	21.00	1.4.2014	28,817	0	0	3,000	0	25,817	
Tranche 2	10.33	12.40	21.00	1.4.2014	28,817	0	0	3,000	0	25,817	
Tranche 3	10.33	13.43	21.00	1.4.2014	28,817	0	0	3,000	0	25,817	
Tranche 4	10.33	14.46	21.00	1.4.2014	28,817	0	0	3,000	0	25,817	
Tranche 5	10.33	15.50	21.00	1.4.2014	28,817	0	0	3,000	0	25,817	
					144,085	**0**	**0**	**15,000**	**0**	**129,085**	**124**

Programme 3

	Strike price in €	Target price in €	Cap in €	Maturity	Balance SARs 31.12.2010	Issued	Exercised	Disposals	Reclassifi-cation	Balance SARs 31.12.2011	Provisions 31.12.2011 in €'000s
Tranche 1	10.46	11.51	21.46	1.9.2014	80,000	0	0	0	0	80,000	
Tranche 2	10.46	12.55	21.46	1.9.2014	80,000	0	0	0	0	80,000	
Tranche 3	10.46	13.60	21.46	1.9.2014	80,000	0	0	80,000	0	0	
Tranche 4	10.46	14.64	21.46	1.9.2014	80,000	0	0	80,000	0	0	
Tranche 5	10.46	15.69	21.46	1.9.2014	80,000	0	0	80,000	0	0	
					400,000	**0**	**0**	**240,000**	**0**	**160,000**	**191**

Programme 4

	Strike price in €	Target price in €	Cap in €	Maturity	Balance SARs 31.12.2010	Issued	Exercised	Disposals	Reclassifi-cation	Balance SARs 31.12.2011	Provisions 31.12.2011 in €'000s
Tranche 1	7.00	7.70	18.00	1.5.2015	100,000	0	0	0	0	100,000	
Tranche 2	7.00	8.40	18.00	1.5.2015	100,000	0	0	100,000	0	0	
Tranche 3	7.00	9.10	18.00	1.5.2015	100,000	0	0	100,000	0	0	
Tranche 4	7.00	9.80	18.00	1.5.2015	50,000	0	0	50,000	0	0	
Tranche 5	7.00	10.50	18.00	1.5.2015	50,000	0	0	50,000	0	0	
					400,000	**0**	**0**	**300,000**	**0**	**100,000**	**332**

Programme 5

	Strike price in €	Target price in €	Cap in €	Maturity	Balance SARs 31.12.2010	Issued	Exercised	Disposals	Reclassifi-cation	Balance SARs 31.12.2011	Provisions 31.12.2011 in €'000s
Tranche 1	10.16	10.67	27.00	31.12.2014	0	0	0	0	0	0	
Tranche 2	10.16	11.18	27.00	31.12.2014	0	0	0	0	75,000	75,000	
Tranche 3	10.16	11.68	27.00	31.12.2014	0	0	0	0	75,000	75,000	
Tranche 4	10.16	12.19	27.00	31.12.2014	0	0	0	0	75,000	75,000	
Tranche 5	10.16	12.70	27.00	31.12.2014	0	0	0	0	75,000	75,000	
					0	**0**	**0**	**0**	**300,000**	**300,000**	**419**

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 2011, this programme resulted in an increase of personnel expenses of 435 thousand euros, which were attributable exclusively to the increase of the provision compared with 31 December 2010. No further SARs were granted in 2011, no SARs were exercised and no cash payments were made as a result of such rights being exercised. A sundry provision of 1,419 thousand euros, including 1,370 euros thousand current provisions and 49 thousand euros non-current provisions, was shown for the outstanding stock appreciation rights as of 31 December 2011. In total, 100,000 SARs were exercisable as of 31 December 2011 (tranche 1 from programme 4).

The ranges of the option prices for each stock appreciation right are 1.13 euros to 1.50 euros for programme 2 and 1.19 euros to 1.72 euros for the programme 3. For the programme 1, the option price for each stock appreciation right is 0.18 euros, and the corresponding figures for programme 4 and programme 5 are 3.32 euros and 1.40 euros respectively.

The valuation parameters of the option price model for all five programmes have been set as follows: the share price of the company on the closing date (10.00 euros) has been used as the share price. The expected volatility was defined as 30.0 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 historical volatility of matching maturities as well as the implied volatility of the shares of freenet 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 2011, the risk-free interest rate for the individual tranches of programme 1 was 0.001 percent; the risk-free interest rate for programme 2 was between 0.03 and 0.10 percent, the risk-free interest rate for programme 3 was between 0.05 and 0.26 percent, and the risk-free interest rate for programme 4 was 0.08 and for programme 5 a risk-free interest rate of 0.06 percent. 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 success targets of the individual tranches of the programs have also been taken into consideration.

27.2 Stock options of the former mobilcom AG

The former mobilcom AG granted stock options to the former Executive Board, 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 granted identical rights to all holders of options in accordance with clause 23 UmwG, because the mobilcom shares were converted in a ratio of 1:1 into shares of freenet AG.

As of 31 December 2010, there were still 51,288 outstanding stock options which had not been exercised, with an option price of virtually 0.00 euros per stock option, so that no provision for stock options had been created. These options expired on schedule at the end of the life of the entire programme on 31 March 2011.

27.3 LTIP programme of freenet AG

In the financial year 2011, agreements granting long-term variable salary components (so-called LTIPs) were concluded in relation to the employment agreements with the members of the Executive Board. In addition to the annual target agreement, this involved a four-year target agreement with Group EBITDA of the next four financial years on the basis of the business plan, starting with the financial year 2011, as the target parameter. In the event of acquisitions which are financed by issues of new shares, the earnings targets are adjusted proportionately to the effective net dilution effect on the date on which the new shares are issued. A basic amount has been defined in the employment agreement of each beneficiary for this component of compensation; as described in the following, and in accordance with the target attainment in each financial year, this basic amount is recorded as a positive or negative amount in a virtual account of the respective member of the Executive Board, and is paid out in annual instalments, depending on the future development in value, assuming that a credit balance is shown.

Basic amounts totalling 590 thousand euros in each case have been defined for each financial year for the beneficiaries.

If the Group EBITDA target is attained in a financial year, 100 percent of the basic amount is credited to the virtual account. If the Group EBITDA defined for 120 percent target attainment is achieved, 200 percent of the basic amount is creadited to the virtual account. If the 120 percent target is exceeded, only 200 percent of the basic amount is credited to the virtual account. If the target attainment for the defined Group EBITDA is between the fixed 90 percent target and 100 percent, a percentage of the basic amount which is reduced on a linear basis is credited to the virtual account; if only 90 percent of the target is attained, a figure of 0 is created to the virtual account for the respective financial year. If Group EBITDA fails to meet the 90 percent target, a negative amount of up to max. 200 percent of the basic amount (if Group EBITDA is 80 percent of the target or less) is debited to the virtual account. The respective amount in the virtual amount is converted into virtual shares on the basis of the average Xetra closing price of the 20 market trading days after the day on which the consolidated financial statements for the relevant financial year are approved. Starting with the end of the second financial year after the introduction of this component of compensation, in relation to the crediting of a positive or debiting of a negative amount in the virtual account for the respective financial year, 25 percent of the account balance is paid out annually if the account shows a credit balance. For this purpose, the respective balance of virtual shares is in turn converted into cash on the basis of the average Xetra closing price of the 20 market trading days after the day on which the consolidated financial statements for the relevant financial year are approved. The share price increase is only recognised up to a share price of 25.00 euros (cap). For the purpose of conversion into virtual shares, dividend payments as well as circumstances for which dilution protection stipulations are applicable in the event of marketable financial instruments which depend on the share value have to be included in the calculation. If the virtual account shows a negative balance at the point at which a payment is due to be made, the member of the Executive Board will only receive a (further) payment when the negative amount has been cancelled out by success in attaining the corresponding target parameters for the subsequent year or the subsequent years.

The obligation arising from the LTIP programme has been determined at fair value in accordance with IFRS 2 in line with a recognised valuation model. The main parameters included in this valuation model are the share price of freenet AG as of the balance sheet date and also the estimate of the success in meeting the targets for the current or previous financial year.

In the financial year 2011, the LTIP programme occasioned personnel expenses in line with the provision which had been created (946 thousand euros).

28. Trade accounts payable, other liabilities and accruals

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

Figures in €'000s	31.12.2011	31.12.2010
Trade accounts payable	399,777	355,578
Advance payments received	78,899	100,946
Other liabilities and accruals	82,484	42,932
	561,160	**499,456**

Of the figure shown for liabilities, 389 thousand euros (previous year: 4 thousand euros) is attributable to related parties; please refer to item 36 "Transactions with related parties".

Of the figure shown for liabilities, 524,145 thousand euros (prior year: 487,273 thousand euros) are due within the next twelve months. Liabilities of 36,976 thousand euros (previous year: 12,150 thousand euros) have a maturity of between one year and five years. Liabilities of 39 thousand euros (previous year: 33 thousand euros) become due after more than five years.

With regard to other liabilities which are due to mature after 31 December 2012, 2,782 thousand euros are discounted at a rate of 7.80 percent, and 28,855 thousand euros are discounted at a rate of 4.12 percent. The market value of these liabilities totalled 32,139 thousand euros as of 31 December 2011. In the reporting year, 51 percent of the shares in MFE were acquired, see item 37 "Company acquisitions". The non-controlling shareholder has an option to serve the remaining 49 percent of shares on the freenet Group. A long-term other liability of 4,768 thousand euros was recognised for this option as of 31 December. This liability is discounted at a rate of 3.80 percent, and the carrying amount recognised in the accounts roughly corresponds to the market value.

For the remaining long-term other liabilities of 203 thousand euros, the market value is approximately equivalent to the recognised book value due to the discounting.

The maturities of those liabilities which are shown in the categories Trade accounts payable and other non-derivative financial liabilities are as follows: 434,785 thousand euros (previous year: 383,680 thousand euros) is due within one year, 36,976 thousand euros (previous year: 12,150 thousand euros) is due between one year and five years, and 39 thousand euros (previous year: 33 thousand euros) is due more than five years after the closing date.

29. Current income tax liabilities

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

30. Debt

Debt is structured as follows:

Figures in €'000s	31.12.2011	31.12.2010
Non-current		
Liabilities from corporate bonds	395,631	0
Liabilities due to banks	118,511	584,583
Liabilities from finance leasing	635	0
	514,777	**584,583**
Current		
Liabilities from corporate bonds	19,934	0
Liabilities due to banks	180,155	215,435
Liabilities from finance leasing	213	0
	200,302	**215,435**

Of the figure shown for long-term debt in the Group as of 31 December 2011, 395.6 million euros is attributable to the five-year corporate bond issued in April 2011 with a nominal value of 400.0 million euros. The difference of 4.4 million euros between the nominal value and the carrying amount is attributable to the one-off charges which were incurred when the bond was issued, which are deducted from the debt and compounded over the life of the bond using the effective interest rate method. The interest of the corporate bond is paid annually in arrears. In addition, the long-term part of the repayment loan of 118.5 million euros which was also raised from credit institutions in April 2011 is included in the long-term debt. This repayment loan, which was taken out in a nominal amount of 240.0 million euros, has a life of three years. It is repaid in instalments of 40.0 million euros every six months, starting on 30 September 2011. Accordingly, the long-term debt shows the three repayment instalments to be made in 2013 and 2014, less one-off charges.

Of the figure shown for short-term debt as of 31 December 2011, 19.9 million euros is attributable to the interest on the corporate bond which accumulated for 2011 but which had not yet become cash-effective last year, 80.0 million euros is attributable to the amount to be repaid for the repayment loan in 2012, and a revolving credit line of 100.0 million euros plus cumulative interest of 0.1 million euros. This revolving credit line which had been fully drawn down as of 31 December 2011 was also raised from the banks which granted the repayment loan on the occasion of the refinancing in April 2011—it had a term of four years.

The long-term debt of 584.6 million euros shown in the Group as of 31 December 2010 was attributable to the long-term portion of two bank loans which were transferred for financing the debitel acquisition in 2008 and which were repaid by the refinancing in 2011. The debt of 215.4 million euros which was classified as short-term as of the previous year balance sheet date consisted of the short-term part of these two bank loans (68.8 million euros) as well as a revolving credit line with the banks which financed the debitel acquisition (146.6 million euros).

Netted with the cash and cash equivalents (in the previous year including the cash and cash equivalents attributable to the discontinued operations), net borrowings of 529.4 million euros were shown in the Group as of 31 December 2011 (previous year: 623.1 million euros).

The finance lease liabilities shown as of the balance sheet date relate to a hire purchase agreement for various items of hardware and software for equipping our shop chain.

The book values of the finance lease assets amounted to 369 thousand euros for software and 477 thousand euros for hardware as of 31 December 2011.

The minimum lease payments become due as follows:

Minimum leasing payments

Figures in €'000s	2011	2010
Within one year	246	0
Between one and five years	675	0
More than five years	0	0
	921	**0**
Interest component of future leasing payments		
Within one year	–33	0
Between one and five years	–40	0
More than five years	0	0
Present values of the total liabilities from finance leasing	**848**	**0**

The maturities of the overall finance lease liabilities are shown in the following:

Figures in €'000s	31.12.2011	31.12.2010
Within one year	213	0
Between one and five years	635	0
More than five years	0	0
	848	**0**

The balance sheet figure is equivalent to the present value of the contractual minimum lease payments. The interest rate for recognising the resultant finance lease liabilities is 3.7 percent.

31. Pension provisions and similar obligations

The pension obligations are a consequence of direct pension commitments. The pension benefit provided in each case is the payment of a lifetime retirement pension upon reaching the age of 60 or 65 and the payment of benefits 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:

Figures in €'000s	31.12.2011	31.12.2010
Present value of funded obligations	5,768	4,642
Present value of unfunded obligations	29,154	27,187
Fair value of plan assets	–3,017	–2,294
Unrealised actuarial losses (profits)	–6,477	–4,897
Provision shown in balance sheet	**25,428**	**24,638**

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 non-funded obligations:

Figures in €'000s	2011	2010
As of 1.1.	**31,829**	**30,157**
Past service costs	155	0
Current service costs	368	460
Interest expense	1,560	1,502
Employees' contribution	76	254
Actuarial losses (profits)	1,559	636
Payments made	–625	–1,180
As of 31.12.	**34,922**	**31,829**

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

Figures in €'000s	2011	2010	2009	2008	2007
Present value of funded obligations	5,768	4,642	3,700	1,830	1,550
Present value of unfunded obligations	29,154	27,187	26,457	21,411	82
Fair value of plan assets	–3,017	–2,294	–1,389	–1,122	–829
Net income/(net loss) of the plan	**31,905**	**29,535**	**28,768**	**22,119**	**803**
Experience-based adjustments of the liabilities of the plan	25	9	–79	–5	4
Experience-based adjustments of the assets of the plan	–21	230	–214	–97	–255

The plan assets consist of several reinsurance policies concluded by the benevolent fund set up for this purpose with a fair value of 3,017 thousand euros (31 December 2010: 2,294 thousand euros); they are invested in equity fund units and shares. The following table sets out the development in fair value:

Figures in €'000s	2011	2010
As of 1.1.	**2,294**	**1,389**
Expected income from plan assets	115	70
Difference between expected and actual income from plan assets	–21	230
Employers' contribution to plan assets	629	605
As of 31.12.	**3,017**	**2,294**

The actual income from the plan assets amount to 94 thousand euros (2010: 300 thousand euros), and are calculated as the sum of the expected income from the plan assets and the actuarial profits or losses.

For financial 2012, freenet is expecting payments into the plan assets of 659 thousand euros as well as payments out of the plan assets for pensions of 635 thousand euros.

The following items are recognised in the consolidated income statement:

Figures in €'000s	2011	2010
Current and past service cost	523	460
Interest expense	1,560	1,502
Actuarial losses (realised)	0	83
Expected income from plan assets	–115	–70
Total cost of defined benefit plans	**1,968**	**1,975**
thereof recognised in personnel expenses	408	473
thereof recognised in interest and similar expenses	1,560	1,502

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

Figures in €'000s	2011	2010
As of 1.1.	**24,638**	**24,194**
Total cost recognised in the consolidated income statement	1,968	1,975
Payments made	–1,254	–1,785
Employees' contributions	76	254
As of 31.12.	**25,428**	**24,638**

The main actuarial assumptions are as follows:

Figures in %	31.12.2011	31.12.2010
Discount rate	4.5	5.0
Expected yield from plan assets	5.0	5.0
Future salary increases (programme debitel)	2.0	2.5
Future salary increases (programme freenet)	0.0	0.0
Future pension increases (debitel)	1.5	2.0
Future pension increases (freenet)	2.0	2.0

The discount rate of 4.5 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 balance sheet date and also securities put on watch for downgrade at Moody´s and subordinate bonds. In addition, the figure has been extrapolated by swap rates in order to achieve reconciliation with a longer term of obligations.

The RT 2005G mortality tables of Dr. Klaus Heubeck have been used as the biometric basis.

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.

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

32. Other provisions

Figures in €'000s	1.1.2011	Consumption	Reversal	Compounding	Allocation	Reclassification	31.12.2011
Contingent losses	26,539	6,361	5,206	486	7,840	–4,100	19,198
Litigation risks	12,242	5,841	3,309	0	4,570	–31	7,631
Obligation to restore assets to original condition	2,944	251	358	0	140	0	2,475
Restructuring	1,883	1,831	52	0	0	0	0
Employee incentive programmes	984	0	0	0	1,381	0	2,365
Warranty/guarantee	477	0	0	0	69	0	546
Storage costs	475	0	54	0	0	0	421
Other	596	0	0	0	129	0	725
	46,140	**14,284**	**8,979**	**486**	**14,129**	**–4,131**	**33,361**

The provisions for contingent losses relate to pending services in connection with the landline activities of the Group (1,918 thousand euros), whereby the outflow of assets is expected to take place in 2012 (490 thousand euros) and in the years 2013 to 2017 (1,428 thousand euros). A rate of 3.80 percent has been used for compounding purposes in this respect. A figure of 4,100 thousand euros has been reclassified to liabilities as a result of a settlement concluded in 2011 with the contractual partner with regard to part of the provision.

Provisions for contingent losses have also been created for vacancy costs of rented shops and office buildings (9,276 thousand euros); the outflow of assets is expected in 2012 (2,685 thousand euros) as well in the period 2013 to 2017 (6,591 thousand euros)—a rate of 3.80 percent has been used for unwinding purposes in this respect. And finally, the provisions for contingent losses include a figure of 8,004 thousand euros for losses expected from negative-margin tariffs; the probable outflow of assets is expected in 2012.

The figure stated for the provision for dismantling obligations relates to obligations for dismantling tenant fittings and various technical and administration locations of the Group. After the expected expiry of the underlying tenancy agreements, the outflow of funds is expected to be 738 thousand euros in 2012 and 1,737 thousand euros in the years 2013 to 2014. A rate of 3.94 percent has been used for compounding purposes in this respect.

The provision for litigation relates to the expected costs of various actions against group companies as well as other outstanding disputes with third parties.

Most of these provisions relates to litigation with former trade 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 2012. 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 employee participation programmes are documented under item 27 "Employee participation programmes".

33. Other financial obligations, contingencies, 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:

Figures in €'000s	31.12.2011	31.12.2010
Rent and leasing obligations		
due within one year	35,910	33,534
due between one year and five years	79,938	72,726
due term greater than five years	12,388	13,837
	128,236	**120,097**
Maintenance, support and other obligations		
due within one year	824	15,066
due between one year and five years	1,911	1,455
due term greater than five years	0	0
	2,735	**16,521**
Acceptance obligation from orders		
regarding intangible assets	3	5
regarding property, plant and equipment	618	180
regarding inventories, expenses and services	8,037	20,624
	8,658	**20,809**
	139,629	**157,427**

The obligations from rental and leasing agreements relate mainly to the rental of office buildings and shops as well as 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 obligations arising from maintenance, support and other agreements relate mainly to agreements for the maintenance of IT hardware and databases, building services engineering as well as the network infrastructure.

The acceptance obligations from orders at the end of the financial year amounted to 8,658 thousand euros (previous year: 20,809 thousand euros). Of this figure, 621 thousand euros (previous year: 185 thousand euros) is attributable to the procurement and production of fixed assets. Further purchase obligations of 8,037 thousand euros (previous year: 20,624 thousand euros) mainly relate to services in connection with ongoing projects as well as products purchased for resale, e.g. mobile phones and accessories. This item also includes financial obligations arising from data centre services.

Other liability obligations exist as a result of letters of comfort and guarantees for rents and amounted to 18,291 thousand euros (previous year: 15,452 thousand euros) as of the balance sheet date.

34. 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 item 25 “Discontinued operations”.

Cash and cash equivalents consist of cash at banks, cash in hand, cheques and short-term money market papers which can be liquidated at any time and current financial liabilities, each with an original maturity of less than three months. Cash and cash equivalents do not include any cash and cash equivalents from discontinued operations (previous year: 2.6 million euros).

The cash flows are broken down as ongoing business activities, investing activities and financing activities. The indirect calculation method has been used for presenting the cash flow from ongoing business activities.

34.1 Cash flow from operating activities

With respect to the comparison period, cash flow from operating activities improved by 25.8 million euros to 262.0 million euros. Compared with the previous year, EBITDA increased by 11.1 million euros for the overall Group including discontinued operations, adjusted by the revenues included from the sale of subsidiaries (the inflows from the sale of subsidiaries are shown under investing activities). In addition, the increase in the inflow of cash from operating activities compared with the previous year is mainly attributable to a lower increase of 45.7 million euros in net working capital in 2011 (2010: increase of 82.7 million euros in net working capital). The increase of 45.7 million euros in net working capital in 2011 is mainly attributable to the planned reduction of liabilities and accruals with regard to contractual partners resulting from distribution rights as well as with regard to a mobile communications network operator, the increased sales of valuable hardware and the related increase in receivables arising from hardware sales as well as the reduction in other provisions due to payments. In 2011, there were also net outflows of 29.7 million euros (previous year: 10.4 million euros) due to tax payments and refunds.

34.2 Cash flow from investing activities

In 2011, the cash flow from investing activities declined by 16.6 million euros compared with the previous year, namely from +0.4 million euros to –16.2 million euros. This development was due primarily to the payments of 19.1 million euros received in the previous year from the sale of subsidiaries (subsequent payments received for the disposal of "DSL Business" and the "STRATO Group" as well as payments received from the sale of the "Next ID" segment). On the other hand, the outflows of cash for investments in intangible assets and property, plant and equipment, netted with the inflows from the disposal of such assets, have declined by 3.5 million euros compared with the previous year, namely to 21.1 million euros. Of the figure of 69.0 million euros shown in the consolidated schedule of assets for 2011 for investments in intangible assets and property, plant and equipment, 22.5 million euros were cash-effective. They were financed entirely out of own funds, and mainly related to self-created software in connection with the process of IT integration, the renewal and extension of the fittings of our mobile communications shops as well as investments in EDP hardware. The non-cash-effective investments of 46.5 million euros were almost entirely attributable to the extension of a distribution right.

The inflows of interest payments shown in the cash flow from investing activities were roughly in line with the corresponding previous year figure (4.2 million euros compared with 4.3 million euros in the previous year).

34.3 Cash flow from financing activities

Compared with the corresponding period of the previous year, the cash flow from financing activities improved by 347.3 million euros, namely from −537.8 million euros to −190.4 million euros. In April 2011, the freenet Group completely replaced its previously existing financing arrangements from its private-equity time by a new financing arrangement. The new financing arrangement consists of a new variable-interest bank loan of 240 million euros which has to be repaid within three years, an overdraft facility/revolving facility of 100 million euros as well as the placing of a five-year corporate bond with a volume of 400 million euros. The corporate bond has been issued with a coupon of 7.125 percent per annum. The Group was therefore able to extent its financing until 2016 and is less exposed to future interest rate risks, which means that the Group's planning reliability has been enhanced. The inflows of 631.6 million euros attributable to the raising of debt which is shown in the cash flow from financing activities consists of 640.0 million euros for the bank loan and corporate bond, less the fees of 8.4 million euros incurred for raising this debt which have been deducted from the debt. The net repayments (outflows attributable to the repayment of debt netted with the inflows attributable to the raising of new debt on the occasion of the refinancing in April 2011) have declined by 385.0 million euros compared with the previous year, namely from 454.0 million euros to 69.0 million euros. Whereas the repayments in 2011 were of a scheduled nature, the high payments of the previous year were mainly due to non-scheduled repayments in connection with payments received from the disposals of the "DSL Business" and the "STRATO Group", which were completed at the end of 2009.

Dividend payments depressed the cash flow from financing activities last year by 102.4 million euros (previous year: 25:6 million euros).

In addition, interest payments of 19.0 million euros were reported in 2011, mainly in relation to long-term bank loans. The decline compared with the previous year, in which interest payments accounted for outflows of 58.1 million euros, is attributable to the comparatively low average net debt of the Group, but is also a consequence of a change in the cycle of payments: the interest in relation to the corporate bond issued in the financial year 2011 is paid annually in arrears, which meant that non-cash-effective interest rate accruals of 20.5 million euros accumulated last year.

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

The starting point for the cash flow statement is the result of the continued and discontinued operations before interest and taxes (EBIT). The following shows the calculation of this result from the consolidated income statement and the breakdown of the result for the period from discontinued operations (please refer to item 25).

Figures in €'000s	1.1.2011 — 31.12.2011	1.1.2010 — 31.12.2010
Earnings before taxes of continued operations	117,339	102,640
Interest payable and similar expenses of continued operations	56,102	61,024
Interest payable and similar income of continued operations	–4,956	–18,163
Result from discontinued operations	140	–6,295
Taxes on income of discontinued operations	19	85
Interest payable and similar expenses of discontinued operations	0	0
Interest receivable and similar income of discontinued operations	0	–233
Earnings before interest and taxes (EBIT) of continued and discontinued operations	**168,644**	**139,058**

35. Additional information concerning financial instruments

35.1 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 2011 and as of 31 December 2010, the related allocation to classes and reconciliation with the corresponding valuation categories under IAS 39:

Financial instruments according to classes as of 31 December 2011

Figures in €'000s

			Approach				
	Valuation category according to IAS 39	Carrying amount 31.12.2011	Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	Fair value 31.12.2011
Assets							
Cash and cash equivalents	LR	185,673	185,673				185,673
Total cash and cash equivalents		**185,673**	**185,673**				**185,673**
Other financial assets (measured at cost of purchase)	HFS	882		882			–
Other financial assets (measured at fair value in equity)	HFS	1,033				1,033	1,033
Total of other financial assets		**1,915**					
Trade accounts receivable	LR	471,510	471,510				471,676
Other non-derivative financial assets	LR	14,342	14,342				14,342
Held-for-sale other assets	HFS	3,753				3,753	3,753
Derivative financial assets	FIPL	12			12		12
Non-financial assets		30,976					
Sum of receivables and other assets		**49,083**					
Liabilities							
Trade accounts payable	FLAC	399,777	399,777				399,777
Financial debt (liabilities due to banks and shareholders)	FLAC	715,079	715,079				715,079
Derivative financial liabilities	FIPL	0			0		0
Sum of financial liabilities		**715,079**					**715,079**
Other non-derivative financial liabilities	FLAC	72,023	72,023				72,525
Non-financial liabilities		89,360					
Sum of liabilities and deferrals		**161,383**					
Thereof aggregated by valuation categories according to IAS 39:							
Held-for-sale financial instruments (HFS)	HFS	5,668		882		4,786	4,786
Loans and receivables (LR)	LR	671,525	671,525				671,525
Financial instruments measured at fair value through profit or loss (FIPL)	FIPL	12			12		12
Financial liabilities measured at amortised cost of purchase (FLAC)	FLAC	–1,186,879	–1,186,879				–1,187,381

Financial instruments according to classes as of 31 December 2010

Figures in €'000s

	Valuation category according to IAS 39	Carrying amount 31.12.2010	Approach: Amortised cost of purchase	Approach: Cost of purchase	Approach: Fair value in income statement	Approach: Fair value in equity	Fair value 31.12.2010
Assets							
Cash and cash equivalents	LR	174,334	174,334				174,334
Total cash and cash equivalents		**174,334**	**174,334**				**174,334**
Other financial assets (measured at cost of purchase)	HFS	1,205		1,205			–
Other financial assets (measured at fair value)	HFS	1,053				1,053	1,053
Total of other financial assets		**2,258**					
Trade accounts receivable	LR	427,069	427,069				427,069
Other non-derivative financial assets	LR	15,101	15,101				15,101
Held-for-sale other assets	HFS	4,427				4,427	4,427
Derivative financial assets	FIPL	838			838		838
Non-financial assets		35,140					
Sum of receivables and other assets		**55,506**					
Liabilities							
Trade accounts payable	FLAC	355,578	355,578				355,578
Financial debt (liabilities due to banks and shareholders)	FLAC	800,018	800,018				800,018
Derivative financial liabilities	FIPL	0			0		0
Sum of financial liabilities		**800,018**					**800,018**
Other non-derivative financial liabilities	FLAC	40,285	40,285				41,701
Non-financial liabilities		103,593					
Sum of liabilities and deferrals		**143,878**					
Thereof aggregated by valuation categories according to IAS 39:							
Held-for-sale financial instruments (HFS)	HFS	6,685		1,205		5,480	5,480
Loans and receivables (LR)	LR	616,504	616,504				616,504
Financial instruments measured at fair value through profit or loss (FIPL)	FIPL	838			838		838
Financial liabilities measured at amortised cost of purchase (FLAC)	FLAC	–1,195,881	–1,195,881				–1,197,297

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

The non-financial liabilities constitute that part of the balance sheet item “Other liabilities and deferrals” not covered by the scope of IFRS 7.

The market value of cash and cash equivalents, trade accounts receivable, other current financial assets, trade accounts payable and other current financial obligations is roughly equivalent to the book value. 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 present values of the payments associated with the assets, with due consideration being given to the relevant interest parameters. The book values of these financial instruments are approximately equivalent to the market values due to the discounting process.

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 of purchase 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 other held-for-sale assets, the Group defines the market value as the price in an active market.

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

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 or option price models). The expected future cash flows from the financial instrument are calculated on the basis of the relevant rate structure and forward curves and are then discounted to the closing date. The market value confirmations obtained from the external partners are periodically compared with the market values which have been calculated internally.

Trade accounts payable and other financial liabilities and accruals normally have short remaining terms; the recognised figures are approximately equivalent to the market value. The following overview shows the major parameters used as the basis for valuing the financial instruments measured at fair value. The individual levels are defined in accordance with IFRS 7 as follows:

- Level 1:

Unchanged use of prices on active markets for identical financial assets or financial liabilities.

- Level 2:

Use of input factors which are not the listed prices recognised in Level 1, but which are directly (i.e. in the form of a price) or indirectly (i.e. derived from prices) observable for the financial asset or the financial liability.

- Level 3:

Use of factors which are not based on observable market data for measuring the financial asset or the financial liability (input factors not based on observable market data).

Fair value hierarchy 2011

Figures in €'000s	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	3,753	3,753		
Other financial assets	1,033	1,033		
Derivative financial receivables	12		12	
Total	**4,798**	**4,786**	**12**	

Fair value hierarchy 2010

Figures in €'000s	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	4,427	4,427		
Other financial assets	1,053	1,053		
Derivative financial receivables	838		838	
Total	**6,318**	**5,480**	**838**	

For the individual categories of financial instruments in accordance with IAS 39, the following net results were shown in the financial year 2011 and in the previous year:

Net result by valuation categories 2011

Figures in €'000s		From subsequent measurement				
	From interest	At fair value (income statement)	At fair value (equity)	Impairment/ receivables losses	From disposals	Net result
Valuation category						
Held-for-sale financial instruments (HFS)	0	0	–53	0	0	–53
Loans and receivables (LR)	4,923	0	0	–37,160	329	–31,908
Financial instruments measured at fair value through profit or loss (FIPL)	0	–792	0	0	0	–792
Financial liabilities measured at amortised cost (FLAC)	–41,086	0	0	0	0	–41,086
Total	**–36,163**	**–792**	**–53**	**–37,160**	**329**	**–73,839**

Net result by valuation categories 2010

Figures in €'000s		From subsequent measurement				
	From interest	At fair value (income statement)	At fair value (equity)	Impairment/ receivables losses	From disposals	Net result
Valuation category						
Held-for-sale financial instruments (HFS)	0	0	22	0	0	22
Loans and receivables (LR)	3,412	0	0	–46,114	–64	–42,766
Financial instruments measured at fair value through profit or loss (FIPL)	0	13,460	0	0	0	13,460
Financial liabilities measured at amortised cost (FLAC)	–50,419	0	0	0	0	–50,419
Total	**–47,007**	**13,460**	**22**	**–46,114**	**–64**	**–79,703**

Net gains and losses from loans and receivables include changes in the impairments, gains and losses from derecognition as well as inflows and recoveries in the value of previously written-off loans and receivables.

Net gains and losses from the category of financial instruments measured at fair value through profit and loss include the income and expenses from interest as well as the market valuation of the interest swaps and interest caps as well as income from the market valuation of money market paper.

Net gains and losses from the category of available-for-sale financial instruments comprise impairments as well as gains and losses from derecognition.

Net gains and losses from financial liabilities at amortised cost of purchase comprise gains or losses from derecognition.

In addition, information concerning interest income and interest expenses of the financial assets and financial liabilities not recognised at fair value through profit and loss are shown using the effective interest rate method.

35.2 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 Executive Board. In addition, certain financial transactions require the prior approval of the Executive Board.

The Group Treasury department provides services to the operating segments and co-ordinates 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 minimising risk; a further important objective is to optimise net interest income. Prudent liquidity management controlled by the Group Treasury department involves holding an adequate reserve of cash and cash equivalents, the possibility of obtaining finance by way of an adequate commitment of credit lines and the possibility of closing open market positions. Liquidity risks are reduced by permanently monitoring the finance status and by maintaining adequate reserves in the form of credit lines.

The Group Treasury department is responsible for monitoring the default risks of major debtors (in particular distributors, dealers and other B2B partners) as well as regular internal risk reporting for these risks. Receivables due from end users are monitored in the Receivables Management department. 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 objective of the Group's capital risk management is to monitor the financial covenants specified in the syndicate loan agreement, where failure to meet such financial covenants might involve the loans being called in immediately. The main financial covenants are defined in relation to the interest cover (ratio between Group EBITDA and Group net interest income), the equity ratio of the Group as well as the debt factor (ratio between net debt of the Group and Group EBITDA). All covenants are satisfied as of the balance sheet date.

The ratio between Group net debt and Group equity (gearing) is another relevant parameter of capital risk management. Gearing was 0.45 as of the closing date (previous year: 0.55).

In order to actively manage the capital structure, management is permitted to sell assets in order to reduce debt, and is also entitled to take measures such as issuing new shares.

35.3 Market risk

The activities of our Group are primarily exposed to financial risks attributable to changes in interest rates and currency exchange rates.

35.3.1 Interest rate risk

The liabilities shown under debt are attributable to a variable-interest loan and also to a fixed-income corporate bond. There is also a variable-interest revolving credit line. The Group has reported variable-interest financial liabilities of 298.6 million euros as of 31 December 2011. In this respect, the Group is exposed to interest rate risks. The interest rate risks arising from the variable interest loans are fully limited as of 31 December 2011 by the use of an interest rate cap. When the interest cap was taken out, the Group agreed with third parties—against payment of a premium—that it would receive at defined intervals the difference between the contractually agreed interest and the prevailing (higher) variable rates in relation to the nominal amount. The Group Treasury department constantly monitors the various opportunities available for investing the liquid assets and debt on the basis of the daily liquidity planning at its disposal as well as the various options available for scheduling the debt. 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 debt taken out as of the balance sheet date comprises variable interest debt subject to the conditions set out in the loan agreement (fixed margins on the basis of EURIBOR), and some of the debt is of a fixed-income nature (corporate bond).

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 reference date.

In the balance sheet, liabilities of 715.1 million euros are shown under the short-term and long-term borrowings as of 31 December 2011. Variable interest in a range of 2.3 to 3.4 percent was charged on these bank borrowings as of the balance sheet date. The corporate bond comes with a coupon of 7.1 percent.

Of the figure shown for debt as of 31 December 2011, 200,302 thousand euros are shown as current debt. At the point at which these financial statements were prepared, there is a mandatory requirement for a figure of approx. 80 million euros to be repaid for 2012 in relation to these liabilities. On the basis of an interest rate expected in accordance with market estimates, which lies within a range of between 2.0 and 4.0 percent for the individual variable-interest loans, in 2012 outflows of 34,643 thousand euros would be incurred for interest in relation to the financial debt. Based on the net position of assets and liabilities that are subjects to a variable interest rate, taking account of the hedging instruments which have been taken out, a parallel upward shift of 50 basis points in the interest curve would have an impact of 353 thousand euros on results after tax (previous year: 2,180 thousand euros), and a downward shift of 50 basis points in the rate curve would have an impact of -353 thousand euros on the result after tax (previous year: –2,180 thousand euros).

Money market funds are subject to marginal interest rate fluctuations so that there is always a possibility of price losses. However, there is no significant risk as the money has been invested in funds on a very short-term basis (held for trading). 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. Based on the financial investments in money market funds and bonds shown in the balance sheet under the other receivables and other assets as well as under other financial investments, a 5 percent increase in the price of the acquired shares would have an impact of 169 thousand euros on shareholders' equity (previous year: 193 thousand euros), and a 5 percent decline in the price would have an impact of –169 thousand euros on shareholders' equity (previous year: –193 thousand euros).

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

35.3.2 Foreign currency risk

Foreign currency trades are conducted to a minor extent within the Group. The foreign currency risk is generally hedged by concluding currency futures or, if necessary, by means of cash holdings denominated in foreign currency.

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

35.4 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 leasing agreements.

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 current data.

The Group also manages liquidity risks by holding appropriate cash at banks, credit lines at banks and also by constantly monitoring the forecast and actual cash flows. Reconciliations are also 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 closing date, the Group had fully utilised the revolving credit line of 100.0 million euros. Within narrow limits, the Company is permitted to raise debt outside the loan agreements for instance in order to finance future strategic investments.

Securities (money market funds and bonds in the securities deposit account) 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.

The financial and operational scope of the Group is restricted by certain regulations of the loan agreements. These for instance impose restrictions on the Company in relation to changes in the operations of the Group, the conduct of internal structural measures under company law, the provision of collateral as well as any acquisitions and disposals of assets, and in particular shareholdings. 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 years 2011 and 2010:

Financial liabilities

Figures in €'000s	Carrying amount 31.12.2011	Cash flows 2012			Cash flows 2013			Cash flows 2014 and later		
		Interest (fix)	Interest (variable)	Repayment	Interest (fix)	Interest (variable)	Repayment	Interest (fix)	Interest (variable)	Repayment
Trade accounts payable	399,777			399,370			407			
Debt (liabilities due to banks)	715,079	28,500	6,143	200,302	28,500	5,171	80,111	85,500	406	434,666
Other non-derivative financial liabilities	72,023			35,415			36,467			141

Financial liabilities

Figures in €'000s	Carrying amount 31.12.2010	Cash flows 2011			Cash flows 2012			Cash flows 2013 and later		
		Interest (fix)	Interest (variable)	Repayment	Interest (fix)	Interest (variable)	Repayment	Interest (fix)	Interest (variable)	Repayment
Trade accounts payable	355,578			355,191			387			
Debt (liabilities due to banks)	800,018		34,442	215,435		33,677	66,667		46,096	517,916
Other non-derivative financial liabilities	40,285			28,489			8,981			2,815

35.5 Risk of default

A credit risk is defined as the unexpected loss of cash or revenue. 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.

An ongoing dunning and debt collection process is also operated with regard to accounts due from dealers and franchise partners. Credit limits are also defined and monitored. Where appropriate, a delivery restriction is imposed if the limit is reached.

Major credit risks are also covered by way of commercial credit insurance. In order to minimise the credit risk, the Group has insured a certain percentage of sales with key accounts (dealers and distributors in mobile communications). Every month, the Group Treasury department notifies the insurer of the current sales of each key account. The insurer uses this notification to calculate the sales volume to be insured. The risks attributable to accounts who are not insured are limited by means of an internal limit system—in general, accounts with a poor rating have to pay in advance, or the business relationship is not established.

In order to determine the intrinsic value 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. The default risk has been significantly limited as a result of the risk being spread over various banks. 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 balance sheet 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 available-for-sale financial investments, the maximum credit risk in the case of counterparty default is equivalent to the book value of these instruments.

36. Transactions with related parties

36.1 Overview

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

Figures in €'000s	2011	2010
Sales and income attributable to services		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	0	1,197
Joint ventures		
FunDorado GmbH, Hamburg	252	177
Companies with a major influence on freenet AG		
b2c.de GmbH, Munich (Drillisch AG group of companies)	729	116
1&1 Internet AG, Montabaur	n. a.	6,428
	981	**7,918**
Purchased services and onward charging		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	27	38
Joint ventures		
NetCon Media s. r. o., Hlucin, Czech Republic	0	2
FunDorado GmbH, Hamburg	0	15
siXXup new Media GmbH, Pulheim	72	73
Companies with a major influence on freenet AG		
b2c.de GmbH, Munich (Drillisch AG group of companies)	8,737	0
Drillisch AG, Maintal	5	0
	8,841	**128**
Interest expenses from vendor loans		
Companies with a major influence on freenet AG		
Telco (Netherlands) Holding B. V., Hoofddorp, the Netherlands	n. a.	181

The following major receivables due from and liabilities due to related parties existed as of 31 December 2011:

Figures in €'000s	31.12.2011	31.12.2010
Receivables from regular transactions		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	0	13
Joint ventures		
FunDorado GmbH, Hamburg	41	27
siXXup new Media GmbH, Pulheim	2	0
Companies with a major influence on freenet AG		
b2c.de GmbH, Munich (Drillisch AG group of companies)	195	0
	238	**40**
Liabilities from regular transactions		
Joint ventures		
FunDorado GmbH, Hamburg	0	4
Companies with a major influence on freenet AG		
b2c.de GmbH, Munich (Drillisch AG group of companies)	383	0
Drillisch AG, Maintal	6	0
	389	**4**

Total emoluments of 619 thousand euros were granted to the employees' representatives of the Supervisory Board in the financial year 2011.

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

36.2 Executive Board compensation

The compensation for the members of the Executive Board of the company is broken down as follows:

Compensation for the financial year 2011

Figures in €'000s	Fixed compensation	Variable cash compensation	Sub-total cash compensation	Variable compensation with long-term incentive effect[1]	Total compensation
Christoph Vilanek	621	574	1,195	361	1,556
Joachim Preisig	444	574	1,018	331	1,349
Stephan Esch	445	222	667	533	1,200
	1,510	**1,370**	**2,880**	**1,225**	**4,105**

Compensation for the financial year 2010

Figures in €'000s	Fixed compensation	Variable cash compensation	Sub-total cash compensation	Variable compensation with long-term incentive effect[2]	Total compensation
Christoph Vilanek	615	400	1,015	28	1,043
Joachim Preisig	425	400	825	–205	620
Stephan Esch	365	230	595	–362	233
Axel Krieger	575	299	874	–663	211
	1,980	**1,329**	**3,309**	**–1,202**	**2,107**

1 This is variable compensation from the SAR programme as well as the LTIP programme, including payments which were not cash-effective in the financial year and which were measured in accordance with IFRS 2.

2 This is variable compensation from the SAR programme, including payments which were not cash-effective in the financial year and which were measured in accordance with IFRS 2.

In the financial year 2011, each of the members of the Company's Executive Board was granted new variable salary components with a long-term incentive via the so-called "LTIP programme". Please refer to item 27.3 of these notes. At the time of granting, namely 1 June 2011, the fair value in accordance with IFRS 2 was a total of 3,586 thousand euros, spread between Mr. Vilanek (1,823 thousand euros), Mr. Preisig (1,216 thousand euros) and Mr. Esch (547 thousand euros). Also with effect from 1 June 2011, agreement was reached with Mr. Vilanek and Mr. Preisig with regard to partial expiry of stock appreciation rights under the existing stock appreciation programme, contrary to the previous rules concerning the life of the options. For Mr. Vilanek, this has resulted in the expiry of 300,000 of the previous 400,000 stock appreciation rights, with a fair value of 732 thousand euros. For Mr. Preisig, this has resulted in the expiry of 240,000 of the previous 400,000 stock appreciation rights, with a fair value of 244 thousand euros. As was the case as of 31 December 2010, Mr. Esch has 300,000 stock appreciation rights, although the life of these rights was extended until 31 December 2014 as of 1 January 2011 (previously: 2 February 2012). This extension of the life of the stock appreciation rights for Mr. Esch has resulted in an increase of 389 thousand euros in the fair value. With regard to the new regulations regarding the stock appreciation rights of the members of the Executive Board, please refer to item 27.1 "Stock appreciation rights of freenet AG".

As a result of the new regulations concerning the life of the stock appreciation rights of Mr. Vilanek and Mr. Preisig, there was a reduction in the provision for stock appreciation rights in 2011, and this also resulted in negative variable compensation arising from the stock appreciation rights programme. In the previous year, the variable compensation from the stock appreciation rights programme for Mr. Preisig, Mr. Esch and Mr. Krieger were reported as negative figures, due to the reduction in the provision for stock appreciation rights, resulting mainly from share price considerations at that time.

The compensation of the Executive Board with a long-term incentive effect, based on the stock appreciation programme as well as the LTIP programme, was not cash-effective in the financial year 2011. Without these components of compensation which were not cash-effective, compensation of the Executive Board in 2011 amounted to 2,880 thousand euros, as shown in the above table. In addition to the amounts shown in the above table, payments of 400 thousand euros were made in the financial year 2011 to Mr. Krieger who retired as of 31 December 2010 when his Executive Board employment agreement expired; these payments were attributable to post-contractual non-competition agreements. Overall, Executive Board compensation in accordance with clause 314 paragraph 1 no. 6a HGB amounted to 6,279 thousand euros in 2011 (cash compensation, payments from the LTIP programme at fair value upon granting, changes in the fair values of the stock appreciation rights resulting from changes to the exercise conditions as well as payments to former members of the Executive Board as a result of post-contractual non-competition agreements). In 2010, the Executive Board compensation in accordance with clause 314 paragraph 1 no. 6a HGB amounted to 3,509 thousand euros.

As of 31 December 2011, the provision for stock appreciation rights of Mr. Vilanek amounted to 332 thousand euros (previous year: 452 thousand euros), the corresponding figures for Mr. Preisig and Mr. Esch were 191 thousand euros (previous year: 181 thousand euros) and 419 thousand euros (previous year: 30 thousand euros) respectively. Provisions for stock appreciation rights totalling 273 thousand euros were shown as of 31 December 2011 for Mr. Spoerr, Mr. Krieger and Mr. Berger as former members of the Executive Board (previous year: 204 thousand euros).

An indirect pension commitment was granted to Mr. Esch in November 2004. In the financial year 2009, an indirect pension commitment was granted to Mr. Vilanek on the occasion of his appointment as Chairman of the Executive Board as of 1 May 2009. As of 31 December 2011, the defined benefit obligation (DBO) for Mr. Vilanek amounted to 453 thousand euros (previous year: 265

thousand euros); the corresponding figure for Mr. Esch was 832 thousand euros (previous year: 518 thousand euros). As of 1 September 2008, freenet AG took over the pension commitment granted to Mr. Preisig by the former debitel AG. As of 31 December 2011, the DBO for Mr. Preisig amounted to 468 thousand euros (previous year: 347 thousand euros). The DBOs for Mr. Spoerr, Mr. Krieger and Mr. Berger as former members of the Executive Board totalled 4,014 thousand euros as of 31 December 2011 (previous year: 3,512 thousand euros).

Current and post-service time expenses of 454 thousand euros (previous year: 373 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. This figure was spread over the following persons in 2011: Mr. Vilanek (138 thousand euros), Mr. Preising (84 thousand euros), Mr. Esch (232 thousand euros); for 2010, the breakdown was as follows: Mr. Vilanek 121 thousand euros, Mr. Preisig (78 thousand euros), Mr. Esch (67 thousand euros) and Mr. Krieger (107 thousand euros).

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

36.3 Compensation for the Supervisory Board

The compensation of the Supervisory Board is defined in the articles of association and consists of three components:

- Basic compensation,
- Fees for attending meetings,
- Profit-linked compensation.

In compliance with the resolution of the shareholders' meeting of 7 July 2009, the basic compensation has been changed. From the financial year 2009 on, the Supervisory Board members receive fixed basic compensation of 30,000 euros for each full financial year of membership on the Supervisory Board from the Company. The chairperson of the Supervisory Board receives double this amount, the deputy chairperson one and a half time this amount.

In addition, every Supervisory Board member receives 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 clause 27 paragraph of the German Codetermination Act (Mitbestimmungsgesetz)—receive in addition an attendance fee of 1,000 euros for each attended 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 profit-linked compensation in the amount of 500 euros for each 0.01 euros in dividends in excess of 0.10 euros per share of the company stock which are distributed to the shareholders for the previous financial year. The extent of the 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 deputy chairperson one and a half times this amount.

For their activity during the financial year 2011, the members of the Supervisory Board of the Company received fixed compensation of 404.1 euros thousand as well as attendance fees of 183.0 thousand euros. In addition, profit-linked compensation of 403.6 thousand euros was also recorded as a cost. Whether this performance-linked compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2011. The total compensation paid for Supervisory Board activities was thus 990.7 thousand euros.

Furthermore, Supervisory Board members are reimbursed for expenses incurred as a result of exercising their office as well as for turnover taxes.

Individualized 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 position after the decimal point.

Compensation for the financial year 2011

Figures in €'000s	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Maarten Henderson[1]	45.1	25.0	45.0	115.1
Nicole Engenhardt-Gille[3]	28.9	8.0	28.9	65.8
Dr. Christof Aha	30.0	11.0	30.0	71.0
Claudia Anderleit[3]	30.0	16.0	30.0	76.0
Dr. Arnold Bahlmann	30.0	7.0	30.0	67.0
Joachim Halefeld[3]	30.0	16.0	30.0	76.0
Hans-Jürgen Klempau[3]	30.0	9.0	30.0	69.0
Niclas Rauscher	15.1	7.0	15.1	37.2
Dr. Hartmut Schenk	15.1	6.0	15.1	36.2
Matthias Schneider[3]	30.0	19.0	30.0	79.0
Steffen Vodel[3]	30.0	15.0	30.0	75.0
Achim Weiss	30.0	9.0	30.0	69.0
	344.2	**148.0**	**344.1**	**836.3**
Former members				
Thorsten Kraemer[2]	30.0	22.0	29.8	81.8
Franziska Oelte[3]	15.0	4.0	14.8	33.8
Prof. Dr. Helmut Thoma	15.0	9.0	14.9	38.9
	60.0	**35.0**	**59.5**	**154.5**
	404.1	**183.0**	**403.6**	**990.7**

1 Chairman of the Supervisory Board since 30 June 2011.
2 Chairman of the Supervisory Board until 30 June 2011.
3 Employee representative in accordance with section 7 (1) clause 1 no. 1 MitbestG of 4 May 1976.

Compensation for the financial year 2010

Figures in €'000s	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Thorsten Kraemer	60.0	30.0	60.0	150.0
Franziska Oelte[1]	45.0	12.0	45.0	102.0
Dr. Christof Aha	30.0	11.0	30.0	71.0
Claudia Anderleit[1]	30.0	12.0	30.0	72.0
Dr. Arnold Bahlmann	30.0	5.0	30.0	65.0
Joachim Halefeld[1]	30.0	11.0	30.0	71.0
Maarten Henderson	30.0	21.0	30.0	81.0
Hans-Jürgen Klempau[1]	30.0	6.0	30.0	66.0
Matthias Schneider[1]	30.0	18.0	30.0	78.0
Prof. Dr. Helmut Thoma	30.0	12.0	30.0	72.0
Steffen Vodel[1]	30.0	11.0	30.0	71.0
Achim Weiss	30.0	9.0	30.0	69.0
	405.0	**158.0**	**405.0**	**968.0**

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

37. Company acquisitions

With the initial consolidation as of 1 January 2011, the Group acquired 51 percent of the shares in MFE, and thus acquired control over this subsidiary. The cash price amounted to 1,000 thousand euros. The operations of MFE comprise the marketing and distribution of energy (mainly electricity and gas) as well as related products in Germany. With the acquisition, the Group wishes to take full advantage of the future potential available in this area of activity.

A figure of 111 thousand euros was shown as the fair value (100 percent) of net assets as of 1 January 2011—this has resulted in the recognition of goodwill of 944 thousand euros. The non-controlling shares (49 percent) were measured with the proportionate amount of the fair value of the net assets of the acquired company.

The goodwill is mainly attributable to future earnings opportunities in the energy distribution sector—it has been allocated to the cash generating unit "Energy".

The purchase price allocation carried out in accordance with IFRS 3 has a definitive nature. The following overview provides information concerning the assets and liabilities of MFE acquired at the time of initial consolidation; the carrying amounts each correspond to the present values:

Assets

Figures in €'000s	1.1.2011
Non-current assets	
Intangible assets	122
Goodwill	943
Property, plant and equipment	98
Investments	8
	1,171
Current assets	
Receivables, other assets and advance payments	1,120
Liquid assets	237
	1,357
	2,528

Liabilities

Figures in €'000s	1.1.2011
Shareholders' equity	
Interests in the shareholders' equity of MFE which are not controlled	54
	54
Non-current liabilities	
Deferred income tax liabilities	36
	36
Current liabilities	
Trade accounts payable, other liabilities and deferrals	1,280
Debt	64
Current income tax liabilities	94
	1,438
	1,528

The fair value of the receivables acquired at the time of the acquisition is roughly equivalent to the book value.

Acquisition-related costs of 54 thousand euros are shown under the other operating expenses.

Under the terms of the purchase agreement, the non-controlling shareholder of MFE was granted an option to serve the remaining 49 percent of MFE shares on the freenet Group. In this connection, please also refer to the items 26.3, "Retained earnings", as well as 28 "Trade accounts payable, other liabilities and accruals".

In the financial year 2011, MFE made a contribution to Group results with post-tax profit of 458 thousand euros, and generated external sales of 7,367 thousand euros.

In segment reporting of the freenet AG Group, MFE is allocated to the segment "Other".

38. Disclosures in accordance with clause 315a HGB

The average number of employees in the Group (clause 315 paragraph 1 no. 4 HGB) has been shown in item 8 "Personnel expenses".

With regard to the disclosures concerning compensation of the executive bodies of the Company (clause 314 paragraph 1 no. 6 HGB), please refer to item 36 "Transactions with related parties".

In accordance with clause 314 paragraph 1 no. 8 HGB, we hereby declare that the declaration of conformity in accordance with clause 161 AktG was submitted by the Executive Board and Supervisory Board of the Company in December 2011.

It has been made permanently available to shareholders in the internet at the following address:
www.freenet-group.de/unternehmen/corporate-governance/entsprechenserklaerung

A total of 1,429 thousand euros in fees was paid to the auditor in accordance with clause 314 paragraph 1 no. 9 HGB during the financial year. Of this figure, 793 thousand euros related to auditing services, 636 thousand euros related to other certification services.

In accordance with clause 313 paragraphs 2 and 3 HGB, we have provided the following overview for the companies included in the consolidated financial statements.

	Holding
Fully consolidated companies	
freenet Cityline GmbH, Kiel	100 %
freenet.de GmbH, Hamburg	100 %
freeXMedia GmbH, Hamburg	100 %
01019 Telefondienste GmbH, Hamburg	100 %
01024 Telefondienste GmbH, Kiel	100 %
01050.com GmbH, Hamburg	100 %
freenet Datenkommunikations GmbH, Hamburg	100 %
tellfon GmbH, Hamburg	100 %
01083.com GmbH, Hamburg	100 %
mobilcom-debitel GmbH, Schleswig	100 %
mobilcom-debitel Logistik GmbH, Schleswig	100 %
MobilCom Multimedia GmbH, Schleswig	100 %
klarmobil GmbH, Büdelsdorf	100 %
CLAROMOVIL S. L., Madrid (Spain)	100 %
new directions GmbH, Hamburg	100 %
4Players GmbH, Hamburg	100 %
MFE Energie GmbH, Berlin	51 %
NRG Energieversorgung GmbH, Hamburg	100 %
Stanniol GmbH für IT & PR, Oberkrämer	100 %
mobilcom-debitel Shop GmbH, Oberkrämer	100 %
DEG Logistik GmbH, Oberkrämer	100 %
callmobile GmbH, Hamburg	100 %
Klarcall Dritte Beteiligungs GmbH	100 %
MIDRAY GmbH, Cologne	100 %
debitel go GmbH, Stuttgart	100 %
Joint ventures	
FunDorado GmbH, Hamburg	50 %
Netcon Media s. r. o., Hlucin, Czech Republic	25 %
siXXup new Media GmbH, Pulheim	25 %

	Holding
Associated companies	
KielNET GmbH Gesellschaft für Kommunikation, Kiel	50 %

39. Major events after the balance sheet date

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

Büdelsdorf, 2 March 2012
freenet AG

The Executive Board

Christoph Vilanek Joachim Preisig Stephan Esch

Auditor's Report

We have audited the consolidated financial statements prepared by the freenet AG, comprising the statement of income and the statetment of comprehensive income, the statement of financial position, 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, 2011. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and/or 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, 5 March 2012
PricewaterhouseCoopers Aktiengesellschaft/Wirtschaftsprüfungsgesellschaft

Niklas Wilke	ppa. Marko Schipper
Wirtschaftsprüfer (German Public Auditor)	Wirtschaftsprüfer (German Public Auditor)

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, 2 March 2012
freenet AG
The Executive Board

Christoph Vilanek   Joachim Preisig   Stephan Esch

Further information

Glossary

Added value service An added value service is an independent range of services within a telecommunications service, which is characterised by special connection treatment, virtual connections, independent charging or content services.

AktG German: Aktiengesetz; English: German Stock Corporation Act.

App Short form of "application".

ARPU Average revenue per user.

B2B Business with business customers (B2B = Business to Business).

B2C Business with consumers (B2C = Business to Consumer).

CGU Cash generating unit; a cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cloud computing Describes the dynamic, demand-oriented offering, using and billing of IT services via a network. The services offered as part of cloud computing cover the entire range of information technology and include among others infrastructure (i.e. computing power, storage space), platforms and software.

COSO Committee of Sponsoring Organizations of the Treadway Commission; a voluntary private-sector organization in the US, dedicated to improving the quality of financial reporting on the basis of ethical behaviour, effective internal controls and good corporate governance.

Customer ownership Includes the postpaid and no-frills segments.

D&O insurance Directors' and Officers' Liability Insurance; 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.

DBO Defined Benefit Obligation.

Dialog Consult Dialog Consult GmbH; management consultancy company with international project experience in the areas of corporate, competitive and market entry strategy; Industry focus on telecommunication among others.

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 outstanding 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.

DSL Digital Subscriber Line; a Digital Subscriber Line is used by households and companies for transmitting and receiving data at high transmission speed (up to 52,000 kbps).

DTAG Deutsche Telekom AG.

E-book Electronic book.

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 profit/net loss by the weighted average number of issued shares.

EBIT Earnings before interest and taxes.

EBITDA Earnings before interest, taxes, depreciation and amortisation.

EBT Earnings before taxes.

EPS Earnings per share.

Federal Network Agency Federal Network Agency for Electricity, Gas, Telecommunication, Posts and Railways (German: Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen).

FIPL Financial instruments measured at fair value through profit and loss.

FLAC Financial liabilities measured at amortised cost.

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

GewStG German: Gewerbesteuergesetz; English: German Trade Tax Act.

GfK German: Gesellschaft für Konsumforschung; English: association for consumer research.

GPS Global Positioning System; a satellite-based navigation system for global position determination, operated by the American Ministry of Defense.

Gross profit Revenue minus cost of materials.

HASPAX index Hamburg share index including the 25 most successful listed joint stock corporations from the metropolitan region of Hamburg.

HFS Held-for-sale financial instruments.

HGB German: Handelsgesetzbuch; English: German Commercial Code.

IFRS International Financial Reporting Standards; a collection of standards for the external reporting of companies.

ISIN International Securities Identification Number.

IT Information Technology; 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 programmes, from one platform to another within a company.

KStG German: Körperschaftsteuergesetz; English: German Corporation Tax Act.

Long-Term Incentive Account See also LTIP.

LR Loans and receivables.

LTE Long Term Evolution; a new mobile communications standard and future successor of UMTS providing significantly higher transfer speeds in mobile communications with up to 300 megabit per second.

LTIP Long Term Incentive Programme; compensation programme with long-term incentive effect.

MitbestG German: Mitbestimmungsgesetz; English: German Codetermination Act.

MMS Multimedia Messaging Service; provides the possibility to send multimedia messages from a mobile phone to other mobile phones or regular e-mail addresses.

Mobile service provider Provider of mobile communications services without their own mobile network; they sell mobile telephony minutes, SIM cards and mobile telephones as well as value added services, such as SMS, in their own name and for their own account.

Mystery shopping A procedure to assess service quality, in which trained observers, so-called mystery shoppers, act like normal customers and perceive real customers situations.

Narrowband Analogue or digital data transmission with a speed of up to 128 kbps.

Netbook A lightweight, portable computer, especially designed for mobile internet usage and long battery life.

Pay services Pay services describes the offering and provisioning of digital services in digital media subject to a charge.

Portal Central web site which generally comprises a comprehensive range of navigation functions, aggregated content and additional services, such as e-mail.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Auditing and consulting services organisation in Germany.

Prime standard Stock market segment of the Frankfurt stock exchange with particularly high transparency requirements.

Recurring EBIT EBIT adjusted for one-off items.

Recurring EBITDA EBITDA adjusted for one-off items.

Roaming A feature in wireless telecommunications, which ensures the extension of connectivity service in a location different from the home location. Roaming can also reach to similar networks of various network operators (national roaming) as well as to international network operators (international roaming).

SAR Stock appreciation rights.

SIM card Subscriber Identity Module; chip card with a processor and memory for mobile devices, storing various information, including the user number allocated by the network operator, and which identifies the user in the mobile network.

Smart grid A digitally enabled electrical grid that gathers, distributes, and acts on information about the behavior of all participants (suppliers and consumers). In the future, it will also save electricity in order to enhance the sustainability and cost- and energy-efficiency of electricity services.

Smart home Automatization and interconnection of inhouse electricity (light, shutters etc.), electric appliances (washing machines, fridges etc.) and entertainment electronics (TV, radio and audio system etc.).

Smartphone Mobile device with touch and/or qwertz keyboard and feature set for easy internet access and/or e-mail transfer (for example push e-mail).

SMS Short message service.

Stiftung Warentest Germany’s leading consumer safety group, tests consumer goods and services according to scientific methods in independent institutes and publishes the results in its magazines.

Surfstick Here “Internet dongle”: An internet dongle is a UMTS radio modem for fast mobile internet access with a notebook. The internet dongle is comparable in size with a USB memory stick and is also plugged in to the USB port of a notebook or netbook. It enables users to have fast access to the world wide web on the go. Most internet dongles support the UMTS extension standard HSDPA with a download speed of up to 7.2 megabits per second.

Termination fee The charge which a telecommunications operator pays when it terminates a call in another operator’s network.

TÜV Technical service provider in Germany, providing a broad range of advisory, service, and testing services in the Mobility, Industrial Services, International, Natural Resources and Training and Human Resources fields.

UMTS Universal mobile telecommunications system; UMTS is a new high-performance standard which permits all types of communication and multi-media applications via mobile phones.

UmwStG German: Umwandlungssteuergesetz; English: German Reorganisation Tax Act.

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 outstanding during the financial year.

Unique user Describes the number of individual visitors to a website within a certain period of time, with several visits of the same user only being taken into account once.

VATM German: Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e. V.; English: The association of telecommunications and value added service providers.

WACC Weighted average cost of capital; the rate that a company is expected to pay on average to all its security holders to finance its assets.

WKN German: Wertpapierkennnummer; English: securities identification number.

WpHG German: Wertpapierhandelsgesetz; English: German Securities Trading Act.

Financial calendar

22 March 2012
Publication of Consolidated Financial Statements/Annual Report 2011

9 May 2012
Annual General Meeting

May 2012[1]
Publication of interim report I/2012

August 2012[1]
Publication of interim report II/2012

November 2012[1]
Publication of interim report III/2012

1 Probable dates.

Imprint, contact, publications

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The Annual Report and our interim reports are also available at:
www.freenet-group.de/investor/publications/quarterly-annual-reports

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

Current information concerning freenet AG and the freenet share is available on our website at *www.freenet-group.de/en*.

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

freenet GROUP

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