freenet

Annual Report 2006

Group accounts of freenet AG

freenet AG – group overview

Result in € million	2006	2005
Third-party revenue	2,054.8	2,050.8
Gross profit	465.8	490.6
EBITDA	147.0	172.7/197.9*
EBIT	103.1	108.4/133.6*
EBT	117.6	116.8/142.0*
Group result	257.0	91.8

Finances and investments in € million	2006	2005
Cashflow from operating activities	144.8	186.8
Depreciation and amortisation	43.9	64.3
Investments	41.7	96.3
Net cash	534.0	416.6

Customers in million	2006	2005
Total customers freenet group	12.68	14.56
thereof contract customers	5.81	5.23
Mobile telephony customers	5.10	4.82
thereof contract customers	2.75	2.61
thereof prepaid customers	2.35	2.21
Acitve internet access customers	3.03	3.53
thereof DSL customers	1.00	0.70
Active telephony customers	3.04	4.87
Customers Paid Services	1.51	1.35

Employees	2006	2005
End of period	3,646	3,578

* unadjusted/adjusted for non recurring expenses (€25.2 million)

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1 Letter to shareholders

1 Letter to shareholders

Eckhard Spoerr

Axel Krieger

Stephan Esch

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

The present Annual Report marks the beginning of a new era – both for you as shareholders and for us as executives and employees of the merged company freenet AG. The merger of the “old” freenet.de AG and mobilcom AG, which has been in the works for two years, was finally concluded with the entry of the new company into the register of companies on March 2, 2007 is.

The result is one of the leading telecommunications groups in the German market, a one-stop provider of all key communications products in the Internet, fixed-line telephony and mobile telephony sectors: the broadband and narrowband web access including related services, innovative Internet telephony, mobile telephony and traditional fixed-line telephony, an extensive portal business, and first-rate B2B solutions.

freenet’s excellent market positioning is reflected in our customer numbers as well. We now have:

- 5 million wireless customers,
- 1 million DSL customers,
- 2 million narrowband customers,
- 3 million active telephony customers,
- 9 million Unique Users of our portals,
- 1.5 million users of paid services, and
- 6 million e-mail accounts.

Prior to the merger, mobilcom and freenet.de each commanded the No.2 market position among mobile telephony service providers, among online service providers in Internet Access, among web hosting providers, and operators of value-added phone services.

freenet.de is one of the Top 5 providers in Germany in “traditional” telephony – encompassing by-call and preselection services – and the country’s No.6 general-interest portal.

Just as the various customer groups overlap in some areas, the segments behind them – mobile telephony, Internet and fixed-line – are increasingly growing together into a converging market with converging products. The “new” freenet AG is one of very few providers with years of experience and solid expertise in all three areas. We will and must (should and will) take systematically advantage of this position in the months and years ahead, to fully exploit existing growth potential, enhance our market positioning, and further increase our profitability in the long term.

Special emphasis will be given to the mobile Internet business. Recent expert studies indicate that by 2010, 4 billion people worldwide will own a mobile phone, and 2 billion people will use the Internet. As early as 2005, 200 million users had mobile access to the web, and the number is likely to double or even triple by 2010. Modern mobile phones are increasingly transmogrifying into mobile all-round devices and offices. In ever more handy casings, it houses telephony, web access, digital services, a full range of info-/entertainment with games, music, movie/TV and full-featured photography, to name just the major features. We already set very clear signals at the CeBIT 2007 with innovative products in this field.

After all, this enormous emerging market was the primary rationale and objective behind the freenet.de/mobilcom merger initiated two years ago: At the time, we had already made a strategic decision to focus on the converging products of the future. The fact that shareholder lawsuits and the legal disputes resulting from them have made the merger such an obstacle-ridden and long-drawn process, despite the overwhelming approval of nearly 100 percent of the respective Annual General Meetings, has cost us much time, energy, clear competitive advantages, and hence growth in the past two years.

This is reflected in the financials for 2006

- Revenues throughout the Group grew slightly, to nearly € 2.055 billion – an increase of roughly 4.1 million euros.
- Due to significant increases in marketing and sales expenditure, earnings before taxes at € 117.6 million are below the € 142.0 million in EBT (adjusted for one-off merger-related expenditure).
- Meanwhile, the Group result reflects an initial, seminal synergy effect of the completed merger: profits rose from 91.8 million euros in 2005 to 257.0 million euros in 2006 - a nearly 180-percent leap. Here, the losses carried forward from mobilcom created a one-off positive effect for the new company.

The task at hand in the months and quarters ahead is to exploit other synergy potential – above and beyond the above-described strategic advantages from creating convergent products and services in a converging Internet/IT and telecoms markets.

We considerably enhanced our appeal in the finance market and can now use our collective financial resources for acquisitions and/or corporate actions. In Purchasing/IT, we plan to achieve cost savings through standardisations and economies of scale. We will also leverage the company's IT expertise and supplier relationships, and optimise investments, e.g. in data centres and systems. In Sales/Marketing, we can now jointly use the company's shops and bundle and harmonise the other distribution systems. Parallel to this, there are communicative synergies thanks to a stronger focus on a single brand.

freenet will be managed as a top brand with assisted awareness exceeding 90 percent in the population at large and the strongest ("green") brand code in the telecoms industry – a full-range service provider brand for all matters relating to the Internet, fixed-line network and mobile telephony. Meanwhile, the service provider brand mobilcom will focus on mobile telephony from now on, with a portfolio of five providers – the traditional mobile telephony network operators, and freenet.

As we work to achieve our ambitious growth targets, we build on the key pillars of our success to date: our dedicated, highly skilled employees at the group's various locations. One especially positive piece of news is that we were able to hire additional, new employees last year – despite the unavoidable restructuring measures at mobilcom and the fact that processes throughout the company continue to be very streamlined.

We – freenet AG's employees and management – will continue to do everything in our power to continue the company's success story in your interests.

Eckhard Spoerr

Axel Krieger

Stephan Esch

2 Business performance

2 Business performance

2.1 Business performance, Group

Result in € million	2006	2005
Third-party revenue	2,054.8	2,050.8
Gross profit	465.8	490.6
EBITDA	147.0	172.7/197.9*
EBIT	103.1	108.4/133.6*
EBT	117.6	116.8/142.0*
Consolidated result	257.0	91.8

Balance sheet	2006	2005
Balance sheet total in € million	1,295.6	1,099.6
Shareholder‘s equity in € million	933.4	677.5
Equity ratio in percent	72.0	61.6
Return on equity in percent	31.9	14.5
Return on capital employment in percent	9.9	11.9

* unadjusted/adjusted for non-recurring expenses of €25.2 million

The German Internet and telecoms market remain intensely competitive. This is reflected among other things in a fall in price levels in the mobile telephony market, successful market entries by discounters, and very competitive flat-rate package deals for DSL Internet access and telephony, which are increasingly coming to replace conventional fixed-line telephony. Against this backdrop, the company slightly grew its revenue year on year to 2.054.8 billion euros – this translates to an increase of 4 million euros or 0.2 percent vs. 2005.

The Mobile Telephony division is still the strongest revenue driver, but at 1.33 billion euros remained roughly 20 million euros below the level seen in 2005 (1.35 billion euros). On the other hand, revenues in the Fixed Line /Internet division rose to 725.5 million euros despite aggressive competition – an increase of 24.7 million euros or 3.5 percent vs. the previous year (2005: 700.8 million euros). It should be noted here that the Strato Group and NEXT-ID, subsidiaries acquired by freenet.de in 2005, were consolidated for a full twelve months during the year under review, compared to eleven and nine months respectively in 2005.

During 2006, the company significantly stepped up its sales activities and expenditure, especially for marketing broadband lines. As a result, the Group’s gross profits dropped from 490.6 million euros in 2005 to 465.8 million euros in 2006, accompanied by a 1.2 percentage point decline in the gross profit margin, from 23.9 percent auf 22.7 percent.

In the Fixed Line/Internet segment, continued growth resulted in a 11 percent increase in staff numbers, while roughly 200 employees in Mobile Telephony were affected by the restructuring measures taken during the year. At Group level, the number of the employees rose to 3,646 at the end of December. Nonetheless, personnel expenditure in the Group dwindled by 4 percent compared to 2005, from 141.8 million euros to 135.8 million euros. This was offset by a year-on-year increase in marketing spend to 81.8 million euros in 2006. Pressing on ahead with DSL growth, the launch of new products and the associated extensive costs of advertising and marketing depressed EBITDA to € 147.0 million compared with € 197.9 million in 2005. Note that the sum of the EBITDAs for the mobile phone service provider and Fixed Line/Internet segments is shown as € 156.0 million, which is higher than the group EBITDA quoted above. This is due to the fact that expenditure of € 9 million in the segment reporting was not attributable to these segments.

The Group result increased significantly year on year, by nearly 180 percent from 91.8 million euros in 2005 to 257.0 million euros in 2006. This increase comes in the main from first-the time utilisation of tax loss carryforwards throughout the Group. With the merger in place the majority of Fixed Line/the Group's Internet profits can now be offset against the tax loss carryforwards taken on from the previous company, mobilcom AG. The Group also posted a marked increase in net cash, which grew by 117.4 million euros in 2006, rising from 416.6 million euros to 534.0 million euros.

2.2 Business performance, Mobile Telephony Service Provider

Result	2006	2005
Third-party revenue in € million	1,329.3	1,350.0
Gross profit in € million	194.4	191.9
EBITDA in € million	62.8	53.2/66.7*
Gross new customers in mllion	1.60	1.46
Net-additions in million	0.28	0.26
Monthly average revenue per user in €	16.9	18.4
Of which per contract customer in €	27.0	28.5
Of which per prepaid customer in €	5.0	6.1

* unadjusted/adjusted for non-recurring expenses of €13.5 million

During the past year, the core business of the "old" mobilcom AG was shaped by industry-wide reductions in tariffs and further pressure on margins, in particular among service providers. According to Germany's Federal Office of Statistics, rates in the German mobile telephone market declined by about 11 percent – a development which had a corresponding impact on the average revenue per user (ARPU). Taking this into account, the Mobile Telephony division produced a good result for 2006.

Despite the strong decline in mobile telephony rates, revenues reached € 1.33 billion, nearly on a par with the previous year's € 1.35 billion; average revenue per user declined by 8.2 percent, to € 16.9. A breakdown by contract vs. prepaid customers yields a slightly different picture: average revenues from subscribers merely declined by 5.4 percent to € 27.0, while the ARPU in the prepaid area decayed by 17.7 percent to € 5.0. The sharper decline in prepaid (on a percentage basis) is essentially explained by the fact that the market entry of discount providers had a greater impact in this segment.

The cost of acquiring customers during 2006 declined year on year thanks to more efficient sales channels. As a result, gross profit improved slightly in 2006, despite distinct increases in new customer recruitment. Gross profit rose to € 194.4 million vs. € 191.9 million in 2005 (hier stand im deutschen 2006), which translates to a gross profit margin of nearly 15 percent. EBITDA amounted to €62.8 million, roughly 6 percent below the previous year's adjusted EBITDA of € 66.7 million.

After successful restructuring, the Mobile Telephony division is now back on track for growth, with new tariffs, new services and measures to expand its network of shops/outlets and strengthen online sales. One important milestone in this process was the introduction of its first mobile phone flat rate in August.

For a fixed monthly rate of € 29.90, flat rate customers receive unlimited calls to the over 30 million mobile phone users in the T-Mobile network and to the German fixed-line network, free voicemail access, inexpensive calls to other providers, and SMS messaging. Parallel to this, the company continually expanded its services and realised extensive campaigns to advance its strategic positioning and build its brands.

As a result, the number of customers grew by approx. 300,000 to around 5.1 million over the year. This is split into 2.75 million contract customers (including those of klarmobil) and 2.35 million prepaid customers.

2.3 Business performance: Fixed Line/Internet

Result	2006	2005
Third-party revenue in € million	725.5	700.8
Gross profit in € million	271.4	298.7
EBITDA in € million	93.2	119.5/131.2*
Active registred member in thousand	8,178	7,380
Page impressions in million	14,879	14,363

* unadjusted/adjusted for non-recurring expenses of €11.7 million

The Fixed Line/Internet division was shaped by several one-off/unforeseeable factors in 2006. Internet Access, in particular, the strongest revenue driver, was impacted during the first half of the year by Deutsche Telekom's "DSL-NetRental" model; According to Federal Network Agency (BNetzA) president Matthias Kurth, the model, which was introduced in December 2005, "granted major DSL providers appreciably greater margins on reselling DTAG's broadband connections than they granted small or medium-size providers, without there being any technically justified reason for this." And because, as Kurth argued, the model was "not reconcilable with the regulatory goal of ensuring equal-opportunity competition as set out in the Telecommunications Act," the BNetzA banned it in late May. The ban of Net Rental by BnetzA plus the new contract model gave a renewed boost to new DSL customer business in the second half of 2006. DSL price levels have, however, been permanently lowered by Net Rental.

The ban on Net Rental was accompanied by a change to the contract model with DTAG. The bonuses for signing up new customers, which until then had been recorded under sales revenue, were dropped, leading to a decline in revenue figures. Conversely, the margins on ongoing income from freenet's existing customers increased.

An innovative milestone and another significant structural change in freenet's Internet business was the launch of "freenetkomplett" at the end of the third quarter. This innovative package offering telephone and high-speed DSL connection at attractive conditions, with first-class equipment and in top quality, freed customers from the dependence on conventional Telekom subscriber lines when using Internet-based telephony. At this point, thanks to an infrastructure partnership with QSC and the Spanish telecoms multinational Telefonica, it is available in more than 200 German cities and regions. Wherever "freenet*Komplett*" is available, the majority of freenet's new DSL customers choose this package.

The discontinuation of the NetRental model and the successful start of freenet*Komplett* appreciably boosted freenet's DSL growth in the 4th quarter, supported by extensive marketing campaigns: 95,000 new DSL customers brought the total broadband customer base to one million by year-end 2006.

The successful development of DSL network access and telephony was accompanied by an overall decline in the narrowband market and traditional fixed-line telephony. Add to that increasingly low discount offers in mobile telephony, which are also increasingly replacing conventional telephony – both in the highly erratic by-call segment and in preselection.

Accordingly, the Internet Access grew its revenue by 5 percent to € 355.7 million in 2006, after € 339.0 million in 2005. Meanwhile, profits in the fixed-line business declined by 16 percent year on year, to € 132.0 million (2005: € 157.9 million). At year-end 2006, freenet had over 3 million active telephony customers; these are split into nearly 2.5 million by-call customers and around 550,000 pre-selection customers. The two lines of business had a combined total of 20.3 billion minutes.

The Portal Business/Digital Services and B2B Services divisions continued to show a very gratifying development. In the portal business, the Strato Group, acquired in early 2005, stayed its successful course and made a major contribution to the division's revenue. In spring of 2006, once the new "eu" domain was introduced, Germany's second-largest web hosting provider began tapping the most promising European sales markets.

In 2006, freenet also enhanced its existing e-commerce, advertising and digital services with new, user-friendly services across multiple networks and devices, to accommodate customers' flexible communication needs: in July, the company introduced freenetTV, a full-range PC with pre-installed freenetTV, which networks digital services in the household, and gives access to established Internet technologies such as like VoIP telephony, e-mail functionalities, and conventional digital media – TV, DVD, videos, music and pictures – on users' TV screens. This was followed in September by a new, high-performance SMS software, and freenet Foto, an innovative, all-in-one digital photography solution that intelligently links all major features for archiving, editing and presenting digital photos. Finally, in the 4th quarter, freenet extended its range of offerings to include podcasting - the Internet-based production and distribution of media files and articles as audio or video. Freenet's catalogue of editorial content includes more than 2,300 German-language podcasts for download or streaming. Thus revenues in this area increased again in 2006, by 25 percent from € 87.0 million in 2005 to € 108.8 million in 2006.

In B2B Services most of the income is generated by the NEXT-ID GmbH, likewise acquired in 2005. This provider of value-added services – service numbers, premium rate/shared cost phone numbers, and international numbers, along with mobile services – to business customers further reinforced its leadership in the Call Media market, especially through a multi-year partnership with the ProSiebenSat.1 group.

NEXT ID actively supports the TV station in increasing its diversification revenue beyond traditional TV advertising income. By upgrading its mass-calling platform, the company has positioned itself as Deutsche Telekom AG's strongest rival for major TV shows with very high ratings. In Mobile Services, the Gruner + Jahr publishing company, another strategically important business customer in the media and entertainment sector, was recruited for "Look-Alike," a mobile application developed by NEXT ID. Brand-name manufacturers and agencies are increasingly becoming a focus of activities, in addition to media, TV, radio, print, entertainment providers and call centres, as the company continues to diversify its client portfolio. B2B revenues grew by more than 10 percent year on year – from € 116.9 million in 2005 to € 129.0 million in 2006.

The various lines of business in the Fixed Line/ Internet division achieved the following gross profits in 2006: € 103.0 million in Internet Access (gross profit margin: 29 percent), € 55.9 million in fixed-line telephony (42 percent), € 88.6 million in the Portal Business (81 percent) and € 23.8 million in B2B Services (18 percent gross profit margin). Total revenue in the Fixed Line/Internet segment amounted to € 725.5 million for 2006 – a 3.5 percent increase vs. 2005 (€ 700.8 million). Due to the general conditions described, especially in Internet Access, gross profit dwindled by €27.3 million to € 271.4 million throughout the division.

As a result of the sometimes significant increase in expenditure on market growth, advertising and new hires, the Fixed Line/Internet segment posted a decline in earnings. At € 93.2 million, EBITDA was nearly 30 percent below the previous year's figure – adjusted for merger-related special items – of € 131.2 million.

3 Consolidated financial statements

3 Consolidated financial statements

3.1 Overview

3.2 Consolidated income statement for the period from 1 January to 31 December 2006

In € 000s	Note	2006	2005
Revenues	1	2,054,835	2,050,773
Other operating income	2	73,126	72,176
Other own work capitalised		677	1,733
Costs of materials	3	-1,589,007	-1,560,195
Personnel expenses	4	-135,764	-141,367
Depreciation and impairment write-downs	5	-43,921	-64,284
Other operating expenses	6	-257,989	-253,362
Operating result	7	**101,957**	**105,474**
Share of results of associates		1,146	2,926
Interest receivable and similar income	8	15,103	8,892
Interest payable and similar expenses	9	-589	-540
Result before taxes on income		**117,617**	**116,752**
Taxes on income	10	139,390	-24,982
Group result		**257,007**	**91,770**
Group result attributable to shareholders of former mobilcom AG		218,526	66,540
Group result attributable to minority interest		38,481	25,230
Earnings per share (undiluted) in €	11	3.50	1.06
Earnings per share (diluted) in €	11	3.50	1.06

3.3 Consolidated balance sheet as of 31 December 2006

Assets in € 000s	Note	31.12.2006	31.12.2005
Non-current assets			
Intangible assets	12, 13	103,722	104,459
Goodwill	12, 13	110,303	110,223
Property, plant and equipment	12, 13	61,054	63,614
Investments accounted for using the equity method	15	3,501	3,512
Other investments	16	304	304
Deferred income tax assets	17	176,652	43,000
Trade accounts receivable	20	920	597
Other receivables and other assets	20	7,915	7,690
		464,371	**333,399**
Current assets			
Inventories	18	27,719	20,750
Current income tax claims	22	1,756	2,942
Trade accounts receivable	20	191,269	237,767
Other receivables and other assets	20	75,145	171,436
Cash and cash equivalents	21	535,337	333,101
Non-current assets hold for sale	19	0	225
		831,226	**766,221**
		1,295,597	**1,099,620**

Liabilities in € 000s	Note	31.12.2006	31.12.2005
Shareholders' equity			
Share capital	23	65,702	65,702
Capital reserves	23	254,561	255,648
Statutory revenue reserves	23, 24	36	36
Retained earnings		445,077	226,551
Formerly mobilcom AG sharholders' interest in shareholders' equity		765,376	547,937
Minority interest in shareholders' equity		168,013	129,532
		933,389	**677,469**
Non-current liabilities			
Other liabilities	26	2,342	1,147
Borrowings	28	717	896
Deferred income tax liabilities	17	232	30,743
Retirement benefit obligations	30	538	539
Provisions for other liabilities and charges	31	6,555	1,027
		10,384	**34,352**
Current liabilities			
Trade accounts payable	26	94,649	110,563
Other payables	26	207,452	205,197
Current income tax liabilities	27	14,668	41,807
Borrowings	28	97	89
Provisions for other liabilities and charges	31	34,958	30,143
		351,824	**387,799**
		1,295,597	**1,099,620**

3.4 Schedule of changes in equity for the period from 1 January to 31 December 2006

In € 000s	Note	Share capital	Capital reserves	Treasury shares	Revenue reserves	Group-Retained earnings	Formerly mobilcom AG share-holders' interest in share-holders' equity	Minority interest in sharehold-ers' equity	Sharehold-ers' equity
As at 1.1.2005		**65,702**	**287,835**	**-27,441**	**36**	**175,615**	**501,747**	**83,795**	**585,542**
Acquisition of own shares	23	0	0	-23,930	0	0	-23,930	0	-23,930
Redemption of own shares	23	0	-51,371	51,371	0	0	0	0	0
Result of share trans-fers in connection with acquisitions of Strato-Group	23	0	18,496	0	0	0	18,496	30,267	48,763
Acquisition of minority interest		0	0	0	0	0	0	-304	-304
Final consolidation after sales of subsidi-aries		0	0	0	0	0	0	-54	-54
Dividend payment of freenet.de AG		0	0	0	0	0	0	-9,402	-9,402
Dividend payment of mobilcom AG		0	0	0	0	-15,604	-15,604	0	-15,604
Stock-based compen-sation	4	0	688	0	0	0	688	0	688
Increase of share capital	23	174,692	-174,692	0	0	0	0	0	0
Reduction of share capital	23	-174,692	174,692	0	0	0	0	0	0
Group result		0	0	0	0	66,540	66,540	25,230	91,770
As at 31.12.2005		**65,702**	**255,648**	**0**	**36**	**226,551**	**547,937**	**129,532**	**677,469**
As at 1.1.2006		**65,702**	**255,648**	**0**	**36**	**226,551**	**547,937**	**129,532**	**677,469**
Stock-based compensation	4	0	-1,087	0	0	0	-1,087	0	-1,087
Group result		0	0	0	0	218,526	218,526	38,481	257,007
As at 31.12.2006		**65,702**	**254,561**	**0**	**36**	**445,077**	**765,376**	**168,013**	**933,389**

3.5 Consolidated cash flow statement for the period from 1 January to 31 December 2006

In € 000s	Note	2006	2005
Result before taxes on income		**117,617**	**116,752**
Adjustments:			
Depreciation and impairment on items of fixed assets	5	43,921	64,284
Increase in provisions	30, 31	10,342	2,471
Interest income	8	-15,103	-8,892
Interest expenses	9	589	540
Share of results of associates	15	-1,146	-2,926
Other non-payment components		-1,087	168
Loss on disposals of fixed assets		696	1,295
Decrease of inventories, trade receivables and other assets not attributed to investing or financing activities		52,207	23,727
Decrease/Increase of trade payables and other liabilities not attributed to investing or financing activities		-12,473	9,295
Profit on sale of subsidiaries		0	-2,072
Taxes paid		-50,726	-17,870
Cashflow from operating activities		**144,837**	**186,772**
Purchase of property, plant and equipment		-25,537	-25,465
Purchase of intangible assets		-16,052	-7,115
Proceeds from disposals of intangible assets and property, plant and equipment		283	850
Purchase of subsidiaries	35	-104	-63,759
Proceeds from the sale of subsidiaries		0	2,056
Return of capital from associates	15	1,157	1,025
Interest received		13,127	7,212
Cashflow from investing activities		**-27,126**	**-85,196**
Dividend payment		0	-15,604
Cash-payments for acquisition of own shares		0	-23,930
Cash-payments by subsidiaries to minority shareholders		0	-9,402
Cash-proceeds/Cash-payments for the purchase of promissory notes	20	85,000	-85,000
Cash repayments of bonds and borrowings		-171	-1,491
Interest paid		-306	-316
Cashflow from financing activities		**84,523**	**-135,743**
Cash-effective change in cash and cash equivalents		**202,234**	**-34,167**
Value adjustments pertaining to attributable market values of securities included in cash funds		2	206
Cash and cash equivalents at 1.1.		**333,101**	**367,062**
Cash and cash equivalents at 31.12.		**535,337**	**333,101**

3.6 Consolidatet statements of movements in non-current assets as of 31 December 2006

In € 000s	Costs of purchase or production					
	1.1.2006	Change in companies included in consolida-tion	Additions	Transfers	Disposals	31.12.2006
Intangible assets						
Internally-generated software	7,244	0	677	-3	0	7,918
Software and licences	138,816	0	7,049	3	16,881	128,987
Trademarks	57,714	0	0	0	39,881	17,833
Customer base/-relationship	36,470	0	8,326	0	0	44,796
Goodwill	110,223	80	0	0	0	110,303
	350,467	**80**	**16,052**	**0**	**56,762**	**309,837**
Property, plant and equipment						
Land, facilities on land and buildings	13,071	0	5	0	0	13,076
Technical equipment and machinery	28,728	0	3,596	6,320	1,055	37,589
Switches and networks	173,277	0	4,019	1,126	1,242	177,180
Other office equipment	140,982	14	17,886	-7,180	41,018	110,684
Payments on account and assets under construction	266	0	31	-266	4	27
	356,324	**14**	**25,537**	**0**	**43,319**	**338,556**
	706,791	**94**	**41,589**	**0**	**100,081**	**648,393**

Depreciation and impairment write-downs						Book values	
1.1.2006	Additions	Impairment write-downs	Transfers	Disposals	31.12.2006	31.12.2006	1.1.006
4,291	1,531	0	-43	0	5,779	2,139	2,953
88,694	11,324	0	43	16,568	83,493	45,494	50,122
39,881	0	0	0	39,881	0	17,833	17,833
2,919	3,621	0	0	0	6,540	38,256	33,551
0	0	0	0	0	0	110,303	110,223
135,785	**16,476**	**0**	**0**	**56,449**	**95,812**	**214,025**	**214,682**
3,684	513	1	0	0	4,198	8,878	9,387
13,900	7,376	0	2	1,028	20,250	17,339	14,828
160,285	9,082	0	0	1,239	168,128	9,052	12,992
114,841	10,071	402	-2	40,386	84,926	25,758	26,141
0	0	0	0	0	0	27	266
292,710	**27,042**	**403**	**0**	**42,653**	**277,502**	**61,054**	**63,614**
428,495	**43,518**	**403**	**0**	**99,102**	**373,314**	**275,079**	**278,296**

Consolidatet statements of movements in non-current assets as of 31 December 2005

In € 000s	Costs of purchase or production					
	1.1.2005	Change in companies included in consolida-tion	Additions	Transfers	Disposals[3]	31.12.2005
Intangible assets						
Internally-generated software	4,526	792	1,786	140	0	7,244
Software and licences	117,765	23,612	5,118	-140	7,539	138,816
Trademarks	39,881	17,833	0	0	0	57,714
Customer base/-relationship	0	36,470	0	0	0	36,470
Goodwill[1,2]	32,605	77,498	213	0	93	110,223
	194,777	**156,205**	**7,117**	**0**	**7,632**	**350,467**
Property, plant and equipment						
Land, similar rights and buildings	13,071	0	0	0	0	13,071
Technical equipment and machinery	8,898	8,468	5,965	5,411	14	28,728
Switches and networks	170,613	508	2,388	0	232	173,277
Other office equipment	152,354	5,294	16,844	-5,342	28,168	140,982
Payments on account and assets under construction	69	0	266	-69	0	266
	345,005	**14,270**	**25,463**	**0**	**28,414**	**356,324**
	539,782	**170,475**	**32,580**	**0**	**36,046**	**706,791**

¹ The negative goodwill was released as of 01/01/2005 (in accordance with IFRS 3).
² As of 01/01/2005, goodwill is no longer subject to planned write-offs. The historical acquisition costs of the goodwill as of 01/01/2005 are the equivalent of the book value of the goodwill as of 31/12/2004.
³ Including reclassification in the balance sheet item “Non-current assets held for sale”.

Depreciation and impairment write-downs					Book values		
1.1.2005	Additions	Impairment write-downs	Transfers	Disposals[3]	31.12.2005	31.12.2005	1.1.2005[1]
2,397	1,792	101	0	0	4,291	2,953	2,129
84,548	11,005	404	0	7,262	88,694	50,122	33,218
27,970	3,665	8,246	0	0	39,881	17,833	11,910
0	2,919	0	0	0	2,919	33,551	0
0	0	0	0	0	0	110,223	32,605
114,915	**19,381**	**8,751**	**0**	**7,262**	**135,785**	**214,682**	**79,862**
3,171	513	0	0	0	3,684	9,387	9,900
3,866	5,574	299	4,168	7	13,900	14,828	5,032
140,509	19,921	0	0	146	160,285	12,992	30,104
135,641	9,844	0	-4,168	26,476	114,841	26,141	16,713
0	0	0	0	0	0	266	69
283,187	**35,852**	**299**	**0**	**26,629**	**292,710**	**63,614**	**61,818**
398,102	**55,233**	**9,050**	**0**	**33,891**	**428,495**	**278,296**	**141,680**

3.7 Notes to the consolidated financial statements of freenet AG (formerly: mobilcom Aktiengesellschaft) for the period ended 31 December 2006

A. General information

freenet AG (also referred to in the following as “the Company”), the Group‘s parent company (also referred to in the following as “freenet”) is registered in Büdelsdorf, Germany. The Group provides telecommunications services in the segments “Mobile Telephony”, “Fixed Network” and “Internet”.

mobilcom AG (also referred to in the following as: mobilcom) has been dissolved as a result of the entry of its merger with the Company on 2 March 2007. As the legal successor of mobilcom AG and freenet.de AG (also referred to in the following as: freenet.de), the Company assumed the obligation on 2 March 2007 of preparing consolidated financial statements for the period ended 31 December 2006. In accordance with International Financial Reporting Standards (IFRS), assets were transferred from mobilcom AG and freenet.de AG to the Company as a result of the mergers only at the point at which the transaction was entered in the commercial register on 2 March 2007 and only in conjunction with the acquisition of actual control over their assets and liabilities. At the point at which the consolidated financial statements were prepared, freenet AG is accordingly the legal ultimate parent company of the Group. However, the IFRS consolidated financial statements of freenet AG for the period ended 31 December 2006 are still the direct continuation of the consolidated financial statements of mobilcom AG. As of 31 December 2006, the Group of freenet AG is identical to the previous mobilcom Group, in which it has been included as a fully consolidated wholly-owned subsidiary since its original establishment.

Accordingly, the share capital of the former mobilcom AG of € 65,702,000 is still shown as the share capital of the Group of freenet AG as of 31 December 2006. The previous year figures of the mobilcom Group also have to be compared, and earnings per share in accordance with IAS 33 are still calculated on the basis of the 62,416,710 issued no-par value shares of mobilcom AG.

B. Accounting standards

The 2006 consolidated financial statements have been prepared in conformity with the IFRS of the International Accounting Standards Board (IASB), as well as in compliance with applicable provisions of commercial law in accordance with section 315a of the German Commercial Code (Handelsgesetzbuch – HGB). All standards prevailing as at 31 December 2006 were taken into account, as were the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

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

The consolidated financial statements have been prepared applying the historic 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 were based on uniform accounting and valuation principles and were prepared to the same balance sheet as that applying to the consolidated financial statements.

The following table shows the new or modified IFRS and IFRIC, which are the subject of mandatory adoption with effect from 1 January 2006, and the related impact on the Group:

Standard/Interpretation		Mandatory application starting	Adoption by EU commission	impact
IFRS 6	Exploration and evaluation of mineral resources	1.1.2006	yes	none
IAS 21	The effects of changes in foreign exchange rates – net investment in a foreign operation	1.1.2006	yes	none
IAS 19	Employee benefits: Actuarial profits and losses	1.1.2006	yes	none
IAS 39	Financial instruments: Recognition and measurement and IFRS 4 insurance contracts financial guarantees	1.1.2006	yes	none
IAS 39	Financial instruments: Cash flow hedges	1.1.2006	yes	none
IFRIC 4	Determining whether an arrangement contains a lease	1.1.2006	yes	none
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental funds	1.1.2006	yes	none
IFRIC 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment	1.12.2005	yes	none

Adopted by EU commission as of 31 December 2006

The following table shows the new or modified IFRS and IFRIC which are not the subject of mandatory adoption in financial 2006 and their probable impact on the Group:

Standard/Interpretation		Mandatory application	Adoption by EU commission	Probable impact
IFRS 7	Financial instruments: Disclosure	1.1.2007	Yes	Disclosures in notes
IFRS 8	Operating segments	1.1.2009	No	Segment reporting
IAS 1	Presentation of financial statements-capital disclosures	1.1.2007	Yes	Disclosures in notes
IFRIC 7	Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies	1.3.2006	Yes	none
IFRIC 8	Scope of IFRS 2	1.5.006	Yes	none
IFRIC 9	Reassessment of embedded derivatives	1.6.2006	Yes	none
IFRIC 10	Interim financial reporting and impairment	1.11.2006	No	not foreseeable
IFRIC 11	IFRS 2 - Group and treasury share transactions	1.3.2007	No	none
IFRIC 12	Service concession arrangement	1.1.2008	No	none

Adopted by EU commission as of 31 December 2006

C. Consolidated companies

The consolidated financial statements include all companies with respect to which the Company is directly or indirectly in a position to determine the Company's financial and business policies in such a way that the Group parent benefits from the activities of the company in question. For a complete list of all companies included in freenet AG's consolidated financial statements, please consult our disclosures in accordance with section 315a HGB in note 37.

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% in voting rights.

Strato AG, Strato Rechenzentrum AG, Cronon AG, 01024 Telefondienste GmbH, freenet Customer Care GmbH, freenet Datenkommunikations GmbH, Next ID technologies GmbH, 01050.com GmbH, tellfon GmbH, 01083.com GmbH, new directions GmbH, freenet Direkt GmbH, MobilCom Multimedia GmbH as well as klarmobil GmbH will take advantage of the exemption regulations specified in section 264 (3) HGB for the annual financial statements for the period ending 31 December 2006.

The information relating to the Company acquisitions carried out in financial 2006 and forwarded to the Supervisory Board until the approval of the consolidated financial statements is set out under note 35 “Company acquisitions”.

D. Consolidation principles

Companies are included in the consolidated financial statements with effect from the date on which the company assumes control. Minority interests in the companies are disclosed separately on the balance sheet. The purchase method was applied to the consolidation of equity.

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

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

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

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

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

Intra-group profits and losses, turnover, expenditure and revenue as well as existing receivables and liabilities between consolidated companies, are eliminated, and the same applies to associates in the case of elimination of intercompany results.

E. Accounting and valuation methods

The following accounting and valuation methods were applied when preparing the consolidated financial statements:

(a) Revenues

The Group predominantly provides services over a short performance period, and the revenues are collected after performance in full of the service. Services which atypically span the balance sheet date are shown according to the date on which reimbursement for the expenditure will in all probability be received. Services rendered but not yet invoiced are accrued separately in the annual financial statements. Revenues are disclosed net of value added tax and cash discounts.

The revenues for the “Mobile Telephony” business segment primarily comprise payments for voice communication and data transmission and associated services, as well as related hardware and commission revenue. The revenues from the “Fixed Network/Internet” business segment relate to Internet access, portal, telephony and B2B services.

Supplementary notes on revenues:

Voice communication and data transmission revenues are generated via special mobile phone service packages. The service packages and other services are disclosed as revenue during the period in which the services were provided.

The Group receives commission revenues from the four mobile telephony networks principally for attracting new users and for contract extensions. Commission claims are determined on the basis of contractually agreed qualitative and quantitative factors such as the number of new users per quarter or the average revenue per user, and on top of this, advertising cost subsidies are granted for individual campaigns. Suppliers of mobile phones and accessories are also granted commission and advertising cost subsidies in return for achieving predefined turnover and/or volume targets. Where claims extend beyond the period in which the services were performed, commission revenues are accrued accordingly.

In the Portal segment of the “Fixed Network/Internet” segment, revenues are also generated from the registration of names for Internet domains and web hosting. These involve entering into contracts with users whereby a range of services is offered in return for a registration fee plus regular monthly charges. The registration fee is recognised once registration has taken place and the service has been set up for the user, whereas the ongoing monthly charges are accrued over the term of the contract.

The bulk of the revenue generated in the B2B segment comes from value-added services for business users. This segment recognises sums collected both on the Company‘s own account and also on behalf of third parties. In accordance with IAS 18, sums collected by the Company on behalf of a client do not represent revenue.

(b) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. No borrowing costs directly attributable to the acquisition, construction or manufacture of a qualifying asset were capitalised in 2005.

(c) Intangible assets

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

For this purpose, the goodwill is broken down over cash generating units. It is broken down over those cash generating units or groups of cash generating units which are expected to derive a benefit from the merger which gave rise to the goodwill. With regard to the specific breakdown, please refer to note 13 "Test for impairment of non-monetary assets".

The brand rights are assets with an undefinite economic service life which are not depreciated and instead are subject to an impairment test at least once every year. 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.

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

Costs incurred in developing or maintaining software programs are usually recognised as expenses in the year they are incurred. Such costs are recognised as intangible assets falling under the heading internally generated software provided they relate to a clearly defined software product which can be used by the Company, and if the product's expected overall economic benefit is greater than the costs incurred. These costs include the personnel costs for the software development team as well as expenditure on services and fees incurred in creating the asset. Development costs are not capitalised until the point in time when their technical and economic feasibility can be proven. Capitalised software development costs are subjected to straight-line depreciation over the duration of their prospective useful life, usually three years.

The method used for showing customer relations is the same as that used for company acquisitions which were completed in the previous year. Customer relations are depreciated over a term of two to fourteen years.

A core technology, which also is derived from a company acquisition which was completed in the previous year, is depreciated over a period of ten years.

The costs of signing up customers are the costs incurred at the point at which the contract is signed with customers. The Group capitalises these costs if they satisfy the corresponding criteria of IAS 38. The criteria for capitalising the costs of signing up customers were satisfied for the first time in 2006 in the "freenet*Komplett*" segment. The main components of the costs for signing up customers in this segment are the provision costs, the costs of the customer hardware as well as the sales commissions. If the criteria of IAS 38 are not satisfied, these costs are otherwise shown as costs of purchased products and purchased services. The intangible assets shown for costs of signing up customers are depreciated over the original term of the customer contracts of 24 months. The costs of signing up new customers are allocated to the category "Customer base/relations" for presentation in the schedule of consolidated assets.

(d) Property, plant and equipment

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

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

Asset	Useful life in years
Buildings	25 years
Technical equipment and machinery	3 to 15 years
Motor vehicles	4 to 7 years
IT equipment	3 to 10 years
Telecommunications equipment and hardware	3 years
Leasehold improvements	3 to 10 years

(e) Impairment of non-monetary assets

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

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

If the reason for an impairment is no longer applicable, the value of the asset is written up to a figure not exceeding the amortised cost of purchase.

(f) Leases

Leases where the Group is the lesseer

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

Leases where 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 assumed. In the case of operating leases, the lease instalments are shown in the income statement in a straight-line fashion over the term of the respective leases.

In the case of finance leases, IAS 17 specifies that the leased assets of which the Group is classified as the beneficial owner are capitalised and depreciated over their expected useful lives. Liabilities arising from the lease are correspondingly reduced by the capital portion of the lease instalments already paid, while the interest portion of the lease instalments is recognised as expenditure. The leases on technical data centre equipment are classified as finance leases. The original terms of the leases still running on the balance sheet date were estimated, taking the Company‘s existing option rights into account, at ten years, and the resultant debt is amortised over this period.

Leases where the Group is the lessor

If the beneficial ownership of a mobile telephone is transferred to the customer, in accordance with IAS 17 the Group recognises a receivable from the lessee in the amount of the net investment in the lease at the time the contract is entered into. Lease payments received are broken down into an interest portion and a capital (redemption) portion. On the balance sheet date, only contracts under the “Inklusiv-Programm” were being treated as finance leases.

(g) Holdings in associates and other investments

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 procedure for accounting for holdings using the equity method, please refer to text D “Principles of consolidation”.

Under IAS 39, so-called “available-for-sale financial assets” which however are to be held for the long term are classified as other investments. They are shown at fair value. Other investments for which there is no price which is listed on an active market and for which a fair value cannot be reliably determined are shown at historical cost.

(h) Securities

The recognised securities fall under the category laid down in IAS 39 of financial assets charged to revenue at their fair value. The securities are recognised from the point in time when freenet becomes a contractual party. Normal market purchases and sales of these securities are accounted for on the respective date of trading. The initial and subsequent valuations of securities are done at the market value, which is deemed to represent their fair value. This market value is determined by the stock exchange quotation or trading price prevailing either on the balance-sheet date or the final trading day before the balance-sheet date. Changes in the market value of securities on the balance-sheet date from one year to the next are recognised as a result of market valuation and disclosed in the income statement under other interest and similar revenue. In the balance sheet, securities are shown under cash and cash equivalents.

(i) Inventories

Inventories are shown at the lower of cost and the net realisable value on the balance-sheet date. The net realisable value is defined as the estimated recoverable proceeds less costs to sell. The acquisition or production costs are calculated using the first-in-first-out method (FIFO).

(j) Held for sale non-current assets

A separate balance sheet item is shown under current assets for non-current assets which are planned to be sold during the next financial year and for which the sale is very probable.

(k) Trade accounts receivable, other receivables and other assets

Trade accounts receivable and other receivables and assets are initially recognised at their fair value and on each subsequent balance-sheet date at their amortised costs of acquisition, and in the event of a write-down at their prospective realisable value. They also include services rendered and not yet invoiced, but for which a contractual claim exists. Written-down receivables are assessed on the basis of the amounts outstanding on the balance-sheet date, and corresponding valuation allowances are made. Irrecoverable receivables are eliminated.

(l) Foreign currency transactions

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

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

(m) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand, cheques, bank balances and money market investments which can be converted into cash sums and are only subject to minor fluctuations in value, as well as short-term bank liabilities.

(n) Pension provisions

The pension provision shown in the balance sheet is equivalent to the present value of the defined benefit obligation on the balance-sheet date less the fair value of the plan assets adjusted by cumulative actuarial profits and losses which have so far not been shown in the income statement as well as subsequent service cost not shown in the income statement. The present value of the defined benefit obligation is calculated every year by an independent actuarial expert using the projected unit credit method. This method takes account not only of the pensions and acquired vested interests known on the reference 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 employees.

Subsequent service cost is immediately taken to the income statement, unless the changes in the pension plan depend on the employee remaining with the Company for a defined period (period until entitlement becomes vested). In this case, the subsequent 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 allocation to provisions is shown in financial result.

(o) 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 probable 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.

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

(p) Employee share option programmes

There are the following employee share option programmes in the Group:

- Stock appreciation rights of freenet AG
- Stock options of the former mobilcom AG
- Stock options of the former freenet.de AG

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

- Stock appreciation rights of freenet AG
  In 2006, stock appreciation rights were granted to the Managing Board of the Company, selected executive bodies of the subsidiaries as well as selected employees of the Group. They are valued at the fair value of the stock appreciation rights on the balance-sheet date. These rights are exercised in return for payment of a cash amount equivalent to the difference between the relevant stock price and the strike price less taxes and charges. For details, please refer to our explanations to note 25 “Employee share option programmes”.

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

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

- Stock options of the former freenet.de AG
  The former freenet.de AG granted its own stock options. However, when the merger became effective, the stock options of freenet.de AG were settled in cash.

- In the third quarter of 2005, freenet.de AG and all option holders reached an agreement regarding the expirable options, according to which the beneficiaries waived their rights attributable to their stock options and all related rights in return for cash compensation. This agreement was conditional on the merger between freenet.de AG and mobilcom AG to form the Company becoming effective. Accordingly, the ruling of IFRS 2 with regard to the recognition of stock-based compensation was not applied for the options still outstanding as of 31 December 2006; instead the provisions were recognised with the intrinsic value of the options. Please refer to our comments concerning note 25 “Employee stock option programmes”.

- In the case of the share options issued by the former freenet.de AG, the cash settlement is geared to the difference between the closing price of freenet.de AG ordinary shares on the final stock exchange trading day prior to exercise and the exercise price less taxes and levies. The Managing Board of freenet.de AG has chosen this option, and accordingly all freenet.de AG share options exercised during 2005 were satisfied through cash settlement.

(q) Deferred taxes on revenue

Deferred taxes are recognised for tax loss carry-forwards and using the liability method, for all temporary differences between the tax balance sheet values and the carrying amounts of assets and liabilities. Deferred tax assets are recognised for tax loss carry-forwards only to the extent that it is probable that they can be used against future profits. Deferred tax assets are calculated using the tax rates prevailing under current tax law.

(r) Accruals and deferrals for public subsidies

Accounts receivable in the form of public subsidies are capitalised provided a corresponding claim exists and the amount thereof can be estimated with sufficient reliability. According to IAS 20, the item must be presented as deferred revenue and recognised in the income statement over a period of three to ten years, depending on the depreciation period applied. If at the time when the subsidy entitlement comes into being, the property, plant and equipment in question has already been depreciated either in whole or in part, it will be recognised immediately. For further details, please refer to note 26.

(s) Exercise of management discretion

We provide the following details pursuant to IAS 1.113:

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

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

In the “Fixed Network/Internet” segment, for the purpose of accruing the procured services for provision expenses in the DSL field, past experience was based as the basis for estimating the probability with which orders become active customer relations. This probability is used as the basis for accruing provision expenses which would apply on a one-off basis in the event of the activation and connection of the user. These provision expenses are capitalised as part of the costs of signing up customers in the “freenet*Komplett*” segment. Before the introduction of the wholesale DSL contract with Deutsche Telekom AG, Bonn, in other words up to 22 May 2006, the probability with which customer orders eventually become active customer relations was also used for the purpose of accruing the market development premium for Resale DSL shown under revenues.

In order to value the intangible assets for costs of signing up customers in the “freenetKomplett” segment, an assessment is made to establish what percentage of the costs of signing up customers can be amortised within the original contractual term – only this percentage is capitalised.

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

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

(t) 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 1.116:

As regards the forward looking assumptions made in the impairment tests for goodwill and intangible assets of indefinite useful life, please refer to note 13 “Impairment test for non-monetary assets”.

With regard to the forward-looking assumptions made in determining the deferred revenue tax assets due to existing tax loss carry-forwards, please refer to note 17 “Deferred tax assets and liabilities”.

With regard to the assumptions and estimates made in the binomial model used for determing the provisions for outstanding stock options and stock appreciation rights according to IFRS 2 as of 31 December 2006, please refer to note 25 “Employee stock option programmes”.

With regard to pension provisions and similar obligations, note 30 describes how forward-looking assumptions have been made for the valuation of the provisions for pensions and similar obligations. This involves the recognition of a discount rate, the trend in pensions, the assessment of the future development of the pensionable income of the beneficiary as well as an assessment of an expected return on the plan assets.

(u) Comparable figures

When comparing the consolidated income statement for 2006 with the corresponding income statement for 2005, it has to be borne in mind that the Strato Group (consolidation after 1 February 2005) as well as NEXT-ID GmbH (formerly: Talkline ID GmbH) as well as the call-by-call and network business acquired from the Talkline Group (consolidation after 7 April 2005) were included in the consolidated financial statements for the first time in financial 2005. Accordingly, the Strato Group was consolidated for 12 months in 2006, compared with eleven months in the previous year. Next-ID GmbH as well as the call-by-call and network business acquired from the Talkline Group were consolidated for 12 months in 2006, compared with around nine months in the previous year.

F. Segment reporting

Since the Group‘s business operations are conducted almost exclusively in Germany, segment reporting is required only by business segment. In 2006, the Group was active in the following business segments:

- Mobile Telephony Service Provider: Mobile services
- Fixed Network/Internet: Fixed network, voice and data services and related services

Assets and liabilities are assigned to the economically appropriate segments. Transactions between segments are of minimal importance and accordingly are not disclosed in the segment report.

Segment assets consist primarily of intangible assets (including goodwill), property, plant and equipment, inventories, receivables, other assets and cash and cash equivalents. All receivables from revenue taxes have been excluded. Investments in associates and joint ventures have been valued using the equity method and are shown separately in the appropriate segments.

Segment liabilities result primarily from operational activities and generally exclude revenue tax and financial liabilities. Additions of non-current assets and depreciation relate to both intangible assets (including goodwill) and property, plant and equipment.

The new acquisitions made in 2005 and 2006 through mergers were allocated to the “Fixed Network/Internet” business segment.

2006 **In € 000s**	**Mobile Telephony**	**Fixed Net-work/ Internet**	**Group**
Third-party revenues	1,329,335	725,500	2,054,835
Segment result excluding share of result of investments accounted for using the equity method	51,408	59,505	110,913
Result of investments of companies accounted for using the equity method	0	1,146	1,146
Segment result before financial result and taxes on income	**51,408**	**60,651**	**112,059**
Unattributed expenses			-8,956
Consolidated result before financial result and taxes on income			**103,103**
Consolidated financial result			14,514
Taxes on income			139,390
Group result			**257,007**
Former mobilcom AG shareholders‘ share in the consolidated result			218,526
Minority interests in the consolidated result			38,481
Segment assets	554,870	558,514	1,113,384
Investments	0	304	304
Associates and joint ventures	0	3,501	3,501
Unassigned assets			178,408
Group assets			**1,295,597**
Segment liabilities	152,990	184,545	337,535
Unassigned liabilities			24,673
Group liabilities			**362,208**
Additions to fixed assets	7,503	34,087	41,590
Additions to fixed assets due to acquisitions	0	94	94
Group additions to assets			**41,684**
Significant non-cash expenses			
Depreciation and impairments	11,424	32,497	43,921
(thereof impairments)	(403)	(0)	(403)
Additions to provisions and accrued liabilities	61,229	80,690	141,919
Write-downs of receivables and increase in valuation adjustments against receivables	7,031	10,795	17,826
	79,684	**123,982**	**203,666**

2005 **In € 000s**	**Mobile Telephony**	**Fixed Net-work/ Internet**	**Group**
Third-party revenues	1,349,964	700,809	2,050,773
Segment result excluding share of result of investments accounted for using the equity method	29,335	76,139	105,474
Result of investments of companies accounted for using the equity method	0	2,926	2,926
Group/segment result before financial result and taxes on income	**29,335**	**79,065**	**108,400**
Consolidated financial result			8,352
Taxes on income			-24,982
Group result			**91,770**
Former mobilcom AG shareholders‘ share in the consolidated result			66,540
Minority interests in the consolidated result			25,230
Segment assets	503,392	546,470	1,049,862
Investments	0	304	304
Associates and joint ventures	0	3,512	3,512
Unassigned assets			45,942
Group assets			**1,099,620**
Segment liabilities	156,898	191,718	348,616
Unassigned liabilities			73,535
Group liabilities			**422,151**
Additions to fixed assets	14,561	18,019	32,580
Additions to fixed assets due to acquisitions	0	170,475	170,475
Group additions to assets			**203,055**
Significant non-cash expenses			
Depreciation and impairments	23,907	40,377	64,284
(thereof impairments)	(8,649)	(400)	(9,049)
Additions to provisions and accrued liabilities	62,787	85,518	148,305
Write-downs on receivables and increase in valuation adjustment against receivables	3,854	7,361	11,215
	90,548	**133,256**	**223,804**

G. Notes to the consolidated income statement

1. Revenues

Revenues are broken down as follows:

€ 000s	2006	2005
Mobile telephony	1,329,335	1,349,964
Internet provider	593,521	541,118
Fixed network telephony	131,979	159,691
	2,054,835	**2,050,773**

Of the mobile telephony turnover, € 1,010 million (previous year: € 1,015 million) relates to rentals and fees, and € 115 million (previous year: € 153 million) relates to the sale of mobile telephony devices and accessories.

In the third quarter of 2006, freenet.de AG signed a Wholesale DSL agreement with Deutsche Telekom AG, Bonn (DTAG); this agreement replaced the previous agreement for resale DSL. The conditions of the Wholesale DSL agreement are applicable starting 23 May 2006. Compared with the Resale DSL agreement, the premiums for signing up new customers are no longer applicable (these used to be shown under revenues). On the other hand, the one-off provision and the monthly line leasing are now obtained on more favourable conditions, with a corresponding impact on the costs of purchased services.

2. Other operating income

Other operating income mainly includes income from the release of provisions and accrued liabilities, from late payment and charge-back charges, advertising cost subsidies, payments relating to receivables which had previously been written down and also income from the invoicing of payment in kind to employees in the form of the use of company cars.

Other operating income also includes € 2,301 thousand (previous year: € 1,130 thousand) in revenue from the leasing of business premises.
Other operating income also includes € 21 thousand (previous year: € 161 thousand) from foreign currency translations.

In the previous year, other operating income was affected by one-off income of € 2,072 thousand generated by the sale of subsidiaries.

3. Costs of materials

Costs of materials are broken down as follows:

€ 000s	2006	2005
Costs of purchased goods	259,840	278,133
Costs of purchased services	1,329,167	1,282,062
	1,589,007	**1,560,195**

Costs of purchased goods principally comprise the cost value of mobile telephones sold under term contracts and also bundles from prepaid business as well as DSL hardware which has been sold.

Costs of purchased services primarily include fees for mobile telephony services, commission payments to retail partners as well as fixed network interconnection fees for providing and leasing DSL lines.

4. Personnel expenses

Personnel expenses are broken down as follows:

€ 000s	2006	2005
Wages and salaries	116,123	123,145
Social contributions	19,641	18,222
	135,764	**141,367**

The average number of people employed by the Group rose by almost four percent, from 3,491 to 3,630 in 2006.

In the course of the financial year, personnel expenses linked to the performance of the share price amounted to € 8,705 thousand (previous year: € 13,841 thousand).

€ 000s	2006	2005
Stock appreciation rights	8,956	0
Stock options (former mobilcom AG)	161	688
Stock options (former freenet.de AG)	- 412	13,153
	8,705	**13,841**

The Company‘s stock appreciation programme resulted in personnel expenses of € 8,956 thousand in 2006. For an explanation of the stock option programme as well as the stock appreciation programme, please refer to our comments to note 25 “Employee stock option programmes” as well as section (p) in the accounting and valuation methods.

Personnel expenses also comprise an expense of € 233 thousand for defined benefit plans (previous year: € 425 thousand), see also note 30 “Pension provisions and similar obligations”.

Personnel expenses include a figure of € 18,517 thousand as the employer‘s social insurance contribution as costs of defined contribution benefit plans (previous year: € 17,097 thousand).

5. Depreciation and impairments

The following table sets out the depreciation and impairments:

€ 000s	2006	2005
Depreciation on intangible assets	16,476	19,382
Impairments on intangible assets	0	8,750
Depreciation on property, plant and equipment	27,042	35,853
Impairments on property, plant and equipment	403	299
	43,921	**64,284**

Of the figure stated for impairments in financial 2006, € 303 thousand relates to tenant fittings which can no longer be used, and € 100 thousand relates to IT equipment. All impairments were recognised in the “Mobile Telephony” segment.

Impairments in the “Mobile Telephony” segment recognised in the previous year related to the “Cellway brand name (€ 8,245 thousand) and the discontinued mobilcom online shop (€ 404 thousand). Within the “Fixed Network/Internet” segment, impairments were recognised in relation to software which was produced in-house but which is no longer used (€ 101 thousand) as well as technical equipment which can no longer be used (€ 299 thousand).

6. Other operating expenses

Other operating expenses chiefly comprise advertising and trade fair costs, network costs, postage costs and legal and consultancy costs.

In the financial year, total impairments of € 17,826 thousand (previous year: € 11,215 thousand) were also recognised in relation to receivables. The impairments are applicable to trade accounts receivable (€ 17,618 thousand; previous year: € 10,967 thousand) and other assets (€ 208 thousand; previous year: € 248 thousand).

This item also includes leasing expenses of € 40,946 thousand for operating leases (previous year: € 41,004 thousand).

A figure of € 15 thousand (previous year: € 5 thousand) is shown for foreign currency translation under other operating expenses.

The other operating expenses of the previous year include one-off expenses of € 11,096 thousand – mainly legal and consultancy costs – which were incurred in the third quarter as a result of the resolution to merge mobilcom AG and freenet.de AG with the Company.

The operating result includes a figure of € 6,503 thousand (previous year: € 15,551 thousand) for income attributable to other periods as well as a figure of € 2,621 thousand (previous year: € 2,064 thousand) for expenses attributable to other periods.

8. Other interest and similar income

This item comprises the following:

€ 000s	2006	2005
Interest receivable from banks, from debt collection and similar income	14,736	8,411
Market valuation of money market investments (write-up)	367	358
Interest of tax refunds	0	123
	15,103	**8,892**

9. Interest and similar expenses

This item is broken down as follows:

€ 000s	2006	2005
Other interest and similar expenses	404	171
Interest on finance leases	89	187
Interest on pension obligations	55	26
Interest relating to other liabilities	41	60
Interest on supplementary tax payments	0	96
	589	**540**

10. Taxes on income

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

€ 000s	2006	2005
Current tax expenses of consolidated companies	-24,773	-35,721
Deferred taxation of consolidated companies	164,163	10,739
	139,390	**-24,982**

For further details concerning deferred taxes, please refer to note 17.

Applying the average tax rate of the consolidated companies to the consolidated result before taxes on income would result in anticipated tax expenses of € 45.3 million (previous year: € 43.3 million). The difference between this amount and the actual tax income (previous year: tax expense) of € 139.4 million (previous year: € 25.0 million) is shown in the following reconciliation.

€ 000s	**2006**	**2005**
Result before taxes on income	**117,617**	**116,752**
Expected tax expense applying a tax rate of 38.5 percent (previous year: 37.1 percent)	-45,283	-43,315
Write-ups in deferred tax assets	184,590	19,147
Tax effect of non-deductible expenses and tax-free income	4,448	1,389
Tax expense from previous years	-2,923	0
Other expenses	-1,442	-2,230
Actual tax income (previous year: expense)	**139,390**	**-24,982**
Effective tax rate in percent	-118.51	21.40

The above tax rate includes the unchanged corporation tax rate of 25 percent, the solidarity surcharge of 5.5 percent and the Group's average municipal trade tax rate of 392.73 percent (previous year: 341.83 percent).

11. Earnings per share

Undiluted earnings per share

Undiluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation during the financial year.

	2006	**2005**
Former mobilcom AG shareholders' share of the consolidated result in € 000s	218,526	66,540
Weighted average of shares in circulation	62,416,710	62,485,941
Earnings per share in € (diluted)	**3.50**	**1.06**

Diluted earnings per share

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

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

	2006	**2005**
Former mobilcom AG shareholders' share of the consolidated result in € 000s	218,526	66,540
Weighted average number of shares in circulation	62,416,710	62,485,941
Potential number of diluting shares	4,594	1,328
Weighted average number of shares in circulation plus potential number of diluting shares	62,421,304	62,487,269
Earnings per share in € (diluted)	**3.50**	**1.06**

H. Notes to the consolidated balance sheet

12. Intangible assets and property, plant and equipment

Movements in property, plant and equipment and intangible assets are shown in the schedule of fixed assets. Overall, the carrying amount of the technical equipment and machinery shown under property, plant and equipment as of 31 December 2006 includes a figure of € 40 thousand (previous year: € 312 thousand) for items which are the subject of an ongoing finance lease.

Intangible assets include a figure of € 7,034 thousand for the costs of signing up customers for the “freenet*Komplett*” product; this amount is written off over the normal contract term of 24 months. The depreciation recognised last year for these capitalised costs of signing up customers amounted to € 292 thousand.

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

13. Impairment test for non-monetary assets

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

The “Mobile Telephony” cash generating unit (CGU) was assigned goodwill totalling € 13,889 thousand. The CGU “Mobile Telephony” consists of the Service Provider segment represented mainly by mcc GmbH, as well as the “No Frills” segments in which klarmobil GmbH operates.

The value in use has been set as the recoverable amount for the CGU “Mobile Telephony”. The value in use was determined on the basis of management-approved planning for the period up to and including 2010.

This planning is based on detailed assumptions concerning the main contributors to the Group‘s results and value. Essentially, the “Mobile Telephony” CGU‘s gross profit can be divided into two revenue streams, deriving from existing and new customers respectively. Earnings from existing customers consist chiefly of the ARPU, which is made up of revenues from telephony, standing charges and other services used by customers. These then have to be offset against the costs of purchased services, in particular from the mobile telephony network operators.

Earnings from new customers or customer retention is dominated by the subject of the cost of acquiring and retaining customers. The principal revenue components are turnover from the sale of hardware to customers and dealers plus commission payments from network operators as acquisition and retention premiums. These are offset against the hardware purchase costs and commissions payable to dealers in connection with customer acquisition and retention.

Overhead cost planning is differentiated according to type of cost and functional units.

The capitalisation interest rate used for determining the value in use can be divided into a base interest rate and a market risk premium required by shareholders in return for the assumption of business risk.

The base rate was set at 4.5 percent (previous year: 4.0 percent), and the mean risk premium, in line with current IDW recommendations, was also set at 4.5 percent. This mean risk premium is then adjusted to take account of the specific risk structure of the individual company or segment. The company- and sector-specific risk is expressed in the so-called Beta factor.

freenet has used a Beta factor of 1.1 for calculating the value in use. In view of the comparatively large range of Beta factors prevailing in the industry, this was supplemented by a peer group analysis based on capital market data provided by the New York financial information provider Bloomberg L.P. This analysis included four public listed companies.

Multiplying the mean risk premium by the mobilcom Beta factor yields a company-specific market risk premium of 4.95 percent. This accordingly results in a calculatory interest rate for mobilcom of 9.45 percent p.a.

The medium-term planning for the period up to 2010 presents the growth achievable through the anticipated movements in income and expenditure, and thus an equity risk premium for this premium was not necessary. The sustainable growth in the years following 2011 can be reflected in actuarial terms as an equity risk premium in the capitalisation rate; this equity risk premium has been set at 1.0 percent.

The impairment test for the goodwill assigned to the “Mobile Telephony” CGU established that it was not necessary for any impairments to be recognised. However, one possible change in the significant assumptions for the “Mobile Telephony” CGU pursuant to IAS 36.134 f) could be that increasing competition in this segment during 2007 could lead to the achievable gross margin being lower than planned. Even if this assumption is made as conservatively as possible, this would not lead to any impairment of the assets assigned to this CGU.

Goodwill of € 80,473 thousand has been attributed to the “DSL” CGU. Goodwill of € 3,722 thousand as well as intangible assets with an indefinite useful economic life (brand names) of € 17,704 thousand have been attributed to the “Web Hosting” CGU.

The value in use of the “DSL” and “Web Hosting” entities has been recognised as the recoverable amount of these entities. Planning approved by management and covering the period up to and including 2015 has been used as the basis for establishing the value in use of these two CGUs.

Planning of revenues in the “DSL” segment is influenced by various value drivers. One significant driver is the share of the DSL market. The Group offers DSL products on the basis of the network infrastructure of DTAG and also with “freenetKomplett” on the basis of the network infrastructure of alternative providers. The DSL line as well as the access (traffic) is marketed to the new customers in the entire planning period. Before the Group offered DSL lines to customers for the first time in 2004, as a result of the Resale contract which then existed with DTAG, only the access was offered to customers.

As a result of the expected market saturation, annual growth rates in the user portfolio are anticipated in the planning period up to 2015. Planning is based on the assumption that the percentage of customers to whom the line is also offered will continuously increase in relation to the total number of the Group DSL customers.

In the DSL segment, we are also planning those cash flows which are generated in connection with the marketing of DSL connections. These mainly comprise the one-off provision fees contractually agreed with DTAG and the alternative subscriber network operators. In addition, the cash flows attributable to the provision of hardware as well as hardware mail order and sales commissions on the basis of the development in user numbers.

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

The capitalisation rate used in determining the value in use for the “DSL” and “Web Hosting” CGUs is to be divided into a base interest rate plus a market risk premium required by shareholders in return for the assumption of business risk.

A basic rate of 4.5 percent (previous year: 4.0 percent) has been used, as in the case of the "Mobile Telephony" CGU. An average risk premium of 4.5 percent has also been used, in line with the current IDW recommendations. This average risk premium has to be modified to take account of the special risk structure of the particular company or segment to be valued. This company- and sector-specific risk is expressed in the so-called Beta factor. In view of the comparatively wide range of Beta factors observed on the market, a peer group analysis has also been carried out, involving the six competitors. This has resulted in a Beta factor of 1.0 (previous year: 1.21) being used. The average risk premium multiplied by the Beta factor has accordingly resulted in a market risk premium of 4.5 percent (previous year: 5.445 percent).

The attainable growth in the expected developments of cash flows is reflected in medium-term planning for the "DSL" and "Web Hosting" CGUs for the planning period up to 2015. An equity risk premium is accordingly not necessary for this period. The sustainable growth for the two CGUs specified above in the years following 2016 can be recognised by actuarial means as an equity risk premium in the capitalisation rate. This equity risk premium has been set at 2.0 percent (previous year: 2.0 percent).

The impairment test established that it is not necessary for any impairments to be recognised for the goodwill and intangible assets of indefinite useful life for the "DSL" and "Web Hosting" CGUs.

One possible change in the significant assumptions for the "DSL" CGU pursuant to IAS 36.134 f) could be that increasing competition in this segment might mean that the achievable gross margins might be lower than planned. Even if this assumption is made as conservatively as possible, this would not lead to any impairment of the assets assigned to this CGU.

Goodwill of € 3,499 thousand as well as intangible assets of indefinite useful life of € 129 thousand have been allocated to CGUs other than "DSL" and "Web Hosting". The goodwill allocated to each of these other CGUs is not significant. The sum of the goodwill allocated to these other CGUs is also not significant in relation to the total goodwill of € 87,694 thousand as well as the intangible assets of indefinite useful life of € 17,833 thousand shown in the Group as of 31 December 2005.

No impairment costs were incurred in financial 2006 for the "DSL" and "Web Hosting" CGUs. Of the figure stated for impairments recognised in financial 2005, € 299 thousand was attributable to technical equipment which could no longer be used and € 101 thousand was attributable to software produced in-house which was no longer used.

14. Joint ventures

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

The following assets, liabilities, income and expenditure are shown as of 31 December 2006 or in financial 2006:

€ 000s	FunDorado GmbH	Attributable to Group
Current assets	2,232	1,116
Non-current assets	744	372
	2,976	**1,488**
Current liabilities	1,798	899
Non-current liabilities	104	52
	1,902	**951**
Income	6,142	3,071
Expenses	5,522	2,761

FunDorado GmbH reported the following assets and liabilities as of 31 December 2005 and the following expenses and income in financial 2005:

€ 000s	FunDorado GmbH	Attributable to Group
Current assets	2,185	1,093
Non-current assets	627	314
	2,812	**1,407**
Current liabilities	1,516	758
Non-current liabilities	104	52
	1,620	**810**
Income	4,879	2,440
Expenses	4,353	2,177

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 2006. In financial 2006, FunDorado GmbH employed an average of 25 persons (previous year: 17).

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 primarily to be used in the fee-based internet portal of FunDorado. NetCon in turn owns a 100 percent stake in its sales company siXXup new Media GmbH, Pulheim (referred to in the following as siXXup). NetCon as well as siXXup are both included as joint ventures in the consolidated financial statements. 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 2006, and the following income and expenses for the months of November and December 2006:

€ 000s	NetCon Media s.r.o.	Attributable to Group
Current assets	124	31
Non-current assets	417	104
	541	**135**
Current liabilities	74	19
Non-current liabilities	0	0
	74	**19**
Income	157	39
Expenses	169	42

NetCon, including its subsidiary, employed five persons on the balance sheet date.

As of 31 December 2006, there were no contingent obligations or capital commitments in connection with the Group interest in these two joint ventures.

15. Investments in associates

The carrying amount of companies accounted for using the equity method as of 31 December 2006 was € 3,501 thousand (previous year: € 3,512 thousand); 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 financial 2006, KielNET generated sales of € 20,823 thousand (previous year: € 18,843 thousand) as well as net income of € 2,292 thousand (previous year: € 3,750 thousand). As of 31 December 2006, the assets of this company amounted to an aggregate € 19,647 thousand (previous year: € 21,330 thousand), and the liabilities amounted to an aggregate € 12,696 thousand (previous year: € 13,905 thousand).

The € 11 thousand decline in the carrying amount from the companies accounted for using the equity method compared with 31 December 2005, in conjunction with earnings of € 1,146 thousand generated by the companies accounted for using the equity method in 2006, is due to the fact that a dividend payment of € 1,157 thousand was received from KielNET; this has to be treated as a reduction in the equity participation.

16. Other investments

Other investments reported as of the balance sheet amounted to an unchanged € 304 thousand, and related to the investment in Libri.de GmbH, Hamburg. This investment is shown at cost.

17. 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 38.5 percent (previous year: € 37.1 percent).

The following amounts are shown in the consolidated balance sheet:

€ 000s	**31.12.2006**	**31.12.2005**
Deferred tax assets	176,652	43,000
Deferred tax liabilities	-232	-30,743
	176,420	**12,257**

The deferred tax liabilities of € 232 thousand as of 31 December 2006 are of a non-current nature. In the previous year, the deferred tax liabilities had a term of less than one year (in the amount of € 4,081 thousand) and a term of more than one year (in the amount of € 26,662 thousand).

Changes in the disclosed deferred tax assets and liabilities for financial 2006 and 2005 are shown in the following two tables:

Changes in deferred tax assets and liabilities in 2006 (€ 000s)	**1.1.2006**	**Income and expenses from taxes on income**	**31.12.2006**
Fixed assets from finance leases	-675	659	-16
Other property, plant and equipment	-92	-625	-717
Intangible assets	-28,813	-303	-29,116
Financial assets	-845	-133	-978
Loss carry-forwards	43,000	164,080	207,080
Provisions	328	256	584
Other liabilities and accruals	-566	148	-418
Other	-80	81	1
	12,257	**164,163**	**176,420**

Movements during 2005:

Changes in deferred tax assets and liabilities in 2005 (€ 000s)	**1.1.2005**	**Additions due to business combi-nations**	**Expenses and income from taxes on income**	**31.12.2005**
Fixed assets from finance leases	-4,168	0	3,493	-675
Other property, plant and equipment	0	-173	81	-92
Intangible assets	-5,215	-30,028	6,430	-28,813
Financial assets	-32	-674	-139	-845
Loss carry-forwards	35,787	552	6,661	43,000
Provisions	5,169	157	-4,998	328
Other liabilities and accruals	0	0	-566	-566
Financial debt	346	0	-346	0
Other	-195	-8	123	-80
	31,692	**-30,174**	**10,739**	**12,257**

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

Net development of deferred taxes (€ 000s)	**2006**	**2005**
As of 1.1.	12,257	31,692
Changes in group of consolidated companies	0	-30,174
Tax income	164,163	10,739
As of 31.12.	**176,420**	**12,257**

The existing tax loss carry-forwards exceed the sum of the forecast cumulative result of the following financial years. Accordingly, a deferred tax asset has also only been recognised in the consolidated balance sheet to the extent that it will be covered by the anticipated results of the following financial years. As of 31 December 2006, deferred taxes relating to tax loss carry-forwards amounted to € 207,080 thousand (previous year: € 43,000 thousand). Of this figure, € 118,816 thousand (previous year: € 26,078 thousand) is attributable to corporation tax losses carried forward and € 88,264 thousand (previous year: € 16,922 thousand) is attributable to trade tax losses carried forward. Other losses carried forward for which no deferred tax asset has been shown in the consolidated balance sheet are as follows: € 2.8 billion (corporation tax) and € 2.4 billion (trade tax) (previous year: € 3.3 billion corporation tax and € 3.0 billion trade tax).

18. Inventories

Inventories are broken down as follows::

€ 000s	**31.12.2006**	**31.12.2005**
Mobile telephones/accessories	8,909	11,121
DSL hardware	8,214	1,065
Bundles and vouchers	5,963	3,921
SIM cards	3,290	3,670
Payments on account for inventories	0	228
Other	1,343	745
	27,719	**20,750**

An impairment of € 1,188 thousand (previous year: € 160 thousand) has been recognised in relation to year-end stocks of inventories.

19. Held-for-sale non-current assets

As of 31 December 2005, this item showed fixed assets attributable to fixed network business which was held to be sold within 12 months. The sale took place as planned in 2006.

Receivables and other assets are broken down as follows:

€ 000s	31.12.2006	31.12.2005
Trade accounts receivable	192,189	238,364
Other assets	67,193	77,699
Advance payments	15,867	16,427
Borrowers' note loan	0	85,000
	275,249	**417,490**

Trade accounts receivable are due exclusively from external parties, and comprise mainly receivables attributable to fees, equipment sales and fixed network and internet services. The borrowers' note loan shown in the previous year was a fixed-income investment with a limited term. Other assets include accounts due from fiscal authorities as well as network operator commissions.

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

€ 000s	31.12.2006	31.12.2005
Within one year	1,850	1,507
Between one year and five years	844	407
	2,694	**1,914**
As yet unrealised financing income (discounting)	-119	-61
Present value of receivables attributable to finance leases	**2,575**	**1,853**

A risk rate of 6.0 percent has been chosen for discounting the receivables attributable to finance leases, so that the present value which is shown corresponds to the market value. For further information, please refer to the disclosures relating to the accounting and valuation methods, section (f) "Leases – the Group as lessor".

Of the figure stated for receivables and other assets, € 160 thousand (previous year: € 67 thousand) are attributable to related parties, see note 36 "Transactions with related parties".

The receivables, other assets and advance payments are financial assets for which the carrying amount on the balance sheet date corresponds to the fair value.

21. Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

€ 000s	31.12.2006	31.12.2005
Cash in hand and cash at banks	529,838	321,834
Securities (money market paper)	5,499	11,267
	535,337	**333,101**

22. Current tax assets

The current tax assets comprise mainly receivables attributable to tax on unearned income.

23. Share capital and additional paid-in capital

	Number of shares 000	Share capital € 000s	Additional paid-in capital € 000s	Retained earnings € 000s	Own shares € 000s	Total € 000s
As of 1.1.2005	**65,702**	**65,702**	**287,835**	**36**	**-27,441**	**326,132**
Purchase of treasury shares	0	0	0	0	-23,930	-23,930
Retirement of treasury shares	-3,285	0	-51,371	0	51,371	0
Share transfers in connection with the acquisition of the Strato-group	0	0	18,496	0	0	18,496
Recognition of stock-linked compensation	0	0	688	0	0	688
Capital increase out of company funds	0	174,692	-174,692	0	0	0
Ordinary capital reduction	0	-174,692	174,692	0	0	0
As of 31.12.2005	**62,417**	**65,702**	**255,648**	**36**	**0**	**321,386**
As of 1.1.2006	**62,417**	**65,702**	**255,648**	**36**	**0**	**321,386**
Recognition of stock-linked compensation	0	0	-1,087	0	0	-1,087
As of 31.12.2006	**62,417**	**65,702**	**254,561**	**36**	**0**	**320,299**

As of 31 December 2006, the share capital of the former mobilcom Group (€ 65.7 million) is still shown as the share capital of the Group. For further details, please refer to section A "General information".

The issued share capital of the Company amounted to € 65.7 million on the balance sheet date, consisting of 62,416,710 no-par value shares with a theoretical interest of approx. € 1.05 in the share capital. The entire share capital is fully paid up. All shares are equipped with equal rights.

The shareholders‘ meeting of 22 April 2005 adopted a resolution to increase the share capital in accordance with sections 207 et seq. AktG by € 174.7 million out of company funds without issuing new shares, to then reduce the share capital by the amount of the increase (€ 174.7 million) by way of an ordinary capital reduction and to pay the amount obtained as a result of the reduction into the additional paid-in capital of mobilcom AG in accordance with section 272 (2) no. 4 HGB.

Pursuant to the resolution of the shareholders‘ meeting of 19 May 2004, the Managing Board of the Company was empowered to purchase treasury shares up to a limit of 10 percent of the share capital before 31 October 2005. In the previous year, the Company bought back 1,448,714 treasury shares for a consideration of € 23.9 million via the Frankfurt stock exchange. In addition, the Company still held 1,836,376 treasury shares, which were purchased in financial 2004 for a consideration of € 27.4 million. On 4 February 2005, the Managing Board issued a statement in the “Börsenzeitung” in accordance with section 25 (1) sentence 3 WpHG indicating that the Company still owned treasury shares which – if they carried voting rights – would be equivalent to a voting right percentage of 5 percent. These treasury shares were retired by the Company on 22 June 2005, and the transaction was announced by the Managing Board by way of publication in the “Handelsblatt” on 3 July 2005.

Authorised capital increase

In accordance with the resolution of the shareholders‘ meeting of 19 August 2005, there is an authorised capital increase of € 48,030,508.00 (authorised capital increase 2005 at freenet AG); this empowers the Managing Board, subject to the consent of the Supervisory Board, to increase the share capital on one or more occasions before 18 August 2010 by a total of up to € 48,030,508.00 by way of issuing new shares.

Contingent capital

There is no contingent capital at freenet AG.

24. Retained earnings

Retained earnings are shown as € 35 thousand in the balance sheet. They were formed out of the mobilcom AG net income of financial 1996.

25. Employee participation programmes

The Group offers the following employee participation programmes:

- Stock appreciation rights of freenet AG
- Stock options of the former mobilcom AG
- Stock options of the former freenet.de AG

Stock appreciation rights of freenet AG

In the course of 2006 the freenet AG introduced a so-called stock appreciation programme by issuing a total at present of 5,145,000 stock appreciation rights (Aktienwertsteigerungsrechte - AWRs) to senior executives, including members of the Managing Board. The stock appreciation programme does not confer any rights to purchase shares; instead, it comprises a cash payment for each stock appreciation right equivalent to the difference between the share price of the Company applicable at the point at which the rights are exercised (capped however at € 27.00) and a fixed strike price of € 17.16.

The value of dividend payments to the shareholders and other benefits for the shareholders are deducted from the strike price in accordance with recognised methods for the total shareholder return approach. On the assumption that the employment contract of a senior executive is still in existence, 20 percent of the stock appreciation rights to which a senior executive is entitled become exercisable on 7 November of each year, starting on 7 November 2006, if certain targets are attained.

For the stock appreciation rights which became exercisable starting on 7 November 2006, 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 5 percent at least on one occasion in the period starting immediately before the corresponding stock appreciation rights become exercisable and ending with the expiry of the term in February 2012. For the stock appreciation rights which become exercisable in subsequent years, the percentage increases by five percent in each case, in other words to a figure of ten percent for the stock appreciation rights become exercisable on 7 November 2007, to a figure of 15 percent for the stock appreciation rights becoming exercisable on 7 November 2008, etc.

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

As of 31 December 2006, there had been no rights exercised or disposed of out of the stock appreciation programme. The obligation arising from the stock appreciation programme has been calculated in accordance with IFRS 2 using an option price model (binomial model). In financial 2006, this programme resulted in personnel expenses of € 8,956 thousand, as well as another provision of € 8,956 thousand as of 31 December 2006; of this figure, € 4,679 thousand is shown as a current provision and € 4,277 thousand is shown as a non-current provision.

The valuation parameters of the option price model have been used as follows: The share price of the Company on 31 December 2006 was used; this was calculated as though shares of freenet AG had been traded at that time – this was the price of € 21.80. The expected volatility was specified as 37 percent – it was estimated by means of an estimate of the future performance of the company's share price, taking account of a mean value between the historical volatility and the implied volatility of mobilcom AG shares. The no-risk interest rate was established on the basis of the yield structure curve of German government bonds as of the balance sheet date. As of 31 December 2006, this resulted in a no-risk interest rate of between 3.90 and 3.91 percent for the individual tranches. The anticipated remaining term of the stock appreciation rights was calculated for each of the assessed tranches in the amount of the waiting time remaining on the valuation reference date plus half of the remaining term after the end of the waiting time has been reached.

Stock options of the former mobilcom AG

mobilcom granted stock options to the Managing 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 grants identical rights to all holders of options in accordance with section 23 UmwG, because the mobilcom shares were converted in a ratio of 1:1 into shares of freenet AG.

All stock options are subject to the following issue conditions: The options are not permitted to be exercised before the expiry of two years after the point at which they are issued (shut-out period). After the shut-out period, up to 50 percent of the granted option rights can be exercised; a further 25 percent can initially be exercised after a period of three years, and the remaining option rights can only be exercised after a period of four years after the point at which they were issued. After the expiry of the corresponding shut-out period, a further period of three years is defined as the period in which the rights can be exercised.

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

Stock options mobilcom	Exercise price €	Term until	Date of issue	1.1.2006	Expiry	Exercised	Dis-posals	31.12.2006
Tranche 2001	24.40	Nov/2008	11/12/2001	54,400	23,700	0	12,000	18,700
Tranche 2004	20.51	Mrz/2011	3/31/2004	400,778	0	393	96,269	304,116
				455,178	**23,700**	**393**	**108,269**	**322,816**

Movements in the stock options in the previous year are shown in the following:

Stock options mobilcom	Exercise price €	Term until	Date of issue	1.1.2005	Exercised	Dis-posals	31.12.2005
Tranche 2001	24.40	Nov/2008	11/12/2001	61,400	0	7,000	54,400
Tranche 2004	20.51	Mrz/2011	3/31/2004	441,640	0	40,862	400,778
				503,040	**0**	**47,862**	**455,178**

The options which had not been exercised as of the balance sheet date are dated options which are linked to the employee's relationship within the Group. At the end of the financial year, 170,758 option rights were exercisable in total. The difference to be granted in relation to each option depends on the difference between the average Xetra closing price of the Company's shares on the last ten trading days before the day on which the options are exercised and the exercise price of € 20.51. The average share price of the exercised option rights was € 20.83.

The disposals relate to options which were granted to employees who were no longer employed as of 31 December 2006.

Last year, no options were exercised out of the total number of 503,040 stock options which existed on 1 January 2005. In view of the disposals of 47,862 options, this resulted in a final figure of 455,178 stock options outstanding as of 31 December 2005.

The stock options are valued by means of a binomial model. In these models, possible developments of a stock price are modelled using a binomial decision tree. The valuation is based on the following assumptions: With the exercise price of € 20.51, the closing price of € 22.10 for mobilcom shares on the Frankfurt stock exchange (Xetra) on 29 December 2006 was used. The expected volatility was assumed as 30.0 percent – it was estimated by means of a forecast of the future performance of the share price of the former mobilcom AG including the historical volatility of mobilcom shares. The no-risk interest rate for matching maturities was determined separately for the exercisable options as well as for options subject to a shut-out period of one and two years respectively. Broken down over the corresponding shut-out periods, the remaining terms of the stock options are assumed as 0.75, 1.75 and 2.75 years. The expected dividend yield is specified as 1.51 percent.

Stock options of the former freenet.de AG

The former freenet.de AG granted stock options of freenet.de AG to the Managing Board, the executive bodies of the subsidiaries and selected employees of freenet.de AG and the following affiliated companies. All stock options related to the purchase of new ordinary shares in freenet.de AG and were granted subject to the following conditions: The options cannot be exercised before the expiry of a period of two years after the point at which they were issued. After a waiting period of two years, 40 percent of the granted options can be exercised, and a further 20 percent can be exercised on each occasion after three, four and five years. Options which are not exercised expire six years after the point at which they are issued or at the point at which the employee ceases to be employed in the freenet Group.

Details of the options issued under this programme are set out in the following table:

Stock options freenet	Exercise price €	Term until	Time of issue	1.1.2006	Exercised	Disposals/ expiry	31.12.2006
Tranche 1999	9.67	Jan/2006	26.1.2000	3,900	300	3,600	0
Tranche 2000/01	20.63	Feb/2006	25.2.2000	1,800	0	1,800	0
Tranche 2000/02	21.48	Mar/2006	1.3.2000	6,000	0	6,000	0
Tranche 2000/03	26.63	Apr/2006	1.4.2000	9,600	0	9,600	0
Tranche 2000/04	28.99	May/2006	1.5.2000	11,400	0	11,400	0
Tranche 2000/05	30.70	May/2006	18.5./2000	27,000	0	27,000	0
Tranche 2000/06	31.76	Jun/2006	1.6.2000	12,000	0	12,000	0
Tranche 2001/01	12.39	May/2007	29.5.2001	3,000	3,000	0	0
Tranche 2001/02	9.79	Jul/2007	1.7.2001	7,000	5,800	0	1,200
Tranche 2002	2.97	Jul/2008	11.7.2002	331,500	154,800	2,700	174,000
Tranche 2003	3.49	Jun/2009	19.6.2003	518,288	158,296	0	359,992
				931,488	**322,196**	**74,100**	**535,192**

The changes of the previous year are shown in the following table:

Stock options freenet	Exercise price €	Term until	Time of issue	1.1.2005	Exercised	Disposals/ expiry	31.12.2005
Tranche 1999	9.67	Jan/2006	26.1.2000	49,450	44,350	1,200	3,900
Tranche 2000/01	20.63	Feb/2006	25.2.2000	1,800	0	0	1,800
Tranche 2000/02	21.48	Mar/2006	1.3.2000	6,000	0	0	6,000
Tranche 2000/03	26.63	Apr/2006	1.4.2000	9,600	0	0	9,600
Tranche 2000/04	28.99	May/2006	1.5.2000	17,400	0	6,000	11,400
Tranche 2000/05	30.70	May/2006	18.5.2000	27,000	0	0	27,000
Tranche 2000/06	31.76	Jun/2006	1.6.2000	16,500	0	4,500	12,000
Tranche 2001/01	12.39	May/2007	29.5.2001	3,000	0	0	3,000
Tranche 2001/02	9.79	Jul/2007	1.7.2001	11,400	3,200	1,200	7,000
Tranche 2002	2.97	Jul/2008	11.7.2002	515,000	163,400	20,100	331,500
Tranche 2003	3.49	Jun/2009	19.6.2003	778,980	247,192	13,500	518,288
				1,436,130	**458,142**	**46,500**	**931,488**

The options which had not yet been exercised as of the balance sheet date are 457,392 dated options as well as 77,800 undated options.

All options exercised in financial 2006 were exercised by way of cash settlement. The average prices of freenet shares for the quarters in which the options were exercised were € 23.19 in the first quarter, € 18.56 in the second quarter, € 18.01 in the third quarter and € 22.25 in the fourth quarter of 2006.

The disposals relate to options which were granted to employees who were no longer employed as of 31 December 2006 as well as options which had expired after the end of a period of six years after the point at which the options were issued.

In the previous year, starting with a balance of 1,436,130 stock options as of 1 January 2005, 458,142 options were exercised and disposals accounted for 46,500 options. As was the case in the previous year, no new stock options were issued out of this programme in financial 2006. This resulted in a final balance of 931,488 stock options outstanding as of 31 December 2005.

Whereas in financial 2005 (up to and including the second quarter), personnel expenses were recognised in accordance with IFRS 2 using an option price model (Black–Scholes method) at fair value with due consideration being given to the remaining term and thus to the fact that the individual option tranches are exercisable, the accounting method was changed in 2005. In the third quarter of 2005, the former freenet.de AG reached agreement with all option holders with regard to the dated options, according to which the beneficiaries waived their entitlement to their stock options and all related rights in return for cash compensation. This agreement was conditional on the merger of freenet.de AG and mobilcom AG with the Company becoming effective. For each stock option, the compensation is equivalent to the difference between the unweighted average of the XETRA closing prices of freenet shares on the last 30 market trading days before the shareholders' meeting (€ 23.09) and the exercise price of the corresponding stock option. If this difference is zero or negative, the waiver remains in force and then does not attract any compensation.

Because the Managing Board considered that the successful completion of this merger, which was approved by the ordinary shareholders' meeting of the former freenet.de AG on 25 August 2005, as of 31 December 2005 was relatively likely, freenet.de had created a provision for the entire probable costs connected with these agreements taken out with the beneficiaries of the options as of 30 September 2005 in accordance with IFRS 2.28 . Every option was valued at the compensation value, in other words the difference between € 23.09 and the exercise price. As of 31 December 2005, a figure of € 17,020 thousand was shown under the other current provisions as a result of the issue described above.

As of 31 December 2006, the provision for the stock dated options were also valued at the compensation value as the difference between € 23.09 and the exercise price. The stock undated options were valued with a figure equivalent to the difference between the reference date price of shares of freenet.de AG as of 31 December 2006, € 24.44, and the exercise price.

This resulted in an amount of € 10,678 thousand (previous year: € 17,020 thousand) shown under other current provisions.

26. Trade accounts payable, other liabilities and accruals

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

€ 000s	31.12.2006	31.12.2005
Other liabilities and accruals	150,939	166,338
Trade accounts payable	94,649	110,563
Advance payments received	58,855	40,006
	304,443	**316,907**

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

In financial 2006, new subsidies of € 1,622 thousand (previous year: € 1,466 thousand) were granted, and a figure of € 1,184 thousand (previous year: € 791 thousand) was recognised as income in the income statement from the pro-rata reversal of deferred liabilities, as described in the accounting and valuation methods (section r).

In the previous year, liabilities due to related parties amounted to € 717 thousand. Please refer to note 36 “Transactions with related parties”.

Of the overall figure stated for liabilities, € 302,101 thousand (previous year: € 315,760 thousand) is due during the next 12 months. All other liabilities are due within one year and five years.

Other liabilities which are due to mature after 31 December 2007 are discounted using a normal market rate of 4.0 percent, and the capitalised carrying amount accordingly is equivalent to the current market value.

27. Current income tax liabilities

Tax liabilities mainly show the liabilities due to the fiscal authorities resulting from ongoing tax audits for the years 2000 to 2004 and corporation tax, solidarity surcharge and trade tax relating to financial 2005 and 2006.

28. Debt

Debt is structured as follows:

€ 000s	31.12.2006	31.12.2005
Non-current		
Liabilities from finance leases	717	814
Silent participations	0	82
	717	**896**
Current		
Liabilities from finance leases	97	69
Silent participations	0	20
	97	**89**
	814	**985**

29. Finance leases

The minimum lease payments are due as follows:

€ 000s	31.12.2006	31.12.2005
Minimum lease payments		
Within one year	142	119
Between one year and five years	565	567
More than five years	283	426
	990	**1,112**
Interest content of future leasing payments		
Within one year	45	50
Between one year and five years	115	143
More than five years	16	36
	176	**229**
Present values of the total liabilities from finance leases	**814**	**883**

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

€ 000s	31.12.2006	31.12.2005
Within one year	97	69
Between one year and five years	450	424
More than five years	267	390
	814	**883**

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

30. Pension provisions and similar obligations

The changes in 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. The pension benefits are financed by a reinsured benevolent fund. The direct pension commitments are always determined by the amount of salary and the time of service at the Company.

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

€ 000s	**31.12.2006**	**31.12.2005**
Present value of funded obligations	1,531	1,357
Fair value of plan assets	-699	-400
Actuarial losses (unrealilsed)	-294	-418
Provision shown in balance sheet	**538**	**539**

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 obligation:

€ 000s	**2006**	**2005**
As of 1.1.	**1,357**	**577**
Current service cost	253	187
Interest expense	55	26
Actuarial losses/profits	-134	320
Subsequent service costs	0	247
As of 31.12.	**1,531**	**1,357**

The plan assets consist of a reinsurance policy concluded by the benevolent fund set up for this purpose with a fair value of € 699 thousand (31 December 2005: € 400 thousand). The following table sets out the development in fair value:

€ 000s	**2006**	**2005**
As of 1.1.	**400**	**188**
Anticipated income from plan assets	-2	-89
Employer contributions to plan assets	301	301
As of 31.12.	**699**	**400**

The following items are recognised in the consolidated income statement:

€ 000s	**2006**	**2005**
Current and subsequent service cost	253	434
Interest expense	55	26
Actuarial losses (realised)	13	0
Anticipated income from plan assets	-20	-9
Total cost of defined benefit plans	**301**	**451**
thereof amount recognised in personnel expenses (note 4	233	425
thereof recognised in other operating expenses	13	0
thereof recognised in interest and similar expenses (note 9)	55	26

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

€ 000s	**2006**	**2005**
As of 1.1.	**539**	**389**
Total expense recognised in the consolidated income statement	300	451
Payments into plan assets	-301	-301
As of 31.12.	**538**	**539**

The main actuarial assumptions are as follows:

In percent	**12/31/2006**	**12/31/2005**
Discount rate	4.50	4.25
Anticipated income from plan assets	5.0	5.0
Future salary increases	0.0	0.0
Future pension increases	2.0	2.0

31. Other provisions

Other provisions are broken down as follows:

€ 000s	1.1.2006	Consumption	Release	Cumulative interest	Allocation	31.12.2006
Outstanding stock options and stock appreciation rights	17,020	5,930	412	0	10,203	20,881
Litigation risks	8,952	1,939	777	0	11,078	17,314
Restructuring	4,000	1,319	1,819	0	0	862
Contingent losses	709	468	231	20	963	993
Dismantling obligations	489	0	0	21	953	1,463
	31,170	**9,656**	**3,239**	**41**	**23,197**	**41,513**

Movements in other provisions as of 31 December 2005 are as follows:

€ 000s	1.1.2005	Additions from business combinations	Consumption	Release	Cumulative interest	Allocation	31.12.2005
Outstanding stock options	12,789	0	8,922	0	0	13,153	17,020
Litigation risks	14,071	0	5,357	4,741	0	4,979	8,952
Restructuring	0	0	0	0	0	4,000	4,000
Contingent losses	1,355	27	621	190	20	118	709
Dismantling obligations	0	607	0	158	40	0	489
	28,215	**634**	**14,900**	**5,089**	**60**	**22,250**	**31,170**

Further details concerning the creation of provisions for outstanding stock options and stock appreciation rights are documented under note 25 “Employee participation programmes”.

The provisions for litigation risks primarily concern the presumed costs from various legal actions against group companies. The greater part is a consequence of litigation with former trading partners and customers, challenges and actions relating to unfair trade practises. The Group expects that the majority of the disputed questions will be settled during financial 2007. 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.

It is expected that the restructuring provision created in financial 2006 will be reversed during 2007 in line with the restructuring plan.

The provisions for contingent losses primarily relate to obligations arising from the premature termination of a rental agreement. The total amount of € 993 thousand includes obligations of € 832 thousand which will probably be utilised during the following financial year. The other provisions of € 161 thousand are classified as non-current and will probably be used in 2008.

Of the figure stated for dismantling obligations, € 510 thousand relate to the present value of costs of obligations for dismantling tenant fittings in data centres of Strato. As was the case in the previous year, a rate of 4.25 percent has been used for discounting purposes.

The outflow of funds is expected after the presumed expiry of the long-term leases on which they are based in 2012 or 2013. Of the figure stated for the provision for dismantling obligations, € 953 thousand relates to obligations for dismantling tenant fittings and various technical and administration locations of the Group. After the probable expiry of the underlying tenancy agreements, the outflow of funds for this part of the provision is expected to be € 100 thousand in 2007 and € 853 thousand in the years 2008 to 2014. The provisions have again been discounted with a rate of 4.25 percent.

I. Other details

32. Other financial commitments

At the end of the financial year, there are operating lease obligations from leases and leasing agreements as well as maintenance, support and other obligations and order commitments in the following amounts:

€ 000s	31.12.2006	31.12.2005
Rent and leasing obligations		
Due within one year	43,784	46,063
Due between one and five years	27,163	31,448
Due term greater than five years	3,949	2,244
	74,896	**79,755**
Maintenance, support and other obligations		
Due within one year	7,546	4,497
Due between one and five years	6,797	7,119
Due term greater than five years	9,360	9,086
	23,673	**20,702**
Acceptance obligations from orders		
regarding intangible assets	39	982
regarding property, plant and equipment	9,118	12,640
regarding inventories, expenses and services	31,856	35,690
	41,013	**49,312**
	139,582	**149,769**

The liabilities from leases and leasing agreements result essentially from the leasing of fixed network lines and the leases for office space and shops and from hardware leasing. As of the balance sheet date, there were options for extending the majority of leases and leasing agreements. The conditions of these extension options are in all cases freely negotiable or identical to the current conditions of the agreements. The liabilities from maintenance, support and other agreements are based primarily on contracts for the network infrastructure in the "Fixed Network/Internet" segment.

The acceptance obligations from orders at the end of the financial year amounted to € 41,013 thousand (previous year: € 49,312 thousand). € 9,157 thousand (previous year: € 13,622 thousand) of this figure is attributable to the procurement of fixed assets – it includes, among other items, the obligation agreed between the Group and Teles AG, Berlin, in December 2004 concerning the acceptance of technical equipment and services valued at €

8,646 thousand net resulting from the acquisition of the Strato Group. This liability is shown in the table under the acceptance obligations from orders relating to property, plant and equipment. The obligation has to be fulfilled by 31 December 2007. The other acceptance obligations relate primarily to merchandise, e.g. mobile telephony devices and accessories.

Other liability obligations exist primarily with regard to guarantees for shop rents and amounted to € 3,683 thousand (previous year: € 3,437 thousand) as of the balance sheet date.

33. Notes to the consolidated cash flow statement

Cash and cash equivalents correspond to liquid assets.

The payment flows are broken down according to ongoing business operations, investment activities and financing activities. The indirect-calculation method was chosen for presenting the cash flow from ongoing business activities.

Cash flow from ongoing business activities

Compared with the corresponding previous year period, the cash flow from ongoing business activities declined by € 41.9 million to € 144.8 million.

After adjusting the non-cash components and the borrowers‘ note loan which was withheld and which is attributable to financing operations (€ 85.0 million), a reduction in the debt ratio had a negative impact on operating cash flow. The decline of € 12.5 million in operating liabilities depressed cash flow to a greater extent than in the previous year. A € 9.3 million increase in liabilities had a positive impact on cash and cash equivalents in the previous year. Inflows attributable to the reduction of receivables and other assets reported growth of € 28.4 million compared with the equivalent previous year period and contributed € 52.2 million to the cash flow from ongoing business operations during the financial year.

In addition, income tax payments increased by € 32.9 million compared with the previous year period, namely to € 50.7 million.

Cash flow from investing activities

During the financial year, the outflow of cash attributable to investment activities declined by 58.1 million compared with the previous year, namely to € 27.1 million.

Operating investments for renewing intangible assets and property, plant and equipment increased by a total of € 9.0 million during the year, to 41.6 million. The main reason behind the significant decline in outflows were the company acquisitions which took place in the corresponding previous year period, and for which € 63.8 million was paid. The cash outflows related primarily to the acquisitions of the Strato Group and the Next ID companies.

Cash flow from financing activities

The Group generated cash inflows of € 84.5 million from financing activities during 2005; on the other hand, the cash attributable to financing activities in the previous year reporting period declined by € 135.7 million.

Whereas the cash flow of financing activities reflected only the disposal of a fixed income borrowers‘ note loan (€ 85.0 million) in financial 2006, the outflow of cash attributable to financing activities declined in the corresponding previous year period mainly as a result of

34. Financial risks

the acquisition of the above borrowers‘ note loan as well as dividend payments to external shareholders (€ 25.0) and payments for the acquisition of treasury shares (€23.9).

No derivative financial instruments are used within the Group.

Risk of default (credit risk)

Risks of default are within the scope usual on the market; they are taken into account by the appropriate creation of valuation allowances for bad debt.

Securities and liquid assets are essentially deposited with large German banks and their money market funds. There is no significant risk of default.

Liquidity/refinancing risk

Comprehensive financing planning instruments are used throughout the Group to monitor and control liquidity. The planning horizon covers 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 on the basis of current data.

No loans were taken out during financial 2006, so a refinancing risk does not exist.

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

Risk of interest rate changes

Money market funds are subject to marginal interest rate fluctuations so that there is always a possibility of price losses. However, the risk is not significant as the moneys have been invested in funds on a very short-term basis (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. The effective average capital return of the money market funds for last year is 3.7 percent.

The other assets included in cash and cash equivalents are subject to variable investment periods of up to four months; there are no interest adjustment dates; the effective capital return is subject to minor fluctuations, and is linked to EURIBOR.

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

Foreign currency/exchange rate risk

The balance sheet shows foreign currency items equivalent to € 204 thousand (31 December 2005: € 0) as of 31 December 2006. Services in an amount of USD 5,676 thousand (previous year: USD 4,151 thousand) were purchased in financial 2006. Currency hedging was effected by means of USD cash reserves which are maintained. Transactions denominated in other foreign currencies, such as GBP, CHF and PLN, were negligible.

35. Company acquisitions

Transactions in financial 2006, which however are of minor significance for the net assets, financial position and results of operations of the Group, involved cash payments of € 120 thousand.

The following table is enclosed for the assets and liabilities transferred as a result of these transactions at the time of initial consolidation, plus the resultant goodwill:

ASSETS	€ 000s	LIABILITIES	€ 000s
Non-current assets		**Debt**	
Goodwill	79	Non-current	0
Property, plant and equipment	14		
	93	**Current**	
		Trade accounts payable and other liabilities	9
Current assets			
Trade accounts receivable, other assets and advance payments	17		
Liquid assets	19		
	36		
	129		**9**

The carrying amounts of the assets and liabilities transferred under these transactions correspond to their market values.

36. Transactions with related parties

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

€ 000s	2006	2005
Sales and income attributable to services and onward charging		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	1,732	918
FunDorado GmbH, Hamburg	162	150
LGB & Vogel GmbH, Düsseldorf	8	0
Herr Prof. Dr. Helmut Thoma, Hürth-Berrenrath	5	1
France Telecom S.A., Paris/France	n.a.	253
Purchased services and onward charging		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	502	445
Jaschinski Biere Brexl, Berlin	26	k.A.
FunDorado GmbH, Hamburg	12	0
Booz Allen Hamilton GmbH, Düsseldorf	2	280
France Telecom S.A., Paris/France	n.a.	942
Sale of assets		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	48	0
Purchase of assets		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	5	5

As of the end of the financial year, there were the following main receivables due from and liabilities due to related parties:

€ 000s	2006	2005
Receivables		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	149	50
FunDorado GmbH, Hamburg	11	17
Liabilities		
Booz Allen Hamilton GmbH, Düsseldorf	0	162
France Télécom S.A., Paris, France	n.a.	555

All transactions prices were commercially negotiated.

Until 20 May 2005, France Télécom S.A. held an indirect interest of about 28.3 percent of the capital of mobilcom AG. Due to this holding relationship, France Télécom S.A. was in a position to influence operational decisions (blocking minority). The major relationships to the Group are specified by the MC settlement agreement and are for the most part a consequence of activities relating to the abandonment of the UMTS project. Since France Télécom S.A. sold 27.4 percent of its shares on 20 May 2005 and therefore is no longer in a position to exercise decisive influence on mobilcom AG, only those business events which occurred up to the point in time of the sale of the interest are considered.

Managing Board compensation

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

€ 000s	Salary	Variable compensation from stock option and stock appreciation rights[1]	Other variable compensation	Total
Eckhard Spoerr	641	2,785	410	3,836
Axel Krieger	336	1,741	180	2,257
Stephan Esch	282	870	22	1,174
Eric Berger[2]	160	522	43	725
Michael Grodd[3]	138	0	158	296
	1,557	**5,918**	**813**	**8,288**

[1] Incl. non-cash compensation valued in accordance with IFRS 2
[2] Director of the former freenet.de AG.
[3] Stepped down from the Managing Board of the former mobilcom AG on 15 November 2006.

In the previous year, Managing Board compensation was as follows:

€ 000s	Salary	Variable compensation from stock option and stock appreciation rights[1]	Other variable compensation	Total
Eckhard Spoerr[5]	479	2,832	203	3,514
Axel Krieger[6]	214	2,832	94	3,140
Stephan Esch[6]	179	465	22	666
Michael Grodd	308	39	162	509
Eric Berger[7]	160	398	43	601
Dr. Thorsten Grenz[8]	366	39	0	405
	1,706	**6,605**	**524**	**8,835**

[4] Incl. non-cash compensation valued in accordance with IFRS 2.
[5] Chairman of the Managing Board of the former mobilcom AG since 1 September 2005.
[6] Appointed to the Managing Board of the former mobilcom AG on 9 November 2005.
[7] Director of the former freenet.de AG.
[8] Chairman of the Managing Board of the former mobilcom AG until 31 August 2005.

As of 31 December 2006, the provision for stock options and stock appreciation rights for Mr. Spoerr amounted to € 4,737 thousand (previous year: € 3,330 thousand); the corresponding figures for Mr. Krieger were € 3,693 thousand (previous year: € 3,330 thousand), for Mr. Esch were € 1,167 thousand (previous year: € 506 thousand) and for Mr. Berger were € 819 thousand (previous year: € 506 thousand).

In financial 2006, the following amounts were paid out of stock options: € 1,233 thousand (previous year: € 2,040 thousand) to Mr. Spoerr, € 1,233 thousand (previous year: € 2,040 thousand) to Mr. Krieger, € 187 thousand (previous year: € 531 thousand) to Mr. Esch as well as € 210 thousand (previous year: € 328 thousand) to Mr. Berger.

A total of 3.4 million stock appreciation rights was issued to members of the Managing Board of the Company and its predecessors in financial 2006.

In November 2004, a direct pension commitment was granted to Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger. As of 31 December 2006, the defined benefit obligation (DBO) amounted to € 809 thousand (previous year: € 740 thousand) for Mr. Spoerr, € 422 (previous year: € 387 thousand) for Mr. Krieger, € 105 thousand (previous year: € 74 thousand) for Mr. Esch and € 117 thousand (previous year: € 82 thousand) for Mr. Berger.

Total current and subsequent service time expenses of € 249 thousand are shown in personnel expenses for the members of the Managing Board as a result of the pension commitments. In the previous year, a total of € 385 thousand was recognised for current and subsequent service time expenses.

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

Supervisory Board compensation

The compensation of the Supervisory Board is defined by the shareholders‘ meeting in accordance with section 11 (4) of the Company‘s articles of association. Because the merger between mobilcom AG and freenet.de AG to form the Company only became legally effective on 2 March 2007, the articles of association of the legal predecessors, in other words, mobilcom AG and freenet.de AG, are applicable for the compensation of the Supervisory Board up to that time. Accordingly, the compensation in 2006 consisted of three components:

- Basic compensation
- Fees for attending meetings
- Profit-linked compensation

The Supervisory Board members receive basic compensation of € 12,000 for each full fiscal year of membership on the board. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half time this amount.

Every Supervisory Board member receives in addition an attendance fee of € 1,000 for each Supervisory Board meeting he/she attends. Supervisory Board members who belong to a Supervisory Board committee – with the exception of the committee formed in accordance with section 27 (3) of the German Codetermination Act – receive in addition an attendance fee of € 1,000 for each meeting of the committee. The committee chairperson receives double this amount.

The Supervisory Board members also receive, after the end of each fiscal year, variable compensation in the amount of € 500 for each € 0.01 in dividends in excess of € 0.10 per share of the Company stock which are distributed to the shareholders for the previous fiscal year. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times this amount.

Pursuant to the resolution of the shareholders‘ meeting of 24 August 2005 relating to point 2 of the agenda “Motion concerning the approval of the merger contract dated 8 July 2005 between mobilcom Aktiengesellschaft, freenet.de AG and telunico holding AG”, a provision totalling € 129 thousand (previous year: € 122 thousand) for compensation dependent on success was created in accordance with section 3 (4) of the merger contract.

Compensation for financial 2006 € 000s	**Basic compensation**	**Attendance fees**	**Profit-linkedcom-pensation**	**Total**
Active members				
Prof. Dr. G. Konrad Schmidt	12.0	11.0	7.5	30.5
Birgit Geffke[1]	18.0	14.0	11.3	43.3
Oliver Brexl	1.3	1.0	0.8	3.1
Christian Burger[2]	6.2	0.0	6.2	12.4
Andrew John Dechet	12.0	11.0	7.5	30.5
Sascha Lucht[1]	12.0	13.0	7.5	32.5
Bastian Frederik Lueken	12.0	14.0	7.5	33.5
Andreas Neumann[1]	12.0	13.0	7.5	32.5
Franziska Oelte[1]	12.0	15.0	7.5	34.5
Kai Petersen[1]	12.0	10.0	7.5	29.5
Ulrike Scharlach[1]	12.0	9.0	7.5	28.5
Prof. Klaus-Dieter Scheurle[2]	9.3	0.0	9.3	18.6
Prof. Dr. Helmut Thoma	24.4	11.0	19.9	55.3
	155.2	**122.0**	**107.5**	**384.7**
Former members				
Klaus Thiemann	10.0	8.0	6.2	24.2
Prof. Dr.-Ing. Dieter H. Vogel	24.0	19.0	15.0	58.0
	34.0	**27.0**	**21.2**	**82.2**
	189.2	**149.0**	**128.7**	**466.9**

[1] Employee representatives in accordance with section 7 (1) sentence 1 no. 1 MitbestG of 4 May 1976.
[2] Member in the Supervisory Board of the former freenet.de AG.

Compensation for financial 2005 € 000s	Basic compensation	Attendance fees	Profit-linkedcom-pensation	Total
Active members				
Prof. Dr.-Ing. Dieter H. Vogel	24.0	18.0	15.0	57.0
Birgit Geffke[1]	12.5	10.0	7.8	30.3
Christian Burger[2]	2.1	0.0	2.1	4.2
Andrew John Dechet	7.0	7.0	4.4	18.4
Sascha Lucht[1]	8.3	8.0	5.2	21.5
Bastian Frederik Lueken	7.0	8.0	4.4	19.4
Andreas Neumann[1]	12.0	12.0	7.5	31.5
Franziska Oelte[1]	8.3	10.0	5.2	23.5
Kai Petersen[1]	8.3	7.0	5.2	20.5
Ulrike Scharlach[1]	8.3	6.0	5.2	19.5
Prof. Klaus-Dieter Scheurle[2]	6.6	0.0	6.2	12.8
Prof. Dr. G. Konrad Schmidt	0.9	0.0	0.5	1.4
Klaus Thiemann	12.0	11.0	7.5	30.5
Prof. Dr. Helmut Thoma	24.4	9.0	19.9	53.3
	141.7	**106.0**	**96.1**	**343.8**
Former members				
David Bonderman	6.2	3.0	3.9	13.1
Thorsten Delling[1]	3.7	2.0	2.3	8.0
Dr. Horst Dietz	4.6	4.0	2.9	11.5
Ulf Gänger	5.0	5.0	3.1	13.1
Gabriele Hanrieder[1]	3.7	4.0	2.3	10.0
Helmut Holzer[1]	3.7	3.0	2.3	9.0
Ulrich Kalthoff[1]	5.6	4.0	3.5	13.1
Dr. Hans-Peter Kohlhammer	4.6	4.0	2.9	11.5
Christian Teufel[1]	3.7	4.0	2.3	10.0
	40.8	**33.0**	**25.5**	**99.3**
	182.5	**139.0**	**121.6**	**443.1**

[1] Employee representatives in accordance with section 7 (1) sentence 1 no. 1 MitbestG of 4 May 1976.
[2] Member in the Supervisory Board of the former freenet.de AG.

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

37. Information in accordance with section 315a HGB

The Managing Board The list of the companies included in the consolidated financial statements in accordance with section 313 (2) to (3) HGB is shown in a separate list of shareholdings, instead of in the notes, in accordance with section 313 (4) HGB. This separate list is submitted to the electronic Federal Gazette.

The average number of employees in the Group (section 314 (1) no. 4 HGB) has been shown in point number 4 of these notes.

We refer to point 36 concerning information about compensation paid to officers and directors (section 314 (1) no. 6 HGB).

In accordance with section 314 (1) no. 8 HGB, we hereby declare that the declaration of conformity in accordance with section 161 AktG was submitted by the Managing Board and Supervisory Board of the former companies mobilcom AG and freenet AG in December 2002 (most recently modified in December 2006). It has been made permanently available to shareholders on the Company's web site at

http://www,mobilcom,de/download/Entsprechenserklaerung_mc_AG_Dez_06,pdf

A total of € 1,318 thousand in fees was paid to the auditor in accordance with section 314 (1) no. 9 HGB during the fiscal year. Of this figure, € 775 thousand was paid for the audit of the annual accounts and consolidated annual accounts, € 406 thousand for other certification or assessment services, € 51 thousand for tax accountant services and € 86 thousand for other services.

38. Events of major significance after the balance sheet date

A purchase agreement for transferring the German B2C narrowband and broadband user contracts was signed on 31 January 2007 with Tiscali S.p.A. The transfer of the Tiscali narrowband and broadband customer contracts was completed on 28 February 2007. The purchase price to be paid is based on the number of customer contracts transferred.

When the merger between the former mobilcom and freenet.de to form the Company was entered in the commercial register, the Company acquired the previous minority interests in freenet.de by way of a share swap. The value of the rendered shares was based on the market price of the former mobilcom on the date of the entry. In the balance sheet, this acquisition is shown in accordance with the economic entity model as a transaction between the providers of capital.

Büdelsdorf, 20. April 2007
freenet AG

The Managing Board

Eckhard Spoerr

Axel Krieger

Stephan Esch

3.8 Auditor’s report

We have audited the consolidated financial statements prepared by the freenet AG, Büdelsdorf, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB (“Handelsgesetzbuch”: German Commercial Code) are 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 and as a whole provides a suitable view of the Group‘s position and suitably presents the opportunities and risks of future development.

Kiel, 24 April 2007
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Focke
(German Public Auditor)

ppa. Kampmeyer
(German Public Auditor)

4 To our shareholders

4 To our shareholders

4.1 Report from the freenet AG supervisory board on the financial year from 1 January to 31 December 2006

Throughout the year under review, the supervisory board fulfilled the duties incumbent upon it by law, the articles of association and bylaws. We supervised the company's management and advised the executive board on running on the company. The supervisory board was directly involved in all decisions of key relevance to the company.

We received regular and comprehensive oral and written reports from the executive board, on the state of the company and significant business transactions. The supervisory board reviewed the executive board's reports at its meetings, requested further information as needed and discussed them with the executive board. In particular, the deliberations centred on the status and progress of the merger process between mobilcom Aktiengesellschaft and freenet.de AG. The supervisory board also appointed the executive board for the merged company and discussed the company's strategic direction with the executive board.

During 2006, the supervisory board met in person for three sessions and held one conference call. There were no reportable incidences regarding frequency of attendance by supervisory board members.

Between meetings, the supervisory board also kept abreast of the company's state and development by regularly consulting with the executive board. The chairman of the supervisory board also regularly discussed current topics and problems with the executive board in person and by phone.

Changes to the Supervisory Board

Until 01st December 2006, the supervisory board had a statutory three members: Chairman Dr. Dieter Vogel as, Vice Chairman Andrew Dechet, and Dr. Helmut Thoma. When the supervisory board was expanded to six members, Bastian Lueken, Klaus Thiemann and David Bonderman were elected to the supervisory board effective 13th January 2006. The extraordinary Annual General Meeting on 13th January 2006 recalled David Bonderman upon his request and elected Dr. G. Konrad Schmidt to the supervisory board in his stead. For Klaus Thiemann, who resigned his mandate effective 30th October 2006, the extraordinary Annual General Meeting on 22nd February 2007 elected Oliver Brexl to the supervisory board. Dr. Dieter Vogel resigned his mandate on 21st February 2007, and the extraordinary Annual General Meeting on 22nd February 2007 elected Dr. Hans-Joachim Priester to the supervisory board in his stead. Prof. Dr. G. Konrad Schmidt served as chairman of the supervisory board from 22 February 2007 until Prof. Dr. Thoma was elected supervisory board chairman at the supervisory board meeting on 24 April 2007.

The supervisory board thanks the departed supervisory board members for services rendered on the company's supervisory board and that of mobilcom Aktiengesellschaft.

Particular mention has to be made at this point of the many years of service of Prof. Dr. Dieter Vogel on the Supervisory Board of mobilcom Aktiengesellschaft. Prof. Dr. Dieter Vogel was very much involved in the restructuring of the Company. The Supervisory Board would like to express its particular gratitude for this involvement.

Supervisory Board Committees

Since 2nd February 2006, the supervisory board has set up an executive committee and other committees to handle the following tasks:

1. The executive committee consults on key topics and prepares supervisory board resolutions. The members of the executive committee are Prof. Dr. Helmut Thoma (chairman) and Birgit Geffke.
2. The personnel committee prepares the supervisory board's personnel decisions and rules on employment contracts with the members of the executive board; the granting of other salary components; legal transactions with executive board members covered in Clause 112 of the German Companies Act (AktG); approval of business transactions whose value exceeds 25.000 Euro between the company or one of its affiliates, and a member of the executive board or people or companies close to an executive board member; and approvals of other activities by an executive board member under Clause 88 AktG; granting of loans to the persons listed in Clause 89, 115 AktG; and approvals of contracts with supervisory board members under Clause 114 AktG. The personnel committee consists of Prof. Dr. Helmut Thoma as chairman and Birgit Geffke.

3. The audit committee deals with matters of accounting and risk management and prepares the supervisory board's resolutions on the annual and consolidated financial statements, and the agreements with the auditors. The members of the audit committee are Bastian Lueken and Prof. Dr. G. Konrad Schmidt.

Changes on the Executive Board

Eckhard Spoerr (Chairman), Axel Krieger (Chief Financial Officer) and Stephan Esch (Chief IT Officer) were appointed to the executive board with effect from 2.2.2006. Dr. Johann Stachow resigned his seat on the supervisory board on 27.2.2006.

Audit of the 2006 Annual and Consolidated Financial Statements

The annual financial statements prepared by the executive board, the consolidated financial statements and the management report for the group and the AG, and the accompanying auditors' reports, were submitted to all members of the supervisory board.

freenet AG's consolidated and annual financial statements, management reports, and group management report for the year ended 31.12.2006 were duly audited by PricewaterhouseCoopers Aktiengesellschaft, Kiel, and received an unqualified auditor's opinion. The auditor gave a report at the 24.4.2007 meeting of the supervisory board, and in the financial review meeting of the audit committee on 18.4.2007. At these meetings, the supervisory board discussed the audit results in detail and raised no objections. In compliance with Clause 171 of the Companies Act, the supervisory board reviewed the annual financial statements of the parent company and the group, including the management reports and risk reports, and approved the annual financial statements of the parent company and the consolidated financial statements. The annual financial statements for the year ended 31.12.006 are hereby adopted.

The supervisory board pays tribute to the executive board for its performance and entrepreneurial success during the past fiscal year and thanks all employees for their dedication and commitment in 2006.

Büdelsdorf, 24. April 2007
The Supervisory Board

Prof. Dr. Helmut Thoma
Chairman

4.2 Corporate Governance Report

The Group identifies with the goals of the German Corporate Governance Code, and embraces principles of transparent, responsible corporate management and governance with a view to creating value. The Group's executive and supervisory boards, as well as all freenet Group executives and employees, are committed to these goals.

The executive and supervisory boards intend to? comply with the recommendations of the German Corporate Governance Code in the version dated 12th July 2006, with the following exceptions.

1. The Group has taken out D&O (directors' and officers' liability) insurance for its board members. The D&O insurance includes an appropriate deductible only for the members of the executive board. No deductible was agreed for members of the supervisory board (Clause 3.8 sentence 3 of the Code). The terms and conditions of the D&O insurance are reviewed on an ongoing basis, especially with regard to the deductible because it does not hold a perceivable advantage for the Group. Responsible conduct is a duty and a matter of course for all board members.
2. The Group did not publish its consolidated financial statements for the year ending 31st December 2006 within 90 days after the end of the fiscal year (as recommended in clause 7.1.2, sentence 3 of the Code). The preparation of the consolidated financial statements was delayed due to the merger of mobilcom Aktiengesellschaft and freenet.de AG, which was entered in the register of companies on 2nd March 2007. In the future, the Group will comply with this guideline.
3. The company has not specified an age limit for executive or supervisory board members at this point, and would like to monitor further developments before taking any measures in this area (Clause 5.1.2 sentence 6 and clause 5.4.1 sentence 2 of the Code).

Management Board remuneration

In accordance with clause 11, paragraph 2 of the supervisory board's procedural rules dated 2nd February 2006, management board remuneration is set by the supervisory board's human resources committee. Until the merger of mobilcom AG and freenet.de AG into the new company became effective on 2nd March 2007, the relevant body at each of the original companies was responsible for setting the remuneration of their respective management boards. At mobilcom AG this was the supervisory board's main committee and at freenet.de AG the supervisory board itself.

The management board's remuneration is performance related and is made up of three components: A fixed element, a success-dependent element and a long-term element with an appropriate incentivising effect.

For financial 2006, the compensation paid to the members of the Managing Board of the Company and its predecessors totalled T€ 8,288 (2005: T€ 8,835). Of this total, the fixed component accounted for T€ 1,557 (18.7%) and variable components accounted for T€ 6,731 (81.3%)

As at 31st December 2006, the provisions for share options and share appreciation rights for the management board stood at T€ 10,416 (2005: T€ 7,672). In fiscal 2006, share options to the exercise value of T€ 2,863 (2005: T€ 4,939) and a total of 3.4 million share appreciation rights were granted to members of the management board.

Remuneration provisions for the event employment ending

Pension
In November 2004, all members of the freenet.de AG management board were given a direct assurance of a pension from freenet.de AG. When their period of service ends, freenet AG management board members have a right to the benefits set out at point 36 of the group appendix.

Premature cessation of employment
All mobilcom and freenet.de service contracts in existence prior to the point at which the merger became effective, transferred at that point to freenet AG. The old contracts, which continued to be legally valid, were replaced by new ones. With the exception of the level of remuneration, including the number of share appreciation rights, the new contracts were the same as the old ones, including in terms of benefits in the event of the employment (prematurely) ending. No right exists to claim compensation for loss of office if a management board member is responsible him/herself for the (premature) ending of his/her service contract.

The individual benefits provided by the company's service contracts for the event of cessation of employment are as follows:

- The right to payment of salary and bonuses (based on the assumption of 100% achievement of targets) for the remaining period of the contract where by mutual agreement the service contract is ended or notice to end it is served within, in either case, twelve months of a change of control of the company.
- From their 60th birthday, members of the management board receive a pension equivalent to 2.5 percent of their final annual fixed salary for each year or part thereof that they served on the company's management board or on that of its legal predecessor, freenet.de AG, totalling in any case not more than one third of their final annual fixed salary (guaranteed pension).
- A widow/widower's pension for the member's spouse/partner and an orphan's pension for any children up to the end of their education or vocational training, at the latest in any case up until their 27th birthday, amounting in total to not more than the guaranteed pension.
- Share appreciation rights, which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, remain in force. In the event of a member's service contract being terminated due to a change in control, all share appreciation rights remain in force and can be exercised regardless of the vesting period if the other exercise conditions are met within twelve months and in any case by not later than the end of the term. In the event of a management board member terminating his/her service contract for important reason/reason of force majeure or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all share 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, not later however than by the end of the term. Where such termination is due to important reason, the 12-month restriction does not apply.

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

For further information please see point 36 of the group appendix. This covers, in particular, information on levels of remuneration, holdings of share appreciation rights, share ownership and other sundry details.

Compensation paid to the Managing Board of the Company and its predecessors for the financial year is broken down as follows:

€ 000s	Salary	Variable compensation from stock option and stock appreciation rights[1]	Other variable compensation	Total
Eckhard Spoerr	641	2,785	410	3,836
Axel Krieger	336	1,741	180	2,257
Stephan Esch	282	870	22	1,174
Eric Berger[2]	160	522	43	725
Michael Grodd[3]	138	0	158	296
	1,557	**5,918**	**813**	**8,288**

[1] Incl. non-cash compensation valued in accordance with IFRS 2
[2] Director of the former freenet.de AG.
[3] Stepped down from the Managing Board of the former mobilcom AG on 15 November 2006.

The compensation paid to the members of the Managing Board of the Company and ist predecessors for the financial year is broken down as follows:

€ 000s	Salary	Variable compensation from stock option and stock appreciation rights[1]	Other variable compensation	Total
Eckhard Spoerr[5]	479	2,832	203	3,514
Axel Krieger[6]	214	2,832	94	3,140
Stephan Esch[6]	179	465	22	666
Michael Grodd	308	39	162	509
Eric Berger[7]	160	398	43	601
Dr. Thorsten Grenz[8]	366	39	0	405
	1,706	**6,605**	**524**	**8,835**

[4] Incl. non-cash compensation valued in accordance with IFRS 2.
[5] Chairman of the Managing Board of the former mobilcom AG since 1 September 2005.
[6] Appointed to the Managing Board of the former mobilcom AG on 9 November 2005.
[7] Director of the former freenet.de AG.
[8] Chairman of the Managing Board of the former mobilcom AG until 31 August 2005.

As of 31 December 2006, the provision for stock options and stock appreciation rights for Mr. Spoerr amounted to € 4,737 thousand (previous year: € 3,330 thousand); the corresponding figures for Mr. Krieger were € 3,693 thousand (previous year: € 3,330 thousand), for Mr. Esch were € 1,167 thousand (previous year: € 506 thousand) and for Mr. Berger were € 819 thousand (previous year: € 506 thousand).

In financial 2006, the following amounts were paid out of stock options: € 1,233 thousand (previous year: € 2,040 thousand) to Mr. Spoerr, € 1,233 thousand (previous year: € 2,040 thousand) to Mr. Krieger, € 187 thousand (previous year: € 531 thousand) to Mr. Esch as well as € 210 thousand (previous year: € 328 thousand) to Mr. Berger.

In financial 2006, 3.4 million stock appreciation rights in total were issued to the members of the Managing Board of the Company and its predecessors.

In November 2004, a direct pension commitment was granted to Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger. As of 31 December 2006, the defined benefit obligation (DBO) amounted to € 809 thousand (previous year: € 740 thousand) for Mr. Spoerr, € 422 thousand (previous year: € 387 thousand) for Mr. Krieger, € 105 thousand (previous year: € 74 thousand) for Mr. Esch and € 117 thousand (previous year: € 82 thousand) for Mr. Berger.

Total current and subsequent service time expenses of € 249 thousand are shown in personnel expenses for the members of the Managing Board as a result of the pension commitments. In the previous year, a total of € 385 thousand was recognised for current and subsequent service time expenses.

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

Supervisory Board compensation

The compensation of the Supervisory Board is defined by the shareholders' meeting in accordance with section 11 (4) of the Company's articles of association. Because the merger between mobilcom AG and freenet.de AG to form the Company only became legally effective on 2 March 2007, the articles of association of the legal predecessors, in other words, mobilcom AG and freenet.de AG, are applicable for the compensation of the Supervisory Board up to that time. Accordingly, the compensation in 2006 consisted of three components:

- Basic compensation
- Fees for attending meetings
- Profit-linked compensation

The Supervisory Board members receive basic compensation of € 12,000 for each full fiscal year of membership on the board. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half time this amount.

Every Supervisory Board member receives in addition an attendance fee of € 1,000 for each Supervisory Board meeting he/she attends. Supervisory Board members who belong to a Supervisory Board committee – with the exception of the committee formed in accordance with section 27 (3) of the German Codetermination Act – receive in addition an attendance fee of € 1,000 for each meeting of the committee. The committee chairperson receives double this amount.

The Supervisory Board members also receive, after the end of each fiscal year, variable compensation in the amount of € 500 for each € 0.01 in dividends in excess of € 0.10 per share of the Company stock which are distributed to the shareholders for the previous fiscal year. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times this amount.

Pursuant to the resolution of the shareholders' meeting of 24 August 2005 relating to point 2 of the agenda "Motion concerning the approval of the merger contract dated 8 July 2005 between mobilcom Aktiengesellschaft, freenet.de AG and telunico holding AG", a provision totalling € 129 thousand (previous year: € 122 thousand) for compensation dependent on success was created in accordance with section 3 (4) of the merger contract.

Compensation for financial 2006 € 000s	**Basic compensation**	**Attendance fees**	**Profit-linkedcom-pensation**	**Total**
Active members				
Prof. Dr. G. Konrad Schmidt	12.0	11.0	7.5	30.5
Birgit Geffke[1]	18.0	14.0	11.3	43.3
Oliver Brexl	1.3	1.0	0.8	3.1
Christian Burger[2]	6.2	0.0	6.2	12.4
Andrew John Dechet	12.0	11.0	7.5	30.5
Sascha Lucht[1]	12.0	13.0	7.5	32.5
Bastian Frederik Lueken	12.0	14.0	7.5	33.5
Andreas Neumann[1]	12.0	13.0	7.5	32.5
Franziska Oelte[1]	12.0	15.0	7.5	34.5
Kai Petersen[1]	12.0	10.0	7.5	29.5
Ulrike Scharlach[1]	12.0	9.0	7.5	28.5
Prof. Klaus-Dieter Scheurle[2]	9.3	0.0	9.3	18.6
Prof. Dr. Helmut Thoma	24.4	11.0	19.9	55.3
	155.2	**122.0**	**107.5**	**384.7**
Former members				
Klaus Thiemann	10.0	8.0	6.2	24.2
Prof. Dr.-Ing. Dieter H. Vogel	24.0	19.0	15.0	58.0
	34.0	**27.0**	**21.2**	**82.2**
	189.2	**149.0**	**128.7**	**466.9**

[1] Employee representatives in accordance with section 7 (1) sentence 1 no. 1 MitbestG of 4 May 1976.
[2] Member in the Supervisory Board of the former freenet.de AG.

Compensation for financial 2005 € 000s	Basic compensation	Attendance fees	Profit-linkedcom-pensation	Total
Active members				
Prof. Dr.-Ing. Dieter H. Vogel	24.0	18.0	15.0	57.0
Birgit Geffke[1]	12.5	10.0	7.8	30.3
Christian Burger[2]	2.1	0.0	2.1	4.2
Andrew John Dechet	7.0	7.0	4.4	18.4
Sascha Lucht[1]	8.3	8.0	5.2	21.5
Bastian Frederik Lueken	7.0	8.0	4.4	19.4
Andreas Neumann[1]	12.0	12.0	7.5	31.5
Franziska Oelte[1]	8.3	10.0	5.2	23.5
Kai Petersen[1]	8.3	7.0	5.2	20.5
Ulrike Scharlach[1]	8.3	6.0	5.2	19.5
Prof. Klaus-Dieter Scheurle[2]	6.6	0.0	6.2	12.8
Prof. Dr. G. Konrad Schmidt	0.9	0.0	0.5	1.4
Klaus Thiemann	12.0	11.0	7.5	30.5
Prof. Dr. Helmut Thoma	24.4	9.0	19.9	53.3
	141.7	**106.0**	**96.1**	**343.8**
Former members				
David Bonderman	6.2	3.0	3.9	13.1
Thorsten Delling[1]	3.7	2.0	2.3	8.0
Dr. Horst Dietz	4.6	4.0	2.9	11.5
Ulf Gänger	5.0	5.0	3.1	13.1
Gabriele Hanrieder[1]	3.7	4.0	2.3	10.0
Helmut Holzer[1]	3.7	3.0	2.3	9.0
Ulrich Kalthoff[1]	5.6	4.0	3.5	13.1
Dr. Hans-Peter Kohlhammer	4.6	4.0	2.9	11.5
Christian Teufel[1]	3.7	4.0	2.3	10.0
	40.8	**33.0**	**25.5**	**99.3**
	182.5	**139.0**	**121.6**	**443.1**

[1] Employee representatives in accordance with section 7 (1) sentence 1 no. 1 MitbestG of 4 May 1976.
[2] Member in the Supervisory Board of the former freenet.de AG.

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

5 Management report on the group

5 Management report on the group

Important note:

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

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

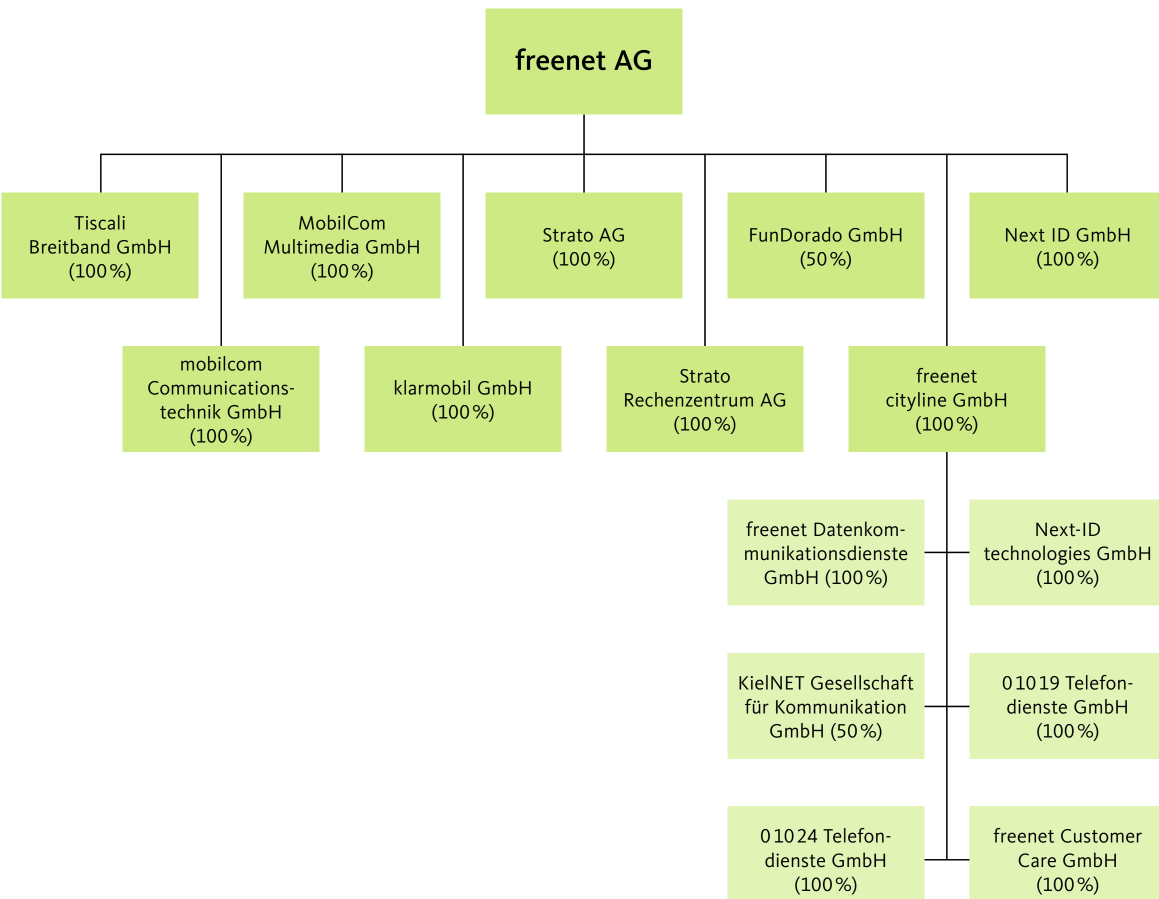
5.1 Group structure

The formative feature of the year-on-year changes to group structure is the merger of mobilcom AG and freenet.de AG into telunico holding AG, which, now renamed freenet AG, has taken on the position of group parent company. This was preceded by the consolidation of MobilCom Holding GmbH into mobilcom AG. This has streamlined the group structure by removing an intermediary holdings level. Shown below is the applicable structure from 2nd March 2007, on which date the merger of mobilcom AG and freenet.de AG was formally registered.

The company has one shareholder with a direct or indirect interest in its equity of over 10 percent. This is EMITHYS S.à.r.l, which at 2nd March 2007 had a 10.58 percent holding in the ordinary share capital.

The process of appointment and removal of members of the freenet AG management board is based on Clauses 84 and 85 of the German Companies Act (AktG) in conjunction with Clause 5, paragraph 1 of the company's Articles of Association. The definitive provisions for making any change to the Articles of Association are Clauses 133 and 179 of the Act and Clause 16, paragraph 1 of the Articles.

The management board is authorised in accordance with Clause 4, paragraph 6 of the Articles of Association, and with the consent of the supervisory board, to issue 48,030,508 shares (2005 authorised share capital) no later than 18th August 2010. In accordance with the resolution of the Extraordinary General Meeting on 20th February 2007, the management board is also authorised, with the consent of the supervisory board, to purchase, sell or call in shares in the company up to a total of 10 percent of the ordinary share capital.



5.2 Overview of business performance in the freenet group

The German telecommunications market in 2006

The German telecommunications market continues to be fraught with very intense competition. According to estimates from the Association of Telecommunication and Added Value Service Providers (VATM), companies competing with Deutsche Telekom AG (DTAG) increased their share of revenue from 49.4 percent (€ 33.4 billion) in 2005 to 50.9 percent or € 35.2 billion in 2006. According to the VATM's estimates, total revenue rose slightly by 2%, reaching €69.1 billion by year-end 2006. This revenue growth is largely due to the increase in fixed line services. In Internet access in particular, according to the Federal Network Agency (BnetzA) the number of DSL connections in Germany rose from 10.4 million in 2005 to 14.1 million by the end of 2006. Growth in mobile phone business had already slowed in 2005. According to estimates from the BnetzA, the 100 percent penetration mark was passed in the third quarter of 2006. In terms of statistical average, there is thus one mobile phone contract for each member of the population. By the end of 2006, the penetration level was already at 102.3 percent or 84.3 million SIM cards. Despite an increase in customer numbers, the market share of mobile service providers continues to decline slightly. After 25.9 percent in 2004 and 25.2 percent in 2005, the level according to BnetzA estimates was only 25 percent in 2006. However, the volume of mobile phone traffic increased, due not least to a fall in prices. The BnetzA anticipates an increase to around 57 billion minutes in 2006 compared to 43 billion in 2005.

freenet group business performance

freenet Group revenue for 2006 rose slightly from € 2,051 million in 2005 to € 2,055 million. Gross profit fell to € 465.8 million (2005: € 490.6 million). This was due in particular to high marketing costs for attracting new broadband customers. The net operating profit (EBITDA) totals € 147.0 million compared to the adjusted result in 2005 of € 197.9 million. Note that the sum of the EBITDAs for the mobile phone service provider and Fixed Line/Internet segments is shown as € 156 million, € 9 million higher than the group EBITDA at € 147 million. This is due to the fact that expenditure of € 9 million in the segment reporting was not attributable to these segments.

Mobile telephony division business performance

In the line of business with the highest revenue, the provision of mobile telephony services, freenet was able to maintain revenues nearly on par with the previous year's level. At € 1,329.3 million, annual revenue for 2006 was 1.5 percent below the previous year's figure of € 1,350.0 million. According to the Federal Office of Statistics, prices per minute in the mobile telephony market fell by around 11 percent in the year under review. This market trend of falling call charges has impacted on the average revenue per user (ARPU) in mobile telephony. The Service Provider division thus recorded ARPU of € 16.9, an 8.2 percent drop compared to 2005. The ARPU for contract customers is actually only 5.4 percent below the previous year's level, thus totalling € 27.0 for the full year. The negative change in overall ARPU is therefore largely attributable to a sharp fall of 17.7% in prepaid ARPU.

Over the course of the year, the customer base grew by around 300,000 from 4.8 million to 5.1 million customers. This is split into 2.75 million contract customers (including those of klarmobil) and 2.35 million prepaid customers. Compared to the previous year, the total customer base has thus grown by around 6 percent. freenet's market share in the mobile telephony market at the end of the fiscal year remained at the previous year's level of around 6 percent.

Gross operating profit in the mobile telephony service provider division rose slightly year on year, reaching € 194.4 million in 2006 vs. € 191.9 million in 2005. At € 62.8 million, the EBITDA is nearly 6 percent below the prior year's adjusted figure (2005: € 66.7 million).

Fixed Line/Internet business performance

The movement in revenue and profit in 2006 was predominantly influenced for freenet by some significant changes in the Internet access business. Total revenue for fixed lines/ nternet rose to €725.5 million in 2006 compared to € 700.8 million in 2005, although the launch of a Net Rental contract model by DTAG in February 2006 had a negative impact on business.

In the first quarter of 2006, a number of DSL offers were launched that were based solely on extremely preferential Net Rental purchase terms for a few providers. Terms that “granted major DSL providers appreciably greater margins on reselling DTAG’s broadband connections than they granted small or medium-size providers, without there being any technically justified reason for this,” said Matthias Kurth, BnetzA’s president, in his statement that led to the Net Rental model being banned on 22nd May 2006.

The ban on Net Rental was accompanied by a change to the contract model with DTAG. The bonuses for signing up new customers, which until then had been recorded under sales revenue, were dropped, leading to a decline in revenue figures. Conversely, the margins on ongoing income from freenet’s existing customers increased. The ban by BnetzA of Net Rental plus the new contract model gave a renewed boost to new DSL customer business in the second half of 2006. DSL price levels have, however, been permanently lowered by Net Rental.

An innovative milestone and another significant structural change in freenet’s Internet business was the launch of “freenet*Komplett*,” offering telephone and high-speed DSL connection as one package.

Offering the new “freenet*Komplett*” product appreciably boosted DSL growth in the 4th quarter of 2006, with the company gaining 95,000 new DSL customers. This brought the total number of broadband customers up to the 1-million mark by year-end 2006. The company estimates that freenet’s share of the DSL market is around 7 percent. Internet access revenues increased from € 339.0 million in 2005 to € 355.7 million in the year under review.

As was the case for Internet narrowband business (2.03 million customers at the end of 2006), fixed-line telephony also laboured under negative market trends. With the increasing spread of DSL offers including telephony and further aggressive pricing by mobile phone providers, the company’s view is that the backward trend in fixed-line telephony will continue. The number of active telephony customers at the end of 2006 totalled 3.04 million vs. 4.87 million at the end of 2005. freenet’s preselection product accounted for around 550,000 of these, while some 2.49 million customers use by-call-products. By-call-customers regularly use a variety of providers’ services and thus cause significant fluctuation in the customer base. Compared to 2005, revenue from fixed-line telephony declined in the past year, from € 157.9 million to € 132.0 million.

B2B Services largely refers to the value-added services offered by the NEXT-ID GmbH, acquired in 2005. These include relaying connections to information and support numbers and producing customised audiotext solutions. However, freenet also provides other services for business customers via this division, such as Internet and communications solutions and IT services. Revenue in 2006 was € 129.0 million, compared to € 116.9 million in 2005.

In addition to e-commerce, advertising and sales promotion products, the company’s portal business also increasingly involves offering paid digital services such as e-mail, web hosting, singles community products and PC security. The most significant source of revenue is web hosting. The Strato Group, acquired in early 2005, made a major contribution to the success in this area. Revenue increased from € 87.0 million in 2005 to € 108.8 million during the year under review.

In line with the general conditions described here, influenced in particular by the Internet access business, gross profit in the Fixed Line/Internet segment fell in 2006 by € 27.3 million to €271.4 million. EBITDA is € 93.2 million, 29 percent below the adjusted prior year figure of € 131.2 million.

New freenet products

The merger of mobilcom and freenet.de at the start of March also laid the foundations for a realignment of the product range. The new company subsequently presented its first convergence and bundled products at the CeBIT trade fair. These included the "freenet*Mobile* mail & surf" data flat-rate-package, which provides mobile Internet surfing and Blackberry functions for private customers. The new products on offer since the CeBIT also include a freenet*DSL*-package, complete with mobile phone contract.

Important events of the freenet group 2006 fiscal year

- February 2006: DTAG submitted new purchasing terms to the alternative DSL providers based on the so-called Net Rental contract model, leading to a lasting fall in consumer market price levels.
- In May 2006, the BnetzA decided to ban DTAG's new contract model as its terms gave the major DSL providers appreciably greater margins on the resale of broadband connections than they gave to small and medium-size providers, without there being any technically justified reason for this.
- Following the ban of Net Rental, DTAG offered the alternative DSL providers a new contract model. The bonuses previously awarded for acquiring new customers were dropped. On the other hand, the margins on ongoing revenues from freenet's existing customers increased.
- In September 2006, freenet began marketing "freenet*Komplett*" and gained a net 95,000 new customers in the 4th quarter of the calendar year.
- The mobile phone market in 2006 saw increased promotion of flat-rate offers. Following the launch of the first mobile phone flat rate, "Base," on the E-Plus network, network operators began last year to offer their own flat-rate services. Since then, under the mobilcom brand, freenet has been marketing the "Big Flat Tariff" on the T-Mobile and Vodafone networks.
- During the second half of the year, freenet was able to reach several partial settlements with suing shareholders. Following the end of the business year, the last settlement was reached in January 2007, thus clearing the way for the merger of mobilcom and freenet.de.

5.3 Earnings, assets and financial position

The merger of mobilcom AG and freenet.de AG into freenet AG became effective by registration in the Register of Companies on 2nd March 2007. mobilcom AG and freenet.de AG thus no longer exist. Since this date, the two companies' previous shareholders have been shareholders of the new group parent company, freenet AG. The group assets and liabilities of the previous group parent company, mobilcom AG, were transferred to freenet AG upon the merger contract coming into effect. The prior year's consolidated financial statements thus reflect the earnings, assets and financial position of the business divisions that, as a result of the merger, freenet has taken on and will continue to operate. Thus, the comparability of the 2006 consolidated financial statements and those of the prior year is not impaired.

Key items of the consolidated financial statements

In the fiscal 2006, the Group achieved a slight year-on-year increase in revenue from € 2,050.8 million to € 2,054.8 million. Revenue in the Mobile Telephony division fell by 1.5 percent to € 1,329.3 million (2005: € 1,350.0 million), while despite aggressive competition an increase of 3.5 percent was achieved in the Fixed Line / Internet division, taking revenue up to € 725.5 million (2005: € 700.8 million). It should be noted here that the Strato Group and NEXT-ID were consolidated for a full twelve months during the year under review, compared to eleven and nine months respectively in 2005.

The volume of purchases increased to € 1,589.0 million (2005: € 1,560.2 million), essentially leading to a € 24.8 million reduction of the gross profit, which fell to € 465.8 million (2005: € 490.6 million). The total gross profit margin was reduced by 1.2 percentage points to 22.7 percent (2005: 23.9 percent).

Despite an average increase of just under 15 percent in staff numbers in the Fixed Line/Internet division, restructuring measures taken in the area of mobile telephony service provision led to group employment costs declining by nearly 4 percent to € 135.8 million (2005: € 141.4 million). These costs also included for the first time a € 9.0 million charge from the Group's share appreciation scheme.

Substantial advertising and marketing costs, especially for the launch of new products, were one of the primary factors contributing to a reduced EBITDA for fiscal 2006 of € 147.0 million compared to € 172.7 million the year before.

Group operating profit for fiscal 2006 was € 257.0 million, after € 91.8 million in 2005. This increase comes in the main from group-wide utilisation of tax losses carried forward, as with the merger in place the majority of Fixed Line/Internet profits can now be offset against the tax loss carryforwards taken on from the previous company, mobilcom AG.

At 31st December 2006, the Group's total balance sheet assets were € 1,295.6 million, up by 17.8 percent year on year (31st December 2005: € 1,099.6 million). On the assets side, long-term assets rose by € 131.0 million to € 464.4 million. This is largely attributable to the increase in latent income tax claims through group-wide utilisation of losses carried forward. Short-term assets increased by 8.5 percent or € 65.0 million. This is attributable mainly to a € 202.2 million increase in cash and cash equivalents, to € 535.3 million, which results primarily from cash flow from the Group's ongoing business activity. Stock assets increased from € 20.8 million to € 27.7 million. This increase as at the balance sheet date results essentially from the Group's build-up of DSL hardware stock. Companies included on the equity method relate, as in the prior year, to the Group's shareholding in its associated company, KielNET, which contributed € 3.5 million. The deferred income tax claims arise almost exclusively from tax losses carried forward, while the latent income tax liabilities, being the balance of offset income tax claims and liabilities, result from temporary differences.

In terms of liabilities, group equity rose to € 933.4 million (31st December 2005: € 677.5 million). The group equity ratio rose 10.4 percentage points and at 31st December 2006 was 72.0 percent (31st December 2005: 61.6 percent). The short-term liabilities are made up predominantly of residual liabilities and accruals (€ 207.5 million), trade payables (€ 94.6 million) and ongoing income tax liabilities (€ 14.7 million).

In fiscal 2006 the Group generated € 144.8 million in cash flow from ongoing operations (2005: € 186.8 million). The year-on-year reduction is essentially attributable to tax payments, which increased almost threefold to € 50.7 million (2005: € 17.9 million). Reducing operational liabilities by € 12.5 million increased the burden on cash flow vs. the previous year, during which a € 9.3 million increase in liabilities produced a positive impact on funds. Payments received from reducing the receivables balance and other asset values showed year-on-year growth of €28.5 million and made a € 52.2 million contribution to cash flow from ongoing operations during the financial year.

The outflow of funds from investment activity declined by € 58.1 million year on year, falling to € 27.1 million in 2006 (2005: € 85.2 million). Normal business capital expenditure for the renewal of intangible and tangible assets increased by a total of € 9.0 million during the fiscal year, to € 41.6 million. Key factors causing the reduced outflow of funds were primarily the corporate acquisitions made during the comparable period of the previous year, totalling € 63.8 million. This outflow of funds related predominantly to the acquisitions of the Strato Group and the NEXT ID companies.

During fiscal 2006, the Group generated an inflow of funds from financing activity of € 84.5 million. This is mainly attributable to the sale of the fixed-interest bonded loan of € 85.0 million secured in the previous year. On the other hand, the prior year's funds allocated to financing activity went down by € 135.7 million.

While in fiscal 2006 the sale of a fixed-interest bonded loan (€ 85.0 million) had the main impact on cash flow from financing activity, the outflow of cash funds allocated to financing activity was reduced in the prior year largely by the acquisition of the aforementioned loan, by dividend payments to outside shareholders (€ 25.0 million) and by payments made by the Group to purchase its own shares (€ 23.9 million).

The following summary shows some of the Group's key operating figures.

In € 000s	2006	2005	Change
Total revenue	2,054.835	2,050.773	4,062
Gross profit	465,828	490,578	-24,750
EBITDA	147,024	172,684	-25,660
EBIT	103,103	108,400	-5,297
EBT	117,617	116,752	865
Consolidated result	257,007	91,770	165,237

5.4 Employees

The following summary shows the breakdown of our workforce by business division. The figures in each case are as at the end of the fiscal year shown.

	2006	2005
Employees as at 31st December (incl. temporary staff)	**3,646**	**3,578**
Mobile telephony	1,341	1,504
Fixed Line/Internet	2,305	2,074
Average number of employees	**3,630**	**3,491**
Mobile telephony	1,393	1,544
Fixed Line/Internet	2,237	1,947

Despite a programme of restructuring in the Mobile Telephony division, which affected around 200 employees, freenet built up its workforce to over 3,600 employees during fiscal 2006. Going forward, the Group thus remains a significant employer all across Germany at sites in Büdelsdorf, Kiel, Hamburg, Berlin, Düsseldorf and Erfurt.

5.5 Risk reporting

Sector-related risks

The primary risks for freenet continue to be those that are normal for any established core business, such as changes in the customer base and products. The management board sees no developments here that go beyond the risks of any normal business operation.

In its business activity freenet AG is subject to a wide variety of regulatory and statutory requirements, in particular regulations arising from the areas of data, customer and consumer protection. These are subject to rapid change, which is likely to lead to further requirements and financial burdens.

Developing the customer base

freenet has set itself ambitious targets in terms of developing the customer base. Customer acquisition and retention are both significant cost centres in the service provider and Internet business. If these costs turn out to be higher than anticipated, this may lead to substantial deficits in freenet's operating profits.

Risks in the mobile telephony service provider division

Margins in the mobile telephony service provider business are dependent on how network operators structure their tariff models. Changes in such tariff models can have a negative effect on freenet AG's earnings, assets and financial position.

Mobile phone network operators are increasingly shifting to marketing their products themselves and to forcing mobile telephony service providers out of the market. Due to their business structure, mobile phone network operators are able to a degree to offer better rates than mobile telephony service providers. This can lead to a loss of sales channels and customers and can thus have a negative impact on the company's earnings, assets and financial position.

The emergence of a discount market for mobile telephony products is putting increasing pressure on prices and margins in the German consumer market for mobile telephony services.

There is also a growing market trend to bundle mobile telephony and Fixed Line / Internet products and thus to market converged packages. If freenet is not also able to position itself in this market and to secure an appropriate market share with its own convergence products, this may have a negative impact on the company's earnings, assets and financial position.

Technical infrastructure capability

Maintaining the operational availability and efficiency of the technical infrastructure, including the company's computer centres and billing systems, is of major importance to business continuity. Network outages or service problems caused by system faults or failures can lead to the loss of customers and result in financial losses for the company. As freenet uses the services of some third parties, these risks are not fully within the company's control. It is also the case that if the network infrastructure dimensioning is too small, this can lead to losing customers, while if it is too large, this can cause disadvantages in terms of cost.

Dependency on suppliers

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

Losses from customer and sales partner bad debts

In the mass volume business of a telecommunications company, particular attention has to be paid to the creditworthiness of customers and sales partners. It is, however, unavoidable that a certain percentage of debt cannot be collected.

Were this percentage to increase, it would have a negative impact on the company's earnings, assets and financial position.

Commission clawbacks by network operators

freenet receives commission from network operators for procuring customers. If freenet's sales channels are abused by fraudulent third parties, this can lead to the network operators clawing back this commission. freenet makes appropriate provision for the anticipated level of such clawbacks by the network operators. It is, however, impossible to determine the exact level of potential commission clawbacks by the network operators and this thus represents a risk.

Risks in the Fixed Line/Internet division

The pace of growth in DSL as the technology for accessing the Internet increased further in 2006 compared to the year before. Growth in the telecommunications market as a whole, however, is limited. There is a risk that as market volumes shift (e.g. from fixed-line telephony to cellular and/or Internet telephony and from narrowband to DSL broadband Internet access) freenet may not be able to compensate for losses that may arise in market segment share and revenues with gains in revenue in segments of the market with positive rates of growth.

The strong competition in telecommunications markets can lead at any time to shortfalls in sales revenues, to loss of market share and to pressure on margins in a given business field and/or can make it more difficult to gain market share. Such competition also leads to ever-higher expenditure on new customer acquisition, while at the same time revenues fall and customers are increasingly prepared to switch. Should this trend continue or even grow stronger, this will have a negative impact on the company's earnings, assets and financial position.

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

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

It is further to be anticipated that Internet access offers via mobile wireless technology will be increasingly marketed over coming years. This too could have a negative impact on the market shares achievable in the long term and thus impair freenet's earnings prospects.

The company's telephony and Internet access products are to a large part based on provisioning services, which it buys from network operators such as DTAG and alternative network operators. Collection of the majority of customer receivables is also via DTAG. freenet is therefore dependent in many areas on DTAG's efficiency and commitment. As the dominant telecommunications provider in Germany, DTAG can thus exert considerable pressure on freenet in terms of price and margins in both the provisioning and consumer markets.

Insofar as the alternative network operators are not willing or able to make adequate investments in their network infrastructure, in particular in order to increase its geographical coverage, this limitation in coverage is already leading to an inability to satisfy customer demand for certain of freenet's products. This has a negative impact on customer numbers, revenue and profits. In such cases freenet is working as closely as possible with the network operators to remove these risks.

Tax risks

The Group's main companies have been completely audited in terms of tax auditing up to and including the 1999 assessment period. The tax audits for the assessment periods 2000 to 2004 have yet to be completed.

Tax arrears payments can as a general rule become necessary if the fiscal authorities come to different interpretations of tax regulations or to different assessments of the underlying facts in any given case. Additional tax costs could arise for as yet unaudited periods if restructuring measures, in particular the mergers involved in consolidating the mobile telephony service provision business, are assessed differently by the fiscal authorities. The same applies to the sale of the then mobilcom AG's fixed line business to the former freenet.de AG.

Further, the fact cannot be ruled out that the carried forward tax losses declared by the freenet Group could, as per Clause 8, paragraph 4 of the Corporation Tax Act (KStG) and Clause 12, paragraph 3, sentence 2 of the Reorganisation Tax Act (UmwStG), be wholly or partially inapplicable as a result of asset contributions, other reorganisation activity, injections of capital or shareholding changes.

Financial risks

In the opinion of the company financial risks such as those relating to foreign currency, non-payment, liquidity, refinancing, interest rate changes, exchange rate changes or cash flow can be classed as not material and are not therefore required to be shown separately in this management report. There is a detailed review of the individual financial risks at point 34 in the appendix.

Risks in connection with the mergers

The company could incur significant payment obligations if in the course of share evaluation review proceedings as per Clause 15 of the Reorganisation of Companies Act (UmwG) it is adjudged that the share swap ratio was not adequate. This could lead to a lasting loss of net profits. It is, however, the company's assumption that the share swap ratio was appropriate and that no payment obligations are to be anticipated from any legal challenges.

Risks in connection with the exit from UMTS business

At the end of 2002/start of 2003, the company came to a compromise agreement with France Télécom and a number of associated companies.

This agreement is being contested by several shareholders. The company considers the agreement to be valid and has no indication that France Télécom does not feel bound by it. However, should the complainants succeed in mounting a legal challenge and calling the substance of the agreement into question, it should be anticipated that France Télécom will claim from the company the sum of €7.1 million, which it waived as part of the agreement, and will contest the grounds and amounts of any counterclaims the company may make.

Risk management system

freenet AG's management board has set up an appropriate system within the Group to detect risks early on, monitor them and manage them. In a manual for risk management in the Group, which is regularly revised and updated, the management board has defined the key risks, drawn up a strategy on how to handle risk and documented the distribution of tasks and responsibilities within the Group's risk management system. This manual, with which all employees are familiar, has further developed a culture of risk awareness within the Group.

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

The management has set up a comprehensive monthly reporting system to manage and monitor ongoing business operations that extends to both the financial and the non-financial performance indexes in the group. The management board is kept informed about operational developments in a timely manner at regular "jour-fixe" meetings, which are held for all relevant lines of business. Recent developments and future measures are also discussed at these jour-fixe meetings. The heads of the various corporate divisions are also in constant communication with the management board, ensuring timely notification of risks to the appropriate decision makers at all times.

5.6 Management board remuneration

In accordance with clause 11, paragraph 2 of the supervisory board's procedural rules dated 2nd February 2006, management board remuneration is set by the supervisory board's human resources committee. Until the merger of mobilcom AG and freenet.de AG into the new company became effective on 2nd March 2007, the relevant body at each of the original companies was responsible for setting the remuneration of their respective management boards. At mobilcom AG this was the supervisory board's main committee and at freenet.de AG the supervisory board itself.

The management board's remuneration is performance related and is made up of three components: A fixed element, a success-dependent element and a long-term element with an appropriate incentivising effect.

For financial 2006, the compensation paid to the members of the Managing Board of the Company and its predecessors totalled T€ 8,288 (2005: T€ 8,835). Of this total, the fixed component accounted for T€ 1,557 (18.7%) and variable components accounted for T€ 6,731 (81.3%)

As at 31st December 2006, the provisions for share options and share appreciation rights for the management board stood at T€ 10,416 (2005: T€ 7,672). In fiscal 2006, share options to the exercise value of T€ 2,863 (2005: T€ 4,939) and a total of 3.4 million share appreciation rights were granted to members of the management board.

Remuneration provisions for the event employment ending

Pension

In November 2004, all members of the freenet.de AG management board were given a direct assurance of a pension from freenet.de AG. When their period of service ends, freenet AG management board members have a right to the benefits set out at point 36 of the group appendix.

Premature cessation of employment

All mobilcom and freenet.de service contracts in existence prior to the point at which the merger became effective, transferred at that point to freenet AG. The old contracts, which continued to be legally valid, were replaced by new ones. With the exception of the level of remuneration, including the number of share appreciation rights, the new contracts were the same as the old ones, including in terms of benefits in the event of the employment (prematurely) ending. No right exists to claim compensation for loss of office if a management board member is responsible him/herself for the (premature) ending of his/her service contract.

The individual benefits provided by the company's service contracts for the event of cessation of employment are as follows:

- The right to payment of salary and bonuses (based on the assumption of 100% achievement of targets) for the remaining period of the contract where by mutual agreement the service contract is ended or notice to end it is served within, in either case, twelve months of a change of control of the company.
- From their 60th birthday, members of the management board receive a pension equivalent to 2.5 percent of their final annual fixed salary for each year or part thereof that they served on the company's management board or on that of its legal predecessor, freenet.de AG, totalling in any case not more than one third of their final annual fixed salary (guaranteed pension).
- A widow/widower's pension for the member's spouse/partner and an orphan's pension for any children up to the end of their education or vocational training, at the latest in any case up until their 27th birthday, amounting in total to not more than the guaranteed pension.
- Share appreciation rights, which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, remain in force. In the event of a member's service contract being terminated due to a change in control, all share appreciation rights remain in force and can be exercised regardless of the vesting period if the other exercise conditions are met within twelve months and in any case by not later than the end of the term. In the event of a management board member terminating his/her service contract for important reason / reason of force majeure or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all share 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, not later however than by the end of the term. Where such termination is due to important reason, the 12-month restriction does not apply.

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

For further information please see point 36 of the group appendix. This covers, in particular, information on levels of remuneration, holdings of share appreciation rights, share ownership and other sundry details.

5.7 Supplementary report

After the end of the fiscal year, there were a number of significant changes in connection with the merger of mobilcom AG and freenet.de AG agreed on 8th July 2005. On 16th January 2007, mobilcom reached the final of a series of partial settlements with the remaining complainants. The settlement was officially recorded by the Kiel District Court, thus clearing the way for the merger to go ahead. On 16th February 2007, telunico holding AG (now trading as freenet AG) applied to have the new shares admitted for trading on the Frankfurt stock market. The merger became effective with its registration in the Register of Companies on 2nd March 2007. Consent was given on the same day for the new shares to be admitted for trading on the Frankfurt exchange. The listing took place on 5th March 2007.

On 31st January 2007, a purchase contract was signed with Tiscali S.p.A. to take over its German B2C narrowband and broadband customer contracts. The transfer of these contracts took place on 28th February 2007. The purchase price to be paid is dependent on the number of customer contracts transferred.

5.8 Opportunities and prospects

Opportunities for the new freenet AG

freenet AG will be positioning itself in the future as a universal provider of all-round products and services related to the Internet and to fixed line and mobile telephony. freenet AG combines mobilcom's know-how as an experienced mobile telephony provider with freenet.de AG's expertise as an established provider of Internet and fixed line services.

The merger makes it possible for the new company to be able to react better to the challenges, changes and trends in the mobile phone and Fixed Line/Internet market.

As a result of the merger, opportunities may in particular arise from achieving synergies in the following areas:

- Finance (e.g. through increased utilisation of carried forward losses)
- Purchasing/IT (e.g. cost saving potential from volume buying)
- Sales and marketing (e.g. through combining and harmonising sales systems)

As a result of the merger, freenet, as a universal provider, will also be able to achieve strategic advantages as the different markets converge into one market. Indeed, it is particularly in the mobile Internet field that the company expects the strongest market growth over the next few years, as in this area market penetration, for instance, is still below average.

Sales performance on DSL connections is currently better in those regions in which "freenet*Komplett*" connections are available than it is in other regions. Geographic expansion of network coverage will thus also bring with it the opportunity to increase sales performance on DSL business as a whole.

Outlook

Both the Mobile Telephony and Fixed Line/Internet sectors are intensely competitive. Since the end of 2005, competition has become even more intense. Nor does the company expect this intensity of competition to ease up over the next few years.

A weakening of market growth can be expected in the field of mobile telephony provision. The management further anticipates continuing falls in consumer prices. There is also a trend suggesting that compared to the network operators the margins and commission levels to be achieved may turn out lower.

In the Fixed Line/Internet business, the company anticipates further strong DSL market growth over the medium term. It may also be expected that both the narrowband Internet access and fixed-line telephony markets will shrink in the years ahead. Especially in the DSL market, since the launch of the Net Rental contract model at the start of 2006, there has also been a drop in consumer prices on a scale that the company could not have anticipated.

The company will endeavour to make up for the harm caused by the delayed completion of the merger and to make the best possible use of synergies. To this end, freenet's future strategy will include a focus on marketing converged and bundled mobile phone, fixed line and Internet products in order to strengthen the company's market position.

6 Further information

6 Further information

6.1 Contacts

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6.2 Publications

The annual report and our interim reports are also available in the Internet at

www.freenet.ag
heading: Investor Relations.

In the event of any doubt, the German version shall prevail.

Current information concerning freenet AG and your shares is available on our website. You can also register for our email subscription service under the heading: Investor Relations.

6.3 Glossary

ADSL	ADSL technology enables data to be transmitted at a speed of up to 8 mbps over a telephone line, and thus permits broadband use of the telephone line (ADSL = Asymmetrical Digital Subscriber Line)..
ADSL2+	The extension of the ADSL standard permits a maximum data speed of 25 mbps in the receiving direction and 3.5 mbps in the transmission direction. Such a data speed enables HD/SD TV channels to be transmitted (ADSL2+ = Asymmetrical Digital Subscriber Line 2+).
ARPU	Average Revenue Per User..
Directory enquiries	This facility is an information service with nationwide availability at all times without the need for any prefix; it is used for providing information concerning the number, name and address and additional details of telecommunication users. Such services are reached via a number 118xy.
B2B	Business with business customers (B2B = Business to Business)..
BNetzA	Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen (Federal Network Agency for Electricity, Gas, Telecommunication, Posts and Railways).
Broadband	Digital data transmission with a speed of more than 128 kbps.
Call-by-Call	Choice of network operator for a specific connection on a call-by-call basis.
CFA	Cooperation agreement between mobilcom, FT and Gerhard Schmid from the year 2000 (CFA = Cooperation Framework Agreement).
DSL	A Digital Subscriber Line is used by households and companies for transmitting and receiving data at high transmission speed (up to 50,000 kbps). This is a major increase in speed compared with modem or ISDN connections of up to 128 kbps
DSL line	The DSL line between the subscriber network operator (TNB) and the user.
DSL-Resale	The process of reselling DSL lines under a separate name.
DTAG	Deutsche Telekom AG.
EBIT	Earnings before interest and taxes less depreciation and amortisation plus the result of companies accounted for using the equity method.
EBITDA	EBIT (see above) plus depreciation and amortisation.
Earnings per share	This ratio specifies that portion of consolidated net profit or loss which is attributable to an individual share. It is calculated by dividing the consolidated net income/net loss by the weighted average number of issued shares.

Fixed network	In general language, this concept is used to describe a telecommunications network which is used for providing line-borne services.
freenet IP Netz	The core network for IP-based services connects the central technology locations (also known as IP backbone).
FT	France Télécom S.A., Paris, France.
GSM	Pan-European standard for second generation digital mobile telephony in the 900 and 1800 MHz range (GSM = Global System for Mobile Communication).
IFRS	International Financial Reporting Standards
Interconnection	Interconnection of switching telephone networks.
Internet	The Internet is a worldwide network of computers based on the Internet Protocol (IP) without any central network management.
IP	Internet Protocol; a data interchange protocol which is widespread in computer networks.
IP Backbone	This core network for IP-based services connects the central technology locations of a network. Depending on the particular type, these networks can assume international and even international dimensions.
ISDN	ISDN integrates services such as telephony, fax or data communication in the fixed network. Digital technology improves transmission quality and increases transmission speed compared with analogue connections. ISDN also permits packet-switched data transmission (ISDN = Integrated Services Digital Network).
ISIN	International Securities Identification Number.
Value-add service	A value-add 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.
MNO	Mobile Network Operator.
mobilcom	mobilcom Aktiengesellschaft, Büdelsdorf.
Mobile telephony network	A public mobile telephony network offering mobile telephony services in accordance with the GSM 900 or GSM 1800 standard, or for the third generation range of mobile telephony services (UMTS/IMT 2000).
Mobile telephony service provider	Provider of mobile telephony services without their own mobile telephony network; they sell mobile telephony minutes, SIM cards and mobile telephones as well as value-add services, such as SMS in their own name and for their own account.

Naked DSL	If only the DSL connection is offered to the end user on a twin copper wire, this arrangement is known as naked DSL.
Page impressions	Page impressions describe the number of hits of any users on a web site, and are used as an important criterion in the range of analysis of Internet services.
Penetration rate (mobile telephony market)	Total number of issued SIM cards expressed as a percentage of the total number of inhabitants.
Portal	Central web site which generally comprises a comprehensive range of navigation functions, aggregated content and additional services, such as email.
Prepaid	Mobile telephony service paid in advance.
Preselection	Permanent default setting of the subscriber line to a specific connection network operator
PwC	PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.
Roaming	Feature of cellular radio networks which ensures that activated mobile stations, irrespective of location, can be reached in all radio cells of the entire area of coverage of a network. Roaming can also cover equivalent networks of various network operators (national roaming) and also cover cross-border networks (international roaming).
Narrowband	Analogue or digital data transmission with a speed of up to 128 kbps.
Server Hosting	Presentation of the services of an Internet server, such as memory and email functionality, e.g. for installation of a website.
Server Housing	Service for which the servers required for a web site are not operated on the premises of the owner of a website, and instead are operated on the premises of a service provider specialising in this service.
SIM card	Subscriber Identity Module; chip card with a processor and memory of GSM telephones, storing various information, including the user number allocated by the network operator, and which identifies the user in the mobile network.
SMS	Digital short message via mobile telephone (SMS = Short Message Service).
TAL	Describes the twin copper wire between the main distributor of DTAG and the end user; TAL = Teilnehmeranschlussleitung (subscriber access line).
Triple Play	This normally describes the bundling of three services on one broadband line, e.g. the bundling of mobile telephony, voice and data services on one broadband line.

UMTS	UMTS is a new high-performance standard which permits all types of communication and multi-media applications via mobile telephones; also known generally as 3G mobile phones (UMTS = Universal Mobile Telecommunications System).
VATM	Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e.V., comprising competitors of DTAG.
VDSL	High-speed DSL connection which permits higher transmission speeds as a result of increasing the fibre content of the transmission channel (VDSL = Very High Bit Rate Digital Subscriber Line).
VoIP	Telephony via a computer network (e.g. the Internet) based on the Internet Protocol (IP) (VoIP = Voice over IP).
Web Hosting	Hosting of web sites on the server of an Internet service provider (provider or web hoster).
Wholesale DSL	Agreement with DTAG for selling on broadband DSL access lines (DSL lines) of DTAG.
xDSL	Generic term of various types of DSL, such as ADSL, ADSL 2+, VDSL.

6.4 Financial calendar

14 May 2007
Publication of interim report I/2007

July 2007
Annual shareholders‘ meeting*

8 August 2007
Publication of interim report II/2007

8 November 2007
Publication of interim report III/2007

*probable dates

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