freenet GROUP

mobilcom debitel

freenet

TALKLINE

klarmobil.de

GRAVIS

MFE Energie

Annual Report 2012

Consolidated financial statements of freenet AG

freenet AG ▪ Hollerstraße 126 ▪ 24782 Büdelsdorf

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Key financials: overview Group

Result

Figures in € million	2012	2011 adjusted[1]	Q4/2012	Q3/2012	Q4/2011 adjusted[1]
Revenue	3,089.0	3,266.6	819.5	756.5	861.3
Gross profit	723.2	715.8	203.5	182.3	202.1
EBITDA	357.8	337.4[2]	94.6	92.5	90.9[3]
EBIT	209.0	168.5	56.9	55.5	57.5
EBT	166.9	117.3	44.9	45.8	46.5
Group result from continued operations	173.2	143.8	42.0	49.0	66.2
Group result from discontinued operations	0.0	0.1	0.0	0.0	0.0
Group result	173.2	144.0	42.0	49.0	66.2
Earnings per share (€) (diluted and undiluted)	1.35	1.12	0.33	0.38	0.51

Balance sheet

	31.12.2012	31.12.2011	31.12.2012	30.9.2012	31.12.2011
Balance sheet total in € million	2,474.2	2,528.4	2,474.2	2,272.2	2,528.4
Shareholders' equity in € million	1,190.8	1,171.3	1,190.8	1,148.8	1,171.3
Equity ratio in %	48.1	46.3	48.1	50.6	46.3

Finances and investments

Figures in € million	2012	2011	Q4/2012	Q3/2012	Q4/2011
Free cash flow[4,5]	260.0	241.0	64.1	71.9	56.7
Depreciation and amortisation	148.8	168.9	37.7	37.0	33.4
Net investments[5] (Capex)	20.6	21.1	8.4	5.7	7.1
Net cash[5,6]	–451.3	–529.4	–451.3	–512.1	–529.4

Share

	31.12.2012	31.12.2011	31.12.2012	30.9.2012	31.12.2011
Closing price Xetra (€)	14.00	10.00	14.00	12.70	10.00
Number of ordinary shares (in thousand)	128,061	128,061	128,061	128,061	128,061
Market capitalisation (in €'000s)[6]	1,792,854	1,280,610	1,792,854	1,626,375	1,280,610

Employees

	31.12.2012	31.12.2011	31.12.2012	30.9.2012	31.12.2011
Employees[6]	3,886	4,057	3,886	3,927	4,057

Key financials: overview Mobile Communications sector

Customer development

Figures in million	2012	2011	Q4/2012	Q3/2012	Q4/2011
Mobile Communications customers[6]	14.08	15.19	14.08	14.31	15.19
Thereof customer ownership	8.50	8.12	8.50	8.38	8.12
Thereof contract customers	5.79	5.75	5.79	5.72	5.75
Thereof no-frills customers	2.71	2.37	2.71	2.66	2.37
Thereof prepaid customers	5.58	7.07	5.58	5.93	7.07
Gross new customers	3.50	4.32	0.91	0.84	1.23
Net change	–1.11	–0.47	–0.23	–0.15	0.03

Result

Figures in € million	2012	2011 adjusted[1]	Q4/2012	Q3/2012	Q4/2011 adjusted[1]
Revenue	3,025.9	3,198.4	802.1	741.1	843.7
Gross profit	688.6	676.9	194.4	173.3	192.4
EBITDA	356.5	339.6[7]	94.3	92.9	95.6[8]
EBIT	212.2	177.0	57.6	57.1	65.4

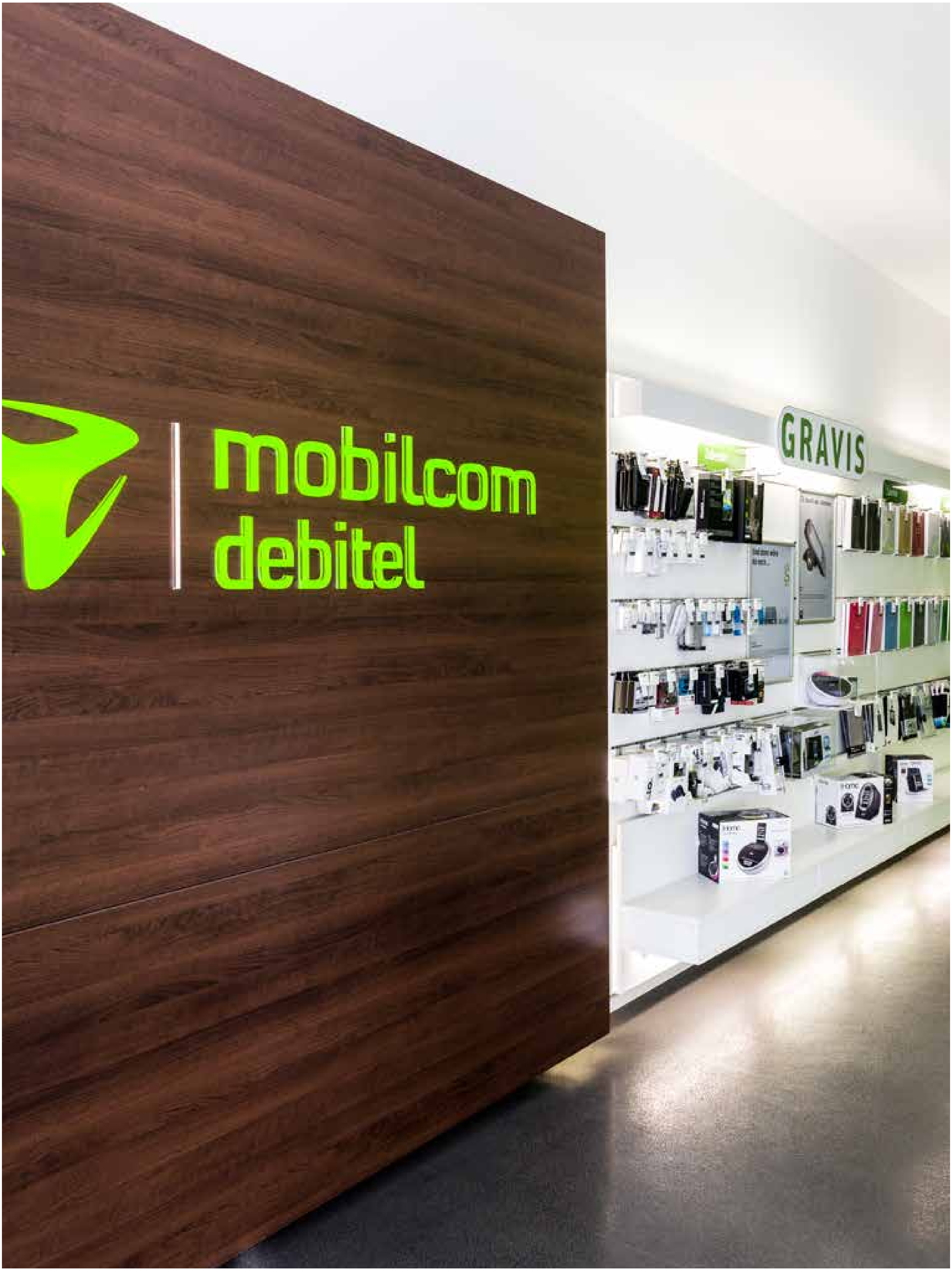
Monthly average revenue per user (ARPU)

Figures in €	2012	2011	Q4/2012	Q3/2012	Q4/2011
Contract customer	23.4	23.8	22.8	23.6	23.7
No-frills customer	3.9	4.6	3.5	3.9	4.2
Prepaid customer	3.0	3.1	2.9	3.1	3.0

1 The comparative figures in the key financials overview as well as in other tables in this report have been adjusted due to a change of an accounting method, see items 2.1 and 2.18 of the notes to the consolidated financial statements.
2 Recurring EBITDA 2011: 360.3 million euros.
3 Recurring EBITDA: Q4/2011: 96.4 million euros.
4 Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.
5 This information relates to the overall Group (including discontinued operations).
6 At the end of period.
7 Recurring EBITDA: 2011: 359.2 million euros.
8 Recurring EBITDA: Q4/2011: 98.8 million euros.

Annual Report 2012

Consolidated financial statements of freenet AG


mobilcom
debitel
GRAVIS

Always the right choice

Since the liberalisation of the telecommunications industry 20 years ago, the names mobilcom and debitel have stood for competitive offers and customer-focused services in mobile communications.

With the now combined mobilcom-debitel main brand and the “klarmobil”, “callmobile”, “freenetmobile” and “debitel light” discount brands, freenet AG today serves around 14 million customers

- with its own products and tariffs on all four mobile communications networks, as well as
- the mobile communications services of the four network operators,
- with a wide assortment of useful additional products—from high-margin mobile accessories to cable broadband and green electricity
- by being as close as possible to our customers, based on around 530 of our own shops, approximately 6,000 additional outlets in specialist retail stores in major electronics markets and shopping malls, a wide variety of efficient online channels, social networks and excellent customer care via chat, email, phone or letter, as well as
- with approximately 3,900 highly dedicated and qualified employees.

Always the right choice[1]: freenet AG as digital lifestyle provider

The emerging digital lifestyle sector plays a prominent role here. Smartphones, tablets etc. facilitate and support a new mobile lifestyle that goes far beyond mere communication: for example, they pervade and link entertainment electronics, monitor key features of our health such as blood pressure, blood sugar levels and cardiovascular functions, make our lives more secure with remote-controlled surveillance and security systems or smoke detectors, and increasingly convenient with remote heating and electricity controls. As a strong seller, freenet AG uses its expertise to bring such tried and tested lifestyle products to its customer base, coupled with consulting and other services. Particularly in the emerging areas of home automation and entertainment, the company already has a successful market presence with the relevant

1 freenet AG’s vision.

products—such as “SmartHome” for mobile heating controls, a utilities offer of its own, and the very popular Apple products as the basis for an intelligent entertainment network at home and while traveling.

The company’s social and environmental commitment at its various locations has been regarded as exemplary for years.

As the largest network-independent telecommunications company in Germany, freenet commands an excellent position in all relevant market sectors. This strength is reflected not only in attractive deals for customers, but also in fast and efficient business processes in Service and Logistics. And the company’s social and environmental commitment at its various locations has been regarded as exemplary for years. Moreover, our strong competitive position is the key message of the extensive advertising campaign that began in spring 2012 and focuses on individual customer benefits resulting from the market power of mobilcom-debitel’s 14 million customers, under the slogan “Gemeinsam geht mehr!” (Getting more together!)


mobilcom debitel
GEMEINSAM GEHT MEHR.
10% Tarifrabatt*
Das mobilcom-debitel Prinzip:
Mit der Kraft von 14 Millionen Kunden holen wir mehr für Sie raus.
www.md.de*

The new marketing campaign

In April 2012, freenet AG launched a new, cross-media umbrella marketing campaign for the brand mobilcom-debitel across all sales channels under the slogan “Gemeinsam geht mehr!” (Getting more together!). It focuses on

- the company’s classic retail positioning, offering its around 14 million customers one-stop shopping with expert on-site advice,
- the wide range of tariffs and mobile phones/smartphones available for all four mobile networks in Germany, and
- the specific benefits for customers resulting from our purchasing power. They are guaranteed “always the right choice” at freenet—and thereby experience the company’s vision in action, which also permeates and inspires all operative divisions.

Thus, the company slightly repositioned its main mobilcom-debitel brand in order to optimally address the two dominant target groups in the mobile communications market identified in a price-psychological customer segmentation process: on the one hand customers with a high personal need for advice, and on the other well-informed buyers who are looking for the best deal. Both target groups together represent about 70 percent of the market.

By conveying a “digital lifestyle” feel for all its 14 million customers, the company is systematically implementing its strategic orientation towards a digital lifestyle provider.

During the first few months of the campaign period, a two-digit million amount was spent on communicating the advantages of size and commonality and the resulting benefits for each individual. This was done via the channels of TV (with a share of over 50 percent of the above-the-line budget), digital media, out-of-home, and of course on all promotional material media such as product brochures, direct mail, inserts, posters, etc.

At the end of October, the Christmas campaign began, with increased emphasis on Christmas symbols in combination with the campaign’s key messages. And towards the end of the year, a new TV commercial was launched that focused on the additional benefits of smartphones and apps and highlighted the attractive range of digital lifestyle products. By conveying a “digital lifestyle” feel for all its 14 million customers, the company is systematically implementing its strategic orientation towards a digital lifestyle provider.

As part of the campaign the company adjusted more than 500 different pieces of advertising material, trained 3,000 sales colleagues and call centre agents, broadcast more than 5,500 TV commercials, printed 30,000 posters and sent out 38 million flyers. The success of the campaign can be documented from equally impressive figures. For example, the posters generated 1.2 billion contacts and the TV spots 1.3 billion.

In parallel to the new campaign, freenet expanded the previous year's very successful bus tour of German cities. At the 140 locations visited, footfall in the surrounding mobilcom-debitel shops increased by up to five times during the 269 days of the promotion—with up to 90,000 additional people visiting the shops.

The sales staff and partners on the ground also prove that you can "get more together!" In 2012 freenet AG invested almost as much in subsidies for regional advertising as it did in its central advertising efforts. For example, with a few clicks retailers can now order professional and personalised advertising based on dozens of templates—from business cards to TV and cinema spots, including their address and picture. This allows for extending centralised advertising measures taking into account regional characteristics and individual requests.

For example, with a few clicks retailers can now order professional and personalised advertising based on dozens of templates.


mobilcom
debitel
iPhone 5
IM TELEKOM-NETZ
iPhone 5
Gemeinsam geht mehr.
mobilcom
debitel
DSL
Zubehör
Bereich

Attractive offers for customers

With a bundle of well-known, attractive brands and a base of 14 million customers, which makes the company the largest network-independent telecommunications provider in Germany, freenet AG has a strong negotiating position when buying telecommunications services from the four German network operators or from handset manufacturers worldwide. The company can pass on the benefits it derives from this to its customers—in the form of cheaper tariffs, discounts on original network operator tariffs and sought-after products such as the latest smartphones.

With the main mobilcom-debitel brand freenet focuses on valuable contract customer relationships in terms of winning new customers as well as in customer relationship management. freenet also operates very successfully in the “no-frills” field of business with four discount brands. An essential element in this case is represented by the attractive flat rate tariffs for smartphones, taking advantage of the enormous growth opportunities in the mobile internet/digital lifestyle sector. Half of new customers now choose such flat rates at point of sale.

In the last financial year, the company further expanded its portfolio of smartphone tariffs. mobilcom-debitel brand highlights included the

- “Flat 4 You Plus” as a promotional package for 29.90 euros a month, with a mobile internet flat, a quasi SMS Allnet flat rate, as well as an on-net and off-net flat rate of your choice for calls plus 120 free minutes to all national networks,
- “Flat Smart” on the Deutsche Telekom network as a special offer at 29.90 euros a month including a mobile internet flat rate, an SMS Allnet Flat and on-net flat rate, as well as 120 free call minutes to all national networks,
- “Flat Clever” on the O_2 network for 29.90 euros per month with a mobile internet flat rate, a landline flat rate, an SMS Allnet flat rate and 120 free minutes per month to all German mobile networks. The customer can also opt to purchase a smartphone of their choice for 5, 10 or 20 euros per month, or order up to a gigabyte of additional data volume for 9.99 euros per month,
- “Easy Flat” on the E-Plus network includes a mobile internet flat rate, an SMS Allnet flat rate, an on-net flat rate as well as a flat rate to German landlines plus 120 minutes for national calls on top,
- “Flat All-Star” on Deutsche Telekom’s D1 network for 49.90 euros per month with flat rate calls to all German mobile networks and landlines, a mobile internet flat rate, free use of Deutsche Telekom Hot-Spots, and an SMS flat rate to all national networks, also in combination with mobile phone purchase options,
- “Flat Allnet” on the Vodafone network for 39.90 euros a month with unlimited calls to all German networks, a mobile internet flat and a quasi SMS Allnet flat rate for 3,000 national text messages, again with additional selectable mobile phone options,
- “Flat light 100” or “Netzintern-Flat” for 19.90 euros a month, each including a mobile internet flat rate and quasi SMS flat rate for national texts. You can also choose an additional 100 free minutes per month for all national networks or an on-net flat rate for calls.

mobilcom-debitel’s positioning as a price-performance leader as well as the company’s vision from the customer’s perspective: “Always the right choice!”

In the discount market, the “AllNet-Spar-Flat” from klarmobil.de once again set benchmarks in 2012. For 19.85 euros a month it includes a comprehensive care-free package with flat rates for the internet, landlines and all German mobile networks. In addition, the freenet subsidiary realigned its complex product portfolio in the first half of the year, giving it a simpler, more transparent pricing structure with only three basic rates in the categories of pure voice telephony, data services and smart phones, in addition to related options.

Besides its own rates, the mobilcom-debitel offer also includes the network operators’ original tariffs. In March the company extended a 10-percent discount campaign for their smartphone tariffs, which has been running since 2011, to the new Deutsche Telekom, Vodafone and O_2 tariff portfolio. Compared to competitors’ prices, it saves the customer up to 200 euros over a contract period of two years, thereby underscoring mobilcom-debitel’s positioning as a price-performance leader as well as the company’s vision from the customer’s perspective: “Always the right choice!”.

Customers can also save money with a new mobilcom-debitel digital lifestyle product. At the end of September about 110 shops began selling "SmartHome" kits for intelligent energy management of one's own home via smartphone. It includes radiator thermostats, an adapter, a control unit and window contacts in various-size kits, and can be expanded with additional components into a complex "SmartHome" network. For a monthly fee starting at 7.95 euros, users can individually remotely control their radiators at home via app and simultaneously turn them down when leaving the house at the touch of a button. Initial evaluation tests show that heating costs can be reduced by up to 30 percent. Users particularly appreciate being able to come home and find their house or flat heated to a comfortable temperature without having to leave the radiators on all day.

For a monthly fee starting at 7.95 euros, users can individually remotely control their radiators at home via app and simultaneously turn them down when leaving the house at the touch of a button.

The advantages of freenet's strong competitive position are evident not least in the handset market. As an established Apple partner, mobilcom-debitel had the new iPhone 5 available at all its branded shops, in Saturn and Media Markt shops and at selected retailers in time for its launch in September. Another example of the company's privileged position was that it was the first German supplier of the Huawei Ascend P1 at its launch. This Android operating system smartphone combining innovative and energy-saving technology with a stylish design and first-class features is impressive, not least due to its inexpensive purchase price, which was coupled with a suitable entry-level smartphone tariff, the Flat Light tariff at 19.90 euros a month.

The handset range was further enhanced by the new Nokia Lumia 820 in December and then the Nokia Lumia 920 at the turn of the year. Various awards document that the customer really does always have "the right choice" and is "getting more together". For instance, the readers of "connect", Europe's biggest telecommunications magazine, voted mobilcom-debitel Mobile Phone Provider/Dealer for the fourth time in a row. And in a big "Computerbild" test, freenet's various brands achieved excellent rankings for having the best rates for mobile calls and surfing—and even came first and second place in the 'intensive smartphone users' sector.

In addition, freenet AG wants to continue developing attractive telecommunications- and internet-related areas—such as the fast-growing cable business. According to VATM, in the past cable network operators' telephone and Internet connections have grown faster than traditional telecommunications providers. Against this backdrop, in February 2012 freenet agreed a partnership with Unitymedia and 150 mobilcom-debitel shops began selling its broadband and cable services in North Rhine-Westphalia and Hesse in the distribution area of Germany's second-largest cable network operator.


mobilcom
debitel
FEELFREE

Comprehensive, expert customer service

The name says it all: as a network-independent service provider, freenet AG has the widest choice of attractive rates on all four German mobile communications networks—an essential prerequisite for truly independent advice to the customer. But in addition to this optimal support, proven staff competence and face-to-face, on-the-spot advice is also required. Engaging in dialogue results in even better customer service and support in choosing the best product for customers.

Against this backdrop, in recent years the company has on the one hand optimised the number and structure of its 530 stores. In addition, more than 6,000 outlets in specialist retail stores, major electronics markets and shopping malls as partners provide additional tried-and-tested interfaces for direct customer support.

At the same time, last year freenet AG invested in its services once again—further improving the offers in its branded shops, through systematic staff training and the development of sales partnerships. This also reflects the fact that mobile phones and smartphones are increasingly turning into complex mini-computers, which in turn increases the need for user support.

Smartphones, tablets etc. facilitate and support a new mobile lifestyle that goes far beyond mere communication.

For example, since April 2012 mobilcom-debitel has offered the instant “LogMeIn Rescue” service. Specially trained employees from the service centre in Erfurt provide help with things like configuring the smartphone/netbook or setting up email accounts, apps and internet access, via remote access activated by one-off PIN codes. Also, customers can now use the repair and warranty service in the shops, buy phones/smartphones without a contract by hire purchase, or exchange old devices for gift vouchers. And since October 2012, new and existing customers can, for example, sign up for a free three-month trial of the innovative, super-fast LTE technology for smartphones—as an option with the new Deutsche Telekom “Complete Mobil Tarif”.

In the first half of the year freenet also installed the “Instore TV” system in 350 mobilcom-debitel shops that shows customers videos of the latest campaigns, digital lifestyle products and offers on high-quality flat screens, providing information many times quicker and more efficiently than by printed documents.

In the third quarter mobilcom-debitel began another project to provide optimal customer service under the “Z Shop” label. After successful tests and subsequent conversions or new store openings, in the medium term the majority of mobilcom-debitel shops will be offering mobile accessories under the slogan “Mehr von allem” (more of everything). The individual items are presented here by theme and not by manufacturer, with a “Try it!” wall as a highlight where customers can put frequently changing products from different manufacturers through their paces.

The use of “Mystery shopping” carried out in all mobilcom-debitel sales outlets and at major competitors showed that service quality and expert advice significantly further improved in 2012.

To ensure that as part of the systematic service improvement campaign, the consultation provided by the staff on site is also “always right”, the company carries out regular tests and ongoing training. The increased use of “Mystery shopping” carried out in all mobilcom-debitel sales outlets and at major competitors in collaboration with the market research institute Vocatus AG showed that service quality and expert advice significantly further improved in 2012.

The results of the tests feed into the development of targeted training and workshops for shop staff, especially at our modern integrated training and education centre in Erfurt. The resulting continuous improvement processes are aimed at optimally serving and supporting customers throughout their ‘lifecycle’.

In autumn 2011, freenet AG had entered into an exclusive agreement with the Gravis – Computervertriebsgesellschaft mbH, Berlin (“GRAVIS” in the following), the largest independent retailer of Apple products in Germany. The aim was to further enhance the product range in mobilcom-debitel shops as a premium provider. As part of the cooperation, freenet upgraded around 50 shops with special shop-in-shop systems for the Apple world, while GRAVIS has offered mobilcom-debitel products in its stores since them.

At the end of 2012, freenet AG signed a purchase agreement to acquire 100 percent of the shares in the German market leader for Apple lifestyle. The transaction was settled in January 2013. Thus the company plans to expand a selected portfolio of products including the Apple iPad and accessories nationwide to a majority of its own mobilcom-debitel shops, while simultaneously introducing its mobile communications consulting and sales expertise to the 28 GRAVIS stores.


freenet
Sport
Lazio gegen VfB: Es bleibt beim "Geisterspiel"

Mobile portal and complementary business fields

In recent years, in order to focus on mobile communications/mobile internet, freenet AG has successively divested itself of lines of business that are no longer part of the core business. These sectors have included DSL, web hosting and interactive telephony services.

In the past year, freenet AG continued its systematic portfolio streamlining in the remaining areas that are no longer part of the core business. In September 2012, the company entered into an agreement to sell its 50-percent stake in the regional telecommunications provider KielNET to Versatel Holding. And in December freenet divested itself of further holdings: With effect from 1 January 2013 it sold all its shares in the wholly owned subsidiary freeXmedia to Media Ventures GmbH; with effect from 31 December 2012 the Group sold all its shares in 4Players GmbH to Computec Media AG. The two subsidiaries employ around 80 people in Hamburg.

In the past year, freenet AG continued its systematic portfolio streamlining.

As one of the remaining subsidiaries, freenet.de GmbH—via the freenet.de online portal and the m.freenet.de mobile portal—offers all internet users high-performing services, interesting information and entertainment—with a focus on communications, shopping, community, searches and content.

In the last financial year, freenet.de enhanced this portfolio with the “Google Custom Search”, among other things, in order to give its online dating site www.single.de a new search feature and gaming fans an overview of the wide variety of free browser games on the new internet platform www.browsergamer.com. With an average of 3.27 million unique users[1] per month, the company was among the top 20 general interest portals in Germany.

Last year the focus increasingly moved to the development and expansion of mobile internet activities—and especially the development of more attractive apps for smartphones.

In addition, last year the focus increasingly moved to the development and expansion of mobile internet activities—and especially the development of more attractive apps for smartphones. For instance, the subsidiary continued its series of very successful football applications to coincide with the European Championships in Poland and Ukraine. The free “Pocket EM 2012” app for iPhone, Android and Windows Phone offered users news about the teams, games, groups, and tables, a live ticker during the tournament and a cost-free competition.

In August this was followed by a new free app for bargain hunters—“Pocket Preise” (Pocket Prices). It compares products found in retail shops with the offers from different companies online. The automated online search starts after the name of the product or its barcode is entered. The user can also take a photo of the product, and the app saves its details and the place it was taken as an “electronic note”.

1 Source: AGOF internet facts 2012-10


mobilcom-debitel
Smart Home
md SmartHome
Haus
Raumtemperatur
Speichern
Wochenprofil

Commitment to society, the environment and employees

With comprehensive stakeholder value in mind, freenet AG not only has a direct responsibility towards its customers, shareholders and employees, but also for the ecological and social conditions at each company location.

In the area of environmental protection, a wide variety of initiatives and processes reflect freenet AG's sense of ecological responsibility.

For instance, the company has for years supported about a dozen foundations/associations, each with four to five-figure amounts, that work for children, youth, sports and social services in places where the company has sites. freenet AG has also been committed to the "Büdelsdorf goes multimedia" project for the past thirteen years, and along with the town of Büdelsdorf has supported schools in establishing their own IT infrastructure as well as a "netbook" class at the Heinrich Heine School. In 2012 Christmas donations totalling 40,000 euros were raised for social institutions such as the Albert Schweitzer Kinderdorf (Children's Village) in Erfurt, the Kinderhospiz Mitteldeutschland (Children's Hospice Central Germany), the Kinderherzzentrum Kiel (Kiel Pediatric Cardio Centre), the Drogenhilfe Knackpunkt drug assistance centre in Erfurt and the Stuttgart Youth Office musical project for socially disadvantaged children. In addition, employees from mobilcom-debitel and the new Chinese hardware partner Huawei also jointly renovated parts of the "Kinderhaus Fledermaus" children's centre in Hamburg.

freenet is also involved in the national, state and business initiative "sicher online gehen" (go online safely), which makes parents more aware of media education and how to better protect their children online, and at the same time the company also supported the "JusProg" protection solution, which won an award in 2012.

In the area of environmental protection, a wide variety of initiatives and processes reflect freenet AG's sense of ecological responsibility. These include online reports and invoices, the collection of used mobile phones, the recycling of packaging, telephone and video conferencing instead of business travel, sustainably designed logistical processes, and—last but not least—the data centre in Dusseldorf, which uses energy-saving systems.

freenet AG was once again a highly sought-after employer in 2012. For example, over the course of the year it received over 20,000 applications for 580 jobs. In order to promote motivation, responsibility, team spirit and identification with the company, the company offers a wide range of initiatives and incentives for employees, including:

- Health days, posture training, ergonomically designed workstations, physiotherapy and sport offers;
- Playing an active part in shaping company processes via flat hierarchies, CEO dialogues, ideas competitions and many other opportunities;
- Specific and very popular programmes like "freenet Talents" and "mdKB +" to intensively promote high performers into project management or executive positions.

The company also continually trains its own experts, ensuring a steady supply of urgently needed specialists and qualified young people while also living up to its social responsibility as a large, successful company. In the course of 2012 freenet hired a total of 90 trainees for professions in computer science, and as specialists in IT, retail, dialog marketing and warehouse logistics. The company also offers four different Bachelor of Science or Bachelor of Arts dual-degree courses at vocational colleges. Furthermore, a trainee program is being prepared, which will also support graduates in their new careers.

Another additional service, which is highly popular alongside the traditional company car is an "employee car model" company car. All full-time employees can receive a vehicle for private and business use on attractive terms as part of a salary concession. In addition, freenet is giving priority to environmentally friendly vehicles and new models from German manufacturers.

Existing employees and managers were given systematic, mainly customised, need-based qualification measures. In 2012, around 950 people participated in such personnel development measures, which included technical, methodology and team training. In addition, around 350 Group managers at all sites once again took part in a series of measures on a selected leadership topic in also 2012.

**All full-time employees can receive a vehicle for private and business use on attractive terms as part of a salary concession.
In addition, freenet is giving priority to environmentally friendly vehicles and new models from German manufacturers.**

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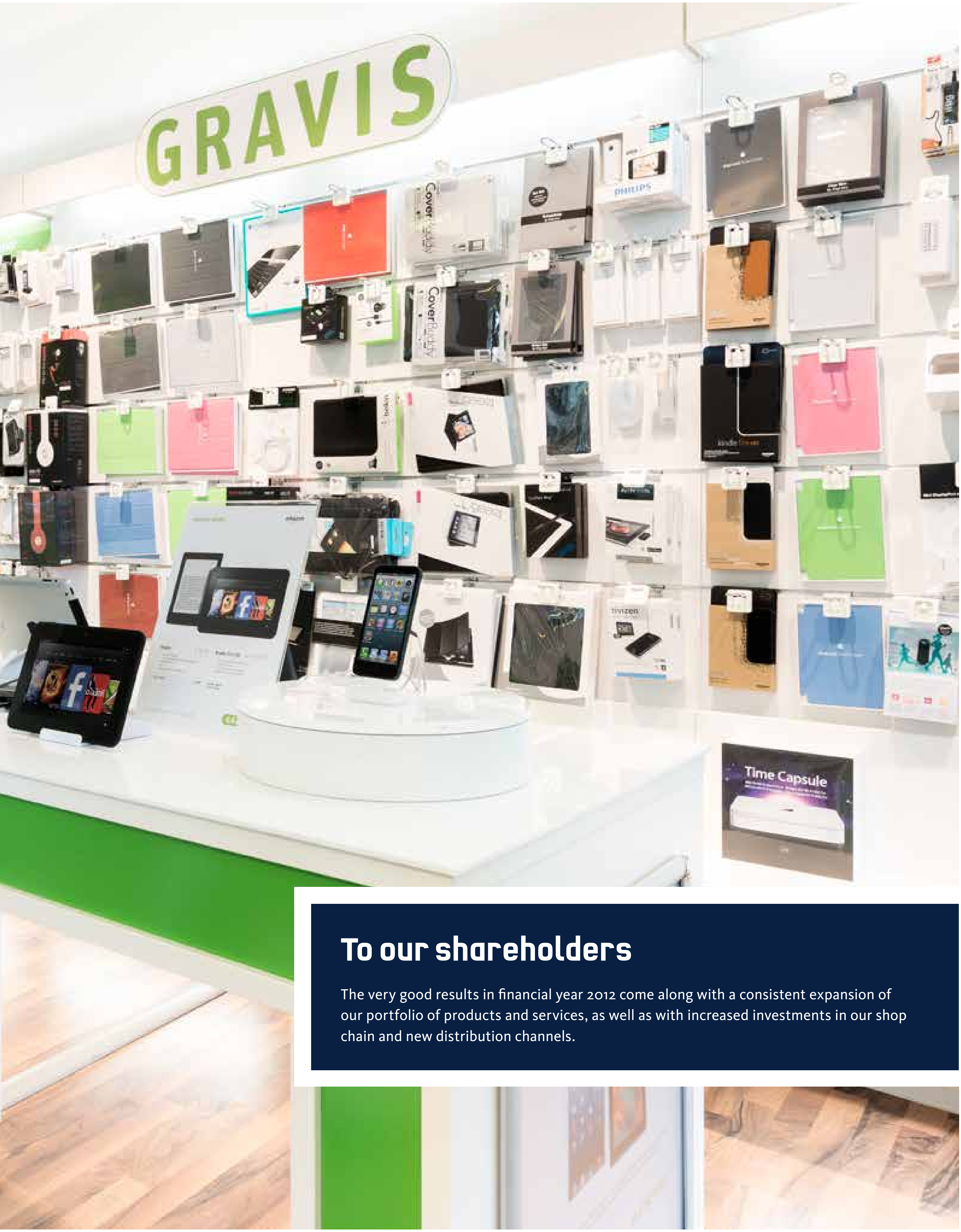
SAMSUNG
SONY
make.believe
BlackBerry
GRAVIS
iTunes
iPad mini
FEEL FREE
GRAVIS



To our shareholders

The very good results in financial year 2012 come along with a consistent expansion of our portfolio of products and services, as well as with increased investments in our shop chain and new distribution channels.

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

freenet GROUP

Letter to shareholders

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

As Germany's largest network-independent telecommunications provider, we operate in a tough competitive environment that contains great challenges, but also great opportunities. Against this background, we had once again set very ambitious goals for the financial year 2012. The main points included:

- Continuing our product and service campaign in the core business of mobile voice and data services—with a focus on valuable customer contracts and stabilised ARPUs;
- Addressing new areas of growth with attractive offers, especially in the digital lifestyle sector;
- Strengthening and consolidating our sales channels by making further investments in our own chain of shops and new partnerships;
- Achieving sustained high profitability in the company's stable core business, based on increasing customer ownership.

As in previous years, we had underpinned these objectives with concrete indicators such as an EBITDA of 340.0 million euros and a free cash flow of 240.0 million euros. Today we can draw a very positive balance from financial year 2012. We have exceeded all of our targets in these indicators:

- Our EBITDA of 357.8 million euros and free cash flow of 260.0 million euros exceed the guidance, even after its upward adjustment in November 2012.
- Group profit increased by more than 20 percent year-on-year to 173.2 million euros. As expected, monthly average revenue per postpaid customer stabilised slightly below the level of the previous year, at 23.4 euros.
- The postpaid customer base has grown again for the first time since the debitel acquisition in 2008, increasing by more than 40,000 customers. In addition, there was a significant increase of approximately 340,000 customers in the no-frills area, resulting in an increase in customer ownership, an essential indicator for us, to 8.50 million.

It is an integral part of our dividend policy to distribute between 40 and 60 percent of the generated free cash flow to our shareholders. We have now adjusted this target corridor to 50 to 75 percent. Accordingly, we will propose to the Supervisory Board a dividend payout of 1.35 euros per share for the 2012 financial year.

The excellent results in 2012 came in conjunction with a systematic expansion of our range of products and services, and increased investment in our chain of shops and new sales channels.

Special attention was paid to flat rates for smartphones, which are increasingly in demand among customers. Over the course of the year, we added further attractive offers to our existing portfolio of tariffs, especially in the T-Mobile, Vodafone and O_2 mobile networks. These included the “Flat Clever”, “Flat Allstar”, “Flat Select”, “Flat 4 You Plus”, “Flat Allnet” and “Allnet-Spar-Flat” tariffs. With the different variants/options and entry prices from 19.90 euros per month, they include flat rates for the mobile internet, mobile and landlines telephone services, SMS and in some cases MMS, with or without the purchase of a smartphone depending on what the customer wants.

In accordance with our unique competitive positioning, we also offer the widest selection of mobile communications devices, from Apple, Sony, LG and Nokia to Samsung and HTC. For example, as an established Apple partner, mobilcom-debitel was able to offer Apple fans the long-awaited iPhone 5 in all shops in time for its launch in September 2012. We were also the first German supplier to offer the innovative and powerful Huawei Ascend P1 in the summer.

In the services sector, freenet has already pointed the way in recent years, for example with the opening of “Campus Erfurt” as one of the most modern and productive training centres in the entire German telecommunications industry. Other initiatives in the 2012 financial year served to further the same objective, namely to systematically further develop the quality of our consultation and sales quality.

Another project under the “Z Shops” label addresses the growing demand for mobile accessories: following a successful trial period, by the middle of next year we aim to be offering a very wide range of mobile accessories such as headphones, protective covers or bags, grouped by manufacturer in up to 200 appropriately converted or newly opened stores. In addition, as part of the partnership with GRAVIS agreed in 2011, during the past financial year about 50 mobilcom-debitel shops were equipped with parts of the Apple range. Both of these projects in 2012 served as important steps towards becoming a digital lifestyle provider and an adviser for all customers in matters of modern smartphone-based technology.

As every year, we used “mystery shoppers” to test our mobilcom-debitel shops in 2012 as well. The results indicate that our service quality and consultation expertise for customers continued to improve significantly during the past year. The test results are included in the design of targeted, customised staff training and ongoing improvement processes—with the aim of providing optimum service and support to customers throughout their “lifecycle” and increasing customer loyalty, regardless of their contract term.

These initiatives to expand our product range, services and sales effectiveness are accompanied by an extensive new marketing campaign. Launched in April under the slogan “Gemeinsam geht mehr” (Getting more together), it is focused on our unique position in the market with about 14 million customers, the complex range of tariffs/

mobile phones across all networks, and the resultant customer offerings. The campaign ran in several series with different emphases, as TV, out-of-home, print, digital media, and point-of-sale ads. In parallel to this highly successful campaign, freenet continued its bus tour of German cities, visiting 140 locations in all.

We are very actively and systematically pursuing our digital lifestyle plans. As an experienced service provider, we occupy a privileged position in this growth market: we can select attractive products on the market and leverage our broad sales platform and our high level of consulting expertise to properly introduce them to customers—all without significant development costs. “SmartHome” is a good example: after several months of testing, in autumn 2012 we began offering several versions of this innovative kit for efficient energy management in your own home via smartphone. For an affordable fee, users can use an app to individually remote control their radiators at home without having to adjust the heating system, thereby reducing their heating bills by up to 30 percent.

We have continued to simplify the corporate structure of freenet AG in order to focus our strengths even further on our core business of mobile communications/mobile internet. During the year, we sold our 50-percent stake in the regional telecommunications provider KielNET, as well as our stake in the online marketer freeXmedia and all of our shares in 4Players GmbH.

On the other hand, we strengthened our retail business through new acquisitions and partnerships. An important milestone towards the end of 2012 was the signing of a purchase agreement to acquire all the shares in our sales partner GRAVIS. This was also a big step to becoming a digital lifestyle provider. We aim to gradually expand the current GRAVIS product range, which is focused on Apple products, with appropriate offers from the energy, mobile and broadband services. At the same time mobilcom-debitel is expanding the sale of selected Apple products from GRAVIS with iPads and Apple accessories to more than 300 of our own shops. In the area of broadband and cable, at the beginning of 2012 we also signed closed a sales agreement with Unitymedia, Germany’s second-largest cable network, whose offers are now sold through more than 150 mobilcom-debitel shops in its distribution territory.

These operational and strategic measures further improved our competitive positioning, and created the basis for yet another successful business year in 2013. The current year should see a continued increase in customer ownership, an important indicator for us, while postpaid ARPU should stabilise in the range of 23 euros.

Our financial strategy is designed to enable the implementation of the overall strategic direction. We have identified three key performance indicators that inform our financial strategy: the debt factor, the interest cover and the equity ratio.

In financial year 2012, these KPIs developed better than expected, so we have adjusted our financial strategy for the years 2013 and 2014. We are now aiming for a debt factor between 1.0 and 2.5. The adaptation of the target corridor is related to the significant, nearly 15-percent decrease in our net debt during the past year. Our targets for the interest cover (greater than a factor of 5) and equity ratio (greater than 50 percent) KPIs, however, remain the same.

We also aim to increase Group revenue in 2013—among other things due to the acquisition of GRAVIS. For 2014 we expect further moderate growth.

For financial years 2013 and 2014 we expect Group EBITDA of 355.0 million euros and 360.0 million euros and free cash flow of 255.0 million euros and 260.0 million euros.

Subject to this, in future we intend to pay out between 50 and 75 percent of free cash flow as dividends to our shareholders.

Based on our successful strategy of sustainable profitability, we are optimistic and resolute about continuing to master the challenges of the German telecommunications market, while continuing to help shape and influence it, in the months and years ahead. As in previous years, the Executive Board and all freenet AG employees will devote all of their commitment and expertise to furthering the interests of our customers, business partners and shareholders.

Christoph Vilanek | Joachim Preisig | Stephan Esch

Büdelsdorf, March 2013

Interviews with the Executive Board

Christoph Vilanek:

"We accompany our customers in discovering the mobile world."

"The world is going mobile" is a phrase that's being heard and read everywhere at the moment. What makes it so topical right now – considering mankind has seen a great deal of increase in "mobility" over the past two centuries?

Indeed trains, cars, planes and space travel all served to increase our mobility considerably. But the pace of change caused by telecommunications is unprecedented in human history, and is a real challenge.

In what way?

You have to realise that today, every second more data is being sent via the internet than was stored there altogether 20 years ago. Some 2.7 million pictures are posted on Facebook every 20 minutes, and every hour the U. S. firm Walmart collects more information about customers in its stores than could be stored in 50 million file cabinets. I do believe that things are developing here that we cannot really foresee.

And all this data is increasingly being produced and used on mobile devices.

Yes. Recently our industry recorded 1 billion smartphones worldwide that use an average of 250 megabytes of data per month. In the last financial year, the amount of data doubled, and in 2016 it will have increased eightfold to 1,000 megabytes—on 3 billion smartphones that will be using the networks by then.

What implications does this have for telecommunications service providers on the one hand and users on the other?

To store all the data collected in the world you would need over 60 billion tablet computers, which would form a 4,000-kilometre wall 31 metres high if they were stacked on top of each other. But because this data is increasingly stored at central locations—the keywords here are cloud and big data—for IT providers this implies building new and expensive data centres, and for network operators extreme demands on upgrading their networks—they have to process digital datasets in the petabyte range—that's a 16-digit figure.

As a service provider, we benefit from these investments without having to invest billions ourselves. We are focusing on explaining new technologies—most recently LTE, for example—to our customers, and on making them available through attractive premium offers. Already today, we are seeing that the data services contained in our standard tariff plans are no longer enough for many of our customers, and so they book extra options on a large scale.

And what does the triumphant advance of smartphone, iPad and co. mean for users?

Features based on these devices open up almost unlimited digital lifestyle opportunities for users. Some examples: they can be used

- to pay at checkout counters. This is already possible at some chains in the U.S. and is currently being tested by the Metro Group in Germany;
- to recommend good deals at shopping centres based on our recorded consumption habits;
- to avoid queues at supermarket checkouts—as is already an option available in Zurich—by scanning barcodes on in-store columns or in display windows and having the goods delivered to our homes later;
- as a “matchmaker”' that locates partners whose profiles match yours at the current location and send them a chat request;
- to explain cultures, art and architecture while travelling;
- to network our cars, issuing real-time alerts about congestion or hazards and automatically connecting to emergency services or garages;
- as personal measurement devices that monitor important medical data and transmit it to our doctor.

So what can freenet AG contribute to the modern digital lifestyle?

Being an independent and therefore credible vendor puts us in an excellent position. With our main mobilcom-debitel brand and the experience gained in two decades of successful work in telecommunications, we can select a product that is ideal from the customer's perspective, without having to spend and write off high development costs. The important thing to me is that we no longer sell devices or network capability—we offer our customers access to a fantastic lifestyle at the centre of which smartphones give us convenience, entertainment, security and progress.

Like the current "SmartHome" product!

Exactly! After several months of testing, in autumn 2012 we began offering several versions of this innovative kit for efficient energy management in your own home via smartphone. For an affordable fee, users can use an app to individually remote control their radiators at home without having to adjust the heating system, thereby reducing their heating bills by up to 30 percent.

With such brilliantly simple products, do users even need the expert advice of freenet or mobilcom-debitel at all?

More than ever! Currently, for example, there are more than 80 LTE-enabled smartphone models on the market worldwide. Who is going to provide users with independent and objective information about the pros and cons of a device and how to find the perfect product for their needs? As the diversity of smartphone applications increases, so does the customer's need for support. Against this background, last spring mobilcom-debitel introduced the instant "LogMeIn Rescue" service, for example. Specially trained employees at our service centre in Erfurt help with things like configuring the smartphone/netbook or setting up new apps and features—remotely, using one-off PIN codes.

A prerequisite for delivering on this service promise is our integrated training and education centre in Erfurt, where we systematically carry out targeted, customised training and workshops for our staff. The resulting continuous improvement processes have the goal of providing expert, comprehensive service and support to customers in designing their personal digital lifestyles, in view of the increasing variety of products, rates and applications. Many things are becoming easier and quicker in the mobile world, but you have to remember that 17 percent of this country's citizens still aren't on the internet, and 50 percent don't have a smartphone.

freenet offers these customers the right inexpensive tariff and the mobile communications network of their choice.

Yes. We have the best possible selection—of mobile phones and smartphones including top-of-the-line accessories, and of the tariffs for using them. And we offer them for all four German mobile networks, according to the individual requirements of each customer: that is our unique competitive position.

And mobilcom-debitel further expanded this position in the past year.

Indeed we expanded our comprehensive portfolio of own tariffs over the past financial year, for example with "Flat Allnet" and "Flat 4 You Plus". Both flat rates include comprehensive, low-cost features for mobile telephony, internet and texting. Moreover, we give customers a 10-percent discount on the network operators' original tariffs.

In the no-frills market, our klarmobil.de subsidiary is the only German mobile communications discounter to offer rock-bottom rates for mobile surfing, phoning and texting on two networks—O_2 and T-Mobile—with the "AllNet-Spar-Flat" and "freeFLAT" flat rates.

So obviously it pays for the customer to opt for the largest network-independent telecommunications provider: true to your motto "Getting more together"!

Yes, that is in fact the core message of our marketing campaign launched in April. As a service provider with some 14 million customers, we have considerable purchasing power among network operators and equipment manufacturers. We pass on the benefits of this strong competitive positioning to our customers—in the form of the best possible products and rates.

But that's merely the basis of contemporary customer relationships.

Exactly! Recent insights from international trend research show that customers first look for transparent, simple and secure deals. That much is clear. But at the same time they long for emotional appeal, and to be part of a personal, responsive community where people share values and special events. The store is increasingly becoming a place where people want to feel at home and find inspiration. This is precisely the kind of community experience we are aiming for at mobilcom-debitel, combined with independent expert consultation. Furthermore I am convinced that this is a perfect way to address demographic change.

I am pleased and also rather proud to see that we are on the right track as a trendsetter in communications!

Joachim Preisig:

"We are working for continuous improvement in all areas of the company!'

It seems further congratulations are called for: after freenet AG was already one of the best German shares in the weak stock market year of 2011, increasing its share price by 38 percent, last year it increased by another 55 percent. What is behind this strong performance?

Putting it casually, one might say: "Do good and talk about it!" In 2012 we did a good job once again, and communicated it intensively and transparently in the financial markets—with elaborate investor relations work, maintaining close contact with existing and new shareholders, and on several road shows to places like London, New York, Zurich, Paris and Frankfurt.

What exactly does doing a good job consist of at your company?

There are several factors. We pursue a sustainable strategy focused on profitability in our core business of mobile communications/mobile internet—rigorously, and with very committed and qualified employees, whom I'd like to take this opportunity to thank for their good work. In the process, we are systematically making our already cost-conscious, lean company even more efficient throughout; and on that basis we deliver the figures as planned and promised to our shareholders and the financial markets for the year.

Or even better than planned!

Indeed! With EBITDA at 357.8 million euros and free cash flow of 260.0 million euros in 2012, we not only significantly exceeded the previous year's results once again, but also were above our guidance as published early last year and adjusted upward in November.

Revenue is down slightly to 3.09 billion euros.

That is a logical consequence of our strategy of sustainable profitability. We have deliberately reduced sales in the hardware sector with very low margins. In addition, for several years now we have focused on valuable contract customer relationships, accepting the declines in less attractive customer bases and corresponding revenue. The most important area for us is customer ownership—i. e. the postpaid customers of our flagship brand mobilcom-debitel as well as the no-frills customers we cater for with our four discount brands—and besides we also still sell the network operators' original tariffs under our mobilcom-debitel brand, most of them at a 10-percent discount.

And your own contract customer numbers are also very gratifying.

That is absolutely right. We set out to stabilise this number during the course of the year, because this is an area where we create a lot of value. And with 5.79 million at the end of December 2012, we succeeded. We also maintained ARPU (average revenue per user) at the target level of 23.4 euros in this key sector. In our unrelentingly competitive industry, this is indeed remarkable.

On the other hand freenet is opening up new growth drivers and high-margin revenue sources.

Yes, with a lot of success! Examples include the new "SmartHome" digital lifestyle product, or our partners' broadband connections, the Apple products of our recently acquired subsidiary GRAVIS and above all the increasingly popular line of mobile accessories.

For which you are converting your own chain of 530 shops accordingly.

We have been doing this for years now as part of an ongoing improvement process—just as we systematically work on optimising all of the company's units. For example, after the various service initiatives of previous years, by spring 2012 some 350 stores were equipped with high-quality flat-screen displays that allow for a faster, more efficient information communication of new offers to shop customers, and thus lead to more sales.

In addition, in recent months we have been converting existing shops into “Z Shops”, which offer a more extensive line of accessories presented by theme—such as headphones, bags, protective covers and docking stations. As a result we were able make the shop chain much more profitable overall and increase revenue by more than ten percent in the past two years.

freenet AG has also done a lot—and achieved a lot—in recent years in terms of its Group financials. What is your strategy going forward in this respect?

After systematically reducing the Group’s debt and reorganising its financing, we are now in a very comfortable situation. Our funding, which we diversified in 2011, is based on three major, hedged pillars until 2016—a multi-year bank loan, a loan and a credit line. On top of this, in December freenet AG successfully placed promissory notes totalling 120 million euros—among other things to further optimise the maturities until 2017 and 2019. We also have a healthy equity ratio of 48.1 percent. And we can easily live with net debt of 451.3 million euros—a figure that has been dramatically reduced in recent years and that corresponds to a debt factor of 1.3, which is within our target corridor.

How will you use the strong free cash flow and profits?

Firstly, for smaller acquisitions that make strategic sense and have an immediate positive impact on freenet AG’s EBITDA and free cash flow. A good example is GRAVIS, which we had initially signed as a distribution partner for the highly sought-after Apple products in October 2011. We then completely took over this profitable company at the beginning of 2013, thereby creating an additional sales channel for ourselves—not just for Apple and mobile communications products, but also in the growing digital lifestyle market.

And secondly…?

…we naturally want freenet's shareholders to share in our successful work and business. Our dividend policy provides that we pay 40 to 60 percent of free cash flow to them annually. By the way, we have now adjusted this range upwards for the current financial year and for 2014 in order to ensure our shareholders an attractive dividend yield in future. So from now on we plan to pay out between 50 and 75 percent of free cash flow to our shareholders.

What other targets have you set?

For starters, we expect to see an increase in Group revenue in 2013, and another moderate increase in 2014. To achieve this goal we are continuing to focus on selling high-end devices and valuable postpaid contracts in conjunction with data products. For 2013, we are also expecting some revenue contribution from our former partner GRAVIS, which is now part of the freenet Group.

For 2013 and 2014 we will also be aiming for a Group EBITDA of 355.0 million euros and 360.0 million euros, and free cash flow of 255.0 million euros and 260.0 million euros. With a slight increase in customer base in the customer ownership sector, we believe postpaid ARPU will stabilise at around 23 euros.

Stephan Esch:

"Mobile communications are becoming ever easier for customers, and ever more complex and exciting for IT!"

"We have left 'project mode' and are looking forward to 'normal' day to day business again" – this is what you said a year ago about the successful completion of "Rainbow", one of the largest IT projects in the German telecommunications landscape. So was 2012 a rather quiet year for freenet AG's IT team then?

Not at all. Although the years before did indeed bring extraordinary challenges: the systemic merger of three IT landscapes due to previously completed acquisitions, and the subsequent merger of the original three service providers into freenet Group in its current form. But the current challenges are no less great or exciting.

In what way?

Simply because our industry is incredibly fast-paced. To illustrate this, I had used the image of an engineer whose job is to continuously redesign existing ranges of car models while also managing the on-going production on the shop floor, and ensuring the servicing of millions of vehicles on the road.

And that's just the day-to-day routine.

Exactly. To stay with the analogy, suddenly the market demands an electric car, a totally new concept—alongside the new series with traditional motors. A small paradigm shift within the system, that is.

And in mobile communications and the mobile Internet, this is analogous to...

...right now, the digital lifestyle sector. For example, mobilcom-debitel now offers one such product, "SmartHome", for intelligent energy management of your own home via smartphone. Here the user can select from different versions with corresponding monthly fees. Our job is not only have to ensure that the product is working properly, but also to invoice the customer accurately and on time.

Meanwhile, the daily routine is already complicated enough.

Indeed, especially for us as a service provider. In addition to our own contracts for all four of Germany's mobile networks, we also offer the network operators' own original tariffs—at a 10-percent discount. That's a lot of different tariffs—more than four times that of a single network operator—and they are spread across our substantial customer base of fully 14 million people, with daily entries and exits in the inventory.

But the increasingly popular flat rates are bound to make things easier.

For the customer, sure: they pick the best flat rate for them, and have total transparency in the process, and can use their mobile phone or smartphone accordingly without worrying about rampant costs.

And for the provider?

...flat rates can mean the much greater complexity that lies behind such an offer. Flat rates are often packages composed of individual tariffs that have to be worth it for both parties. We want to underscore our position as Germany's largest network-independent telecommunications provider by working the market with attractive, competitive offers.

But at the same time we also have a responsibility to do business profitably in the interests of our shareholders, employees and customers. In the long term, ruinous competition doesn't serve anyone. So we analyse how much voice and data traffic, text and multimedia messages we need to combine in a flat rate, whether it should include roaming or an antivirus package, and what device we combine with the tariff at what price—to name just a few examples. From this, we then have to create a comprehensively appealing package.

So the customer enters the mobilcom-debitel shop, joyfully selects an elegant new smartphone…

… and would ideally like to be making calls and surfing the net on it ten minutes later. And that's another challenge for us. Customers' expectations are changing rapidly—across all sectors, but particularly in telecommunications. Today, ideally they want everything done at the touch of a button, and the phone of their choice should be sitting waiting for them on the shelf. This in turn requires very accurate, IT-controlled logistics. It's become all but unreasonable to make the customer wait for a product for several days.

What processes run in the background when, say, someone enters a shop and wants to switch to mobilcom-debitel from their current provider?

It all starts with the selection of the right tariff and smartphone…

…and that's already a complex enough task—what with all the additional options that can be combined into a bespoke solution.

Exactly. How many texts does the customer send, for example? Do they want to make regular-priced or discounted calls abroad? Is UMTS enough, or do they need LTE for high-speed data connections? Do they need a flat rate for landlines or across all networks? This selection process is facilitated by an online sales system containing thousands of combinations that are possible or not—with their current prices and special offers.

And then they still need a suitable mobile phone or smartphone.

This has now become a science in itself: there used to be what felt like eight models from three manufacturers. Today, the customer can choose between many more devices, each of which comes in about eight customised versions. Our sophisticated logistics system ensures that the most popular devices are usually immediately available at all 530 mobilcom-debitel shops. In the unlikely event that this is not the case, we do everything we can so that the customer has the device they want at home the next day.

Plus there are legal and commercial requirements.

Yes—within minutes, automated requests are on their way to the previous provider, followed by their responses and the credit check. At the same time, the customer is entered into the system, the SIM card is activated immediately or at the desired time. All this, of course, in compliance with the special data collection provisions imposed on telecommunications companies, and strict privacy protection regulations.

At this point, for the customer the switch to mobilcom-debitel is done, so to speak.

But not for us. Internally, we have to pay the commission fee to the respective sales partners. In addition to our own stores these include our 6,000 specialist retail partners. We may have to reorder product, ensure quality processes are followed, and support new customers in setting up their smartphones. Since the end of 2012, we have also offered a free app that provides information about their contract, current bills and current data usage. We are constantly expanding the app in the spirit of transparent customer relations in a spirit of partnership. For instance, soon you will be able to use it to select or deselect contract options. This makes sense if you are on holiday, for example, and want to have a roaming option.

And that's not your only popular app.

By no means. For example, our football apps for the European Championships or World Cup are practically legendary, and our Pocket Liga is one of the most popular Bundesliga apps. Apps also play an important role in broadening our product range—the most recent example is our "SmartHome" digital lifestyle product, which controls your heating at home via a mobile app. We are setting benchmarks in the market with such products.

What other outstanding offers are you currently working on?

The whole world is talking about cloud computing, and we are soon offering an application at freenet.de and mobilcom-debitel that not only provides calendars and contacts but also a lot of online storage space for music, photos and documents. This gives our customers constant access to their data—whether from their home PC, the office, or via a smartphone or tablet while out and about. Beyond the comprehensive features, it's interesting to note that we are one of the very few providers to store customer data exclusively in Germany. With the ubiquitous data protection debate, this is a big advantage for our customers.

So it's not "normal", everyday business for the IT team after all?

No. We are always developing ourselves and our IT system. The digital lifestyle keeps throwing up new challenges and opportunities for which we provide innovative products. It is fascinating for me and my team to help shape this emerging market, but without neglecting the "humdrum", punctual and accurate monthly billing.

Supervisory Board report

Dear Ladies and Gentlemen,

Dr. Hartmut Schenk,
Chairman of the Supervisory Board

In the following, the Supervisory Board reports on its activities during the financial year 2012.

Supervision and advice in an ongoing dialogue with the Executive Board

As in previous years, in the financial year 2012 the Supervisory Board diligently performed the supervisory and advisory functions incumbent upon it by law and the articles of association. Besides the many substantive issues that were discussed and decided upon in the various Supervisory Board meetings, in the first half of 2012 the deliberations of the plenary meetings focused in particular on

- a review of and resolution on the financial statements as of 31 December 2011 and
- preparing the Annual General Meeting on 9 May 2012, with a new election of shareholder representatives to the Supervisory Board.

In the second half of the year, the Supervisory Board then focused on

- strategic options for the Group,
- the acquisition of Gravis – Computervertriebsgesellschaft mbH, Berlin, as well as on a planned acquisition of a 51 percent stake in MOTION TM Vertriebs GmbH, Troisdorf (“MOTION TM” in the following)
- optimising the Company’s financial structure through promissory notes.

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

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

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

In the financial year 2012, the Supervisory Board held six actual meetings and four conference calls and additionally took decisions by written procedure.

Attendance at the Supervisory Board meetings during the reporting period was very high, averaging over 97 percent: with the exception of three meetings each attended by eleven of the twelve Supervisory Board members, the Supervisory Board always met in full. Accordingly, no Supervisory Board member attended fewer than half of the meetings. Likewise, in 2012 the committees met in full except for two personnel committee meetings and one nominations committee meeting.

Clause 5.5.3 of the German Corporate Governance Code proposes that in its report to the Annual General Meeting, the Supervisory Board shall provide information about any incidence of conflicts of interests and how they were handled. The Supervisory Board of freenet AG deliberated on the existence of a possible conflict of interests in the case of Niclas Rauscher with regard to the approval of the Annual Financial Statements for 2011. In his role as chairman of the company's audit committee among others, Mr. Rauscher's tasks included reviewing questions of accounting that are faced in similar form at Drillisch AG. Mr. Rauscher is a member of the Executive Board of BDO AG Wirtschaftsprüfungsgesellschaft, which audits Drillisch AG's accounts. To rule out any risk, Mr. Rauscher resigned from his seat on the audit committee on 23 February 2012 and did not participate in the audit committee's discussion of the Annual Financial Statements 2011. The Supervisory Board appointed Maarten Henderson to chair the audit committee in Mr. Rauscher's place for the time until the Annual General Meeting 2012. The Supervisory Board had already reported on this issue in last year's Annual Report, as well as at the Annual General Meeting on 9 May 2012.

No other circumstances that could cause conflicts of interests on the part of Executive and Supervisory Board members, and requiring disclosure to the Supervisory Board and notice to the Annual General Meeting, were disclosed to the Supervisory Board.

Supervisory Board meetings

The content regularly discussed at plenary meetings included
- the current business development
- the market and competitive situation and
- the Company's financial position and financial situation.

The meeting of 22 March 2012 mainly focused on the annual and consolidated financial statements as of 31 December 2011. The results of the audit were discussed together with the auditors from the auditing firm PricewaterhouseCoopers. Based on its own examination, the Supervisory Board raised no objections to the auditors' findings and in accordance with the audit committee's recommendation it approved the annual and consolidated financial statements. As a result they were formally adopted. Other points of this meeting were the agenda for the Annual General Meeting 2012 and the Supervisory Board's resolutions to be proposed to the Annual General Meeting. The Executive Board also informed the Supervisory Board about business developments, current strategic projects and the latest capital market communications.

During a conference call session on 29 March 2012, the Supervisory Board continued its deliberations about resolutions to be proposed to the Annual General Meeting and decided on the nomination of candidates for election to the Supervisory Board at the AGM. On 9 May 2012, the Supervisory Board once again dealt with the nomination of candidates, in consideration of counterproposals to the proposed resolutions at the AGM that had been announced in the meantime. Also on 9 May 2012 following the Annual General Meeting a constituent meeting of the Supervisory Board was held in its new line-up, at which Dr. Hartmut Schenk was elected as Chairman and positions on the committees were re-filled. Robert Weidinger was elected as the chairman of the audit committee.

On 5 June 2012, the Executive Board reported in detail on business developments and strategic planning. The Supervisory Board dealt with the division of tasks among the existing committees and plenary meetings, and confirmed the roles of the existing committees. Together with the Executive Board, the Supervisory Board issued a statement of compliance with the German Corporate Governance Code during the year and passed a resolution on an amendment to the articles of association as a result of the name change of the former Electronic Federal Gazette.

At a conference call session on 6 August 2012, the Supervisory Board discussed a current Merger and Acquisitions project ("M&A project"), which the executive committee had already discussed beforehand. Another topic was a clarifying amendment to the Executive Board members' contracts regarding their respective areas of responsibility.

Due to the resignation of Matthias Schneider from the Supervisory Board on 31 August 2012, on 20 September 2012 vacancies were filled on the executive committee and audit committee. At this session the results of a Supervisory Board efficiency audit were discussed. Another topic was the acquisition of a majority stake in MOTION TM proposed by the Executive Board. The proposed acquisition was noted with approval by the Supervisory Board subsequent to intense discussion. The Executive Board, for the first time, presented its ideas to the Supervisory Board about optimising the Company's financing structure by issuing a promissory note and discussed this with the members of the Supervisory Board. The Supervisory Board agreed to the issuance of this promissory note at a conference call session on 26 October 2012.

On 10 December 2012 the Supervisory Board discussed the company's strategy for 2013 and the next few years in great depth, and with the Executive Board discussed options for expanding and extending the current product and service portfolio in the telecommunications, internet and energy sectors into the general area of "digital lifestyle". The Supervisory Board also agreed to the purchase of Gravis – Computervertriebsgesellschaft mbH that was previously subject to discussions in the executive committee. At this meeting, the budget for 2013 was also approved and a resolution passed regarding the annual statement of compliance with the German Corporate Governance Code.

After the end of the financial year, a plenary meeting was held on 25 in March 2013. Its main focus was the discussion about the annual and consolidated financial statements as of 31 December 2012. Details are set out in the section "Audit of the annual and consolidated financial statements for the financial year 2012" of this report. Other topics included the Supervisory Board's efficiency audit, the agenda for the Annual General Meeting 2013 and the proposed Supervisory Board resolutions at the Annual General Meeting.

Work of the Supervisory Board committees

In order to efficiently fulfil its duties, the Supervisory Board has set up one executive committee and five committees. The general tasks and members of each committee are described in greater detail in the corporate management statement on page 53.

Executive committee

The executive committee discussed current M&A projects at two actual meetings in 2012. Among other things, the committee members held in-depth discussions on the preparation of the Supervisory Board's adoption of a resolution for the purchase of Gravis – Computervertriebsgesellschaft mbH.

Personnel committee

In 2012 members of the personnel committee held a total of three actual meetings and one conference call session.

At its first meeting in 2012, the Committee discussed a potential conflict of interest in the case of Niclas Rauscher given his role as chairman of the audit committee while also sitting on the Executive Board of BDO AG Wirtschaftsprüfungsgesellschaft, which in turn audits Drillisch AG's accounts. The committee also discussed whether and to what extent the parameters for the variable remuneration of the Executive Board members were achieved in 2011, laid down new parameters for the target agreements for the financial year 2012, and proposed them to the Supervisory Board for approval.

Audit committee

The audit committee regularly discussed the latest accounting and audit issues with the auditors in four actual meetings. The members of the committee dealt intensively with the annual report, the half-year report and interim reports. The financing situation and the status of risk management, internal audit and compliance issues were also regularly discussed, and the managers responsible reported to the committee. In addition to its regular meetings, on 21 June 2012 the audit committee hosted an event at which the newly elected members gave information about the organisation and responsibilities in the financial sector and each relevant manager gave presentations on Group accounting, the controlling department including risk management and the internal control system, compliance and internal audit.

The focus of the audit committee's work was to facilitate and support the annual audit, which required special attention due to the change of auditors because of the decision of the Annual General Meeting of 9 May 2012. For this purpose the committee

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

Mediation committee

The mediation committee was not convened in 2012.

Nominations committee

Following an initial session in 2011, in 2012 the nominations committee continued to deal with nominations for the new elections to the Supervisory Board in 2012. For this purpose, in addition to many informal discussions it held a meeting where the proposed candidates were discussed and proposals were then presented to the plenary session for adoption. The background to this was that with the end of the Annual General Meeting 2012 the tenure of all shareholder representatives on the Supervisory Board ended.

Audit of the annual and consolidated financial statements for the financial year 2012

The annual financial statements for the financial year from 1 January 2012 to 31 December 2012 prepared by the Executive Board in accordance with the rules of the German Commercial Code (HGB) and the freenet AG management report were audited by the auditing and tax consulting company RoeverBroennerSusat GmbH, Hamburg. The audit was commissioned by the chairman of the audit committee in accordance with the resolution passed by the Annual General Meeting on 9 May 2012. The auditors issued an unqualified auditor's report. The freenet AG consolidated financial statements as of 31 December 2012 were prepared in accordance with section 315a HGB based on the IFRS international accounting standards. The audit of these consolidated financial statements and of the Group management report was also unqualified.

The audit was reported to and discussed by the Audit Committee on 26 February 2013 and by the Supervisory Board in its meeting on 25 March 2013. The auditors took part in the discussion of the annual and consolidated financial statements in the meetings of both the audit committee and the Supervisory Board. They reported on the material findings of the audit and made themselves available to the audit committee and Supervisory Board to answer any supplementary questions or provide further information.

After the concluding results of its audit of the annual and the consolidated financial statements, the management report and the Group management report, as well as the Executive Board's proposal for the appropriation of profit, the Supervisory Board raised no objections and agreed with the results of the auditors' audit. In accordance with the recommendation of the audit committee, the Supervisory Board approved the annual and consolidated financial statements at the meeting on 25 March 2013. The annual financial statements are thus formally adopted.

Furthermore, the Supervisory Board has passed—in accordance with the recommendation of the audit committee of 26 February 2013—a resolution concerning the Executive Board's proposal for the appropriation of profit. In its meeting on 25 March 2013, the Supervisory Board examined the Executive Board's proposal for the appropriation of profit and discussed it with the auditors. Following this, the Supervisory Board agreed with and supports the Executive Board's proposal for the appropriation of profit.

Changes to the Supervisory Board and the Executive Board

Executive Board

No changes were made to the composition of the Executive Board in the financial year 2012.

Supervisory Board

The tenure of shareholder representatives on the Supervisory Board ended with effect from the end of the Annual General Meeting on 9 May 2012. The Annual General Meeting elected the current members Dr. Hartmut Schenk and Achim Weiss to the Supervisory Board. Maarten Henderson, Dr. Christof Aha, Dr. Arnold Bahlmann and Niclas Rauscher resigned from the Supervisory Board with effect from the end of the Annual General Meeting. Robert Weidinger, Marc Tüngler, Thorsten Kraemer and Prof. Dr. Helmut Thoma were elected to replace them on the Supervisory Board. The employee representative Hans-Jürgen Klempau also resigned from the Supervisory Board at the end of the Annual General Meeting on 9 May 2012. Kiel District Court appointed Gesine Thomas to replace him on the Supervisory Board with effect from 9 May 2012. In connection to the Annual General Meeting, the Supervisory Board elected Dr. Hartmut Schenk as its new Chairman.

Matthias Schneider resigned his position as an employee representative on the Supervisory Board on 31 August 2012 and was replaced by Angela Witzmann, with effect from 1 September 2012.

The Supervisory Board thanks all the departed members for their good cooperation, and constructive and professional support.

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

Büdelsdorf, 25 March 2013
The Supervisory Board

Dr. Hartmut Schenk
Chairman of the Supervisory Board

Corporate Governance report

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

Corporate Governance at a glance

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

In June 2012, the Supervisory Board—in its new composition following the Annual General Meeting of 9 May 2012—discussed compliance with the guidelines of the German Corporate Governance Code and, together with the Executive Board and in accordance with § 161 AktG, issued a Statement of Compliance with the German Corporate Governance Code in the 26 May 2010 version. This statement may be viewed at any time on the company's website. In issuing this statement during the year, the Supervisory Board specifically dealt with the declared deviation from the recommendation in clause 5.4.2 sentence 4 of the Code. It concerned the taking on of an advisory function for a key competitor by a Member of the Supervisory Board. The new Supervisory Board declared that it would undertake to comply with the Code recommendation in question in future.

In December 2012, the Supervisory Board specifically took a closer look at the recommendations of the German Corporate Governance Code in the new, 15 May 2012 version. Discussion centred in particular on the definition of independence newly added to the Code in clause 5.4.2, and the recommendation in clause 5.4.6 paragraph 2 of the Code regarding the success-based remuneration of the Supervisory Board. The Supervisory Board noted that it deems it has an appropriate number of independent members, but believes the specification of a definite target for the number of independent Supervisory Board as set out in clause 5.4.2 serves no purpose and therefore rejects it. The Board explained the reasons for this deviation from the Code in its annual Statement of Compliance in accordance with § 161 AktG on the German Corporate Governance Code, issued jointly with the Executive Board in December 2012. This Statement of Compliance is also covered in the following Corporate Management Statement. The Supervisory Board also believes that the past, dividend-oriented remuneration of the Supervisory Board has proven its worth and has in this connection, and jointly with the Executive Board, declared a deviation from the new recommendation in clause 5.4.6 paragraph 2 of the Code, including reasons, in the December 2012 Statement of Compliance.

Corporate management statement

In accordance with § 289a HGB, freenet AG's corporate management statement illustrates its current statement of compliance according to § 161 AktG and elucidates the relevant details relating to corporate management practices applied over and above the legal provisions. Furthermore, the functioning of the Executive Board and Supervisory Board is described and there is an illustration of the composition and functioning of the Supervisory Board's committees. freenet AG made the following corporate management statement in accordance with § 289a HGB, which is also part of the company's management report for the financial year 2012.

Statement of compliance in accordance with § 161 AktG

Since issuing its last statement of compliance on 5 June 2012, freenet AG has, with the exceptions listed below, complied with the recommendations contained in the version of the German Corporate Governance Code ("Code") as issued on 26 May 2010, and since 15 June 2012 in the version of the Code as issued on 15 May 2012. The group also intends to comply with the recommendations of the Code (as issued on 15 May 2012) in future, except in cases where there is a declaration to the contrary from the company below.

1. The company has taken out D&O insurance for its Board members. With regard to the members of the Supervisory Board, an agreement of an excess is not intended, as there is no visible benefit to the company associated with this. Acting responsibly is a given duty for all Supervisory Board members. Moreover, an excess would have to be set uniformly on account of the equality principle, although the personal circumstances of the Supervisory Board members vary. An excess would therefore have a varying impact on the Supervisory Board members. Given that their duties are the same, this seems inappropriate. (clause 3.8, paragraph 3 of the Code)
2. No age limit is laid down for Executive Board and Supervisory Board members. In the Supervisory Board's opinion it makes no sense that well-qualified people with great professional and personal experience should not be considered as candidates simply due to their age. (clause 5.1.2, sentence 6 and clause 5.4.1, sentence 2 of the Code)
3. The Supervisory Board has not established now or for the future definite targets for its composition in consideration of specific themes described in the Code as "diversity" or "appropriate degree of female representation". The Supervisory Board deems such restrictions on other criteria for proposals about the election of Supervisory Board members inappropriate and wishes to make decisions concerning proposals about its composition individually in each specific situation. Since no specific targets have been defined, the targets and their implementation are not published in the Corporate Governance Report. (Clause 5.4.1, paragraph 2 and paragraph 3 of the Code)

4. The Supervisory Board does not consider it reasonable to define a specific target for the number of independent Board members as set out in clause 5.4.2 and has therefore, since 15 June 2012, differed from this newly incorporated recommendation in clause 5.4.1 of paragraph 2 of the version of the Code as issued on 15 May 2012. As a matter of course it recognises the importance of its members' independence. The Supervisory Board regards the independence of its members from the Executive Board as crucial to the effective exercise of its supervisory activities. However, the definition of independence in clause 5.4.2 goes beyond this, and the Supervisory Board therefore considers it excessive. Moreover, the circumstances from which a conflict of interest may arise are not clearly regulated, so the specification of concrete targets would lead to uncertainties. Finally, the Supervisory Board feels that the restrictions arising from specifically defined targets on other criteria for proposals regarding the election of Supervisory Board members are inappropriate, and wishes to make decisions concerning proposals about its composition individually in each specific situation. Since no specific target has been defined, the target and its implementation are not published in the Corporate Governance Report. (Clause 5.4.1, paragraph 2 and paragraph 3 of the Code)
5. Clause 5.4.6, paragraph 2 of the Code, in the version that has applied since 15 June 2012, recommends that a variable remuneration of the Supervisory Board should be focused on sustainable business development. According to clause 11 paragraph 5 of the Articles of Association, the variable remuneration of the Supervisory Board is calculated based on the dividend for the past financial year. The Supervisory Board is of the view that this form of variable compensation has worked well in the past. The Supervisory Board also believes that the Company's dividend policy communicated to the capital market, which is linked to free cash flow, is geared towards sustainable business development. In its view, therefore, the linking of the variable remuneration to the dividend policy also serves to promote sustainable corporate development. For this reason, an adjustment of the Supervisory Board's variable remuneration is not planned. (Clause 5.4.6, paragraph 2 of the Code)

Relevant details relating to corporate management practices

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

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

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

Functioning of the Executive Board and Supervisory Board

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

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

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

Composition and functioning of committees

The Executive Board has not established any committees.

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

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

Members: Dr. Hartmut Schenk (Chair, since 9 May 2012), Prof. Dr. Helmut Thoma (since 9 May 2012), Nicole Engenhardt-Gillé, Claudia Anderleit (since 20 September 2012)

Members who left in 2012: Maarten Henderson (Chair, up until 9 May 2012), Matthias Schneider (up to 31 August 2012)

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

Members: Dr. Hartmut Schenk (Chair, since 9 May 2012), Thorsten Kraemer (since 9 May 2012) Claudia Anderleit, Joachim Halefeld

Member who left in 2012: Maarten Henderson (Chair, up until 9 May 2012)

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

Members: Robert Weidinger (Chair, since 9 May 2012), Marc Tüngler, (since 9 May 2012), Steffen Vodel, Joachim Halefeld (since 20 September 2012)

Members who left in 2012: Niclas Rauscher (Chair, up until 23 February 2012), Maarten Henderson (Chair, from 24 February 2012 to 9 May 2012), Dr. Christof Aha (up to 9 May 2012), Matthias Schneider (up to 31 August 2012)

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

Members: Dr. Hartmut Schenk (Chair, since 9 May 2012), Thorsten Kraemer (since 9 May 2012), Claudia Anderleit, Nicole Engenhardt-Gillé

Members who left in 2012: Maarten Henderson (Chair, up until 9 May 2012), Dr. Arnold Bahlmann (up to 9 May 2012)

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

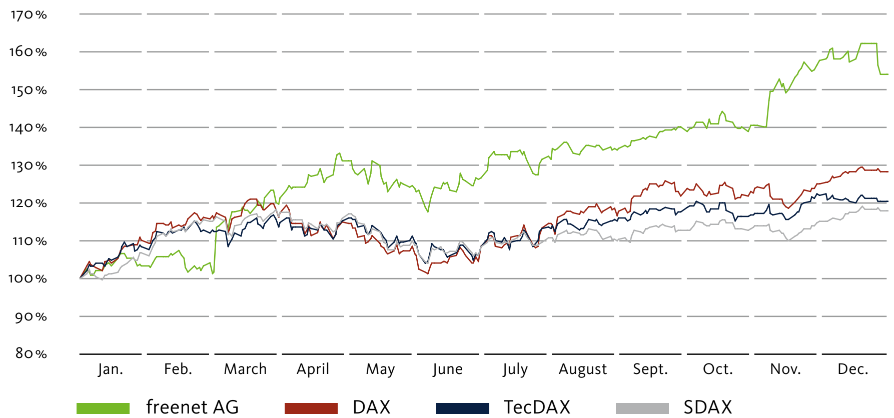
Members: Dr. Hartmut Schenk (Chair, since 9 May 2012), Marc Tüngler (since 9 May 2012), Achim Weiss

Member who left in 2012: Maarten Henderson (Chair, up until 9 May 2012), Dr. Arnold Bahlmann (up to 9 May 2012)

freenet AG on the capital market

Performance of the freenet share

Figure 1: **Performance of the freenet share in 2012**
(Indexed; 100 = Xetra closing price on 30 December 2011)



International financial markets

The international financial markets were significantly affected by the on-going European economic and financial crisis last year. Overall economic development diverged greatly between groups of countries in the euro area in terms of public finances, economic growth and the labour market situation. Germany, Austria, Finland and the Netherlands were in the group of stable countries.

While the mood on the stock market among German investors initially brightened significantly in the first quarter of 2012, concerns about the economy and the sovereign debt crisis have determined general opinion since the middle of the year. The global stock markets showed an inconsistent performance owing to unfavourable corporate reports and subdued growth prospects. While share prices in Japan and the U.S. declined slightly, the European stock markets saw some price increases.

In recent months the EU countries' leaders have adopted a series of resolutions with the aim of curbing the negative impact of the euro crisis and further developing the institutional foundations of the monetary union. These included the general agreement, signed in mid-October 2012, on uniform European banking supervision under the umbrella of the European Central Bank (ECB). Market participants' concerns about the sustainability of public finances in some countries and the interrelation of government and bank risks have recently receded into the background.

freenet share

The DAX developed very positively in the second half of the year, increasing by 29 percent on an annual basis. Nevertheless, the freenet share once again significantly outperformed the German benchmark index. All in all, freenet AG's market capitalisation increased by approximately 640 million euros to around 1.8 billion euros in the financial year 2012.

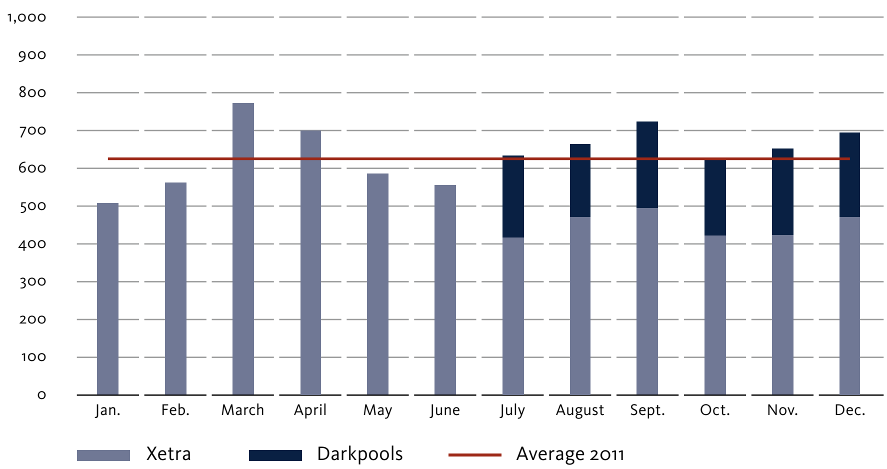
Our share recorded an annual performance of 55 percent, once again clearly outperforming the combined technology stocks on the TecDAX (up 21 percent) and SDAX listed companies (19 percent) as well.

The Hamburg Stock Exchange once again commended freenet AG for its good annual performance. Of the companies from the metropolitan region of Hamburg listed on the Hamburg HASPAX index, the freenet share recorded the third-best performance last year.

freenet shares began the year 2012 with a Xetra closing price of 9.26 euros on 2 January. After the company published its preliminary figures for 2011, outlook, and proposed dividend on 1 March, the share price jumped to 10.26 euros. The average daily trading volume rose accordingly from 510,400 units in January to 778,800 units in March, and the price approached 11 euros at the end of the first quarter. As the year progressed the freenet share traded relatively constantly in the 11- to 13-euro range. At the beginning of November the announcement of an increased forecast for operating earnings (EBITDA) and free cash flow for the financial year 2012 marked the starting point for further price increases until the share reached its high for the year of 14.75 euros at the end of December. With trading volume at an unusually high level of about 1.8 million units on the last two trading days of the year, the share closed on 28 December at 14.00 euros.

In the second half of the year, the daily trading volume on the Deutsche Börse AG Xetra platform fell to an average 451 thousand shares compared to an average 616 thousand shares traded during the first six months. The average daily trading volume on alternative trading platforms ("darkpools") was around 215 thousand units in the second half of the year, accounting for nearly a third of total trading activity. Nevertheless, freenet AG was able to clearly maintain its 5th place on the TecDAX in terms of trading liquidity and market capitalisation.

Figure 2: **Average daily trading volume of the freenet share in 2012 (since July including "darkpools")**



Shareholder structure

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

Current shareholder structure

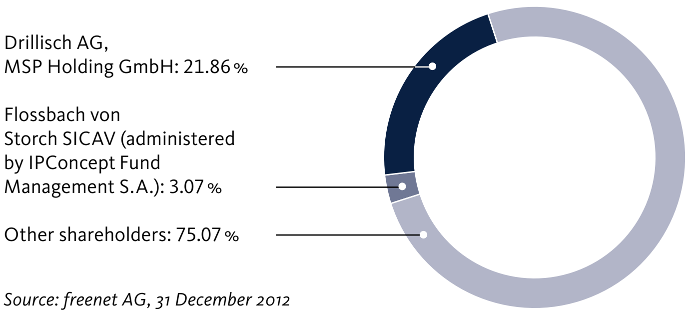
According to the notifications of voting rights received pursuant to section 21 WpHG (German Securities Trading Act), freenet AG's shareholder structure changed as follows in the 2012 financial year:

- In January Flossbach von Storch informed us that it had exceeded the 3-percent reporting threshold. On 25 January its share of voting rights in freenet AG amounted to 3.07 percent (3,929,643 voting rights).
- In February the Norges Bank (Central Bank of Norway) informed us that it had fallen below the 3-percent reporting threshold. On 9 February its share of voting rights in freenet AG amounted to 2.82 percent (3,607,448 voting rights).
- In March J. P. Morgan informed us that it had exceeded the 3-percent reporting threshold. On 15 March its share of voting rights in freenet AG amounted to 3.03 percent (3,882,306 voting rights).
- In March J. P. Morgan informed us that it had fallen below the 3-percent reporting threshold. On 16 March its share of voting rights in freenet AG amounted to AG 2.98 percent (3,812,072 voting rights).
- In March J. P. Morgan informed us that it had exceeded the 3-percent reporting threshold. On 27 March its share of voting rights in freenet AG amounted to 3.04 percent of freenet AG (3,894,055 voting rights).

- In September J. P. Morgan informed us that it had fallen below the 3-percent reporting threshold. On 11 September its share of voting rights in freenet AG amounted to 2.98 percent (3,822,053 voting rights).

Consequently, the shareholder structure at the end of 2012 was as follows:

Figure 3: **Shareholder structure of freenet AG on 31 December 2012**



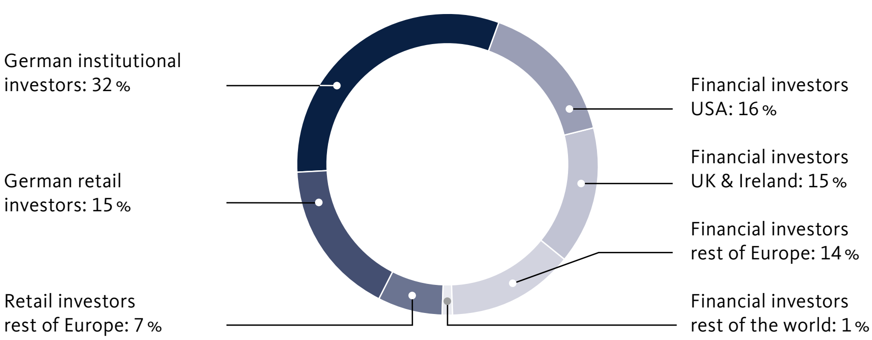
Source: freenet AG, 31 December 2012

Geograpic distribution

Institutional financial investors still represent the largest group of investors in freenet AG at about 58 percent, of which approximately half are in approximately equally measure financial investors from North America and the UK, while about a quarter of the financial investors are spread across the rest of Europe.

Of the remaining 42 percent, almost half the shares were held by German investors. In addition to the strategic investment of Drillisch AG, this includes the shares owned by German financial and private investors. The remaining shares are mostly held by private investors in the rest of Europe.

Figure 4: **Geographical distribution of the freenet AG shareholder structure on 31 December 2012**



Source: Private investor shares according to the share register; institutional and financial investors according to shareholder identification

Earnings per share

Undiluted/diluted earnings per share (EPS) in the reporting year amounted to 1.35 euros compared to 1.12 euros in 2011.

Undiluted/diluted EPS from continued operations in 2012 amounted to 1.35 euros (1.12 euros in 2011) and undiluted/diluted EPS from discontinued operations amounted to 0.00 euros (0.00 euros in 2011).

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

Table 1: **Earnings per share**

	2012	2011
Undiluted earnings per share in €	1.35	1.12
Diluted earnings per share in €	1.35	1.12
Earnings per share from continued operations in € (undiluted)	1.35	1.12
Earnings per share from continued operations in € (diluted)	1.35	1.12
Earnings per share from discontinued operations in € (undiluted)	0.00	0.00
Earnings per share from discontinued operations in € (diluted)	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)	128,061	128,061
Weighted average of shares outstanding in thousand (diluted)	128,061	128,061

Dividend

On 9 May 2012, the freenet Annual General Meeting approved the payment of a dividend of 1.20 euros per eligible share for the financial year 2011, representing a payout ratio of approx. 64 percent of free cash flow. The dividend was distributed on 11 May 2012.

The Executive Board and Supervisory Board decided to propose the payment of a dividend for the 2012 financial year, amounting to 1.35 euros per share from net income, to the Annual General Meeting on 23 May 2013. This corresponds to a payout ratio of approx. 66 percent of free cash flow.

Analysts' recommendation

In the financial year 2012, 17 well-known analyst firms published more than 100 comments and recommendations with regard to the freenet share. The three most active analysts published twelve reports. The median is six comments per analyst. In 80 cases (79 percent) a "buy" recommendation was made; in 20 reports (21 percent) the analysts gave a "hold" recommendation. During the reporting period, there was only one "sell" recommendation.

Investor Relations

freenet AG cultivates an on-going dialogue with institutional and private investors as well as analysts. At 12 investor conferences and 11 road shows at major European stock exchange locations and in New York, the Executive Board and the Investor Relations team discussed the freenet Group's current business development, strategic direction and objectives with institutional investors and analysts. We plan to expand these activities in the current financial year in order to further broaden our investor base.

Information on the freenet share

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

Information on the security	
Class	Registered shares without par value
Index	TecDAX, Midcap Market Index, CDAX, HDAX, Prime All Share, Technology All Share
Share capital:	128,061,016 euros
Quantity of shares:	128,061,016
Stock exchanges:	Regulated market/Prime Standard: Frankfurt Open Market: Berlin, Hamburg, Stuttgart, Düsseldorf, Hannover, Munich

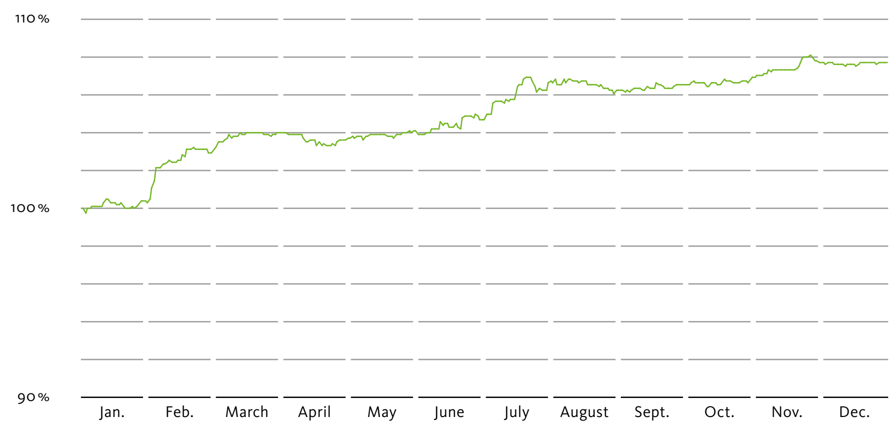
Trading parameters	
Symbol:	FNTN
Reuters instrument code:	FNTGn.DE
Trading model type:	Continuous trading
Designated sponsors:	Close Brothers Seydler Bank AG, equinet Bank AG

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

Corporate bond

In April 2011, freenet AG replaced its private equity financing, among other things by successfully placing a five-year corporate bond with a volume of 400 million euros on the capital market. The interest coupon is 7.125 percent per annum and it is payable on 20 April 2016. At year-end 2012, the bond was quoted at 112.24 euros.

Figure 5: **Performance of the freenet corporate bond in 2012 (Xetra closing prices)**



For more information about freenet AG corporate bonds please refer to the following table:

Stock exchanges:	The regulated market of the Luxembourg stock exchange Open Market Frankfurt
Issue volume:	400 million euros
Denomination:	1,000 euros
ISIN:	DE000A1KQXZ0
WKN:	A1KQXZ
Term:	20 April 2011 to 20 April 2016
Coupon:	7.125 percent p. a.
Interest payments:	Annually, starting on 20 April 2012
Repayment price:	100.0 percent
Security:	Non-subordinated corporate bond

Promissory note

In December 2012, freenet AG successfully placed a promissory note totalling 120 million euros, which were broadly marketed by Commerzbank AG, Landesbank Baden-Württemberg and Landesbank Hessen-Thüringen Girozentrale.

The promissory note is divided into a five-year fixed tranche of 44.5 million euros, a five-year variable tranche of 56 million euros and a seven-year fixed tranche of over 19.5

million. It was drawn over the entire volume at the lower end of the respective marketing range with a fixed coupon of 3.27 percent p.a. for the 5-year tranche, a floating coupon of 2.82 percent for the first six months of the variable 5-year tranche, and a fixed coupon of 4.14 percent for the fixed 7-year tranche.

Detailed financial information available online

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

In addition to company announcements, financial reports and capital market presentations, the information on offer also includes Annual General Meeting documentation and a financial calendar. The website also features a variety of services and dialogue offers, including a contact and order form and an interactive stock analysis tool.

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

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Group management report

Our development in financial year 2012 from the largest network-independent mobile service provider in Germany focusing on high-value customer relationships towards a digital lifestyle provider in terms of sustainable, value-based management.

Business and macroeconomic conditions

Business operations

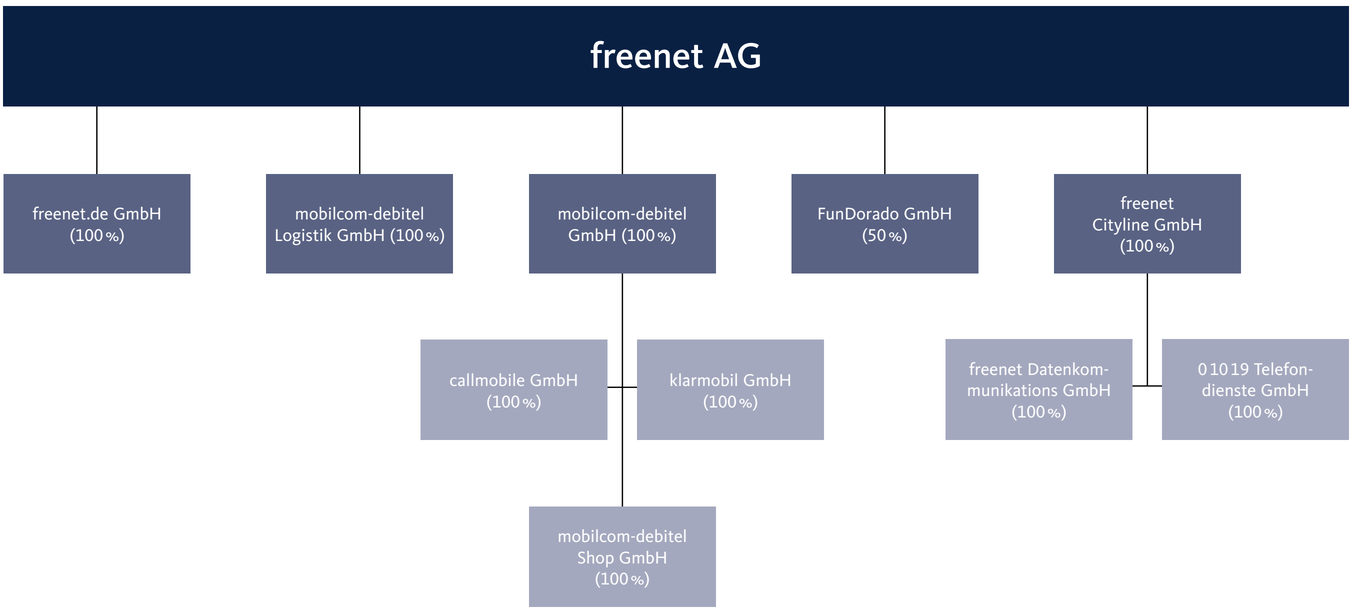
The freenet Group is the largest network-independent telecommunications provider in Germany. The Group offers its customers a comprehensive portfolio of services and products, primarily in the field of mobile voice and data services. As a mobile service provider, the freenet Group has no network infrastructure of its own but markets, under its own name and for its own account, mobile communications services for the mobile network operators Telekom, Vodafone, E-Plus and O_2 in Germany. The network operator contracts signed with the above mentioned companies form the basis of the operative business: Under these contracts, the company buys mobile communications services from the network operators and markets them to its end customers. In addition to its own network independent postpaid, prepaid and no-frills services and rates, the company also offers the original network operators' rates. In addition, the freenet Group particularly sells mobile communications devices and additional services in the field of mobile data communications. freenet's primary sales channels are its around 530 branded shops, about 6,000 additional sales points at retailers, electronics dealers and superstores, as well as online and direct-to-customer sales; one notable sales channel is the Group's cooperation with Media-Saturn Deutschland GmbH. In addition the freenet Group signed a contract to purchase 100 percent of shares in Gravis – Computervertriebsgesellschaft mbH, Berlin ("GRAVIS" in the following), via its subsidiary, mobilcom-debitel GmbH in December 2012. The contract was concluded in January 2013. The acquisition builds on an exclusive cooperation with the market leader for Apple Lifestyle products that has been in place since October 2011.

The Group therefore possesses the largest network-independent sales and distribution platform for mobile communications products in Germany. Its distribution focus is essentially on the B2C business with private households in Germany. The company also operates an online portal and increasingly offers content for mobile internet as well.

Group structure

In the past financial year, the Group continued the strategic streamlining of its portfolio: in September 2012 it disposed of its 50-percent stake in KielNET GmbH Gesellschaft für Kommunikation and in December 2012 sold its wholly owned subsidiary freeXmedia GmbH with effect from 1 January 2013.

Figure 6: **Major companies in the freenet Group as of 31 December 2012**



Strategic direction, Group objectives and management

In the past financial year, freenet AG clearly defended its market position—as measured by mobile communications revenue—in a declining overall market. At the same time, it successfully pursued its goal of realising the stable base of valuable customer relationships in the postpaid and no-frills sectors (jointly called: customer ownership). Moreover, over the course of the year the profitability-driven expansion of the stationary retail was actively pushed forward, especially via the mobilcom-debitel brand shops. This laid the foundations for the company's further development as a digital lifestyle provider. The company successfully launched its first few lifestyle products, such as 'SmartHome' on the market in the second half of the year.

Against this backdrop, freenet AG will continue on its chosen course and will also focus on acquiring and maintaining valuable customer relationships in the current financial year. Existing customer loyalty programs will be developed with this in mind that will be geared towards additional improvements in quality. In this context, sales of data products and high-end devices will be aggressively expanded, along with the sale of high quality accessories. freenet AG will continue to leverage all available sales channels and systematically expand its sales presence across Germany.

Furthermore, the company will evaluate additional areas if action related to the expansion of its portfolio and sales channels, close to the core business and in line with stringently defined profitability and investment targets. The acquisition of GRAVIS, completed in the first quarter of 2013, represents an important enhancement of freenet AG's strategic development into a digital lifestyle provider of high quality Apple products.

In implementing its strategy freenet AG considers the different needs and expectations of all stakeholders in equal measure. Our shareholders expect a reasonable and reliable overall return on their invested capital, in the form of share price appreciation and dividends. The company's creditors not only want us to pay risk-adjusted interest rates on debt, but also expect us to ensure that we will be able to continue to service our debts. Our customers are interested in attractive services and products as well as expert consultation. Our employees expect long-term, secure jobs in appropriate, modern work environments where they can continue to develop and perform to the best of their ability.

Financial Strategy

This overall strategic direction is supported by freenet AG's financial strategy. In accordance with our core business of mobile communications and mobile internet, the capital structure is the supporting pillar of the financial strategy. We measure it using the following three indicators:

- The debt factor, which results from the ratio between net economic debt and EBITDA.
- The interest cover, which reflects the relationship between EBITDA and net interest income. It helps the company ensure that the necessary interest payments from the debt can be covered from the operative business.

- The equity ratio, which is derived from the ratio of shareholders' equity to total assets

In line with the successful implementation of our strategy, these parameters developed above plan and will continue to serve as key performance indicators in our financial strategy.

Table 2: **Key figures of financial strategy**

	Target 2011/12	Actual 2011	Actual 2012	Target 2013/14
Debt factor	1.5—2.5	1.6	1.3	1.0—2.5
Interest cover	> 5	6.6	8.5	> 5
Equity ratio	> 50 %	46.3 %	48.1 %	> 50 %

In order to implement its corporate strategy in the operations, the company must always have adequate liquidity reserves, including the ability to obtain liquidity from equity and outside funds. This protects the company against temporary fluctuations as part of a risk-driven management strategy. Adjusting the bandwidth of the debt factor serves the earnings-driven optimisation of the capital structure, with the aim of increasing its attractiveness for debt investors and thus reducing future capital procurement costs. Because of the business model's inherent stable cash inflow, freenet AG feels that given its current volume of business, a cash reserve of around 50 million euros is appropriate and adequate.

Finally, the Executive Board has defined a dividend policy that allows an attractive dividend yield for freenet's shareholders, and thereby also contributes to a long-term increase in the company's shareholder value without compromising its risk profile.

Table 3: **Key figures of dividend policy**

Financial year	2010	2011	2012	Target 2013	Target 2014
Payout ratio (as a percentage of FCF[1])	48 %	64 %	50—75 %	50—75 %	50—75 %
Dividends paid (in euros per share)	0.80	1.20	n. a.	n. a.	n. a.
Dividend yield (on day of payment)	10.0 %	10.6 %	n. a.	n. a.	n. a.

1 Free cash flow is defined as cash flow from operating activities minus investment in property, plant and equipment, plus proceeds from the disposal of property, plant and equipment.

The dividend policy adopted by the Executive Board in early 2013 and agreed by the Supervisory Board provides for future dividend payouts of between 50 and 75 percent of free cash flow. By increasing this bandwidth starting with the 2013 financial year, the Executive Board does justice to the value-oriented shareholders' interest in receiving an appropriate share of the company's free cash flow, while the optimised capital structure protects the company's long-term value.

Specific objectives

Based on the strategic direction and in compliance with the cornerstones of the strategy, the Executive Board has set the following specific goals for the financial years 2013/14:

- Slight increase in the customer base in the valuable postpaid and no-frills sectors
- Stabilisation of postpaid ARPU in the range of 23 euros
- Increase in Group revenue in 2013 and further modest growth in 2014
- Group EBITDA of 355.0 million euros in 2013 and 360.0 million euros in 2014
- Free cash flow of 255.0 million euros in 2013 and 260.0 million euros in 2014

Group management

We use the following key performance indicators to measure the medium-and long-term success of our strategic course:

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

EBITDA

EBITDA (gross profit before interest, income taxes, depreciation and amortisation) reflects the company's operational performance and is therefore a value driver with a focus on growth (through the effect of gross profits) as well as cost efficiency.

Free cash flow

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

One of the main activities of our Group finance department is to improve liquidity. The key objective in this respect is the reduction of net working capital, which serves as a basis for detailed cash planning.

Customer ownership

Customer ownership in the high-value postpaid area and the growing no-frills sector is measured for medium and long-term steering purposes. freenet AG can maintain its shareholder value and defend its position in the German mobile communications market by continually attracting new customers and retaining existing ones. As part of its strategic orientation towards intrinsic value, freenet AG focuses on valuable customer relationships in its new customer acquisition and existing customer management.

Postpaid ARPU

Postpaid ARPU is what we call the average monthly revenue per contract customer. ARPU generally depicts the willingness of consumers to pay appropriate fees for market offers; revenue from the mobile-device option are not included in the ARPU. The market and competitive situation has a significant impact on the ARPU, which has been an important performance indicator for us to date. Due to the increasing share of other high-value revenue, the importance of this performance indicator for internal management is expected to decrease in the future.

Other control parameters

freenet AG also uses a variety of other performance indicators. These primarily include costs of customer acquisition and retention, which significantly affect the profit contribution of new customers and customer retention. The profitability of the customer over the life of the contract, and the number of gross new customers per sales channel are other key performance indicators.

Non-financial performance indicators

Product brands, new products

freenet AG systematically relies on a multi-brand strategy to specifically target all areas of the mobile communications market. Under its flagship mobilcom-debitel brand, the company markets postpaid and prepaid tariffs for all four German mobile communications networks, with a focus on high-value contract relationships. The brand's strengths include its demand-driven, network-independent customer consultation for mobile communications products and services, on the basis of Germany's largest independent sales distribution platform; this is ensured by around 530 branded or directly controlled shops as well as a presence at about 6,000 specialist retailers. freenet AG also caters to the "no-frills" area with its "klarmobil", "freenetMobile", "callmobile" and "debitel light" discount brands, for customers who are primarily interested in low cost rates and less in subsidised mobile devices or special services. Discount tariffs are mainly sold online.

In marketing its product and service portfolio, freenet AG places a particular emphasis on the fast-growing market of mobile data services. In the 2012 financial year, the company further expanded its product range in this area, focusing on the very popular and in-demand flat rates for smartphones. Major new tariffs launched during the year included:

- **"FLAT CLEVER"** on the O_2 network with a mobile internet flat rate, a landline flat rate, an SMS Allnet flat rate and 120 free minutes per month to all German mobile networks as well as options for an additional smartphone or extra data volume;
- **"FLAT ALL-STAR"** on Deutsche Telekom's D1 network with flat-rate calls to all German mobile networks and landlines, a mobile internet flat rate, free use of Deutsche Telekom HotSpots and 150 free text messages to all national networks, also in combination with mobile phone purchase options;
- **"FLAT SELECT"** as an introductory offer on the O_2 network with an internet flat rate, an SMS Allnet flat rate, on-net flat rate and a flat rate to a network of your choice;
- **"FLAT 4 YOU PLUS"** as a promotional package, with a mobile internet flat, a quasi SMS Allnet and MMS on-net flat rate, as well as an on-net and off-net flat rate of your choice for calls, plus 120 free minutes to all national networks;
- **"FLAT ALLNET"** on the Vodafone network with unlimited calls to all German networks, a mobile internet flat rate and a quasi SMS Allnet flat rate for 3,000 text messages, again with additional selectable mobile phone options;
- **"ALLNET-SPAR-FLAT"** from klarmobil in the discount market, with flat rates for internet use, landlines and all German mobile networks.

In addition, the freenet subsidiary klarmobil rearranged its complex product portfolio in the first half of the year, giving it a simpler, more transparent pricing structure with only three basic rates in the categories of pure voice telephony, data services and smartphones, plus the associated options.

Besides its own rates, the mobilcom-debitel offer also includes the network operators' original tariffs. The company extended a campaign giving a 10-percent discount on these smartphone tariffs, which has been running since 2011, to Deutsche Telekom, Vodafone and O_2's new portfolio of tariffs.

At the end of September, mobilcom-debitel launched "SmartHome", a new digital lifestyle product that lets people use smartphones to intelligently manage energy use in their homes. It includes radiator thermostats, an adapter, a control unit and window contacts in various-size kits, and can be expanded with additional components into a complex "SmartHome" network. For instance, users can remote-control individual radiators at home via an app and simultaneously turn them all down at the touch of a button when leaving home.

Strategic partnerships

In October 2011, freenet AG and GRAVIS signed an exclusive cooperation agreement. GRAVIS has sold Apple products since 1991 and has established itself as the largest retail chain for Apple products like the iPhone, iPad and Macs on the German market. As part of the cooperation, in 2012 freenet AG began gradually equipping its mobilcom-debitel shops with shop-in-shop systems for the Apple world. These stores now offer the entire Apple product line, including iPhones, iPads, iPods, Macs and accessories. In turn, GRAVIS stocked its 28 branches with mobilcom-debitel products, and specially trained staff. At year-end 2012 freenet AG closed a contract with GRAVIS to acquire 100 percent of the shares in GRAVIS. The transaction was closed in January 2013. GRAVIS will gradually expand its range to include digital lifestyle products in the energy, mobile communications and services, and broadband sectors. At the same time mobilcom-debitel will expand the sale of a select portfolio of Apple products from GRAVIS to more than 300 mobilcom-debitel shops.

In another cooperation, freenet AG will tap into the rapidly growing cable business. For this purpose, in February 2012 the company signed an agreement with Unitymedia KabelBW GmbH for around 150 mobilcom-debitel shops to sell the broadband and cable offerings of Germany's second-largest cable carrier in its area of circulation, the German federal states of North Rhine-Westphalia and Hesse.

Sales

freenet AG has the largest network-independent sales platform in Germany with around 530 directly controlled stores, some 6,000 specialist retail and distribution partners including the Media/Saturn electronics centres, and a wide range of online and direct-to-customer sales channels. In 2012, the company made numerous investments and took many steps to steadily improve its sales strength.

In the first half of 2012, the "Instore TV" project was successfully completed, providing targeted, regionalised information for customers in mobilcom-debitel shops. As part of the project, 350 shops were equipped with high-quality flat screens, with 80 stores also displaying them in the shop window. The TV content generate a lot of attention among customers, and in comparison to posters, partition walls and flyers are much less expensive in the long run. Besides, information can be retrieved at the touch of a button, as it were, making it much faster, more up-to-date and therefore more efficient.

In the third quarter, mobilcom-debitel launched another project under the “Z Shop” label. After a successful trial period in pilot shops, the first 19 converted or newly opened mobilcom-debitel “Z Shops” were set up to meet the growing demand for mobile accessories with an extensive, restructured product range. Items are no longer presented by manufacturer but by theme, for example, headphones, bags, cases, non-slip mats, and docking stations. After very positive experiences with regard to increased sales and customer frequency, as many as 200 Z Shops will be established, and the regular mobilcom-debitel shops will also be given a greater range of accessories.

Apart from this, in the course of 2012 around 50 mobilcom-debitel shops were stocked with parts of GRAVIS’s range of Apple products, as part of the above-mentioned partnership with GRAVIS. In the first months of the year, selected shops in Berlin and Hamburg also ran trial sales of the new “SmartHome” digital lifestyle product. Based on the positive experiences gained, about 150 mobilcom-debitel shops and other specialist retail partners now offer this product.

In 2012 freenet AG intensified the “mystery shopping” tests it had introduced for mobilcom-debitel shops in 2011. The aim of the covert tests by “test customers”, carried out by the market research institute Vocatus AG, is to improve the consultation and closing processes. The results of the tests feed into targeted training and workshops for shop staff at the education centre in Erfurt.

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

Research and development

freenet AG does business in the telecommunications as a service provider without its own network infrastructure. In its core business of mobile communications/mobile internet, the company mainly markets the mobile communications services of Germany’s network operators, as well as its own mobile communications range, including the associated hardware. This is described in detail under “Business operations”. Against this backdrop, the company does not maintain an R&D department of its own. However, rapid technological progress in telecommunications, and in mobile voice and data services, make it necessary to keep a vigilant eye on the latest developments in order to maintain long-term competitiveness in this innovative market environment.

In this connection, in financial year 2012 freenet AG targeted and catered to constantly changing market and customer requirements with its own product and services portfolio centering on mobile communications/mobile internet. freenet also launched an innovative digital lifestyle product, “SmartHome”, during the year. A detailed explanation can be found in the “Product brands, new products” section.

Employees

The enduring success of a company in the market depends crucially on the motivation and competence of its staff. freenet AG has therefore set itself the goal of continuously increasing its attractiveness as an employer both in-house and externally. At the same time the human resources policy should seek to optimally qualify and further develop employees.

At year-end, freenet Group employed 3,886 people. The year-on-year decline in this number is mainly due to the continued streamlining of the corporate structure, which involved disposing of smaller subsidiaries and shareholdings that are no longer part of the core business of mobile communications/mobile internet. Women form 44 percent of the Group's workforce, which reflects freenet AG's efforts to promote and practice equality between women and men in the workplace to the best of our ability.

As in previous years, in 2012 freenet AG remained a highly sought-after employer. During the year the Company received over 20,000 applications for 580 job offers; a third of the applicants were women. Since 2011 all vacancies in the Group have been advertised on the *www.freenet-group.de/karriere* online portal. This Group-wide recruitment system ensures a common, uniform external image as an employer as well as a coordinated selection process, and it takes advantage of potential synergies in finding qualified personnel.

In addition, freenet AG has traditionally trained qualified young and skilled workers who are difficult to find in the labour market, thereby fulfilling its social responsibilities. In 2012 a total of 90 apprentices were recruited and trained as IT and retail sales staff, as well as in warehouse logistics. freenet also offers four different dual-study programmes culminating in Bachelor of Science or Bachelor of Arts degrees at vocational colleges.

Existing employees and managers received need-based and mostly customised qualification measures on an on-going basis. In 2012, some 950 people participated in such personnel development measures, which included technical, methodology and team training. In addition, a series of measures on a selected leadership topic was once again hosted at all sites for all of the 350 managers in the Group.

Economic environment

Macroeconomic trends

According to the International Monetary Fund (IMF) the global economy grew by 3.2 percent in 2012 due to strong momentum continuing to come from Asia, mainly China. By contrast, the economy in the euro zone shrank by 0.4 percent in 2012 according to the IMF. Despite first governmental achievements in the EU concerning the implementation of measures to manage the crisis great uncertainty remains according to the IMF.

In Germany, which was still successfully defying the euro zone recession at the beginning of 2012, economic activity slowed down significantly in the second half of the year. However, the German economy proved comparatively robust in a difficult overall economic environment. According to initial calculations by the Federal Statistical Office, the price-adjusted GDP on an annual average grew by a total of 0.7 percent in 2012. Given the rates of growth in 2010 (+4.2 per cent) and 2011 (+3.0 percent), this development seems modest indeed. However, the Federal Statistical Office points out that the strong GDP growth in 2010 and 2011 was part of a catching-up process following the global economic crisis in 2009.

The main growth driver of the German economy was once again the export business. Trade balance—the difference between exports and imports—contributed a total of 1.1 percentage points to GDP growth. Domestic consumption also contributed to growth, while investment in construction and equipment declined in 2012.

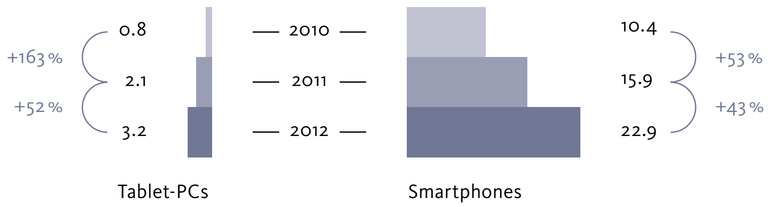
The number of people in employment in Germany totalled 41.6 million in 2012, reaching a new peak for the sixth consecutive year, according to the Federal Statistical Office.

Market development 2012

In its forecast published in November 2012 the high-tech association BITKOM estimated that the German market for information and telecommunications technology would grow by 2.8 percent in 2012 to 152 billion euros, and attributed this positive development mainly to strong revenue growth in the software and telecommunications industries.

While the software market would grow by 4.4 percent to 16.9 billion euros in 2012, BITKOM estimated that telecommunications revenues would increase 3.4 percent to 66.4 billion euros. It says booming smartphone sales are crucial to the positive trend in telecommunications, which would grow by 45.7 percent to 7.9 billion euros in 2012. Demand for tablet computers also continues strong: BITKOM expects revenues here to increase by 41 percent to 1.6 billion euros.

Figure 7: **Development of smartphone and tablet sales in Germany**
(in millions of units)



Source: BITKOM, EITO

By contrast, in their 14th Analysis of the Telecommunications Market in Germany 2012 published in mid-October, Dialog Consult GmbH ("Dialog Consult" in the following) and the Association of Telecommunication and Value-added Service Providers ("VATM" in the following) forecast that the German telecommunications market as a whole would stabilise at a volume of 60.1 billion euros (previous year: 60.3 billion euros). The fixed-line sector accounts for the lion's share of this, 30.9 billion euros (previous year: 32.6 billion euros), followed by the mobile communications market at 24.8 billion euros (previous year: 23.9 billion euros), while cable network operators accounts for 4.4 billion euros (previous year: 3.8 billion euros).

In the mobile communications sector, the resurgence of "non-voice" revenues (data, SMS and MMS) from 6 billion euros in 2011 to 6.5 billion euros in 2012 (+8.3 percent) shows that mobile communications users are happily continuing to use the internet and send texts on their mobiles. As in the prior year, in 2012 mobile data services once again account for about two-thirds of total non-voice revenues, with SMS services making up the remaining third. The market relevance of MMS remains negligible.

Outgoing mobile phone calls increased by 6 percent in 2012, to 310 million telephone minutes, which Dialog Consult and VATM attribute to the increasing use of flat rates.

The data volume, which has almost doubled in the past two years, will increase by about a third year-on-year in 2012, from 101.1 million gigabytes (GB) to 130.7 million GB. Similarly, the average amount of data per postpaid user per month increased from 147 megabytes (MB) in 2011 to an estimated 196 MB in 2012. According to Dialog Consult and the VATM, the main driver for this development is the increasing prevalence of smartphones and tablet computers.

In response to the growing volume of data, the expansion of LTE was pushed forward in 2012. The fourth-generation mobile communications standard, which can carry much more data compared to previous technologies such as UMTS, is designed to ensure faster mobile connections.

Assets, financial position and results

Management's summary statement on the business performance in 2012

All in all, for freenet AG, the financial year 2012 was better than anticipated. The targets for the financial year 2012 adapted in November 2012 were exceeded.

In the reporting period, the company generated revenue in the amount of 3,089.0 million euros (previous year: 3,266.6 million euros) and is thus slightly above the predicted minimum threshold of 3.0 billion euros.

The essential result figures were able to be significantly increased in the reporting period: Compared to the same period in the previous year, the group EBITDA increased by more than 6 percent to 357.8 million euros (previous year: 337.4 million euros) and thus exceeds the target value of 355.0 million euros. The deduction of depreciation and amortisation leads to an EBIT which has increased by around 24 percent to 209.0 million euros (previous year: 168.5 million euros). With 166.9 million euros, the pre-tax earnings (EBT) have increased by more than 42 percent compared to the previous year (117.3 million euros). The group result for the financial year 2012 is reported at 173.2 million euros, equivalent to a year-on-year increase of around 20 percent.

In the reporting period, the free cash flow, one of the group's most important performance indicators, amounts to 260.0 million euros (previous year: 241.0 million euros) and thus exceeds the value predicted in November 2012 of 255.0 million euros. Consequently, net financial debt decreased from 529.4 million euros at the end of the financial year 2011 to now merely 451.3 million euros.

For the first time since the acquisition of debitel in 2008, the customer base in the key area of contract customers (postpaid customer base) has increased again. Compared to the end of the year 2011, it increased by more than 40,000 customers to 5.79 million and therefore also exceeds the announced goal. With 23.4 euros, the monthly average revenue per contract customer (postpaid ARPU) stabilised during the reporting year slightly below the level of the previous year (23.8 euros).

Table 4: **Key financials 2012**

	Forecast 2012 (Feb 2012)	Forecast 2012 (adjusted in Nov 2012)	Actual 2012
Revenue in m€	stable	>3,000	3,089.0
EBITDA in m€	340.0	355.0	357.8
Free cash flow in m€	240.0	255.0	260.0
Postpaid customers	stable	stable	Increase of 40,000
Postpaid ARPU	stable	stable	stable

The positive development confirms the strategic orientation of the Group as a digital lifestyle provider in its core business Mobile Communications and Mobile Internet with a focus on high-value contracts.

Key drivers of the business development

Customer development

Table 5: **Customer development in the Mobile Communications segment**

Figures in million	31.12.2012	31.12.2011
Mobile Communications customers	14.08	15.19
Thereof customer ownership	8.50	8.12
Thereof postpaid customers	5.79	5.75
Thereof no-frills customers	2.71	2.37
Thereof prepaid customers	5.58	7.07

For the first time since the debitel acquisition in 2008, the Group saw an increase in the number of contract customers. At year-end 2012 this totalled 5.79 million, representing an increase of more than 40,000 customers over the previous year (5.75 million). As planned, this increase became apparent in the last two quarters, following a slight decline of customer numbers in the first half of the financial year 2012.

Moreover, customer ownership—defined as the cumulative customer base in the contract and no-frills sectors—also increased again by around 380,000 customers from 8.12 million at year-end 2011 to 8.50 million (+4.7 percent). This development was mainly due to the big increase in customer numbers in the no-frills area, by about 340,000 from 2.37 million to 2.71 million (+14.3 percent).

The no-frills area has become increasingly important in recent years, particularly because of the increasing demand for data and flat rate products in connection with the increased use of smartphones. In this sector, freenet mainly sells discounted mobile phone contracts that are closed online.

At the end of December 2012, freenet had a total of 14.08 million mobile customers, representing a year-on-year decrease by around 1.1 million. The decrease is due to the significant reduction of the prepaid customer base by nearly 1.5 million, to 5.58 million, and is mainly related to the elimination of inactive SIM cards from the books, which did not affect net income.

Monthly average revenue per user (ARPU)

Table 6: **Monthly average revenue per user (ARPU)**

Figures in €	2012	2011
Contract customer	23.4	23.8
No-frills customer	3.9	4.6
Prepaid customer	3.0	3.1

The monthly average revenue per contract customer (ARPU) was at 23.4 euros per month during the 2012 financial year, and thus stabilised slightly below the level of the previous year (23.8 euros). The slight decrease in contract customer ARPU from 23.6 euros in the third quarter to 22.8 euros in the fourth quarter of 2012 is analogous to the trend seen in the previous year due to seasonal effects. Otherwise, due to the capping of roaming charges within the European Union introduced in July 2012, the development of contract customer ARPU during the year stabilised compared to the previous year.

ARPU from no-frills customers in the reporting period was 3.9 euros, down 0.7 euros compared to the previous year (4.6 euros). This development was essentially caused by a decrease in ARPU of 0.4 euros in the fourth quarter (3.5 euros) compared to the previous quarter. The decrease is primarily related to a sales promotion scheme in the no-frills area, which was offered online until year-end 2012 to acquire new customers. It involved mobile phone contracts, which were free of charge for the customer in the first months.

At 3.0 euros the monthly average revenue per user in the prepaid sector in 2012 was almost on par with that of the previous year (3.1 euros).

Revenue and Results

Table 7: **Key financials of the Group**

Figures in €'000s	2012	2011 adjusted	Change
Revenue	3,089,032	3,266,619	–177,587
Gross profit	723,229	715,794	7,435
EBITDA	357,829	337,383	20,446
EBIT	209,006	168,485	40,521
EBT	166,918	117,339	49,579
Group result from continued operations	173,189	143,848	29,341
Group result from discontinued operations	0	140	–140
Group result	173,189	143,988	29,201

Compared to the previous year, **GROUP REVENUE** decreased from 3,266.6 million euros by 5.4 percent to 3,089.0 million euros. As in the previous year, almost 98 percent of the segment revenue is attributable to the Mobile Communications segment. With a virtually stable ARPU, the decrease of group revenue results on the one hand from low-margin revenue, like prepaid revenue, while on the other hand, the average contract customer base decreased compared to the previous year, which is the result of the scheduled decrease during the financial year 2011 due to the focusing on valuable customer relationships. In contrast, during the course of the financial year 2012, first a stabilisation and, in the last two quarters, fortunately, an increase of the contract customer base was able to be reported.

The **GROSS PROFIT MARGIN** increased by 1.5 percent to 23.4 percent. The increase could mainly be realised in the valuable postpaid and no-frills sectors. An essential contribution to the increase of the gross profit margin was made by the expansion of our smartphone tariffs in connection with the further increased demand for high-performance smartphones.

Compared to the previous year 2011, **OTHER OPERATING INCOME** decreased by 27.9 million euros to 58.9 million euros, which is primarily due to lower income from dunning and chargeback fees, lower income from advertising allowances non-dependent on new customer activation, and the fact that in the previous year, this item included non-period income due to concluded settlements that amounted to a sum in the high single-digit millions. The other own work capitalised results, as in the previous year, mainly from the internally-generated software and decreased by 3.8 million euros to 7.0 million euros. The decrease of personnel expenses by 1.9 million euros to 161.0 million euros is primarily due to the decrease of the average number of group employees from 4,065 in the previous year to 3,939 in 2012.

The reduction of **OTHER OPERATING EXPENSES** by 38.1 million euros compared to the previous year to 276.1 million euros is, on the one hand, connected with restructuring-related one-off items in 2011 in the amount of 22.9 million euros, which had mainly been incurred due to the successfully completed IT integration of the previous year and the accompanying integration of major mobile companies at the corporate level and which had negatively impacted the result. On the other hand, the decrease of other operating expenses can be explained by further efficiency increases in the overhead cost management, such as reduced expenses from value adjustments of and the writing off of receivables due from end customers.

As a result of the above mentioned effects, the **GROUP EBITDA**, with 357.8 million euros, is significantly above the previous year value of 337.4 million euros.

The **DEPRECIATION AND AMORTISATION** decreased by 20.1 million euros to 148.8 million euros, compared to the previous year. As in the previous year, the depreciation is mainly attributable to intangible assets, such as customer relationships and trademarks, that were first included in the consolidated balance sheet in 2008 due to the purchase price allocation in connection with the acquisition of debitel: While in the financial year 2012, 102.0 million euros were written off for this, in the previous year, the depreciation on these assets amounted to 117.2 million euros, which explains most of the decrease.

The **INTEREST RESULT**, which is the total of all interest income and expenses, improved from –51.1 million euros in the previous year to –42.1 million euros. With regard to this improved result, first of all, a special effect has to be taken into consideration: In April 2011, freenet replaced its old financing from the times of private equity with a new, long-term financing—in this context, one-off non-cash-effective interest expenses in the amount of 6.9 million euros were incurred. The remaining improvement of the interest result is primarily attributable to the lower average amount of net financial debt due to the cash flow from operating activities. As a result, the interest cover, one of the important control parameters, increased from 6.60 in the previous year to 8.50.

Thus, in 2012, **PRE-TAX GROUP EARNINGS** attributable to the continued operations in the amount of 166.9 million euros were generated—an increase by 49.6 million euros or respectively 42.3 percent compared to the previous year (117.3 million euros).

Compared to 2011, **INCOME FROM TAXES ON INCOME** decreased by 20.2 million euro; while in the previous year income from taxes in the amount of 26.5 million euros had been reported, 6.3 million euros in income from taxes were accrued in the past financial year. On the one hand, due to the improved result, the current tax expenses increased by 8.2 million euros compared to the previous year. On the other hand, the income from deferred taxes decreased, primarily due to the lower value adjustment of deferred tax assets on tax loss carryforward. Further major income from deferred taxes is, as in the previous year, attributable to the temporary differences arising from the debitel purchase price allocation.

Consequently, the after-tax **GROUP EARNINGS FROM CONTINUED OPERATIONS** increased by 29.3 million euros from 143.8 million euros generated in the previous year to 173.2 million euros in the financial year 2012.

Due to subsequent income from the discontinued operations of "Next ID" due to its final deconsolidation, the **RESULT FROM DISCONTINUED OPERATIONS** was reported in 2011 in the amount of 0.1 million euros. In the financial year 2012, there was no result from discontinued operations.

The **GROUP EARNINGS** from continued and discontinued operations reported in 2012, therefore, amount to 173.2 million euros. Compared to the group earnings of 144.0 million euros generated in the previous year, this corresponds to an increase of 29.2 million euros, or 20.3 percent.

Assets and financial position

Table 8: **Consolidated balance sheet figures**

Assets

Figures in m€	31.12.2012
Non-current assets	1,750.4
Current assets	723.8
Total assets	**2,474.2**

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

Shareholders' equity and liabilities

Figures in m€	31.12.2012
Shareholders' equity	1,190.8
Non-current and current liabilities	1,283.4
Total equity and liabilities	**2,474.2**

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

On 31 December 2012, the **TOTAL ASSETS** of the group amounted to 2,474.2 million euros and, thus, was 2.1 percent below the total assets at the end of the previous year (31 December 2011: 2,528.4 million euros).

The **NON-CURRENT ASSETS** decreased by 72.4 million euros to 1,750.4 million euros (31 December 2011: 1,822.9 million euros).

As in the previous year, they are dominated by intangible assets and goodwill. The decrease of non-current assets is primarily attributable to the depreciation and amortisation of intangible assets in the financial year amounting to 139.4 million euros, 102.0 million euros of which were depreciation on assets determined in the context of the purchase price allocation due to the debitel acquisition, such as customer relationships and trademarks, while the total of the remaining net additions (additions minus disposals at net book value) to the intangible assets amounted to 11.5 million euros.

As per 31 December 2012, property, plant and equipment are reported at 28.4 million euros, which is at about the same level as on the reporting date of the previous year.

The increase of the deferred tax assets by 39.1 million euros from 130.9 million euros to 170.0 million euros has the opposite effect. In this context, it has to be taken into account that this item contains, on the one hand, the deferred tax assets on tax loss carry-forward, which compared to 31 December 2011 increased by 8.9 million euros. On the other hand, the item also includes the total of the deferred tax liabilities on temporary differences between the tax values and the book values of assets and liabilities, where a decrease of 30.2 million euros, mainly due to the depreciation on customer relationships and trademarks, which had been calculated due to the purchase price allocation in the context of the acquisition of debitel, was reported.

The increase of the non-current part of the trade accounts receivable primarily results from the fact that an increasing number of our end customers make use of our offer for them to select higher quality end user devices for an additional monthly fee. These receivables reflect such claims for payment arising from the mobile phone contract that are attributed to the "higher end mobile phone" component and paid by the customer over the term of the contract.

The **current assets** increased by 18.2 million euros to 723.8 million euros (31 December 2011: 705.6 million euros). In this context the increase of cash and cash equivalents by 19.6 million euros to 205.2 million euros, as well as the decrease of other receivables and other assets by 9.3 million euros to 27.3 million euros, mainly resulting from reduced advance payments made, have to be mentioned. As in the previous year, under current assets, current trade accounts receivable are the dominating balance sheet item. They are mainly due from end customers, network operators and retailers as well as distributors and, as per 31 December 2012, amount to 424.9 million euros, which is about the same level as in the previous year. The assets of freeXmedia GmbH, which was sold in December 2012 with an effective date of 1 January 2013, amounting to 7.4 million euros, are reported separately under "non-current assets held-for-sale".

On the liabilities and equity side, **shareholders' equity** increased: On 31 December 2012, the shareholders' equity amounted to 1,190.8 million euros (31 December 2011: 1,171.3 million euros). 173.2 million euros of this 19.5 million euro increase result from the 2012 group net profit, and –153.6 million euros from the dividend disbursement performed in the financial year, which had been resolved by the Annual General Meeting of the company on 9 May 2012.

Thus, the equity ratio increased by 1.8 percentage points to 48.1 percent compared to 46.3 percent at the end of the previous year.

With regard to **non-current and current liabilities**, which in total decreased by 73.8 million euros, from 1,357.1 million euros (as per 31 December 2011) to 1,283.4 million euros as per 31 December 2012, especially the reduction of the borrowings by 58.5 million euros to 656.6 million euros, primarily due to principal payments, has to be emphasized.

As a result, in the course of the financial year 2012, the **NET DEBT** of the group was able to be reduced by 78.1 million euros to 451.3 million euros (2011: 529.4 million euros). Thus, the debt factor, which is the quotient of net debt divided by EBITDA, decreased from 1.57 in 2011 to 1.26 in 2012.

Trade accounts payable, other payables as well as provisions for other liabilities and charges are reported at a total amount of 563.9 million euros as per 31 December 2012 (31 December 2011: 594.5 million euros), which corresponds to a decrease of 30.6 million euros compared to the previous year. One of the main reasons for this is the scheduled reduction of liabilities and charges payable to distribution partners for distribution rights as well as to a mobile network operator by 36.5 million euros in total.

As per 31 December 2012, the liabilities attributable to the sold freeXmedia GmbH were reported as liabilities in connection with the sale of certain non-current assets.

Cash flow

Table 9: **Important cash flow figures of the Group**

Figures in m€	2012	2011	Change
Cash flow from operating activities	280.5	262.0	18.5
Cash flow from investing activities	–9.1	–16.2	7.1
Cash flow from financing activities	–149.1	–190.4	41.3
Change in cash and cash equivalents	**122.3**	**55.4**	**66.9**
Free cash flow [1]	260.0	241.0	19.0

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

Compared to the previous year, the **CASH FLOW FROM OPERATING ACTIVITIES** improved by 18.5 million euros to 280.5 million euros, which is mainly due to the improved EBITDA. Compared to the previous year, the EBITDA for the entire Group, including discontinued operations, adjusted for the revenue arising from the sale of subsidiaries as well as from the sale of associated companies (incoming payments from the sale of subsidiaries or associated companies are reported under the cash flow from investing activities) increased by 15.3 million euros. In 2012, the net working capital developed with an increase of 46.8 million, basically as in the previous year (increase by 45.7 million euros). The increase of the net working capital in 2012 by 46.8 million euros can be primarily explained by the scheduled reduction of liabilities and charges payable to distribution partners for distribution rights, as well as to a mobile network operator, and by the further increased number of sales of high-end hardware and the corresponding increase of receivables arising from hardware sales. In addition, in the financial year 2012, 24.7 million euros (previous year: 29.7 million euros) in net outgoing payments resulted from income tax payments and refunds.

Compared to the previous year, the **CASH FLOW FROM INVESTING ACTIVITIES** increased by 7.1 million euros, from −16.2 million euros to −9.1 million euros in the financial year 2012. The decisive factors for this development were primarily the proceeds from sales of subsidiaries, associated companies and other shareholdings in the total amount of 8.2 million euros received in the past financial year. In this context, we refer to item 18 (“Shares in associated companies“), item 19 (“other investments”) as well as item 25 (“non-current assets held-for-sale, discontinued operations and sale of subsidiaries”) in the notes to the consolidated financial statements.

The outgoing payments for investments in the intangible assets as well as in plant, property and equipment, set off against proceeds from the disposal of fixed assets, amounted to 20.6 million euros and, therefore, at a level comparable to the previous year (21.1 million euros). The investments in intangible assets and property, plant and equipment reported in the consolidated statement of movements in non-current assets for 2012 at the amount of 21.3 million euro were all cash-effective. They were completely financed from own funds and related primarily to internally-generated software in connection with the further development of our IT systems, the renewal and extension of the equipment of our Mobile Communications shops, and investments in EDP hardware. In the previous year 2011, in addition to cost-effective additions, non-cost-effective investments in the amount of 46.5 million euros, mainly attributable to the extension of a distribution right, were reported in the consolidated statement of movements in non-current assets.

Compared to the previous year, proceeds from interests reported under cash flow from investing activities decreased by 2.1 million euros to 2.1 million euros.

Compared to the same period in the previous year, the **cash flow from financing activities** increased by 41.3 million euros, from −190.4 million euros to −149.1 million euros. In the previous year, the Group had net outgoing cash flows in the amount of 69.0 million euros due to the refinancing in April 2011 and the repayment of borrowings. In contrast, the freenet Group accrued 119.3 million euros (nominal amount of 120.0 million euros minus one-off costs) from the promissory note taken out in December 2012, with scheduled principal payments in the amount of 80.0 million euros on the syndicated loan made in 2012.

The promissory note is a bullet loan, which is divided into a 44.5 million euro five-year fixed tranche, a 56.0 million euro five-year variable tranche and a 19.5 million euro seven-year fixed tranche. The subscription was made at a fixed coupon of 3.27 percent p. a. for the five-year fixed tranche, a floating coupon of 2.82 percent p. a. for the first six months of the 5-year variable tranche and of 4.14 percent p. a. for the seven-year fixed tranche. Thus, the Group was able to secure its financing beyond the maturing in April 2016 of the corporate bond issued in 2011 and to further diversify its financing structure.

In the past financial year, dividend payments impacted the cash flow from financing activities with 153.6 million euros (previous year: 102.4 million euros).

Furthermore, interest paid in 2012, primarily on long-term bank loans, amounted to 34.5 million euros. The increase compared to the previous year, when 19.0 million euros for interest have been paid out, primarily results from the fact that the interest on the corporate bond issued in the financial year 2011 is paid retroactively so that in the previous year 2011, no such payments on this had been due, but instead non-cash-effective accrued interest in the amount of 20.5 million euros had been accumulated.

In the financial year 2012, **free cash flow**, which is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets, amounted to 260.0 million euros. Compared to 2011, it increased by 19.0 million euros, or 7.9 percent.

Significant events after the reporting date

On 18 December 2012, the Group signed a purchase agreement regarding the acquisition of all shares and voting rights in GRAVIS. Following antitrust approval, the acquisition was closed on 31 January 2013, giving the Group control of the subsidiary. GRAVIS is the only Apple retailer with nationwide coverage and has a market share of around 14 percent in the German Apple retail market. GRAVIS also operates a significant online business.

On 20 February 2013, the Group signed a purchase and transfer agreement to acquire 51 percent of the shares in MOTION TM Vertriebs GmbH, Troisdorf ("MOTION TM" in the following). The transaction is expected to close before the end of Q1/2013, following the usual merger clearance procedures by Germany's Federal Cartel Office. The acquisition strengthens freenet AG's sales strengths, particularly in the online market. In addition, with its sales platform "moon", MOTION TM offers the necessary systems expertise to support sales at our retail partners.

In addition, after the balance sheet date of 31 December 2012 we received the following notifications concerning voting rights, in accordance with § 21 ff German Securities Trading Act (WpHG):

IPConcept (Luxemburg) S. A., Luxembourg-Strassen, Luxembourg, notified us on 3 January 2013 in accordance with § 21 paragraph 1 WpHG that its voting rights in freenet AG had fallen below the threshold of 3 percent on 1 January 2013 and amounted to 0.04 percent (48,500 votes) at that date. Of these voting rights 0.01 percent (9,500 voting rights) are to be attributed to the notifying company pursuant to § 22 Section 1 Sentence 1 No. 6 WpHG.

Flossbach von Storch Invest S. A., Strassen, Luxembourg, notified us on 4 January 2013 in accordance with § 21 paragraph 1 WpHG that its voting rights in freenet AG had exceeded the 3 percent reporting threshold on 1 January 2013 and amounted to 4.93 percent (6,318,741 voting rights) at that date. Of these voting rights 4.68 percent (5,995,241 voting rights) are to be attributed to the notifying company pursuant to § 22 paragraph 1 sentence 1 No. 6 WpHG via Flossbach von Storch SICAV.

Flossbach von Storch AG, Cologne, Germany, notified us on 7 January 2013 in accordance with § 21 paragraph 1 WpHG that its voting rights in freenet AG had exceeded the 3 percent reporting threshold on 1 January 2013 and amounted to 4.93 percent (6,318,741 voting rights) at that date. Of these voting rights 4.68 percent (5,995,241 voting rights) are to be attributed to Flossbach von Storch AG pursuant to § 22 Section 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG via Flossbach von Storch SICAV, and 0.25 percent (323,500 voting rights) pursuant to § 22 Section 1 Sentence 1 No. 1 WpHG.

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

Composition of share capital

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

Share transfer and voting restrictions

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

Shareholdings exceeding 10 percent of the voting rights

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

Shares vested with special rights or powers of control

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

Type of control of voting rights in the event of employees' participation

Employees cannot claim any special rights if they are shareholders.

Appointment and dismissal of members of the Executive Board, amendments to the Articles of Association

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

Authorisation of the Executive Board to issue and buy back shares

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

Change of control

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

Indemnity agreement of the company

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

Corporate management statement in accordance with § 289a HGB

The corporate management statement in accordance with § 289a HGB was published on the company's website in the area Company/Corporate Governance.

Compensation report for the Executive Board and Supervisory Board

Executive Board Compensation

The Compensation for members of the company's Executive Board is composed as follows; the table below provides details of the Board members' Compensation in accordance with Art. 314 sect. 1 No. 6a of the Commercial Code. It includes Compensation paid in the financial year. Changes in the value of the stock appreciation programme or LTIP programme that are not based on a change in the vesting conditions are not included, in accordance with Art. 314 Sect. 1 No. 6a of the Commercial Code.

Table 10: **Executive Board compensation for financial year 2012 according to HGB**

Figures in €'000s	Fixed compensation	Variable cash compensation	Total cash compensation	Compensation with long-term incentive effect	Total compensation
Christoph Vilanek	625	480	1,105	0	1,105
Joachim Preisig	444	480	924	0	924
Stephan Esch	445	144	589	0	589
	1,514	**1,104**	**2,618**	**0**	**2,618**

Table 11: **Executive Board compensation for financial year 2011 according to HGB**

Figures in €'000s	Fixed compensation	Variable cash compensation	Total cash compensation	Compensation with long-term incentive effect	Total compensation
Christoph Vilanek	621	574	1,195	1,091	2,286
Joachim Preisig	444	574	1,018	972	1,990
Stephan Esch	445	222	667	936	1,603
	1,510	**1,370**	**2,880**	**2,999**	**5,879**

No new stock appreciation rights, stock options or any other compensation components with a long-term incentive effect were granted to the Members of the Executive Board in the financial year 2012. In the 2012 financial year the Executive Board compensation in accordance with Art. 314 Sect. 1 No. 6a of the Commercial Code amounted to 2,618 thousand euros.

In the previous year 2011 the Executive Board compensation in accordance with Art. 314 Sect. 1 No. 6a of the Commercial Code amounted to 6,279 thousand euros. In addition to last year's cash-effective fixed compensation and variable compensation amounting to 2,880 thousand euros, this also included compensation from the LTIP programme at fair value of 3,586 thousand euros at the time of payment in 2011, not considered as cash-effective compensation; negative compensation amounting to 587 thousand euros due to changes to the vesting conditions for the stock appreciation rights; and, in addition to the figures shown in the table above, payments made to former Executive Board members amounting to 400 thousand euros for post-contractual non-competition clauses.

All of the stock appreciation rights held by members of the Board that existed on the previous' years closing date were exercised in 2012; we refer to our remarks in item 27.1 of the notes to the consolidated financial statements. On 31 December 2011, the provision for stock appreciation rights amounted to 332 thousand euros for Mr. Vilanek, 191 thousand euros for Mr. Preisig and 419 thousand euros for Mr. Esch. No provisions were made for stock appreciation rights for Mr. Spoerr, Mr. Krieger or Mr. Berger, as former members of the Executive Board as of 31 December 2012, since all rights were exercised, or expired, in 2012. On 31 December 2011, provisions for stock appreciation rights totalling 273 thousand euros had been recorded for these former members of the Executive Board.

As of 31 December 2012, the provisions for the LTIP programme amounted to 1,286 thousand euros for Mr. Vilanek (previous year: 481 thousand euros), 857 thousand euros for Mr. Preisig (previous year: 321 thousand euros), and 386 thousand euros for Mr. Esch (previous year: 144 thousand euros).

In November 2004 an indirect pension commitment was granted to Mr. Esch. In the 2009 financial year, an indirect pension commitment was granted to Mr. Vilanek when he was appointed as Chief Executive Officer on 1 May 2009. On 31 December 2012 the Defined Benefit Obligations (DBO) were as follows: 974 thousand euros for Mr. Vilanek (previous year: 453 thousand euros) and 1,531 thousand euros for Mr. Esch (previous year: 832 thousand euros). As of 1 September 2008 freenet AG took over the pension commitment granted to Mr. Preisig by debitel AG. On 31 December 2012, the DBO for Mr. Preisig amounted to 751 thousand euros (previous year: 468 thousand euros). The DBO for Mr. Spoerr, Mr. Krieger and Mr. Berger, as former members of the Executive Board, totalled 6,520 thousand euros on 31 December 2012 (previous year: 4,014 thousand euros).

The personnel expenses also include pension obligations to members of the Executive Board for ongoing and past service costs totalling 549 thousand euros (previous year: 454 thousand euros). For 2012, 250 thousand euros went to Mr. Vilanek, 125 thousand euros to Mr. Preisig and 174 thousand euros to Mr. Esch; and for 2011, 138 thousand euros to Mr. Vilanek, 84 thousand euros to Mr. Preisig, and 232 thousand euros to Mr. Esch.

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

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

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

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

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

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

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

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

- From his 60th birthday, Mr. Esch shall receive a pension amounting to 2.5 percent of final annual fixed salary for each contractual year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, to a maximum of one-third of final annual fixed salary (guaranteed pension).

- Survivor annuity for the spouse or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- In the event of Mr. Esch terminating his service contract for any good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.
- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the Board is revoked, Mr. Esch can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to § 626 BGB, or that the revocation of his appointment to the Board does not form part of the termination of the service contract on the part of the company, for which there is good cause under § 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

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

- Upon retirement on reaching the age of 60, Mr. Joachim Preisig shall receive a pension in the amount of 9,333.00 euros (guaranteed monthly pension). If he leaves early, Mr. Preisig shall receive a pension, after reaching the age of 60 and once the conditions prerequisite to non-forfeiture arise, which is calculated according to legal requirements, hence there is a scaling of the guaranteed pension based on the actual length of service.
- Survivor annuity for the spouse and orphan's pension for binding individual child custody rights on the basis of the guaranteed pension for Joachim Preisig. Widow's and orphan's pensions combined may not exceed 90 percent of the pension that Mr. Preisig was entitled to or eligible for at the time of his death. On reaching the age of 18, orphans will cease to be entitled to receive the monthly orphan's pension. At this point, a one-time lump-sum payment amounting to 24 times the monthly orphan's pension is paid.
- A five-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the Board is revoked, Mr. Preisig can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to § 626 BGB, or that the revocation of his appointment to the Board does not form part of the termination of the service contract on the part of the company, for which there is good cause under § 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

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

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

Supervisory Board Compensation

Basic principles of compensation

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

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

The Supervisory Board members receive fixed basic compensation of 30,000 euros for each full financial year of membership on the Supervisory Board. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times this amount.

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

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

The Supervisory Board members also receive, after the end of each financial year, variable performance-based compensation in the amount of 500 euros for each 0.01 euro in dividends in excess of 0.10 euro per share of the company which is distributed to the shareholders for the previous financial year. The extent of the compensation is limited to that amount which is payable in the form of the fixed basic compensation. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times this amount.

For their activity during the financial year 2012, the members of the Supervisory Board of the company received fixed compensation of 405.0 thousand euros and attendance fees of 113.0 thousand euros. Performance-based compensation of 406.5 thousand euros was also recognised as an expense. Whether this performance-based compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2012. The total compensation for Supervisory Board activities was thus 924.5 thousand euros.

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

Opportunities and risk report

Opportunities

In the financial year 2012, freenet AG systematically continued its focus on mobile voice and data services. In the marketing of smartphones and flat-rate tariffs, the main focus was to ensure customer quality and to stabilise the contract customer base. The company sees opportunities in the following market developments in particular:

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

Further opportunities for the company could arise from:

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

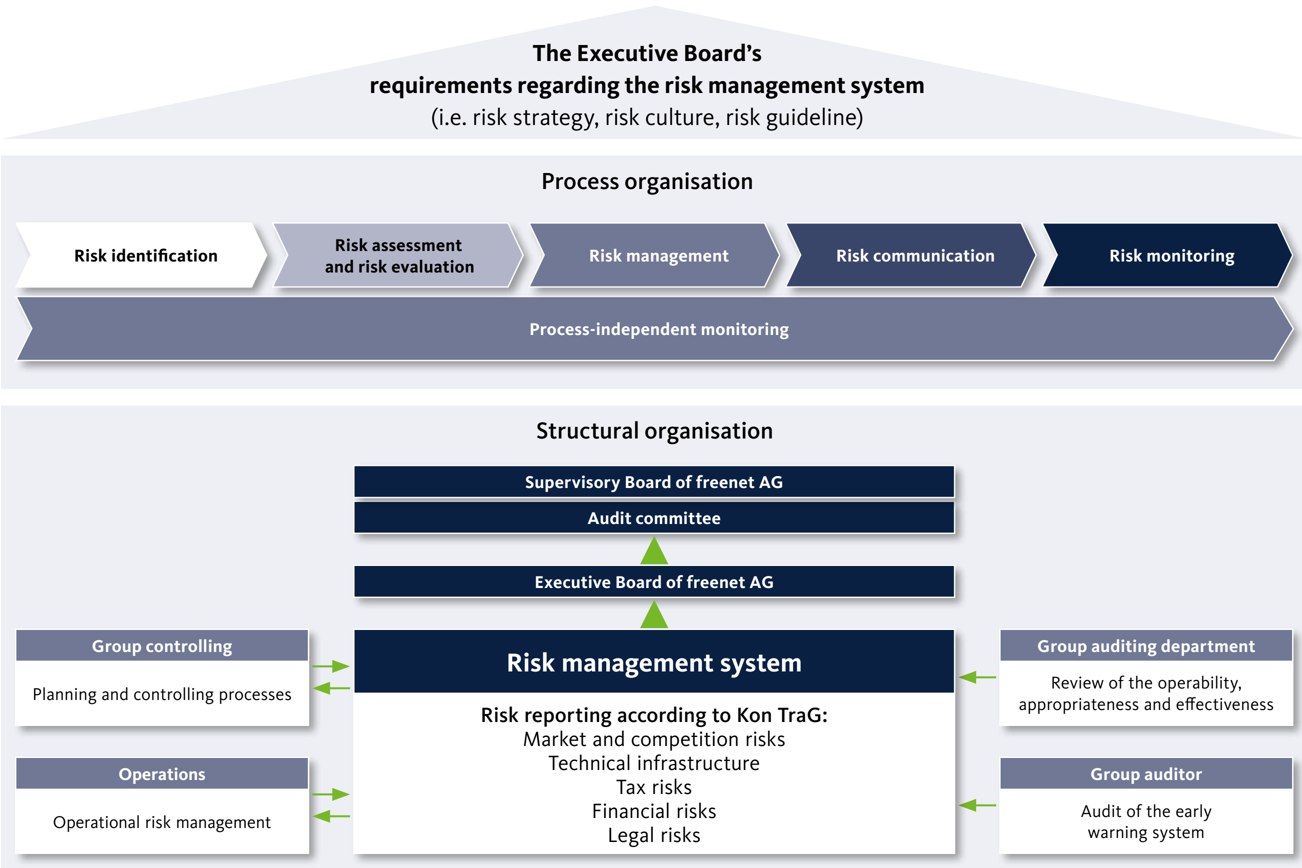
Risk report

Risk management

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

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

Figure 8: **Process and structural organisation of the risk management system of freenet AG**



On a quarterly basis, freenet's individual departments and subsidiaries identify or update existing and new risks in a formalised risk reporting. Also between the regular reporting dates risks are detected and controlled right after their identification and—if substantial enough—are directly reported to the Executive Board. The risk reports describe specific risks and investigate the probability of their occurrence, and their implications for the company should they occur. The individual risk reports are combined into a risk report for the whole Group, which is submitted to the Executive Board.

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

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

The risk management methods and systems are constantly reviewed, developed and adapted. The freenet AG internal audit department plays a supporting role here, with the regular review of the risk reporting forming the main focus.

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

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

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

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

The Executive Board of freenet AG has entrusted all of the Group's departments with the responsibility for managing their own control processes, according to common principles.

The departments permanently analyse their processes, including with regard to new legal requirements and other standards to be followed, derive internal guidelines, and train the employees in charge.

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

Structure of the Group accounting process

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

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

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

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

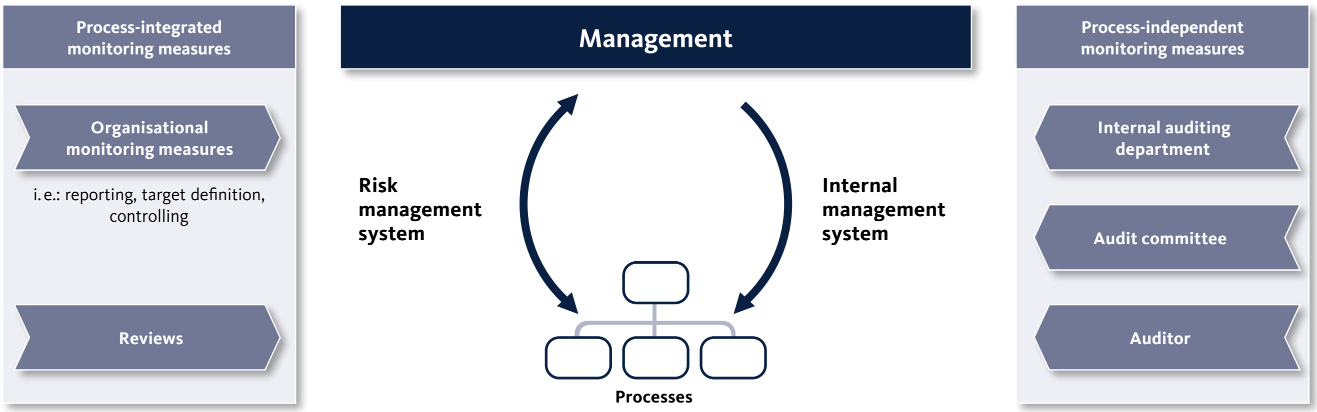
The regular elements in the Group's internal control system are aimed at an extensive automation of the formation and crosschecking of all relevant data, ranging from invoicing-relevant raw data via the invoicing of customers to value adjustments, accruals and depreciation. These automated controls are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

The Group audit department's annual review of the internal control system in 2012 yielded a picture of a comprehensive, constantly evolving internal control system wherein all the employees involved are very aware of the need and purpose of controls.

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

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

Figure 9: **freenet AG's internal control system**



Major risks

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

Market and competition risks

Mobile communications is by far the most important sector for the freenet Group in terms of both revenues and earnings. Accordingly, the most significant market and competitive risks arise from this sector. The telecommunications markets continue to be fraught with intensive competition and the customers' high willingness to switch. This can lead to shortfalls in revenue, to loss of market share and to pressure on margins in any given operation and/or can make it more difficult to gain market share.

Strong competition also leads to higher costs on new customer acquisition, while revenue continues to fall and customers are very ready to switch. Should this trend arise, this will have a negative impact on the company's assets, financial position and results. freenet AG strives to minimise its customers' readiness to switch with customer retention measures. If it does not succeed adequately at this, or only at inappropriate cost, this will have a negative impact on the company's assets, financial position and results.

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

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

As a result of the persistent competitive pressure it cannot be ruled out that there will be consolidation among mobile network operators. This could reduce competitive pressure and lead to a weakening of the service provider model. The pressure on prices and margins in the German B2C market for mobile communication services is exacerbated by the steadily growing discount market. freenet AG also does business in this market with the “klarmobil”, “freenetmobile”, “callmobile” and “debitel-light” brands, in order to participate in this growth market.

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

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

Consumers may be contacted by phone for advertising purposes only after explicit prior agreement (known as “OPT-IN”). Consumers have to explicitly agree to their information being used for promotional purposes. Apart from new customer acquisition, this new regulation considerably impacts the management of existing customers, as many existing customers did not explicitly give their agreement. It is since then no longer possible to phone these customers for purely promotional purposes.

The loss of sales channels and partners could also lead to gross activations at other existing or new partnerships that would have to be implemented at higher terms or could possibly not be renewed.

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

On the basis of the Act to amend Telecommunications Legislation dated 3 May 2012, waiting times for the customer service hotline will be free of charge from June 2013. This could have a negative impact on the company’s results.

According to a Kiel district court ruling, which has since been confirmed by the Higher District Court of Schleswig, freenet AG cannot charge a fee to customers after termination and the end of the lease term if they did not send their SIM card back to freenet AG in time. Upon confirmation of the ruling in possible appeal proceedings, this could have an adverse impact on the company’s assets, financial position and results.

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

The Bundesnetzagentur (Federal Network Agency) is currently reviewing Deutsche Telekom's obligation to offer call-by-call and preselection services for its lines. If there is no such obligation, this could have negative implications for the company's net assets, financial position and results of operations.

Technical infrastructure

Maintaining the operational availability and efficiency of the technical infrastructure, including the company's data centres and billing systems, is of major importance for successful business operations and its continuity. Network outages or service problems caused by system faults or failures can lead to the loss of customers and also result in financial losses for the company.

Tax risks

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

The risk of divergent interpretations and valuations applies in particular to any restructuring of corporate legal status. Therefore it cannot be totally ruled out that the corporation and trade tax loss carryforwards declared by the companies in the freenet Group, and also so far assessed by the fiscal authorities, could wholly or partially be lost through contributions, other transactions involving changes of corporate form, capital inflows and changes in the composition of shareholders.

If within five years 25 percent or more of the shares or voting rights in the company come to be directly or indirectly held by a single shareholder or by several shareholders with parallel interests (harmful acquisition of shares), the company's negative income (corporation and trade tax loss carryforwards) not settled or deducted by the time of the harmful acquisition could be lost in part or as a whole, in accordance with section 8c KStG, if applicable in conjunction with section 10a (9) GewStG. Shares are considered to be united in a single shareholder if they are transferred to a buyer, to persons close to the buyer or to a group of buyers with parallel interests.

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

Financial risks

We use a variety of financing instruments to reduce the liquidity risk. The liabilities to banks shown under borrowings stem first from a variable-interest syndicated loan (shown on the books as at 31 December 2012: 119.9 million euros), and from a fixed-coupon corporate bond (shown on the books as at 31 December 2012: 416.5 million euros), which were implemented as part of the refinancing in April 2011. As of 31 December 2012, the Group's liabilities to banks resulting from the new promissory note signed in December 2012 were shown on the books as totalling 119.4 million euros—a 55.7 million euro variable-interest tranche and 63.7 million euros distributed to two separate fixed-interest tranches. In addition, the Group has a revolving credit line totalling 100 million euros, which had not been drawn down by the end of the year. The covenants of the credit agreements restrict the company's financial leeway.

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

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

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

With regard to variable-interest financial debt, our company is subject to interest rate risks largely in relation to the EURIBOR. The company counters these risks by having a mix of fixed- and variable-interest financial debt. Risks arising from changes in interest rates for the variable syndicated loan are secured with an interest cap that runs through 31 July 2013. From that date on, the interest rate risks are no longer explicitly secured; however the cash holdings (which are mainly invested at variable interest rates based on EONIA or EURIBOR) serve as a natural hedge and accordingly mitigate the interest rate risks arising from the variable-interest financial debt.

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

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

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

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

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

Legal risks

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

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

In November 2002, mobilcom AG, being the company's legal predecessor, and a number of other former mobilcom Group companies entered into a settlement agreement with France Telecom and associated companies. The validity of this settlement agreement is being challenged by a number of individual shareholders.

The company considers the agreement to be valid and has no indication that France Telecom does not feel bound by it. However, were the view of these shareholders to be legally upheld, it should be anticipated that France Telecom will claim from the company the sum of 7.1 billion euros, which it waived as part of the agreement, and will contest the grounds and amounts of any counterclaims the company may make.

Some individual shareholders hold the view that the capital increase through contribution in kind of mobilcom AG, the company's legal predecessor, in November 2000 was flawed and/or that the contribution in kind rendered was not of any value, with the consequence that on the one hand the company would still be entitled to compensation claims against France Telecom running into billions and further that the shares issued to France Telecom would have had no voting rights. It is the company's understanding that the capital increase through contribution in kind was performed in a valid manner. The company therefore likewise assumes that this will also have no impact on the share evaluation review proceedings.

Forecast

Market development 2013

The International Monetary Fund (IMF) currently estimates that the global economy will grow by 3.5 percent in 2013, which represents an increase of +0.1 percentage points over the forecast published in its World Economic Outlook in October 2012. The revised expectations are subject to the condition that the euro zone economy actually recovers in the current year as was most recently generally expected. At the same time the decrease of yield spreads of euro zone countries' government bonds will only have a delayed positive impact on credit terms for the private sector. Accordingly, the IMF forecasts a 4.1-percent increase in global economic performance for 2014.

The IMF believes there is no end to the recession in sight in the euro zone in 2013, although measures to combat the crisis have shown initial success. Nevertheless, the IMF revised its October forecast of 0.2 percent GDP growth downwards at the beginning of this year and now expects a 0.2 percent fall in GDP in the euro area for 2013. For 2014, a 1-percent increase in European economic performance is currently expected.

The outlook for Germany in January was also revised sharply downward. For the current year, the IMF currently expects GDP growth of only 0.6 percent in Germany, while in October 2012 a growth rate of 0.9 percentage points was forecast. For 2014, the IMF expects GDP growth to rise 1.4 percent.

The VATM industry association and consulting firm Dialog Consult expect a slight fall in the German telecommunications market in 2013. Overall, a decrease in total revenues of 1 to 2 percent is expected. This estimate is based on the assumption of continued declining mobile termination fees and continuing price competition in the broadband market. By contrast, mobile data usage in the mobile communications industry will continue to grow in 2013 according to VATM and Dialog Consult.

The market researchers believe network expansion is another key topic and will continue to be advanced in 2013, especially with regard to improved access for market participants to local transmitters.

The freenet Group

All of the freenet Group's divisions operate in highly competitive markets, with differences in growth rates and, in some cases, declining usage figures. The company currently anticipates the following developments for 2013 and 2014:

In its new customer business, the company will continue to focus on adding high-value customers, while further developing its customer loyalty measures and gearing them towards additional quality improvements. In the past this has led to a reduction in the overall customer base, primarily as a result of reducing the customer base in the prepaid sector. The company expects a moderate increase in the customer base for 2013 and 2014 in the customer ownership sector (postpaid and no-frills), an important indicator for the company. The company is attempting to counter the expected price erosion and resulting decrease of ARPUs in the mobile communications market by improving the quality of its customer base and an increased marketing of data tariffs in conjunction with the increased demand for smartphones. For financial year 2013 and 2014, the company expects postpaid ARPU to stabilise at around 23 euros.

The company also aims to grow its Group revenue in 2013, followed by further moderate growth in 2014. Crucial factors here are our expectations of a slight increase in the contract customer base, the continued successful marketing of valuable postpaid contracts in conjunction with data products, and the marketing of high-quality devices.

The acquisition of Gravis – Computervertriebsgesellschaft mbH, Berlin, completed in the first quarter of 2013, represents an important complement to our strategic development into a digital lifestyle provider of high quality Apple products.

The company is aiming for Group EBITDA of 355.0 million euros in 2013 and 360.0 million euros in 2014, and free cash flow of 255.0 million euros and 260.0 million euros respectively.

In accordance with the dividend policy adopted by the Executive Board in early 2013 and agreed by the Supervisory Board, between 50 and 75 percent of free cash flow will be paid out in future as dividends.

Because of its established market position in the German mobile communications market, its very scalable business model, good capital structure and steady cash flow, the company will continue to rely on its conservative and risk-conscious treasury policy going forward. In financial year 2013 and 2014, investments will remain at the previous year's level.

Overall statement on the expected development of the Group

Given the stabilisation of the valuable postpaid and no-frills customer base initiated in 2011, and the gradual expansion of the digital lifestyle offer initiated at the end of 2012, the freenet AG Executive Board expects a positive overall development of the company. The company will continue its focus on valuable customer relationships.

Ensuring and expanding sustainable profitability and a strong cash flow are key elements of this business strategy. The organic and inorganic development of additional fields of activity related to expanding the portfolio and the company's sales channels is also being evaluated, close to the core business and in line with strictly defined profitability and investment objectives.

Büdelsdorf, 4 March 2013
The Executive Board

Christoph Vilanek Joachim Preisig Stephan Esch


Sony Xperia sola
5 MP-Kamera
Dual-Core-Prozessor
Android 2.3
NFC
Kaufpreis ab:* € 1,00
* Mehr Infos zur Laufzeit und zu den weiteren Kosten erhalten Sie hier im Shop!
mobilcom
Sony Ericsson Arc S
8 MP
WLAN
bis 32 GB Speichermöglichkeit
Barpreis 399,95€
Kaufpreis ab:* € 1,00
mobilcom

Consolidated financial statements

The consolidated financial statements of financial year 2012 have been prepared in accordance with IFRS by the International Accounting Standards Board (IFRS) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC).

Overview

Consolidated income statement and consolidated statement of comprehensive income

for the period from 1 January to 31 December 2012

Figures in €'000s	Note	1.1.2012 –31.12.2012	1.1.2011 –31.12.2011 adjusted[1]
Revenue	4	3,089,032	3,266,619
Other operating income	5	58,942	86,857
Other own work capitalised	6	7,049	10,838
Cost of materials	7	–2,365,803	–2,550,825
Personnel expenses	8	–161,022	–162,918
Depreciation and impairment write-downs	9	–148,823	–168,898
Other operating expenses	10	–276,135	–314,275
Operating result		**203,240**	**167,398**
Share of results of associates	18	5,766	1,087
Interest receivable and similar income	11	2,695	4,956
Interest payable and similar expenses	12	–44,783	-56,102
Result before taxes on income		**166,918**	**117,339**
Taxes on income	13	6,271	26,509
Group result from continued operations		**173,189**	**143,848**
Group result from discontinued operations	25	**0**	**140**
Group result		**173,189**	**143,988**
Group result attributable to shareholders of freenet AG		173,098	143,764
Group result attributable to non-controlling interest		91	224
Earnings per share in € (undiluted)	14.1	**1.35**	**1.12**
Earnings per share in € (diluted)	14.2	**1.35**	**1.12**
Earnings per share from continued operations in € (undiluted)	14.1	1.35	1.12
Earnings per share from continued operations in € (diluted)	14.2	1.35	1.12
Earnings per share from discontinued operations in € (undiluted)	14.1	0.00	0.00
Earnings per share from discontinued operations in € (diluted)	14.2	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)		128,061	128,061
Weighted average of shares outstanding in thousand (diluted)		128,061	128,061

Figures in €'000s	1.1.2012 —31.12.2012	1.1.2011 —31.12.2011
Group result	**173,189**	**143,988**
Change in fair value of held-for-sale financial instruments	–45	–53
Taxes on income recognised directly in equity	13	16
Change in value recognised directly in equity	**–32**	**–37**
Consolidated comprehensive income	**173,157**	**143,951**
Consolidated comprehensive income attributable to shareholders of freenet AG	173,066	143,727
Consolidated comprehensive income attributable to non-controlling interest	91	224

1 The comparative figures have been adjusted due to a change of an accounting method, see items 2.1 and 2.18 of the notes to the consolidated financial statements.

Consolidated balance sheet

as of 31 December 2012

Assets

Figures in €'000s	Note	31.12.2012	31.12.2011
Non-current assets			
Intangible assets	15,16	357,407	485,325
Goodwill	15,16	1,116,862	1,116,868
Property, plant and equipment	15,16	28,427	29,280
Investments in associates	18	0	3,060
Other investments	19	1,605	1,915
Deferred income tax assets	20	169,985	130,900
Trade accounts receivable	22	67,822	43,039
Other receivables and other assets	22	8,332	12,482
		1,750,440	**1,822,869**
Current assets			
Inventories	21	56,586	51,537
Current income tax assets	24	2,470	3,278
Trade accounts receivable	22	424,852	428,471
Other receivables and other assets	22	27,300	36,601
Cash and cash equivalents	23	205,224	185,673
Assets of disposal group classified as held-for-sale	25	7,350	0
		723,782	**705,560**
		2,474,222	**2,528,429**

Shareholders' equity and liabilities

Figures in €'000s	Note	31.12.2012	31.12.2011
Shareholders' equity			
Share capital	26.1	128,061	128,061
Capital reserve	26.2	737,536	737,536
Revaluation reserve		–13	19
Retained earnings	26.3	324,883	305,398
Capital and reserves attributable to shareholders of freenet AG		**1,190,467**	**1,171,014**
Capital and reserves attributable to non-controlling interest		370	279
		1,190,837	**1,171,293**
Non-current liabilities			
Trade accounts payable	28	272	407
Other payables	28	49	36,608
Borrowings	30	556,105	514,777
Pension provisions	31	26,197	25,428
Other provisions	32	9,872	11,173
		592,495	**588,393**
Current liabilities			
Trade accounts payable	28	412,781	399,370
Other payables	28	118,499	124,775
Current income tax liabilities	29	29,378	22,108
Borrowings	30	100,449	200,302
Other provisions	32	22,458	22,188
Liabilities of disposal group classified as held-for-sale	25	7,325	0
		690,890	**768,743**
		2,474,222	**2,528,429**

Schedule of changes in equity

for the period from 1 January to 31 December 2012

Figures in €'000s	Share capital	Capital reserve	Revaluation reserve	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1.1.2011	**128,061**	**737,536**	**56**	**268,811**	**1,134,464**	**0**	**1,134,464**
Dividend payment	0	0	0	–102,409	–102,409	0	–102,409
Initial consolidation of subsidiaries	0	0	0	0	0	55	55
Recognition of stock option liabilities connected to company acquisitions	0	0	0	–4,768	–4,768	0	–4,768
Group result	0	0	0	143,764	143,764	224	143,988
Change in fair value of held-for-sale financial instruments	0	0	–37	0	–37	0	–37
Sub-total: Consolidated comprehensive income	0	0	–37	143,764	143,727	224	143,951
As of 31.12.2011	**128,061**	**737,536**	**19**	**305,398**	**1,171,014**	**279**	**1,171,293**
As of 1.1.2012	**128,061**	**737,536**	**19**	**305,398**	**1,171,014**	**279**	**1,171,293**
Dividend payment	0	0	0	–153,613	–153,613	0	–153,613
Group result	0	0	0	173,098	173,098	91	173,189
Change in fair value of held-for-sale financial instruments	0	0	–32	0	–32	0	–32
Sub-total: Consolidated comprehensive income	0	0	–32	173.098	173,066	91	173,157
As of 31.12.2012	**128,061**	**737,536**	**–13**	**324,883**	**1,190,467**	**370**	**1,190,837**

Consolidated statement of cash flows

for the period from 1 January to 31 December 2012

Figures in €'000s	Note	1.1.2012 —31.12.2012	1.1.2011 —31.12.2011
Result from continued and discontinued operations before interest and taxes (EBIT)		**209,006**	**168,644**
Adjustments			
Depreciation and impairment on items of fixed assets	9	148,823	168,898
Share of results of associates	18	–5,766	–1,087
Income from the sale of subsidiaries	25	–333	0
Loss on disposals of fixed assets		365	1,106
Increase in net working capital not attributed to investing or financing activities	21,22,31, 32, 34.1	–46,797	–45,719
Other non-cash components		–24	–83
Income taxes paid	13, 20	–24,736	–29,735
Cash flow from operating activities	34.1	**280,538**	**262,024**
Investments in property, plant and equipment and intangible assets		–21,267	–22,495
Proceeds from the disposal of property, plant and equipment and intangible assets		694	1,433
Purchase of subsidiaries		0	–763
Proceeds from the sale of subsidiaries		382	0
Return of capital from associates	18	1,156	1,430
Proceeds from the sale of associates	18	7,669	0
Proceeds from the sale of other investments	19	152	0
Interest received		2,079	4,174
Cash flow from investing activities	34.2	**–9,135**	**–16,221**
Dividend payment		–153,613	–102,409
Proceeds from new borrowings	30	119,280	631,644
Cash repayments of borrowings	30	–80,239	–700,670
Interest paid		–34,548	–18,992
Cash flow from financing activities	34.3	**–149,120**	**–190,427**
Cash-effective change in cash and cash equivalents		**122,283**	**55,376**
Cash and cash equivalents 1.1.		**85,673**	**30,297**
Cash and cash equivalents 31.12.		**207,956**	**85,673**

Composition of cash and cash equivalents Figures in €'000s		31.12.2012	31.12.2011
Cash and cash equivalents of continued operations		207,956[1]	185,673
Liabilities as part of current finance scheduling due to banks		0	–100,000
		207,956	**85,673**

Composition of free cash flow Figures in €'000s		31.12.2012	31.12.2011
Cash flow from operating activities		280,538	262,024
Investments in property, plant and equipment and intangible assets		–21,267	–22,495
Proceeds from the disposal of property, plant and equipment and intangible assets		694	1,433
Free cash flow (FCF)		**259,965**	**240,962**

1 205,224 thousand euros are attributable to cash and cash equivalents, 2,732 thousand euros are attributable to non-current assets held-for-sale.

Notes to the consolidated financial statements of freenet AG for the financial year 2012

1. General information

1.1 Business activity and accounting standards

freenet AG (also referred to in the following as "the Company"), the Group's parent company (also referred to in the following as "freenet"), is registered in Büdelsdorf, Germany. The Company was originally founded in 2005 and was registered at the Amtsgericht (local court) Kiel under HRB 7306. The Group provides telecommunication services in Germany focussing on mobile communications/mobile internet.

The consolidated financial statements for the financial year 2012 were prepared in accordance with the IFRS of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC), as applied in the European Union as of 31 December 2012. The regulations of commercial law applicable in accordance with clause 315a HGB have additionally been taken into consideration.

The consolidated financial statements have been prepared in euros, the Company's functional currency. Corresponding to the respective indication, all figures are stated in thousand euros (€'000s) or million euros.

The consolidated financial statements have been prepared applying the historical cost convention—subject to the restriction that some financial assets are stated with their fair value. The annual financial statements of the companies included in the consolidated financial statements are subject to uniform accounting and valuation principles. They have all been prepared in relation to the balance sheet date of the consolidated financial statements.

The consolidated financial statements are submitted to the electronic Federal Gazette.

The following table shows the new or modified standards (IAS/IFRS) or interpretations (IFRIC), which are the subject of mandatory adoption with effect from 1 January 2012, or which have been the subject of early voluntary adoption since 1 January 2012, and their related impact on the Group:

Standard/Interpretation		Mandatory application	Endorsed by EU Commission	Effects
IFRS 7	Amendment to IFRS 7, Financial Instruments: Information Regarding Transfers of Financial Assets	1.7.2011	22.11.2011	No material effects

The following table shows the new or modified standards (IAS/IFRS) or interpretations (IFRIC) which are not yet the subject of mandatory adoption in the financial year 2012 and their probable impact on the Group:

Standard/Interpretation		Mandatory application	Adoption by EU Commission	Effects
IFRS 1	Amendments to IFRS 1, First-Time Adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	1. 1. 2013[1]	11. 12. 2012	None
IAS 12	Amendment to IAS 12, Realisation of Underlying Assets	1. 1. 2013[1]	11. 12. 2012	No material effects
IAS 19	Amendment to IAS 19, Employee Benefits	1. 1. 2013	5. 6. 2012	See notes to consolidated financial statements item 2.16
IAS 1	Presentation of Financial Statements—Presentation of individual items of Other Result	1. 7. 2012	5. 6. 2012	Presentation of consolidated statement of comprehensive income
IFRS 10	Consolidated Financial Statements	1. 1. 2014[1]	11. 12. 2012	Depending on the nature and type of future transactions
IFRS 11	Joint Arrangements	1. 1. 2014[1]	11. 12. 2012	Equity method mandatory for joint ventures; minor reduction of balance sheet
IFRS 12	Disclosure of Interests in Other Entities	1. 1. 2014[1]	11. 12. 2012	Disclosures in notes for interests in companies, incl. subsidiaries
IFRS 13	Fair Value Measurement	1. 1. 2013	11. 12. 2012	No material effects
IAS 27	Separate Financial Statements	1. 1. 2014[1]	11. 12. 2012	None
IAS 28	Investments in Associates and Joint Ventures	1. 1. 2014[1]	11. 12. 2012	No material effects
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1. 1. 2013	11. 12. 2012	None
IAS 32	Amendment to IAS 32, Financial Instruments: Offsetting Financial Assets and Financial Liabilities	1. 1. 2014	13. 12. 2012	No material effects
IFRS 7	Amendment to IFRS 7, Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities	1. 1. 2013	13. 12. 2012	No material effects
IFRS 9	Financial Instruments: Classification and Measurement of Financial Assets and Liabilities	1. 1. 2015	Pending	Subject to audit by management
IFRS 9 and IFRS 7	Amendment to IFRS 9 and IFRS 7: Mandatory Effective Date and Transition Disclosures	1. 1. 2015	Pending	No material effects
IFRS 1	Amendment to IFRS 1: Government Loans	1. 1. 2013	Pending	None
Various	Annual Improvements Project 2009 to 2011 - Improvements of IFRS	1. 1. 2013	Pending	Subject to audit by management
IFRS 10, IFRS 11 and IFRS 12	Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance for the Adoption of the Standards	1. 1. 2013	Pending	No material effects
IFRS 10, IFRS 12 and IAS 27	Amendments to IFRS 10, IFRS 12 and IAS 27: Exception from the Obligation to Consolidate Investment Entities	1. 1. 2014	Pending	None

1 Mandatory adoption in the EU detailed at this point differs from the IASB requirement.

From 1 January 2013, the company will voluntarily adopt the IFRS 11 standard ahead of time. Furthermore, the company does not plan to adopt the new standards ahead of time.

1.2 Consolidated companies

The consolidated financial statements include all companies with respect to which the Company is directly or indirectly in a position to determine the company's financial and business policies in such a way that the Group parent benefits from the activities of the company in question. For a complete list of all companies included in freenet AG's consolidated financial statements, please consult our disclosures in accordance with clause 315a HGB in item 38.

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

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

01019 Telefondienste GmbH, 01024 Telefondienste GmbH, freenet.de GmbH, freeXmedia GmbH, freenet Cityline GmbH, freenet Datenkommunikations GmbH, 01050.com GmbH, tellfon GmbH, 01083.com GmbH, new directions GmbH, freenet Direkt GmbH, mobilcom-debitel GmbH, MobilCom Multimedia GmbH, mobilcom-debitel Shop GmbH, DEG Logistik GmbH, Stanniol GmbH für IT & PR, MIDRAY GmbH, klarmobil GmbH as well as callmobile GmbH will take advantage of the exemption regulations specified in clause 264 paragraph 3 HGB for the annual financial statements for the period ending 31 December 2012.

1.3 Consolidation principles

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

Non-controlling interests in the companies are disclosed separately on the balance sheet.

The purchase method was applied to the capital consolidation.

Costs of purchase of a business combination are determined by the sum of the fair values of the rendered assets, the liabilities acquired and any equity instruments issued for acquisition purposes. In addition, the costs of purchase comprise the fair values of all recognised assets and liabilities which result from an agreement regarding a contingent consideration.

All of the acquired company's identifiable assets, liabilities and contingent liabilities meeting the recognition criteria of IFRS 3.37 will be disclosed separately at their fair value, irrespective of the extent of any non-controlling interests. For each company acquisition, the Group decides on an individual basis whether the non-controlling shares in the acquired company which are not controllable are recognised at fair value or on the basis of the percentage of net assets attributable to the acquired company.

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

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

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

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

Investments in associates are disclosed in the consolidated financial statements according to the equity method, whereby the recognised values of the holdings are increased or reduced by the proportion of the changes in the associate's equity capital which is attributable to the freenet Group. The percentage interest of the Group in profits and losses of associates is recognised in the income statement from the point at which the associate is acquired. Goodwill arising from the acquisition of associates is not disclosed separately.

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

2. Accounting and valuation methods

The following accounting and valuation methods were applied when preparing the consolidated financial statements. The accounting and valuation methods have been in principle consistently applied compared with the previous year. With regard to the only change, please refer to the following item 2.1.

2.1 Recognition of revenue and expenses

The Group mainly provides services for a short period. Revenue is recognised after the services have been rendered completely if the amount of revenue can be reliably determined and if it is probable that a future economic benefit will flow to the Company. Services rendered but not yet invoiced are accrued separately in the consolidated financial statements. Revenue is disclosed net of value added tax and cash discounts. Revenue comprises the fair value of the consideration which has been received or which will be received for the sale of products and services within the framework of normal business activities.

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

Supplementary notes on revenue recognition:

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

The costs of signing up customers, which consist mainly of the costs of acquiring the mobile devices as well as the dealer commissions, are recognised immediately as expenses when customers are signed up.

Certain end user contracts in the Mobile Communications segment are multiple-component contracts as detailed in IAS 18.13. The “relative-fair-value method” is used for revenue generated with multiple-component contracts. The Group applies the US-GAAP guideline ASC 605-25 (formerly EITF 00-21) in accordance with IAS 8.10 et seq. The price for the entire multiple-component business is broken down over the various valuation entities on the basis of the proportionate fair values. The extent of the revenue to be recognised in relation to the elements which have already been supplied is limited to the extent of the revenue which is not dependent on services to be provided in future (so-called “cash restriction”).

The Group receives commission revenue from the operators of the mobile communications networks particularly for new users who are signed up and for contract extensions. Commission revenue for new customers is recognised as soon as a new customer is provided with network access at a network provider. The commission claims are based on contractually defined qualitative and quantitative features, such as the number of new customers per quarter or the average revenue per user. In addition, advertising cost subsidies are also provided for some advertising campaigns by the network operators and, if the granting of the subsidies is linked to the new customers, these are recognised in the revenue. Where claims extend beyond the period in which the services were performed, commission revenue is accrued accordingly.

Since the financial year 2012, the Group has been using a modified method of accounting for agreements regarding the sale of mobile devices. Previously, in the case of certain transactions in the mobile field, a sale of mobile devices to dealers and distributors and a subsequent conclusion of an end user mobile agreement with a device component were recognised as related transactions. Based on the latest knowledge, the two legal transactions are now shown on the accounts separately. Thus, readers of the financial statements receive more reliable and more relevant information. This change of method does not have an impact on the net assets and financial position of the Group or on the results of the Group. Compared with the previous accounting treatment method, this merely involves a change of disclosure within gross profit: The revenue and the cost of materials are disclosed as comparatively higher amounts, and are increased by the same amount in each case. In these consolidated financial statements, there has accordingly been a retrospective adjustment of the comparison period for 2011 for the positions “Revenue” as well as “Cost of materials” in the consolidated income statement: As a result of the retrospective adjustment, revenue and cost of materials for 2011 have each been reported as 48,718 thousand euros higher than the figures disclosed in the published consolidated financial statements for 2011.

2.2 Borrowing costs, interest expenses and interest income

Borrowing costs are capitalised if a qualified asset exists. In the financial year 2012, no borrowing costs capable of being capitalised were incurred. Other borrowing costs are recognised as expense. The effective interest rate method is used for interest expenses and interest income.

2.3 Intangible assets

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

For this purpose, the goodwill is allocated to cash generating units. It is allocated to those cash generating units or groups of cash generating units which are expected to derive a benefit from the merger which gave rise to the goodwill. With regard to the specific breakdown, please refer to item 15, Intangible assets, property, plant and equipment and goodwill as well as item 16, Impairment test for non-monetary assets.

One trademark with a major residual carrying amount is an asset with an indefinite useful economic life which is not depreciated, and instead is subject to an impairment test once every year or if there are any indications of an impairment. An indefinite useful life has been chosen because no steady loss of value is discernible with respect to this asset, nor could any time limit be set on its useful life.

The other trademarks, on the contrary, have a definable useful life. These trademarks are carried at their historical cost and are depreciated over their expected useful economic life of 12 to 90 months on a straight-line basis. On the balance sheet date 31 December 2012, the remaining useful life of these trademarks was between 12 and 36 months.

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

Costs incurred in developing or maintaining software programs are usually recognised as expenses in the year they are incurred. Costs that clearly relate to a definable software product which can be used by the Company, and if the product's expected overall economic benefit is greater than the costs incurred are capitalised as intangible assets under the category "Internally produced software". For example, these costs include the personnel costs of the software development team or expenses on services and fees incurred in creating the asset. Development costs are not capitalised until the point in time when the product's technical and economic feasibility can be proven. Capitalised software development costs are subjected to straight-line depreciation over the duration of their prospective useful life of three to five years.

Customer relations are depreciated over a period of 42 to 66 months using the straight-line method. The main customer relations which have been shown in the consolidated financial statements of previous years and which were attributable to the purchase price allocation as part of the debitel acquisition had been almost completely written down on 31 December 2012.

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

2.4 Property, plant and equipment

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

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

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

Asset	Useful life
Buildings	9 to 33 years
Technical equipment and machinery	1 to 19 years
Motor vehicles	1 to 8 years
IT equipment	1 to 10 years
Telecommunications equipment and hardware	1 to 10 years
Leasehold improvements	1 to 15 years

2.5 Impairment of non-monetary assets

Non-monetary assets are always impaired if the book value exceeds the recoverable amount. The recoverable amount is defined as the higher of the fair value of the asset less costs to sell and the value in use.

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

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

2.6 Leases

2.6.1 Leases where the Group is the lessee

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

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

In accordance with IAS 17, the leased assets which are attributable to the Group as the beneficial owner under finance leases are capitalised with the lower of fair value of the leased asset and the present value of the minimum lease payments, and are depreciated over the shorter of their normal useful life and the term of the lease. Accordingly, the liability arising from the lease is shown as a liability and reduced by the repayment content of the leasing instalments which have already been made. The interest content of the leasing instalments is recognised directly in the income statement. As of the reporting date 31 December 2012, one agreement was classified as a finance lease—this agreement relates to the leasing of various items of software and hardware for our shops.

2.6.2 Finance leases where the Group is the lessor

When beneficial ownership of an asset is transferred to the contractual partner or customer, the Group shows a receivable due from the lessee in accordance with IAS 17. The receivable is shown in the amount of the net investment value at the time at which the contract is concluded. Lease instalments which are received are split into an interest component, which is recognized in the income statement, and a redemption component. The interest components are recognised as financial income spread over the relevant periods. As of the closing date 31 December 2012, there are no contracts in which the Group is classified as the lessor in finance leases.

2.7 Investments in associates

Equity investments in associates continue to be recognised via an individual financial statement prepared for the concerned associate in accordance with IFRS and the Group's accounting and valuation methods. With regard to the principles of consolidation using the equity method, please refer to item 1.3, Consolidation principles. After KielNET GmbH Gesellschaft für Kommunikation, Kiel, had been sold in the course of the year, no associated company was included in the consolidated financial statements of freenet as of the balance sheet date 31 December 2012.

2.8 Financial instruments

2.8.1 Definition and classification

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

- Financial assets measured at fair value through profit or loss
- Loans and receivables
- Held-to-maturity financial assets
- Available-for-sale financial assets
- Financial liabilities

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

2.8.2 Financial assets measured at fair value through profit or loss

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

There are no financial assets measured at fair value through profit or loss on the balance sheet date.

2.8.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. They arise if the Group provides money, commodities or services directly to a debtor without any intention of trading the receivables. They are included under current assets, with the exception of those which only fall due twelve months after the balance sheet date. The latter are shown under non-current assets. Loans and receivables are shown in the balance sheet under trade accounts receivable, in other receivables and other assets as well as in cash and cash equivalents.

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

Loans and receivables also include services which have been provided but which have not yet been billed but for which a contractual right exists.

2.8.4 Held-to-maturity financial assets

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

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

2.8.5 Available-for-sale financial assets

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

Shares in affiliated companies, investments and securities are considered to be available-for-sale financial assets. The available-for-sale financial assets which existed on the balance sheet date are shown in the other financial assets as well as the other receivables and other assets.

2.8.6 Financial liabilities

Financial liabilities are based on contractual agreements regarding the payment of liquid assets or the rendering of other financial assets to a third party. A financial liability is recognised when freenet becomes contractual partner.

The financial liabilities as of the balance sheet date are disclosed in the trade accounts payable, financial debt and the other liabilities and deferred items.

2.8.7 Measurement of financial instruments

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

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

Financial assets measured at fair value through profit or loss are subsequently measured at fair value. Any profit or loss resulting from the subsequent measurement of financial assets measured at fair value through profit or loss is taken to the income statement. Interest swaps and caps are derivative financial instruments and are used for hedging the risks of rising interest rates for financial liabilities. Since freenet does not maintain complete documentation and also does not carry out an effectiveness test, the interest swaps and caps are not shown as "hedge accounting" in accordance with IAS 39. Changes in fair value are thus immediately recognised in the income statement.

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

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

After initial recognition, available-for-sale financial assets are shown with their fair value, whereby unrealised profits or losses are recognised directly in other result, under the revaluation reserve. Dividends attributable to available-for-sale equity instruments have to be shown in the income statement as other income at the point at which the legal claim of the Group for payment arises.

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

When initially recognised, financial liabilities are shown with the fair value of the consideration received less the transaction costs associated with borrowing. In the following period, the financial liabilities are shown at amortised cost using the effective interest method. Profits and losses are recognised in the income statement when the liabilities are derecognised or amortised. Non-current liabilities are shown at amortised cost. Any differences between historical cost and the repayment amount are recognised in accordance with the effective interest method. Current liabilities are shown in the amount due for repayment or fulfilment. Loan liabilities are classified as current liabilities provided that the Group does not have the unconditional right to postpone settlement of the liability to a point in time no earlier than twelve months from the balance sheet date. Derivative financial instruments are measured on the basis of future cash flows. Accordingly, derivative financial instruments can also be shown as financial liabilities. Financial liabilities arising from finance leases are shown at the present value of the minimum lease payments.

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

2.8.8 Impairment of financial assets

On every balance sheet date, a check is performed to determine whether there are any objective indications of an impairment of a financial asset or a group of financial assets. In the case of equity instruments that are classified as available-for-sale financial assets, a significant and permanent decline in the fair value to a level below the costs of these equity instruments is considered to be an indication that the equity instruments are impaired. If there is such an indication in relation to available-for-sale assets, the cumulative loss—measured as the difference between the carrying amount and the present value of the estimated future cash flows—is derecognised from equity and shown in the income statement. Once impairments of equity instruments have been recognised in the income statement, they are not subsequently reversed.

Unlisted shares which are classified as available-for-sale are an example of the equity instruments described in the previous paragraph. In the case of unlisted shares, any significant or continuing reduction in the fair value of the securities to a level below the cost of purchase of the shares has to be considered to be an objective indication of an impairment. If no market prices are available, other valuation methods are used, e. g. the DCF method, for establishing any impairment requirement.

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

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

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

2.8.9 Derecognition of financial assets

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

2.9 Inventories

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

2.10 Foreign currency transactions

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

Foreign currency transactions are translated into the functional currency using the exchange rates applicable on the date of the transaction. Profits and losses which result from the fulfilment of such transactions and also from the process of converting monetary assets and liabilities denominated in foreign currency as of the reference date are recognised in the income statement. Negligible volumes of foreign currency transactions occurred in the financial year 2012.

The results and balance sheet items of all Group companies which have a functional currency other than the euro are converted into euros using the modified reference date rate method. In the financial year 2012, no Group company had a functional currency which differed from the euro.

2.11 Shareholders' equity

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

2.12 Pension provisions

Pension provisions are measured and recognised in accordance with IAS 19 (1998). The pension provision shown in the balance sheet is equivalent to the actuarial present value of the defined benefit obligation on the balance-sheet date less the fair value of the plan assets adjusted by cumulative actuarial profits and losses which have so far not been shown in the income statement as well as subsequent service cost not shown in the income statement. The present value of the defined benefit obligation is calculated every year by an independent actuarial expert using the projected unit credit method. This method takes into account not only the pensions and acquired vested interests known on the balance sheet date; it also includes likely future increases in pensions and salaries.

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

Past service cost is immediately taken to the income statement, unless the changes in the pension plan depend on the employee remaining with the Company for a defined period (period until entitlement becomes vested). In this case, the past service cost is shown in the income statement using the straight-line method over the period until the rights become vested.

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

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

2.13 Other provisions

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

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

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

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

2.14 Employee participation programmes

The following employee participation programmes existed (or still exist) in the Group in the financial year 2012:

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

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

2.14.1 Stock appreciation rights of freenet AG

The stock appreciation rights issued by freenet AG are measured at the fair value of the stock appreciation rights which will probably become vested. These rights are exercised in return for payment of a cash amount equivalent to the difference between the relevant stock price and the strike price less taxes and charges. For details, please refer to our explanations to item 27.1, Stock appreciation rights of freenet AG.

2.14.2 LTIP programme

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

For this purpose, a separate LTIP account is maintained for every member of the Executive Board; this account is used for recording a debit or credit in the form of virtual shares for each financial year, depending on the degree of success in attaining certain objectives defined for the specific financial year. For each financial year, cash payments, less taxes and charges, are then made at a defined time, depending on the balance on the LTIP account. The extent of these payments depends on various factors, including the share price applicable at the time of the payment. The provision is measured at the fair value of the virtual shares which will probably become vested. For details, please refer to our explanations to item 27.2, LTIP programme of freenet AG.

2.15 Deferred and current taxes on income

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

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

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

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

2.16 Discretionary decisions, based on future events and uncertainties in estimates
The presentation of net assets, financial position and results of operations in the consolidated financial statements depends on the recognition and valuation methods as well as assumptions based on future events and uncertainties in estimates. The actual amounts which occur may differ from the original estimates. The major estimates and related assumptions set out in the following as well as the uncertainty associated with the chosen accounting policies are of crucial importance for a correct understanding of the underlying risks of financial reporting as well as the impact which these estimates, assumptions and uncertainties might have on the consolidated financial statements.

The valuation of property, plant and equipment and intangible assets is based on estimates for determining the fair value at the time of acquisition if the assets are acquired as part of a business combination. The anticipated useful life of such assets also has to be estimated.

With regard to the assumptions based on future events made within the framework of the tests relating to potential goodwill impairments (book value as of 31 December 2012: 1,116.9 million euros; previous year: 1,116.9 million euros) as well as impairments of intangible assets with an indefinite useful economic life (book value as of 31 December 2012: 293.3 million euros, previous year: 293.3 million euros), please refer to item 16, Test for impairment of non-monetary assets. A sensitivity assessment regarding the impairment test for the assets allocated to the cash-generating unit (referred to in the following as CGU) "Mobile Communications" has established that the fair value less costs to sell would decline by approx. 254 million euros if the WACC were increased by 0.5 percentage points and would increase by approx. 301 million euros if the WACC were to decline by 0.5 percentage points and that, if earnings before interest and taxes (EBIT) were to be reduced or increased by 10 percent in the planning period, the fair value less costs to sell would decrease by 575 million euros (if the WACC were to be increased by 0.5 percentage points) or increase by 680 million euros (if the WACC were to be reduced by 0.5 percentage points); this would not result in any impairment with regard to the assets allocated to this CGU.

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

With regard to the trade accounts receivable that are attributable to multiple-component agreements relating to the facility for end customers to select more valuable mobile units in return for an additional monthly payment (mobile option), and in order to determine the fair value of these receivables, assumptions have been made regarding the interest rate applicable for commensurate terms and levels of risk in order to determine the present value of the expected future cash flows arising from these agreements. This interest rate takes account of the maturity as well as the default risk of these receivables. A sensitivity analysis in relation to this interest rate has established that these receivables would have been 0.8 million euros lower if the interest rate had increased by 0.5 percentage points and would have been 0.8 million euros higher if the interest rate had declined by 0.5 percentage points.

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.

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

With regard to the creation of the provision for contingent losses for any vacancy of rented shops and office buildings, assumptions have been made in relation to the possibility of these areas being sublet in future. With regard to the valuation of the provision for contingent losses for reducing the landline/internet network, an assumption has been made for to the remaining terms of certain rental agreement and thus the extent of future losses in this field.

With regard to the assumptions and estimates made in the Black-Scholes model used for determining the provisions for outstanding stock appreciation rights as well as the valuation model for establishing the provision for the LTIP programme (in each case according to IFRS 2) as of 31 December 2012, please refer to item 27, Employee participation programmes.

With regard to pension provisions and similar obligations, item 31 describes how forward-looking assumptions have been made for the valuation of the provisions for pensions and similar obligations. This involves the recognition of a discount rate, the trend in pensions, the assessment of the future development of the pensionable income of the beneficiary as well as an assessment of an expected return on the plan assets. The result of a sensitivity assessment is that, if the discount rate increases by 1.00 percentage points, the present value of the funded and unfunded obligations declines by 8,635 thousand euros and, if the discount rate declines by 1.00 percentage points, the present value of the funded and unfunded obligations would be 11,548 thousand euros higher. The modified IAS 19 (2011) which has been the subject of mandatory adoption since 1 January 2013, with the abolition of the corridor method, will involve a considerable increase in pension provisions for freenet, whereby the adjustment as of 1 January 2013 (pension provisions increased by 18,789 thousand euros) will be recognised directly in equity via the reserve for changes in value.

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

The deferred tax assets relating to losses carried forward are based on corporate planning which recognises forward-looking assumptions, for instance with regard to macro-economic developments as well as the development of the telecommunications market. With regard to the extent of the capitalised deferred taxes on losses carried forward and also the extent of the losses carried forward in relation to which no deferred tax assets have been recognised, please refer to item 20, Deferred tax assets and deferred tax liabilities. A sensitivity analysis carried out in relation to the deferred tax assets has established that the deferred tax assets would increase by approx. 17.1 million euros if the trade income or corporation tax income were to increase by 10 percent in the relevant planning period, and that they would decline by approx. 17.1 million euros if the trade income or the corporation tax income were to decline by 10 percent in the relevant planning period.

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

Discontinued operations and available-for-sale long-term assets, which are classified as held-for-sale according to IFRS 5, are shown at the lower of book value and fair value less costs to sell if it is generally more likely that their book value can be realised by way of a sale than by way of further use. At the point of reclassification to the discontinued operations and available-for-sale long-term assets, depreciation of the corresponding assets is no longer calculated.

The available-for-sale assets or the available-for-sale group of assets are reclassified as "Continued operations" when the criteria of IFRS 5 are no longer satisfied. The assets or the group of assets are shown at the lower of book value less depreciation or revaluations which would have been carried out if the assets or group of assets had not been classified as "discontinued operations" and the recoverable amount at the time of reclassification. The adjustments to the revaluation of the group of assets are shown in the income statement as part of continued operations.

2.18 Comparable figures

In these consolidated financial statements, the previous year comparison figures have been retrospectively adjusted in view of a change in the method of recognising the revenue as well as the cost of materials. Please refer to our comments under item 2.1, Recognition of income and expenses. This change of method does not have an impact on the net assets and financial position of the Group or on the results of the Group. Compared with the previous accounting treatment method, this merely involves a change of recognition within gross profit.

3. Segmental reporting

In accordance with IFRS 8, and on the basis of internal management, operating segments have to be distinguished from Group segments whose operating results are regularly reviewed by the main decision-making body of the Company with regard to decisions relating to the allocation of resources to this segment and the measurement of its profitability.

The Executive Board organises and manages the Company as main decision maker on the basis of the differences between the individual products and services offered by the Company. Because the Group exercises its business operations almost exclusively in Germany, there is no organisation and management based on geographical regions. The Group operated in the following operating segments in 2012:

Mobile Communications:

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

Other:

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

Each of the two segments also provide (or used to provide) services to the other segment. These services are charged on the basis of transaction prices which are usual on the market.

Income and expenses are allocated to the segments on the basis of selected criteria and economic relevance. As in the previous year, it was possible in the financial year 2012 for all expenses and income to be clearly allocated to the two segments "Mobile

Communications" and "Other" by allocating the individual consolidated Group companies to one of the segments.

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

A breakdown of third-party revenue by individual products or services is not available.

The freenet Group operates mass business which focuses primarily on private customers. The Group is accordingly not dependent on individual customers.

Segment report 1 January to 31 December 2012

Figures in €'000s	Mobile Communications	Other	Elimination of intersegment revenue and costs	Total
Third-party revenue	**3,021,103**	**67,929**	**0**	**3.089,032**
Intersegment revenue	4,836	8,855	–13,691	0
Revenue, total	3,025,939	76,784	–13,691	3,089,032
Cost of materials, third party	**–2,332,790**	**–33,013**	**0**	**–2,365,803**
Intersegment cost of materials	–4,527	–4,744	9,271	0
Cost of materials, total	–2,337,317	–37,757	9,271	–2,365,803
Segment gross profit	**688,622**	**39,027**	**–4,420**	**723,229**
Other operating income	53,583	9,690	–4,331	58,942
Other own work capitalised	6,320	729	0	7,049
Personnel expenses	–131,986	–29,036	0	–161,022
Other operating expenses	–260,069	–24,817	8,751	–276,135
Share of result in associates	0	5,766	0	5,766
Segment EBITDA	**356,470**	**1,359**	**0**	**357,829**
Depreciation and impairment write-downs	–144,235	–4,588	0	–148,823
Segment EBIT	**212,235**	**–3,229**	**0**	**209,006**
Group financial result				–42,088
Taxes on income				6,271
Group result from continued operations				**173,189**
Group result from discontinued operations				**0**
Group result				**173,189**
Group result attributable to shareholders of freenet AG				173,098
Group result attributable to non-controlling interest				91
Investments in continued operations	**14,707**	**6,560**		**21,267**

Segment report 1 January to 31 December 2011 (adjusted)

Figures in €'000s

	Mobile Communications	Other	Elimination of intersegment revenue and costs	Effects regarding IFRS 5	Total
Third-party revenue	**3,194,635**	**71,984**	**0**	**0**	**3,266,619**
Intersegment revenue	3,788	5,571	–9,359	0	0
Revenue, total	3,198,423	77,555	–9,359	0	3,266,619
Cost of materials, third party	**–2,518,241**	**–32,584**	**0**	**0**	**–2,550,825**
Intersegment cost of materials	–3,328	–4,686	8,014	0	0
Cost of materials, total	–2,521,569	–37,270	8,014	0	–2,550,825
Segment gross profit	**676,854**	**40,285**	**–1,345**	**0**	**715,794**
Other operating income	76,132	15,206	–4,322	–159	86,857
Other own work capitalised	10,004	834	0	0	10,838
Personnel expenses	–134,377	–28,541	0	0	–162,918
Other operating expenses	–289,052	–30,890	5,667	0	–314,275
Share of result in associates	0	1,087	0	0	1,087
Segment EBITDA	**339,561**	**–2,019**	**0**	**–159**	**337,383**
Depreciation and impairment write-downs	–162,564	–6,334	0	0	–168,898
Segment EBIT	**176,997**	**–8,353**	**0**	**–159**	**168,485**
Group financial result					–51,146
Taxes on income					26,509
Group result from continued operations					**143,848**
Group result from discontinued operations					**140**
Group result					**143,988**
Group result attributable to shareholders of freenet AG					143,764
Group result attributable to non-controlling interest					224
Investments in continued operations	**19,806**	**2,689**			**22,495**

4. Revenue

A breakdown of revenue of 3,089 million euros (previous year: 3,267 million euros) over the segments is set out under item 3, Segment reporting.

Of external revenue generated in the Mobile Communications segment, 1,923 million euros (previous year: 2,037 million euros) relates to rentals and fees, 525 million euros (previous year: 591 million euros) relates to fees for premiums and commissions, and 552 million euros (previous year: 533 million euros) relates to the sale of mobile communications devices and accessories.

5. Other operating income

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

This item contains cash-effective income attributable to other periods due to agreed settlements involving a low seven digit amount.

6. Other capitalised own work

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

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

7. Cost of materials

The cost of materials is broken down as follows:

Figures in €'000s	**2012**	**2011**
Costs of purchased goods	560,487	580,870
Costs of purchased services	1,805,316	1,969,955
	2,365,803	**2,550,825**

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

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

8. Personnel expenses

Personnel expenses are broken down as follows:

Figures in €'000s	2012	2011
Wages and salaries	137,163	138,871
Social contributions and expenses for retirement pensions	23,859	24,047
	161,022	**162,918**

On average, 3,939 persons were employed in the Group in the financial year 2012 (previous year: 4,065). At the end of the financial year, the Group employed 3,886 persons (previous year: 4,057 persons).

The stock appreciation programme of the Company has resulted in personnel expenses increasing by 2,520 thousand euros in accordance with IFRS 2 (previous year: 1,381 thousand euros).

With regard to an explanation of the employee participation programme, please refer to our comments to items 2.14 and 27, Employee participation programmes.

Personnel expenses also comprise an expense of 513 thousand euros for defined benefit plans (previous year: 408 thousand euros), see also item 31, Pension provisions and similar obligations.

Personnel expenses include a figure of 11,284 thousand euros as the employer's social insurance contribution as costs of defined contribution benefit plans (previous year: 11,691 thousand euros).

9. Depreciation and impairments

The following table sets out the depreciation and impairments:

Figures in €'000s	2012	2011
Amortisation on intangible assets	138,448	154,581
Impairment write-downs on intangible assets	920	153
Depreciation on property, plant and equipment	9,190	12,630
Impairment write-downs on property, plant and equipment	113	1,136
Impairment write-downs on financial assets	152	398
	148,823	**168,898**

The impairments recognised in relation to intangible assets relate to a distribution right which will no longer be used in the future.

The impairment write-downs on financial assets relate to the investment in libri.de GmbH, Hamburg. Further information is included in item 19, Other financial assets.

The impairment write-downs shown in the previous year in relation to intangible assets and property, plant and equipment related to the reduction of network equipment in the fixed-network field, and mainly affected licenses, switches and line networks as well as technical equipment and machinery.

The impairment write-downs shown in the previous year in relation to financial assets relate to the investment in Pocketfilm Media Entertainment GmbH, Frechen.

The impairment costs of the financial year 2012 are primarily attributable to the segment “Mobile Communications”.

10. Other operating expenses

Other operating expenses mainly comprise marketing costs (112.1 million euros against 104.3 million euros in 2011), legal and consultancy costs, administration costs (e. g. rents and ancillary costs of the shops and administration building), costs of allowances and the write-off of receivables, costs of billing, outsourcing and postage.

In the financial year, costs of allowances and the write-off of receivables totalling 30,331 thousand euros (previous year: 36,831 thousand euros) were incurred. As in the previous year, these costs were fully attributable to trade accounts receivable.

An amount of 26,920 thousand euros (previous year: 32,141 thousand euros) was recognised in the income statement for rental and leasing contracts.

11. Other interest and similar income

Other interest and similar income consists of the following items:

Figures in €’000s	2012	2011
Interest receivable from banks, debt collection and similar income	2,596	4,923
Interest of tax refund	99	33
	2,695	**4,956**

12. Interest and similar expenses

Interest and similar expenses are broken down as follows:

Figures in €'000s	2012	2011
Interest payable and similar costs	36,489	41,086
Compounding of liabilities	6,248	12,371
Interest on pension obligations	1,551	1,560
Expense of market valuation of derivative financial instruments	12	792
Interest expense of additional tax payments	110	148
Other	373	145
	44,783	**56,102**

Of the figure for interest expenses shown for 2012 as a result of the compounding of liabilities, 5,392 thousand euros is attributable to the compounding of trade accounts payable, other liabilities and current income tax liabilities, and 856 thousand euros is attributable to the compounding of other provisions.

13. Taxes on income

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

Figures in €'000s	2012	2011
Current tax expenses for the financial year	–32,978	–24,898
Tax income for previous years	165	293
Deferred tax income due to the write-up of deferred tax assets	8,917	24,098
Deferred tax income due to temporary differences	30,790	26,997
Deferred tax expenses attributable to tax rate changes	–623	0
	6,271	**26,490**[1]

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

For further details concerning deferred taxes, please refer to item 20, Deferred tax assets and liabilities.

Applying the average tax rate of the consolidated companies to the consolidated result before taxes on income would result in anticipated tax expenses of 48.9 million euros (previous year: 34.5 million euros). The difference between this amount and the actual tax income of 6.3 million euros (previous year: 26.5 million euros) is shown in the following reconciliation.

Figures in €'000s	2012	2011
Results of continued and discontinued operations before taxes on income	166,918	117,498
Expected tax expense applying a tax rate of 29.3 percent (previous year: 29.4 percent)	–48,907	–34,544
Change in the allowance for deferred tax assets and non-recognised deferred tax assets in relation to losses carried forward	57,805	60,981
Tax effect of non-deductible expenses and tax-free income	–2,169	–240
Effects due to changes in tax rate	–623	0
Tax expense from previous years	165	293
Actual tax income	**6,271**	**26,490**[1]
Effective tax rate in percent	–3.76	–22.54

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

For the Group companies, a corporation tax rate of 15 percent (previous year: 15 percent) was used in the financial year 2012 for calculating the current and deferred taxes on income. A solidarity surcharge of 5.5 percent in relation to the corporation tax as well as an average trade tax assessment rate of 384.81 percent (previous year: 389.38 percent) were also used. The deferred taxes in the financial year 2012 were calculated with an average rate of 29.3 percent (previous year: 29.4 percent).

14. Earnings per share

14.1 Undiluted earnings per share

Undiluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation during the financial year. In future, it is possible that undiluted earnings per share might go down as a result of the possible utilisation of contingent capital. For further information we refer to item 26.5, Contingent capital.

	2012	2011
Group result attributable to shareholders of freenet AG in €'000s	173,098	143,764
Weighted average of shares outstanding	128,061,016	128,061,016
Earnings per share in € (undiluted)	**1.35**	**1.12**
Thereof from continued operations in €	1.35	1.12
Thereof from discontinued operations in €	0.00	0.00

14.2 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.

As per 31 December 2012 there are neither dilution effects nor potential dilution effects.

	2012	2011
Group result attributable to shareholders of freenet AG in €'000s	173,098	143,764
Weighted average of shares outstanding	128,061,016	128,061,016
Potential number of diluting shares	0	0
Weighted average of shares outstanding plus number of diluting shares	128,061,016	128,061,016
Earnings per share in € (diluted)	**1.35**	**1.12**
Thereof from continued operations in €	1.35	1.12
Thereof from discontinued operations in €	0.00	0.00

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

Movements in property, plant and equipment and intangible assets are shown in the consolidated statement of movements in non-current assets.

The main book value of intangible assets relates to trademarks attributable to the purchase price allocation on the occasion of the acquisition of the debitel Group in the financial year 2008.

The following table sets out the book values of these trademarks and customer relations, which were significant in the previous year:

Figures in €'000s	31.12.2012	31.12.2011
Trademarks	307,286	312,127
Customer relations	2,123	99,233
	309,409	**411,360**

In addition to the trademarks and customer relations from the debitel acquisition, further intangible assets of 48.0 million euros are shown as of 31 December 2012 (31 December 2011: 74.0 million euros).

Impaired intangible assets existed as of 31 December 2012. Software is impaired as a result of the reduction of network technology, and rights to use software are impaired as a result of the intended limited use.

The goodwill recognised in relation to CGUs is broken down in the following:

Figures in €'000s	31.12.2012	31.12.2011
Mobile Communications	1,111,830	1,111,830
Other	5,032	5,038
	1,116,862	**1,116,868**

The decrease of 6 thousand euros shown under "Other" relates to the initial consolidation of 4Players GmbH, Hamburg (also referred to in the following as "4Players"). Please refer also to item 25 of these notes to the consolidated financial statements.

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

16. Impairment test for non-monetary assets

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

Goodwill of 1,111,830 thousand euros was allocated to the CGU "Mobile Communications" (previous year: 1,111,830 thousand euros) and an intangible asset with an undefined service life of 293,204 thousand euros was allocated to a trademark (previous year: 293,204 thousand euros).

The fair value less costs to sell has been used as the recoverable amount of the "Mobile Communications" CGU. Planning which covers the period up to and including 2016 and which was approved by management was used for calculating the fair value. The detailed planning phase was extrapolated in the perpetual yield.

Planning is based on detailed assumptions derived from previous experience and future expectations in relation to the main result and value drivers. In principle, the gross profit of the "Mobile Communications" CGU can be broken down into two earnings flows, the contribution to results made by new customers and customer retention. These are opposed by the costs for purchased services, particularly with regard to the mobile network operators. The costs of acquiring and retaining customers dominate the contribution to earnings made by new customers and customer loyalty. This is opposed by costs for procuring the hardware and dealer commissions to be paid to sales partners as a result of the acquisition or loyalty programmes. freenet is assuming slightly reduced customer acquisition and slightly higher customer retention costs in the planning period as well as slightly lower equipment overheads. Furthermore, for 2013 and 2014 the company expects a slight growth of the customer base in the customer ownership sector (postpaid and no-frills) as well as a stabilisation of the postpaid ARPU at around 23 euros. For 2013 freenet strives for a Group EBITDA of 355.0 million euros and of 360.0 million euros in 2014 as well as a free cash flow of 255.0 million euros in 2013 and 260.0 million euros in 2014. The Group EBITDA as well as the free cash flow will mainly be generated within the CGU Mobile Communications.

The capitalisation rate after tax derived in relation to the specific risk structure of the CGU "Mobile Communications" on the basis of market data and used in the course of determining the fair value is 6.4 percent (previous year: 6.6 percent). With regard to the capitalisation rate in the subsequent phase (starting 2017), a discount of 0.5 percent has been assumed as a result of growth assumptions (previous year: 0.5 percent).

The impairment test 2012 carried out in relation to the "Mobile Communications" CGU established that no impairment has to be recognised in relation to the allocated goodwill as well as the trademark with an indefinite useful life.

In the financial year 2012, impairments of 1,185 thousand euros (previous year: 1,687 euros) were recognised in relation to non-monetary assets for the continued operations—please refer to item 9, Depreciation and impairments.

17. Joint ventures

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

The following assets, liabilities, income and expenses are shown as of 31 December 2012 or in the financial year 2012:

Figures in €'000s	**FunDorado GmbH**	**Attributable to the Group**
Current assets	2,837	1,419
Non-current assets	1,967	984
	4,804	**2,402**
Current liabilities	2,089	1,045
Non-current liabilities	76	38
	2,165	**1,082**
Income	9,112	4,556
Expenses	8,199	4,100

The following assets, liabilities, income and expenses are shown as of 31 December 2011 or in the financial year 2011 for FunDorado:

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

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 2012. In the financial year 2012, FunDorado GmbH employed an average of 37 persons (previous year: 38).

Effective 13 October 2006, FunDorado GmbH acquired a 50 percent stake in NetCon Media s.r.o. based in Hlucin, the Czech Republic ("NetCon" in the following). The Company produces content which is designed to be used primarily in the fee-based internet portal of FunDorado. NetCon in turn owns a 100 percent stake in its sales company siXXup new Media GmbH, Pulheim ("siXXup" in the following). 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 2012, and the following assets, liabilities, income and expenses for the financial year 2012:

Figures in €'000s	Netcon Media s. r. o.	Attributable to the Group
Current assets	368	92
Non-current assets	324	81
	692	**173**
Current liabilities	128	32
Non-current liabilities	0	0
	128	**32**
Income	2,003	501
Expenses	1,936	484

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

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

In the financial year 2012, NetCon, including its subsidiary, employed an average of 8 persons (previous year: 7).

As of 31 December 2012, there were no contingent liabilities or capital commitments in connection with the Group interest in these companies.

18. Investments in associates

Until KielNET GmbH Gesellschaft für Kommunikation, Kiel ("KielNET" in the following) was deconsolidated in the financial year 2012, it accounted for all of the carrying amount of the investments in associates. The Group owned a 50 percent stake in this company. KielNET supplies telecommunication services within the license area in the Kiel region.

With the purchase agreement of 25 September 2012, which was completed on 25 October 2012, the freenet Group sold its investment in KielNET to Versatel Holding GmbH, Berlin, and thus took a further step in the direction of strategic portfolio streamlining. The interest of the freenet Group in the purchase price (incl. interest) amounted to 7,669 thousand euros, which was recognised in the income statement after the purchase agreement had been completed. No purchase price adjustments were agreed.

At the time at which it was deconsolidated, the book value of KielNET amounted to 2,905 thousand euros. The reduction of 155 thousand euros in the book value compared with 31 December 2011, in conjunction with a result of associated companies of 1,002 thousand euros shown in 2012 up to the point of deconsolidation, is due to the fact that, in 2012, a dividend distribution of 1,157 thousand euros was received from KielNET; this had been treated as a reduction in book value.

Last year, the difference between the purchase price and the most recently recognised book value (namely 4,764 thousand euros) was shown as profit from the disposal of KielNET. Overall, 5,766 thousand euros were recognised as the result of the companies accounted for using the equity method in 2012 with the current result and the disposal profit.

In segment reporting, KielNET was shown in the segment "Other".

19. Other investments

The other financial assets recognised as of the balance sheet date mainly comprise fixed-income bonds with long-term maturities of 1,027 thousand euros (previous year: 1,033 thousand euros); these serve as rental securities for shops and are measured at fair value. In addition, there is also a dormant holding with an unchanged carrying amount of 500 thousand euros which has been measured at cost of purchase.

In 2012, the interest in Libri.de GmbH, Hamburg, which was shown with a carrying amount of 304 thousand euros on 31 December 2011, was sold for a price of 152 thousand euros; the amount has already been received. There were no further sales of other financial assets in 2012.

An impairment of 100 percent was recognised in the financial year 2011 in relation to the investment in Pocketfilm Media Entertainment GmbH, Frechen, in view of the significantly poor prospects for earnings - this assessment had not changed as of 31 December 2012. The historical acquisition costs of this holding are stated as 398 thousand euros.

As of the balance sheet date, with the exception of the impairment in relation to Pocketfilm Media Entertainment GmbH made in 2011, no impairments had been created in relation to the other financial assets.

20. Deferred tax assets and liabilities

After temporary differences were taken into consideration, deferred tax assets and liabilities were calculated using the liability method with a total tax rate of 29.3 percent (previous year: 29.4 percent).

The following amounts are shown in the consolidated balance sheet:

Figures in €'000s	31.12.2012	31.12.2011
Deferred tax assets	169,985	130,900
Deferred tax liabilities	0	0
	169,985	**130,900**

The overhang of deferred tax assets which are recognised (170.0 million euros; previous year: 130.9 million euros) is classified as short-term (41.1 million euros; previous year: 37.7 million euros) and long-term (128.9 million euros; previous year: 93.2 million euros) as a result of the anticipated use of tax loss carry-forwards.

Change in the deferred tax assets and liabilities for the financial year 2012 are shown in the following table:

Changes in deferred tax assets and liabilities in 2012

Figures in €'000s	1.1.2012	Change in group of consolidated companies	Shown directly in other result	Income and expenses from taxes on income	31.12.2012
Property, plant and equipment	1,615	0	0	55	1,670
Intangible assets	–126,980	0	0	30,998	–95,982
Financial assets	–3	0	0	8	5
Loss carry-forwards	247,794	0	0	8,917	256,711
Provisions	7,343	0	0	–1,098	6,245
Other liabilities and accruals	–322	0	0	188	–134
Borrowings	–1,216	0	0	344	–872
Other	2,669	0	0	–327	2,342
	130,900	**0**	**0**	**39,085**	**169,985**

The income from income tax amounting to 39,085 thousand euros (previous year: 51,092 thousand euros) are shown in the consolidated income statement as follows:

Figures in €'000s	2012	2011
Taxes on income	39,085	51,092
Group result from discontinued operations	0	0
	39,085	**51,092**

The income tax expenses and income correspond to the sum of the deferred taxes on income attributable to continued and discontinued operations. In 2012, the income on income tax was attributable solely to continued operations.

The deferred tax assets and deferred tax liabilities developed as follows in the financial year 2011:

Changes in deferred tax assets and liabilities in 2011

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

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

Figures in €'000s	2012	2011
As of 1.1.	130,900	79,828
Change in group of consolidated companies	0	–36
Shown directly in other result	0	16
Tax income	39,085	51,092
As of 31.12.	**169,985**	**130,900**

The existing tax loss carry-forwards that can be carried forward without any restriction exceed the sum of the forecast cumulative result of the following financial years. Accordingly, the consolidated financial statements only recognise a deferred tax asset to the extent that it is considered to be probable that this asset will indeed be realised. The expected results are based on the Company's forecast for pre-tax result applicable as of the balance sheet date. As of 31 December 2012, deferred taxes of 256,711 thousand euros had been created in relation to loss carry-forwards (previous year: 247,794 thousand euros). Of this figure, 133,965 thousand euros (previous year: 128,637 thousand euros) is attributable to corporation tax loss carry-forwards and 122,746 thousand euros (previous year: 119,157 thousand euros) is attributable to trade tax loss carry-forwards. Of the figure shown for other loss carry-forwards, for which no deferred tax assets had been created in the consolidated balance sheet, 1.9 billion euros relate to corporation tax and 1.4 billion euros relate to trade tax (previous year: 2.0 billion euros corporation tax and 1.6 billion euros trade tax). As was the case on the previous year balance sheet date, there were no unreported interest carry-forwards in accordance with clause 4h paragraph 1 clause 2 of the German Income Tax Act (Einkommensteuergesetz).

As of 31 December 2012, there are temporary outside basis differences (net shareholders' equity according to IFRS is higher than the corresponding carrying amounts of investments shown for tax purposes) of approx. 40.7 million euros (previous year: approx. 46.7 million euros). No deferred taxes have been recorded in relation to these differences in view of the fact that they are not expected to reverse in the near future.

21. Inventories

Inventories are broken down as follows:

Figures in €'000s	31.12.2012	31.12.2011
Mobile devices/accessories	45,364	37,966
SIM cards	8,559	10,003
Bundles and vouchers	2,663	3,348
Other	0	220
	56,586	**51,537**

An impairment of 3,714 thousand euros (previous year: 3,206 thousand euros) has been recognised in relation to year-end stocks of inventories.

22. Receivables and other assets

Receivables and other assets are broken down as follows:

Figures in €'000s	31.12.2012	31.12.2011
Trade accounts receivable	492,674	471,510
Other assets	22,409	26,672
Advance payments	13,223	22,411
	528,306	**520,593**

Trade accounts receivable are due from external parties, and comprise mainly receivables attributable to fees, equipment sales and fixed network and internet services.

The total of trade accounts receivable and the other non-derivative financial assets, less allowances which had been recognised, amounted to 510,254 thousand euros as of 31 December 2012 (previous year: 485,852 thousand euros). For further information we refer to item 35, Additional information concerning financial instruments. In the freenet Group, the most significant item in this category are trade accounts receivable. These are due mainly from end customers, and to a lesser extent they are due from business customers, dealers and sales partners. Other assets and advance payments of

18,052 thousand euros (previous year: 34,741 thousand euros) consist of other assets, derivative financial assets or non-financial assets held-for-sale as of 31 December 2012.

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

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

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

As of 31 December 2012, trade accounts receivable and other non-derivative financial assets of 432,378 thousand euros (31 December 2011: 253,669 thousand euros) are neither impaired nor overdue.

Trade accounts receivable and other non-derivative financial assets of 13,699 thousand euros (31 December 2011: 8,010 thousand euros) are overdue but are not impaired. These receivables are due from various customers who have not defaulted in the past.

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

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

In the course of the financial year, income of 1,279 thousand euros was generated from the sale of receivables (previous year: costs of 0 thousand euros). All major risks and opportunities associated with ownership of these receivables were transferred to the buyer.

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

Figures in €'000s	Carrying amount 31.12.2012	Thereof: On closing date neither impaired nor overdue	Thereof: On closing date not impaired and overdue by		
			less than 90 days	between 91 and 180 days	more than 180 days
Trade accounts receivable	492,674	415,154	13,017	257	135
Other non-derivative financial assets	17,580	17,224	234	56	0
Total	**510,254**	**432,378**	**13,251**	**313**	**135**

Figures in €'000s	Carrying amount 31.12.2011	Thereof: On closing date neither impaired nor overdue	Thereof: On closing date not impaired and overdue by less than 90 days	between 91 and 180 days	more than 180 days
Trade accounts receivable	471,510	239,332	7,026	670	162
Other non-derivative financial assets	14,342	14,337	5	0	147
Total	**485,852**	**253,669**	**7,031**	**670**	**309**

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

Figures in €'000s	
Allowances recorded as of 31 December 2011	135,865
Allowances recorded as of 31 December 2012	132,651
Net reductions to impairments	**–3,214**

Figures in €'000s	
Allowances recorded as of 31 December 2010	129,018
Allowances recorded as of 31 December 2011	135,865
Net allocations to impairments	**6,847**

Of the figure shown for receivables and other assets, 248 thousand euros (previous year: 238 thousand euros) is attributable to related parties; please refer to item 36, Transactions with related parties.

23. Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

Figures in €'000s	31.12.2012	31.12.2011
Cash in hand and cash at banks	205,224	185,673
	205,224	**185,673**

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

Figures in €'000s	31.12.2012	31.12.2011
Liquid assets of continued operations	207,956	185,673
Liabilities as part of current finance scheduling due to banks	0	–100,000
	207,956	**85,673**

Of the figure shown for liquid assets in cash and cash equivalents, 205,224 thousand euros are attributable to liquid assets, and 2,732 thousand euros are attributable to non-current assets held-for-sale.

24. Current tax assets

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

25. Non-current assets held-for-sale, discontinued operations and sale of subsidiaries

There were no discontinued operations in the Group as of 31 December 2012—as was also the case as of the previous year reference date. However, in 2011, the income statement still included subsequent income of 140 thousand euros in the results of discontinued operations from the final deconsolidation of the former business area "Next ID", which had been sold with effect from 1 January 2011. In 2012—as was the case in 2011—, no cash inflows were attributable to the business area "Next ID" (and had not been shown in the consolidated statement of cash flows).

With the purchase agreement of 3 December 2012 and with effect from 31 December 2012, the Group sold its 100 percent holding in 4Players GmbH, Hamburg (referred to in the following as "4Players") to Computec Media AG, Fürth. 4Players operates the editorial games web site "4Players.de" as well as the "4Netplayers" server services and the "4Players Liga". In segment reporting, this company is included in the "Other" segment. A figure of 400 thousand euros was agreed as the purchase price (which is not subject to any subsequent adjustments); of this figure, 100 thousand euros was paid in the financial year 2012. The remaining 300 thousand euros will be paid (and recognised in cash flow) in the financial years 2013 to 2015. The sale of 4Players led to an outflow of liquid funds of 218 thousand euros, of other assets amounting to 316 thousand euros as well as debt amounting to 456 thousand euros. 4Players was deconsolidated as of 31 December 2012, so that the consolidated balance sheet did not include any assets and liabilities of this company as of 31 December 2012. The deconsolidation of 4Players resulted in a profit of 322 thousand euros, which is shown under the other operating income.

With the purchase agreement of 4 December 2012 and with effect from 1 January 2013, the Group sold its 100-percent holding in freeXmedia GmbH, Hamburg (referred to in the following as "freeXmedia") to Media Ventures GmbH, Cologne. In the field of online marketing, freeXmedia focuses on the issues of automotive, digital entertainment, sport and active living as well as the general interest portal freenet.de and social media. In segment reporting, this company is included in the "Other" segment. A figure of 4,080 thousand euros was agreed as the purchase price (which is not subject to any subsequent adjustments); of this figure, 500 thousand euros was paid in the financial year 2012. The remaining purchase price will be received and recognised in cash flow in the financial years 2013 and 2014. freeXmedia will be deconsolidated as of 1 January 2013. Accordingly, the assets and liabilities of freeXmedia are disclosed in the consolidated balance sheet as of 31 December 2012, albeit in the separate balance sheet item "Held-for-sale non-current assets" as well as "Liabilities in connection with the disposal of non-current assets". The following table sets out a breakdown of the individual assets and liabilities of freeXmedia as of 31 December 2012.

Assets and liabilities of freeXmedia GmbH as of 31 December 2012

Assets

Figures in €'000s	31.12.2012
Non-current assets	
Property, plant and equipment	21
	21
Current assets	
Trade accounts receivable	4,598
Liquid assets	2,731
	7,329
	7,350

Equity and liabilities

Figures in €'000s	31.12.2012
Current liabilities	
Trade accounts payable	6,839
Other liabilities and deferred items	486
	7,325
	7,325

The deconsolidation of the company will probably result in a profit of 4,009 thousand euros, which will be shown under the other operating income in the first quarter of 2013.

4Players and freeXmedia were sold as part of the policy of continuing the strategic portfolio streamlining process and as a result of the decision to concentrate on our core area of business mobile communications/mobile internet.

26. Shareholders' equity

26.1 Share capital

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

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

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

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

26.2 Additional paid-in capital

Major components of the additional paid-in capital reported as of 31 December 2012 comprised the capital increase in 2008 due to the acquisition of the debitel Group (349.8 million euros) as well as the merger between mobilcom AG and freenet.de AG to form freenet AG (which became effective in 2007) and the related acquisition of the minority shares in the former freenet.de AG (134.7 million euros).

26.3 Retained earnings

The retained earnings consist mainly of the cumulative group results attributable to the shareholders of freenet AG less the dividend payments. In the previous financial year 2011, 4,768 thousand euros attributable to the option were recognised, which was granted to the non-controlling shareholders as part of the acquisition of 51 percent of the shares in MFE Energie GmbH, Berlin ("MFE" in the following), for offering the remaining 49 percent of the MFE shares.

26.4 Authorised capital

No authorised capital existed as of 31 December 2012.

26.5 Contingent capital

In accordance with the resolution of the Annual General Meeting of 20 July 2007, the contingent capital of the Company was increased by up to 318,447 euros (contingent capital 2007). This contingent capital had been created for the stock option scheme of the former mobilcom AG, which however expired in the financial year 2011. Nevertheless, the contingent capital 2007 still existed as of 31 December 2012 after the proposal for adopting a resolution to cancel this contingent capital was not able to receive a majority of votes at the Annual General Meeting of the company on 9 May 2012.

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

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

27. Employee participation programmes

The Group offers the following employee participation programmes:

- Stock appreciation rights of freenet AG
- LTIP programme of freenet AG

27.1 Stock appreciation rights of freenet AG

In the course of 2006, freenet AG introduced a so-called stock appreciation programme by issuing a total of 5,145,000 stock appreciation rights (SARs) to senior executives, including former members of the Executive Board ("programme 1" in the following). Two further SAR programmes were issued in 2008: In a programme 2, 720,000 SARs were issued to senior executives as of 1 April 2008; 400,000 SARs were granted to Mr. Joachim Preisig as of 30 September 2008 on the occasion of his appointment to the Executive Board of freenet AG (programme 3). In the financial year 2009, 400,000 SARs were issued to Mr. Christoph Vilanek as of 1 May 2009 on the occasion of his appointment to the Executive Board (programme 4). In the financial year 2011, and with effect from 1 January 2011, the life of the still outstanding 300,000 SARs that had been granted to Mr. Stephan Esch as part of programme 1 was extended until 31 December 2014. For the sake of simplicity, these SARs have been reclassified from programme 1 to a separate programme 5.

The stock appreciation right programmes do not provide any authorisation to subscribe for shares; instead, they specify a cash payment for each stock appreciation right equivalent to the difference between the strike price and a base value, whereupon the strike price however is subject to a cap in the individual programmes. The strike price is the average share price of the company for the last 30 trading days prior to the exercise. The individual caps and the strike price for each programme are set out in the following table.

The value of dividend payments to the shareholders and other benefits for the shareholders are each deducted from the strike price in accordance with recognized methods for the total shareholder return approach. Subject to the condition that the employee is still employed by the Company, the shut-out period for 20 percent of the stock appreciation rights to which a beneficiary is entitled ends on 7 November of each year starting with 7 November 2006 for the first tranche (programme 1 and 5), on 1 April of each year starting with 1 April 2009 for the first tranche (programme 2) and on 31 August of each year starting with 31 August 2009 (programme 3), or on 29 April of each year starting with 29 April 2010 (programme 4), providing that certain targets have been attained.

For each first tranche of a programme, the relevant target is that the price of the company's shares must exceed the strike price (under the total-shareholder-return approach) by at least five percent (programmes 1 and 5) or by at least ten percent (programmes 2, 3 and 4) at least on one occasion in the period starting immediately when the corresponding stock appreciation rights become exercisable and ending with the expiry of the relevant program. For the stock appreciation rights of the tranches two to five, the percentage is incremented by five percentage points per tranche (programmes 1 and 5) or by ten percentage points per tranche (programmes 2, 3 and 4) up to a 25 percent increase in relation to the strike price for tranche 5 (programmes 1 and 5) and 50 percent increase in relation to the strike price for tranche 5 (programmes 2, 3 and 4).

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

The term of all stock appreciation rights ended on 2 February 2012 (programme 1) or is due to end on 1 April 2014 (programme 2), on 1 September 2014 (programme 3), on 1 May 2015 (programme 4) and 31 December 2014 (programme 5) respectively. The exercise period in each instance is defined as the period which commences 31 stock exchange trading days on the stock exchange in Frankfurt am Main after the end of the first Annual General Meeting of the Company after the end of the corresponding shut-out period until the end of the term.

On the balance sheet date 31 December 2012, the programme 1 had been terminated as a result of the end of its term, and programmes 3 to 5 had been terminated due to the exercising of all SARs; this means that only programme 2 is still running.

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

Programme 1	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2011	Issued	Exercised	Disposals	Expiry	Balance SARs 31.12.2012	Provisions 31.12.2012 in €'000s
Tranche 1	10.16	10.67	27.00	02.02.2012	9,000	0	0	7,000	2,000	0	
Tranche 2	10.16	11.18	27.00	02.02.2012	485,208	0	427,459	0	57,749	0	
Tranche 3	10.16	11.68	27.00	02.02.2012	485,208	0	0	0	485,208	0	
Tranche 4	10.16	12.19	27.00	02.02.2012	485,208	0	0	0	485,208	0	
Tranche 5	10.16	12.70	27.00	02.02.2012	485,208	0	0	0	485,208	0	
					1,949,832	**0**	**427,459**	**7,000**	**1,515,373**	**0**	**0**

Programme 2

	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2011	Issued	Exercised	Disposals	Expiry	Balance SARs 31.12.2012	Provisions 31.12.2012 in €'000s
Tranche 1	9.13	10.04	21.00	01.04.2014	25,817	0	7,567	0	0	18,250	
Tranche 2	9.13	10.96	21.00	01.04.2014	25,817	0	7,567	0	0	18,250	
Tranche 3	9.13	11.87	21.00	01.04.2014	25,817	0	5,567	0	0	20,250	
Tranche 4	9.13	12.78	21.00	01.04.2014	25,817	0	5,567	0	0	20,250	
Tranche 5	9.13	13.70	21.00	01.04.2014	25,817	0	0	2,000	0	23,817	
					129,085	**0**	**26,268**	**2,000**	**0**	**100,817**	**470**

Programme 3

	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2011	Issued	Exercised	Disposals	Expiry	Balance SARs 31.12.2012	Provisions 31.12.2012 in €'000s
Tranche 1	9.26	10.19	21.46	01.09.2014	80,000	0	80,000	0	0	0	
Tranche 2	9.26	11.11	21.46	01.09.2014	80,000	0	80,000	0	0	0	
					160,000	**0**	**160,000**	**0**	**0**	**0**	**0**

Programme 4

	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2011	Issued	Exercised	Disposals	Expiry	Balance SARs 31.12.2012	Provisions 31.12.2012 in €'000s
Tranche 1	5.80	6.38	18.00	01.05.2015	100,000	0	100,000	0	0	0	
					100,000	**0**	**100,000**	**0**	**0**	**0**	**0**

Programme 5

	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2011	Issued	Exercised	Disposals	Expiry	Balance SARs 31.12.2012	Provisions 31.12.2012 in €'000s
Tranche 2	8.96	9.86	27.00	31.12.2014	75,000	0	75,000	0	0	0	
Tranche 3	8.96	10.30	27.00	31.12.2014	75,000	0	75,000	0	0	0	
Tranche 4	8.96	10.75	27.00	31.12.2014	75,000	0	75,000	0	0	0	
Tranche 5	8.96	11.20	27.00	31.12.2014	75,000	0	75,000	0	0	0	
					300,000	**0**	**300,000**	**0**	**0**	**0**	**0**

The obligation arising from the stock appreciation rights programme was determined in accordance with IFRS 2 using an option price model (Black-Scholes model). In the financial year 2012, this programme resulted in an increase of 938 thousand euros in personnel expenses, 1,887 thousand euros of which is attributable to payments on account in the course of the financial year 2012, less a reduction of 949 thousand euros in the provision compared with 31 December 2011. The payments made in 2012 as a result of exercising amount to 51 thousand euros for an average exercise price of 10.28 euros for programme 1,98 thousand euros for an average exercise price of 12.86 euros for programme 2,375 thousand euros for an average exercise price of 12.44 euros for programme 3,571 thousand euros for an average exercise price of 11.99 euros for programme 4 as well as 793 thousand euros for an average exercise price of 11.60 euros for programme 5.

No new stock appreciation rights were granted in 2012. A provision of 470 thousand euros (exclusively of a short-term nature) was recorded for the outstanding stock appreciation rights from programme 2 as of 31 December 2012. As of 31 December 2012, 77,000 stock appreciation rights (namely the tranches 1 to 4) were exercisable out of the total of 100,817 outstanding stock appreciation rights of programme 2.

The range of option prices for each stock appreciation right is between 3.72 euros and 3.78 euros for programme 2.

The valuation parameters of the option price model were fixed as follows for programme 2 which is still running. The share price has been defined as the share price of the Company on the reference date (14.00 euros). The expected volatility was defined as 23.6 percent—it was determined using an estimate of the future performance of the share price of the Company taking account of a mean value between the historical volatility of matching maturities as well as the implied volatility of the shares of freenet AG. The risk-free interest rate was determined on the basis of the yield structure curve of German Federal Bonds as of the balance sheet date. As of 31 December 2012, this resulted in a risk-free interest rate of between 0.03 percent and 0.10 percent for the individual tranches of programme 2. For each of the measured tranches of the programme which is still running, the expected remaining term of the stock appreciation rights was determined as the remaining waiting time as of the valuation reference date plus half of the remaining term after the end of the waiting time is attained. Further parameters such as the relative success targets of the individual tranches of the programme have also been taken into consideration.

27.2 LTIP programme of freenet AG

In the financial year 2011, agreements granting long-term variable salary components (so-called LTIPs) were concluded in relation to the employment agreements with the members of the Executive Board. In addition to the annual target agreement, this involved a four-year target agreement with Group EBITDA of the next four financial years on the basis of the business plan, starting with the financial year 2011, as the target parameter. In the event of acquisitions which are financed by issues of new shares, the earnings targets are adjusted proportionately to the effective net dilution effect on the date on which the new shares are issued. A basic amount has been defined in the employment agreement of each beneficiary for this component of compensation; as described in the following, and in accordance with the target attainment in each financial year, this basic amount is recorded as a positive or negative amount in a virtual account of the respective member of the Executive Board, and is paid out in annual instalments, depending on the future development in value, assuming that a credit balance is shown. Basic amounts totalling 590 thousand euros in each case have been defined for each financial year for the beneficiaries.

If the Group EBITDA target is attained in a financial year, 100% of the basic amount is credited to the virtual account. If the Group EBITDA defined for 120 percent target attainment is achieved, 200 percent of the basic amount is credited to the virtual account. If the 120 percent target is exceeded, only 200 percent of the basic amount is credited to the virtual account. If the target attainment for the defined Group EBITDA is between the fixed 90 percent target and 100 percent, a percentage of the basic amount which is reduced on a linear basis is credited to the virtual account; if only 90 percent of the target is attained, nothing is recorded in the virtual account for the respective financial year. If Group EBITDA fails to meet the 90 percent target, a negative amount of up to max. 200 percent of the basic amount (if Group EBITDA is 80 percent of the target or less) is debited to the virtual account. The respective amount in the virtual account is converted into virtual shares. The basis for this calculation is the average Xetra closing price of the 20 exchange trading days after the day on which the consolidated financial statements for the relevant financial year are approved. Starting with the end of the second financial year after the introduction of this component of compensation, in relation to the crediting of a positive or debiting of a negative amount in the virtual account for the respective financial year, 25 percent of the account balance is paid out annually if the account shows a credit balance. For this purpose, the respective balance of virtual shares is in turn converted into cash on the basis of the average Xetra closing price of the 20 market trading days after the day on which the consolidated financial statements for the relevant financial year are approved. The share price increase is only recognised up to a share price of 25.00 euros (cap). For the purpose of conversion into virtual shares, dividend payments as well as circumstances for which dilution protection stipulations are applicable in the event of marketable financial instruments which depend on the share value have to be included in the calculation. If the virtual account shows a negative balance at the point at which a payment is due to be made, the member of the Executive Board will only receive a (further) payment when the negative amount has been cancelled out by success in attaining the corresponding target parameters for the subsequent year or the subsequent years.

The obligation arising from the LTIP programme has been determined at fair value in accordance with IFRS 2 in line with a recognised valuation model. The main parameters included in this valuation model are the share price of freenet AG as of the balance sheet date, the estimate of the percentage of target attainment for the respective financial year, the estimate of future share prices, the estimate of future payments out of the virtual accounts (derived from the two previous estimates) as well as the estimate of the discount rate.

The actual target attainment established for 2011 is 120 percent, so that 200 percent of the basic amount, equivalent to a total of 1,180 thousand euros, have been paid into the virtual accounts for the members of the Executive Board. After the consolidated financial statements 2011 had been approved, this amount was converted into virtual shares for the financial year 2011 based on an average share price of 11.85 euros. For 2011, this resulted in the contribution of 50,633 virtual shares for Mr. Vilanek, 33,755 virtual shares for Mr. Preisig and 15,190 virtual shares for Mr. Esch. Target attainment will also be 120 percent for the financial year 2012.

The LTIP programme has resulted in personnel expenses of 1,582 thousand euros in 2012. Since no payments had been made out of the LTIP programme as of 31 December 2012, these personnel expenses corresponds to the change in the provision which has been created—this amounted to a total of 2,528 thousand euros as of the balance sheet date.

28. Trade accounts payable, other liabilities and accruals

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

Figures in €'000s	31.12.2012	31.12.2011
Trade accounts payable	413,053	399,777
Advance payments received	72,127	78,899
Other liabilities and accruals	46,421	82,484
	531,601	**561,160**

For the purposes of the above table, the balance sheet item "Sundry liabilities and accruals" has been broken down into "Advance payments received" as well as "Other liabilities and accruals". Of the figure shown for liabilities, 701 thousand euros (previous year: 389 thousand euros) is attributable to related parties; please refer to item 36, Transactions with related parties.

Of the figure shown for liabilities, 531,280 thousand euros (previous year: 524,145 thousand euros) are due within the next twelve months. Liabilities of 288 thousand euros (previous year: 36,976 thousand euros) have a maturity of between one year and five years. Liabilities of 33 thousand euros (previous year: 39 thousand euros) have a maturity of more than five years. The advance payments received are shown in the balance sheet under the sundry liabilities and accruals.

51 percent of shares in MFE were acquired in 2011. The non-controlling shareholder has an option to offer the remaining 49 percent of shares on the freenet Group. A short-term other liability of 4,952 thousand euros was recognised for this option as of 31 December 2012.

For long-term other liabilities and accruals, the market value is approximately equivalent to the recognised book value after discounting.

The maturities of those liabilities which are shown in the categories trade accounts payable and non-derivative financial other liabilities and accruals are as follows: 457,292 thousand euros (previous year: 434,785 thousand euros) is due within one year, 288 thousand euros (previous year: 36,976 thousand euros) is due between one year and five years, and 33 thousand euros (previous year: 39 thousand euros) is due more than five years after the closing date.

29. Current income tax liabilities

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

30. Debt

Debt is structured as follows:

Figures in €'000s	31.12.2012	31.12.2011
Non-current		
Liabilities from corporate bonds	396,525	395,631
Liabilities from promissory notes	119,280	0
Liabilities due to banks	39,887	118,511
Liabilities from finance leasing	413	635
	556,105	**514,777**
Current		
Liabilities from corporate bonds	19,988	19,934
Liabilities from promissory notes	138	0
Liabilities due to banks	80,101	180,155
Liabilities from finance leasing	222	213
	100,449	**200,302**

Of the figure shown for long-term financial debt in the Group as of 31 December 2012, 396.5 million euros (previous year: 395.6 million euros) is attributable to the five-year corporate bond issued in April 2011 with a nominal value of 400.0 million euros. The difference of 3.5 million euros between the nominal value and the carrying amount is attributable to the one-off charges (amounting to 4.4 million euros as of 31 December 2011) which were incurred when the bond was issued, which are deducted from the debt and compounded over the life of the bond using the effective interest rate method. The interest of the corporate bond is paid annually in arrears. In addition, the long-term part of the repayment loan of 39.9 million euros (previous year: 118.5 million euros) which was also raised from credit institutions in April 2011 is included in the long-term debt. This repayment loan, which was taken out in a nominal amount of 240.0 million euros, has a life of three years. It is repaid in instalments of 40.0 million euros every six months, starting on 30 September 2011. Accordingly, on 31 December 2012, the long-term element shows the instalment to be paid in 2014, less one-off charges which have been deducted. In addition a promissory note with a nominal amount of 120.0 million euros was taken out in December 2012; after the deduction of one-off costs of 0.7 million euros, this is shown as 119.3 million euros in long-term debt on 31 December 2012. The promissory note is a financing instrument which falls due upon maturity, which comprises a five-year fixed tranche for 44.5 million euros, a five-year variable tranche for 56.0 million euros as well as a seven-year fixed tranche for 19.5 million euros.

The financial debt classified as short-term as of 31 December 2012 comprises the cumulative interest in relation to the corporate bond which had not yet become cash-effective last year (20.0 million euros; previous year: 19.9 million euros), the principal payment next year for the repayment loan (80.0 million euros; previous year: 80.0 million euros) as well as interest accruals in relation to the promissory note taken out in December 2012 as well as a revolving credit line (0.2 million euros; previous year: 0.1 million euros). As of 31 December 2011, an additional figure of 100.0 million euros resulting from the utilisation of this revolving credit line had been shown under short-term financial debt—this revolving credit line was not utilised as of 31 December 2012.

Netted with liquid assets, net financial debt of 451.3 million euros is shown in the Group as of 31 December 2012 (previous year: 529.4 million euros).

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

As of 31 December 2012, the carrying amounts of fixed assets under finance leasing amounted to 270 thousand euros (previous year: 369 thousand euros) for software and 349 thousand euros (previous year: 477 thousand euros) for hardware.

The minimum lease payments become due as follows:

Minimum lease payments

Figures in €'000s	2012	2011
Within one year	246	246
Between one and five years	430	675
More than five years	0	0
	676	**921**
Interest component of future leasing payments		
Within one year	–23	–33
Between one and five years	–17	–40
More than five years	0	0
Present values of the total liabilities from finance leasing	**636**	**848**

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

Figures in €'000s	31.12.2012	31.12.2011
Within one year	223	213
Between one and five years	413	635
More than five years	0	0
	636	**848**

The balance sheet figure is equivalent to the present value of the contractual minimum lease payments. The interest rate for recognising the resulting finance lease liabilities is 4.4 percent.

31. Pension provisions

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

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

Figures in €'000s	31.12.2012	31.12.2011
Present value of funded obligations	9,777	5,768
Present value of unfunded obligations	39,103	29,154
Sub-total present value of obligations	48,880	34,922
Fair value of plan assets	–3,894	–3,017
Unrealised actuarial losses	–18,789	–6,477
Provision shown in balance sheet	**26,197**	**25,428**

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

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

Figures in €'000s	2012	2011
As of 1.1.	**34,922**	**31,829**
Past service costs	0	155
Current service costs	426	368
Interst expense	1,552	1,560
Employees' contributions	44	76
Actuarial losses	12,625	1,559
Payments made	–680	–625
Effects due to plan changes	–9	0
As of 31.12.	**48,880**	**34,922**

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

Figures in €'000s	2012	2011	2010	2009	2008
Present value of funded obligations	9,777	5,768	4,642	3,700	1,830
Present value of unfunded obligations	39,103	29,154	27,187	26,457	21,411
Fair value of plan assets	–3,894	–3,017	–2,294	–1,389	–1,122
Net loss for the plan	**44,986**	**31,905**	**29,535**	**28,768**	**22,119**
Experience-based adjustments of the liabilities of the plan	35	25	9	–79	–5
Experience-based adjustments of the assets of the plan	51	–21	230	–214	–97

The plan assets consist of several reinsurance policies concluded by the benevolent fund set up for this purpose with a total fair value of 3,894 thousand euros (December 31, 2011: 3,018 thousand euros); they are invested in equity fund units and shares. The following table sets out the development in fair value:

Figures in €'000s	2012	2011
As of 1.1.	**3,017**	**2,294**
Expected income from plan assets	166	115
Difference between expected and actual income from plan assets	51	–21
Employer's contribution to plan assets	660	629
As of 31.12.	**3,894**	**3,017**

The actual income from the plan assets amount to 217 thousand euros (2011: 94 thousand euros), and are calculated as the sum of the expected income from the plan assets and the actuarial profits or losses.

For the financial year 2013, freenet is expecting payments into the plan assets of 659 thousand euros as well as payments out of the plan assets for pensions of 950 thousand euros.

The following items are recognised in the consolidated income statement:

Figures in €'000s	2012	2011
Current and past service cost	426	523
Interest expense	1,552	1,560
Actuarial losses (realised)	253	0
Expected income from plan assets	–166	–115
Total cost of defined benefit plans	**2,065**	**1,968**
Thereof recognised in personnel expenses	513	408
Thereof recognised in interest and similar expenses	1,552	1,560

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

Figures in €'000s	2012	2011
As of 1.1.	**25,428**	**24,638**
Total cost recognised in the consolidated income statement	2,065	1,968
Payments made	–1,340	–1,254
Employees' contributions	44	76
As of 31.12.	**26,197**	**25,428**

The main actuarial assumptions are as follows:

In percent	31.12.2012	31.12.2011
Discount rate	3.00	4.50
Expected income from plan assets	3.00	5.00
Future salary increases (programme debitel)	1.50	2.00
Future salary increases (programme freenet)	0.00	0.00
Future pension increases (programme debitel)	1.75	1.50
Future pension increases (programme freenet)	2.00	2.00

The discount rate of 3.0 percent has been determined on the basis of the iBoxx index. The figure has been adjusted by securities which had already been downgraded as of the balance sheet date and also securities put on watch for downgrade at Moody´s and subordinate bonds. In addition, the figure has been extrapolated by swap rates in order to achieve reconciliation with a longer term of obligations.

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

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

32. Other provisions

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

Figures in €'000s	1.1.2012	Consumption	Reversal	Compounding	Allocation	31.12.2012
Contingent losses	19,198	2,695	813	744	167	16,601
Litigation risks	7,631	1,611	809	0	3,405	8,616
Dismantling obligations	2,475	262	328	32	555	2,472
Employee incentive programmes	2,365	1,061	265	0	1,960	2,999
Warranty/guarantee	546	0	0	0	3	549
Storage costs	421	0	133	80	0	368
Other	725	0	0	0	0	725
	33,361	**5,629**	**2,348**	**856**	**6,090**	**32,330**

The provisions for contingent losses relate to pending services in connection with the landline activities of the Group (1,378 thousand euros), whereby the outflow of funds is expected to take place in 2013 (289 thousand euros) and in the years 2014 to 2019 (1,089 thousand euros). A rate of 1.20 percent has been used for compounding purposes in this respect.

Provisions for contingent losses have also been created for vacancy costs of rented shops and office buildings (7,220 thousand euros); the outflow of assets is expected in 2013 (1,821 thousand euros) as well as in the period 2014 to 2018 (5,399 thousand euros)—a rate of 1.20 percent has been used for compounding purposes in this respect. And finally, the provisions for contingent losses include a figure of 8,004 thousand euros for losses expected from negative-margin tariffs; the probable outflow of assets is expected in 2013.

The figure stated for the provision for dismantling obligations relates to obligations for dismantling leasehold improvements and various technical and administration locations of the Group. Following the probable expiry of the underlying rental agreements, the outflow of funds is expected to be 1,303 thousand euros in 2013 and 1,169 thousand euros in the years 2014 to 2024. A rate of 1.20 percent has been used for compounding purposes in this respect.

The provision for litigation relates to the expected costs of various actions against group companies as well as other outstanding disputes with third parties. Most of these provisions related to litigation with former trade partners and customers as well as issues of competition law. The Group expects that the majority of the disputed questions will be settled during the financial year 2013. More information is not given here so that the legal and negotiating position is not announced ahead of time, thereby creating a risk for the position.

Further details concerning the creation of provisions for employee participation programmes are documented under item 27, Employee participation programmes.

33. Other financial obligations, contingencies, securities for loans

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

Figures in €'000s	31.12.2012	31.12.2011
Rent and leasing obligations		
Due within one year	34,816	35,910
Due within one and five years	73,764	79,938
Due term greater than five years	4,212	12,388
	112,792	**128,236**
Maintenance, support and other obligations		
Due within one year	7,541	824
Due within one and five years	1,076	1,911
Due term greater than five years	0	0
	8,617	**2,735**
Order commitments		
Regarding intangible assets	86	3
Regarding property, plant and equipment	130	618
Regarding inventories, expenses and services	7,560	8,037
	7,776	**8,658**
	129,185	**139,629**

The obligations from rental and leasing agreements relate mainly to the rental of office buildings and shops as well as hardware leasing. As of the balance sheet date, there were options for extending the majority of leases and leasing agreements. The conditions of these extension options are in all cases freely negotiable or identical to the current conditions of the agreements. The obligations arising from maintenance, support and other agreements relate mainly to agreements for the maintenance of IT hardware and databases, building services engineering as well as the network infrastructure.

The order commitment at the end of the financial year amounted to 7,776 thousand euros (previous year: 8,658 thousand euros). Of this figure, 216 thousand euros (previous year: 621 thousand euros) is attributable to the procurement of fixed assets. Further purchase obligations of 7,560 thousand euros (previous year: 8,037 thousand euros) mainly relate to services in connection with ongoing projects as well as products purchased for resale, e. g. mobile phones and accessories. This item also includes financial obligations arising from data centre services. All purchase obligations from orders are due within one year.

Further financial obligations exist as a result of letters of comfort and guarantees for rents and amounted to 16,439 thousand euros (previous year: 18,921 thousand euros) as of the balance sheet date.

34. Notes to the consolidated cash flow statement

In the consolidated cash flow statement, the figures are reported for the overall Group (continued and discontinued operations). In 2012, as was also the case in 2011, the cash flows were exclusively attributable to continued operations.

Cash and cash equivalents consist of cash at banks, cash in hand, cheques and short-term money market papers which can be liquidated at any time and current financial liabilities, each with an original maturity of less than three months. As was the case in the previous year, cash and cash equivalents do not include any cash and cash equivalents from discontinued operations. However, the cash and cash equivalents include a figure of 2.7 million euros (previous year: 0 million euros) for liquid assets which are attributable to held-for-sale non-current assets (in this case: freeXmedia GmbH which was sold as of 1 January 2013).

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

34.1 Cash flow from operating activities

With respect to the comparison period, the **CASH FLOW FROM OPERATING ACTIVITIES** improved by 18.5 million euros to 280.5 million euros; this is primarily attributable to the improved EBITDA. Compared with the previous year, EBITDA increased by 15.3 million euros for the overall Group including discontinued operations, adjusted by the revenue included from the sale of subsidiaries as well as the sale of associated companies (the inflows from the sale of subsidiaries and associated companies are shown under investing activities). The development in net working capital in 2012 was in line with the corresponding figure for 2011 (with an increase of 46.8 million euros, compared with an increase of 45.7 million euros in 2011). The increase of 46.8 million euros in net working capital in 2012 is mainly attributable to the planned reduction of liabilities and accruals with regard to contractual partners resulting from distribution rights as well as with regard to a mobile communications network operator and the further increased sales of valuable hardware and the related increase in receivables arising from hardware sales. In 2012, there were also net outflows of 24.7 million euros (previous year: 29.7 million euros) due to tax payments and refunds.

34.2 Cash flow from investing activities

In 2012, the **CASH FLOW FROM INVESTING ACTIVITIES** increased by 7.1 million euros compared with the previous year, namely from –16.2 million euros to –9.1 million euros. This development was mainly attributable to the cash inflows of 8.2 million received last year from the sales of subsidiaries, associates and other investments. Please refer to our comments in item 18, Shares in associates, item 19, Other financial assets, as well as item 25 of these notes, non-current assets held-for-sale, discontinued operations and sale of subsidiaries.

The cash outflows for investments in intangible assets and also in property, plant and equipment, netted with the proceeds from the disposal of such assets, are shown as 20.6 million euros; they are thus roughly equivalent to the corresponding previous year figure (21.1 million euros). The figure of 21.3 million euros shown in the consolidated statement of movements in non-current assets for 2012 for investments in intangible assets and property, plant and equipment, was fully cash-effective. They were financed entirely out of own funds, and mainly related to self-created software in connection with the further development of our IT systems, the renewal and extension of the fittings of our mobile communications shops as well as investments in EDP hardware. In the previous year, the consolidated statement of movements in non-current assets reported the cash-effective additions as well as non-cash-effective investments of 46.5 million euros, which were mainly attributable to the extension of a distribution right.

The inflows from interest payments shown in the cash flow from investing activities declined by 2.1 million euros compared with the previous year, namely to 2.1 million euros.

34.3 Cash flow from financing activities

Compared with the corresponding period of the previous year, the **CASH FLOW FROM FINANCING ACTIVITIES** improved by 41.3 million euros, namely from –190.4 million euros to –149.1 million euros. In the previous year, there was a net cash outflow of 69.0 million euros from the Group as a result of the refinancing arrangement in April 2011 as well the repayment of financial debt. On the other hand, the freenet Group received cash flow of 119.3 million euros from the promissory note taken out in December 2012 (nominal amount of 120.0 million euros less one-off costs), in conjunction with principal payment of 80.0 million euros in relation to the repayment loan in 2012.

The promissory note is a financing instrument which falls due upon maturity; it comprises a five-year fixed tranche for 44.5 million euros, a five-year variable tranche for 56.0 million euros as well as a seven-year fixed tranche for 19.5 million euros. It was taken up with a fixed coupon of 3.27 percent per annum for the fixed five-year tranche, a variable coupon of 2.82 percent per annum for the first six month of the variable five-year tranche and 4.14 percent per annum for the fixed seven-year tranche. The Group was thus able to secure its financing beyond the final maturity in April 2016 of the corporate bond issued in 2011, and was able to further diversify its financing structure.

Dividend payments of 153.6 million euros negatively influenced cash flow from financing activities in 2012 (previous year: 102.4 million euros).

In addition, interest payments of 34.5 million euros were reported in 2012, mainly in relation to long-term bank loans. In the previous year, 19.0 million euros were paid as interest. The increase is due mainly to the fact that the interest in relation to the corporate bond taken out in 2011 is paid annually in arrears; this means that no payments were made in the previous year. Instead a non-cash-effective interest accrual of 20.5 million euros had been recorded.

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

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

Figures in €'000s	1.1.2012 –31.12.2012	1.1.2011 –31.12.2011
Earnings before taxes of continued operations	166,918	117,339
Interest payable and similar expenses of continued operations	44,783	56,102
Interest payable and similar income of continued operations	–2,695	–4,956
Result from discontinued operations	0	140
Taxes on income of discontinued operations	0	19
Earnings before interest and taxes (EBIT) of continued and discontinued operations	**209,006**	**168,644**

35. Additional information concerning financial instruments

35.1 Disclosures in accordance with IFRS 7

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

We have set out the following information for the presentation of the financial instruments in the Group as of 31 December 2012 and as of 31 December 2011, the related allocation to classes and reconciliation with the corresponding valuation categories under IAS 39:

Financial instruments according to classes as of 31 December 2012

Figures in €'000s	Valuation category according to IAS 39	Carrying amount 31.12.2012	Approach: Amortised cost of purchase	Approach: Cost of purchase	Approach: Fair value in income statement	Approach: Fair value in equity	Fair Value 31.12.2012
Assets							
Cash and cash equivalents	LR	205,224	205,224				205,224
Total cash and cash equivalents		**205,224**	**205,224**				**205,224**
Other financial assets (measured at cost of purchase)	HFS	578		578			-
Other financial assets (measured at fair value)	HFS	1,027				1,027	1,027
Total other financial assets		**1,605**					
Trade accounts receivable	LR	**492,674**	**492,674**				**492,745**
Other non-derivative financial assets	LR	17,580	17,580				17,580
Held-for-sale other assets	HFS	3,696				3,696	3,696
Derivative financial assets	FIPL	0			0		0
Non-financial assets		14,356					
Sum of receivables and other assets		**35,632**					
Liabilities							
Trade accounts payable	FLAC	413,053	413,053				413,053
Financial debt (liabilities due to banks and shareholders)	FLAC	655,918	655,918				708,350
Derivative financial liabilities	FIPL	0			0		0
Sum of financial liabilities within the scope of IFRS 7		**655,918**					**708,350**
Other non-derivative financial liabilities	FLAC	44,561	44,561				44,561
Non-financial liabilities		73,987					
Sum of liabilities and deferrals		**118,548**					
Financial instruments not covered by the scope of IFRS 7							
Present values of liabilities from finance lease according to IAS 17		636	636				636
Pension provisions according to IAS 19		26,197			26,197		26,197
Provisions for employee participation programmes according to IFRS 2		2,999			2,999		2,999
Sum of financial instruments not covered by the scope of IFRS 7		**29,832**					
Thereof aggregated by valuation categories according to IAS 39							
Held-for-sale financial instruments (HFS)	HFS	5,301		578		4,723	4,723
Loans and receivables (LR)	LR	715,478	715,478				715,549
Financial instruments measured at fair value through profit or loss (FIPL)	FIPL	0			0		0
Financial liabilities measured at amortised cost of purchase (FLAC)	FLAC	–1,113,532	–1,113,532				–1,165,964

Financial instruments according to classes as of 31 December 2011

Figures in €'000s

	Valuation category according to IAS 39	Carrying amount 31.12.2011	Approach				Fair Value 31.12.2011
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	185,673	185,673				185,673
Total cash and cash equivalents		**185,673**	**185,673**				**185,673**
Other financial assets (measured at cost of purchase)	HFS	882		882			-
Other financial assets (measured at fair value)	HFS	1,033				1,033	1,033
Total other financial assets		**1,915**					
Trade accounts receivable	LR	**471,510**	**471,510**				**471,676**
Other non-derivative financial assets	LR	14,342	14,342				14,342
Held-for-sale other assets	HFS	3,753				3,753	3,753
Derivative financial assets	FIPL	12			12		12
Non-financial assets		30,976					
Sum of receivables and other assets		**49,083**					
Liabilities							
Trade accounts payable	FLAC	399,777	399,777				399,777
Financial debt (liabilities due to banks and shareholders)	FLAC	714,231	714,231				731,431
Derivative financial liabilities	FIPL	0			0		0
Sum of financial liabilities within the scope of IFRS 7		**714,231**					**731,431**
Other non-derivative financial liabilities	FLAC	72,023	72,023				72,525
Non-financial liabilities		89,360					
Sum of liabilities and deferrals		**161,383**					
Financial instruments not covered by the scope of IFRS 7							
Present values of liabilities from finance lease according to IAS 17		848	848				848
Pension provisions according to IAS 19		25,428			25,428		25,428
Provisions for employee participation programmes according to IFRS 2		2,365			2,365		2,365
Sum of financial instruments not covered by the scope of IFRS 7		**28,641**					
Thereof aggregated by valuation categories according to IAS 39							
Held-for-sale financial instruments (HFS)	HFS	5,668		882		4,786	4,786
Loans and receivables (LR)	LR	671,525	671,525				671,525
Financial instruments measured at fair value through profit or loss (FIPL)	FIPL	12			12		12
Financial liabilities measured at amortised cost of purchase (FLAC)	FLAC	–1,186,031	–1,186,031				–1,203,733

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

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

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

The fair values of the non-current receivables and other financial assets with remaining terms of more than one year correspond to the present values of the payments associated with the assets, with due consideration being given to the relevant interest parameters. Since the discounting carried out using the effective interest method, the carrying amounts of these financial instruments is approximately equivalent to the fair values.

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

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

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

Due to the maturity involved, the fair value of the current financial debt corresponds to the carrying amount. The fair value of the long-term financial debt exceeded the carrying amount by 52,432 thousand euros as of 31 December 2012. This difference is attributable the valuation of the corporate bond, and was established on the basis of the market price of this corporate bond as of the balance sheet date.

The fair value of the derivative financial instruments which are not exchange-traded is determined by the Group on the basis of recognised actuarial methods (discounted cash flow method or option price models). The expected future cash flows from the financial instrument are calculated on the basis of the relevant rate structure and forward curves and are then discounted to the closing date. The market value confirmations obtained from the external partners are periodically compared with the market values which have been calculated internally.

Trade accounts payable and other financial liabilities and accruals normally have short remaining terms; the recognised figures are thus approximately equivalent to the fair value.

The following overview shows the major parameters used as the basis for valuing the financial instruments measured at fair value. The individual levels are defined in accordance with IFRS 7 as follows:

- Level 1:

Unchanged use of prices on active markets for identical financial assets or financial liabilities

- Level 2:

Use of input factors which are not the listed prices recognised in Level 1, but which are directly (i.e. in the form of a price) or indirectly (i.e. derived from prices) observable for the financial asset or the financial liability.

- Level 3:

Use of input factors which are not based on observable market data for measuring the financial asset or the financial liability (input factors not based on observable market data).

Fair value hierarchy 2012

Figures in €'000s	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	3,696	3,696		
Other financial assets	1,027	1,027		
Derivative financial receivables	0		0	
Total	**4,723**	**4,723**	**0**	

Fair value hierarchy 2011

Figures in €'000s	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	3,753	3,753		
Other financial assets	1,033	1,033		
Derivative financial receivables	12		12	
Total	**4,798**	**4,786**	**12**	

For the individual categories of financial instruments in accordance with IAS 39, the following net results were shown in the financial year 2012 and in the previous year:

Net result by valuation categories 2012

Figures in €'000s	From interest	From subsequent measurement: At fair value (income statement)	From subsequent measurement: At fair value (equity)	From subsequent measurement: Impairment/ receivables losses	From disposals	Net result
Valuation category						
Held-for-sale financial instruments (HFS)	0	0	–45	0	0	–45
Loans and receivables (LR)	2,596	0	0	–31,610	1,279	–27,735
Financial instruments measured at fair value through profit or loss (FIPL)	0	–12	0	0	0	–12
Financial liabilities measured at amortised cost (FLAC)	–36,489	0	0	0	0	–36,489
Total	**–33,893**	**–12**	**–45**	**–31,610**	**1,279**	**–64,281**

Net result by valuation categories 2011

Figures in €'000s	From interest	From subsequent measurement: At fair value (income statement)	From subsequent measurement: At fair value (equity)	From subsequent measurement: Impairment/ receivables losses	From disposals	Net result
Valuation category						
Held-for-sale financial instruments (HFS)	0	0	–53	0	0	–53
Loans and receivables (LR)	4,923	0	0	–37,160	329	–31,908
Financial instruments measured at fair value through profit or loss (FIPL)	0	–792	0	0	0	–792
Financial liabilities measured at amortised cost (FLAC)	–41,086	0	0	0	0	–41,086
Total	**–36,163**	**–792**	**–53**	**–37,160**	**329**	**–73,839**

Net gains and losses from loans and receivables include changes in the allowances, gains and losses from derecognition as well as inflows and recoveries in the value of previously written-off loans and receivables.

Net gains and losses from the category of financial instruments measured at fair value through profit or loss include the income and expenses arising from the market valuation of the interest rate cap.

Net gains and losses from the category of held-for-sale financial instruments comprise impairments.

Net gains and losses from financial liabilities at amortised cost of purchase consist of interest expenses.

Information concerning interest income and interest expenses of the financial assets and financial liabilities not measured at fair value through profit or loss are based on the application of the effective interest rate method.

35.2 Principles and objectives of financial risk management

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

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

The fundamental aspects of financial policy with its components explained in the following section are defined by the Executive Board. In addition, certain financial transactions require the prior approval of the Executive Board.

The Group Treasury department provides services to the operating segments and co-ordinates access to the financial markets. In addition, it monitors and manages the market and liquidity risks associated with the operating segments of the Group by way of regular internal risk reporting which analyses the risks on the basis of degree and extent. The overriding priority for the Group Treasury department is the principle of minimising risk; a further important objective is to optimise net interest income. Prudent liquidity management controlled by the Group Treasury department involves holding an adequate reserve of cash and cash equivalents, the possibility of obtaining finance by way of an adequate commitment of credit lines and the possibility of closing open market positions. Liquidity risks are reduced by permanently monitoring the finance status and by maintaining adequate reserves in the form of credit lines.

The Group Treasury department is responsible for monitoring the default risks of major debtors (in particular distributors, dealers and other B2B partners) as well as regular internal risk reporting for these risks. Receivables due from end users are monitored in the Receivables Management department. One of its main objectives is to minimise the costs attributable to the failure or impairment of receivables due from end customers and sales partners.

The capital risk management of the Group is related to shareholders' equity shown in the consolidated balance sheet and derived key figures.

The primary objective of the Group's capital risk management is to monitor the financial covenants specified in the loan agreements, where failure to meet such financial covenants might involve the loans being called in immediately. The main financial covenants are defined in relation to the interest cover (ratio between Group EBITDA and Group net interest income), the equity ratio of the Group as well as the debt factor (ratio between net debt of the Group and Group EBITDA). For further information we refer to the chapter "Strategic direction, Group objectives and management" in the Group management report. All covenants are met as of the balance sheet date.

The ratio between Group net debt and Group equity (gearing) is another relevant parameter of capital risk management. Gearing was 0.38 as of the closing date (previous year: 0.45).

In order to actively manage the capital structure, management is permitted to sell assets in order to reduce debt in this way, and is also entitled to take measures such as issuing new shares.

The following information concerning the specific risks is based on the information presented to the Executive Board.

35.3 Market risk
The activities of our Group are primarily exposed to financial risks attributable to changes in interest rates and currency exchange rates.

35.3.1 Interest rate risk
The liabilities shown under debt are attributable to a variable-interest syndicated loan and also to a fixed-income corporate bond. There is also a variable-interest revolving credit line, which had not been utilised as of 31 December 2012. There are further liabilities arising from a new promissory note raised in December 2012, which comprises two fixed-interest tranches and one variable-interest tranche. The Group has reported variable-interest financial liabilities of 175.9 million euros as of 31 December 2012. In this respect, the Group is exposed to interest rate risks. The interest rate risks arising from the variable-interest syndicated loan (shown in the balance sheet as 80.0 million euros as of 31 December 2012) are limited by the use of an interest rate cap. When the interest cap was taken out, the Group agreed with third parties—against payment of a premium—that it would receive at defined intervals the difference between the contractually agreed interest and the prevailing (higher) variable rates in relation to the nominal amount. The interest cap is due to expire on 31 July 2013. After that time, the interest rate risks had not been explicitly hedged; however, cash in hand (which is mainly invested in variable-interest instruments on the basis of EONIA or EURIBOR) acts as a natural hedge, and reduces the interest rate risk arising from the variable-interest financial debt accordingly.

The Group Treasury department constantly monitors the various opportunities available for investing the liquid assets and debt on the basis of the daily liquidity planning at its disposal as well as the various options available for scheduling the debt. Changes in market interest rates could have an impact on net interest income on originally variable-interest financial instruments and are included in the process of calculating the result-related sensitivities.

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

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

In the balance sheet, liabilities of 656.6 million euros are shown under the short-term and long-term borrowings as of 31 December 2012, thereof 175.9 million euros with variable interest rates. Variable interest in a range of 1.7 to 4.1 percent was charged on these bank borrowings as of the balance sheet date. The corporate bond comes with a coupon of 7.1 percent.

Of the figure shown for debt as of 31 December 2012, 100,449 thousand euros are shown as current debt. At the point at which these financial statements were prepared, there is a mandatory requirement for a principal payment of approx. 80 million euros in 2013 in relation to these liabilities. On the basis of market estimates, the expected interest for variable-interest loans lies in a range between 1.7 and 4.1 percent. This means that the outflows for the entire financial debt in 2013 would amount to 33,924 thousand euros. Based on the net position of variable-interest assets and liabilities measured at fair value and taking account of the hedging instruments which have been taken out, a parallel upward shift of 50 basis points in the interest rate curve would have an impact of 201 thousand euros on results after tax (previous year: 353 thousand euros), and a parallel downward shift of 50 basis points in the interest rate curve would have an impact of –201 thousand euros on the results after tax (previous year: –353 thousand euros).

Money market funds are subject to marginal interest rate fluctuations so that there is always a possibility of price losses. However, there is no significant risk as the money has been invested in funds on a very short-term basis (held for trading). There are no contractually defined maturity dates or interest adjustment dates; a return results from the change in the price of the instrument and any dividend payments. Based on the financial investments in money market funds and bonds shown in the balance sheet under the other the sundry receivables and other assets as well as under other financial assets, an upward shift 5 percent in the price of the acquired shares would have an impact of 166 thousand euros on shareholders' equity (previous year: 169 thousand euros), and a downward shift of 5 percent in the price would have an impact of –166 thousand euros on shareholders' equity (previous year: –169 thousand euros).

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

35.3.2 Foreign currency risk

Foreign currency trades are conducted to a minor extent within the Group. The foreign currency risk is generally hedged by concluding currency futures or, if necessary, by means of cash holdings denominated in foreign currency.

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

35.4 Liquidity risk

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

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

The Group also manages liquidity risks by holding appropriate cash at banks, credit lines at banks and also by constantly monitoring the forecast and actual cash flows. Reconciliations are also performed for the maturity profiles of the financial assets and liabilities. The Group uses a wide range of different financing instruments in order to reduce the liquidity risk.

Demand for and the investment of liquid funds in the Group are managed centrally on the basis of several existing internal cash pooling agreements in which the main companies of the freenet Group participate.

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

As of the balance sheet date, the Group had utilised the revolving credit line of 100.0 million euros which has been provided. Within narrow limits, the Company is permitted to raise debt outside the loan agreements for instance in order to finance future strategic investments.

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

The financial and operational scope of the Group is restricted by certain regulations of the loan agreements. These for instance impose restrictions on the Company in relation to changes in the operations of the Group, the conduct of internal structural measures under company law, the provision of collateral as well as any acquisitions and disposals of assets, and in particular shareholdings. The following tables show the contractually agreed undiscounted interest and principal payments of the original financial liabilities of the Group at the end of the financial years 2012 and 2011:

Financial liabilities

Figures in €'000s	Carrying amount 31.12.2012	Cash flows 2013			Cash flows 2014			Cash flows 2015 and later		
		Interest (fixed)	Interest (variable)	Repay-ment	Interest (fixed)	Interest (variable)	Repay-ment	Interest (fixed)	Interest (variable)	Repay-ment
Trade accounts payable	413,053			412,781			272			
Debt (liabilities due to banks)	656,554	30,674	3,250	100,449	30,664	1,923	40,119	65,337	5,063	515,986
Other non-derivative financial liabilities	44,561			44,512			16			33

Financial liabilities

Figures in €'000s	Carrying amount 31.12.2011	Cash flows 2012			Cash flows 2013			Cash flows 2014 and later		
		Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment
Trade accounts payable	399,777			399,370			407			
Debt (liabilities due to banks)	715,079	28,500	6,143	200,302	28,500	5,171	80,111	85,500	406	43,666
Other non-derivative financial liabilities	72,023			35,415			36,467			141

35.5 Risk of default

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

Trade accounts receivable from end customers are the main item in the freenet Group with regard to default risks. For further information we refer to item 22, Receivables and other assets. In the mass business of our Group, particular attention is given to the creditworthiness of customers and sales partners. Credit checks are carried out for major contract customer areas before a contract is agreed with the customer.

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

An ongoing dunning and debt collection process is also operated with regard to accounts due from dealers and franchise partners. Credit limits are also defined and monitored. Where appropriate, a delivery restriction is imposed if the limit is reached.

Major credit risks are also covered by way of commercial credit insurance. In order to minimise the credit risk, the Group has insured a certain percentage of sales with key accounts (dealers and distributors in mobile communications). Every month, the Group Treasury department notifies the insurer of the current sales of each key account. The insurer uses this notification to calculate the sales volume to be insured. The risks attributable to accounts which are not insured are limited by means of an internal limit system—in general, accounts with a poor rating have to pay in advance, or the business is not established.

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

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

Securities and liquid assets are mainly invested at major German banks. The default risk has been significantly limited as a result of the risk being spread over various banks. The Group Treasury department constantly monitors the current and expected future yields of the investments.

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

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

36. Transactions with related parties

36.1 Overview

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

Figures in €'000s	2012	2011
Sales and income attributable to services		
Joint ventures		
FunDorado GmbH, Hamburg	273	252
Companies with a major influence on freenet AG		
SIMply Communication GmbH, Maintal (Drillisch AG Group)	222	0
b2c.de GmbH, Munich (Drillisch AG Group)	1,005	729
	1,500	**981**
Purchased services and onward charging		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	27	27
Joint ventures		
siXXup new Media GmbH, Pulheim	65	72
Companies with a major influence on freenet AG		
Drillisch AG, Maintal	0	5
b2c.de GmbH, Munich (Drillisch AG Group)	14,782	8,737
	14,874	**8,841**

The following major receivables due from and liabilities due to related parties existed as of 31 December 2012:

Figures in €'000s	31.12.2012	31.12.2011
Receivables from regular transactions		
Joint ventures		
FunDorado GmbH, Hamburg	28	41
siXXup new Media GmbH, Pulheim	0	2
Companies with a major influence on freenet AG		
SIMply Communication GmbH, Maintal (Drillisch AG Group)	11	0
b2c.de GmbH, Munich (Drillisch AG Group)	208	195
	247	**238**
Liabilities from regular transactions		
Companies with a major influence on freenet AG		
Drillisch AG, Maintal	0	6
b2c.de GmbH, München (Drillisch AG Group)	701	383
	701	**389**

Total emoluments of 294 thousand euros (previous year: 619 thousand euros) were granted to the employees' representatives of the Supervisory Board in the financial year 2012. All transactions were based on market prices.

The members of the Executive Board have been identified as members of the management in key functions according to IAS 24.17. For further information we refer to the following item 36.2.

36.2 Executive Board compensation

The compensation for the members of the Executive Board of the company is broken down as follows:

Executive Board compensation 2012 according to IFRS

Figures in €'000s	Fixed compensation	Variable compensation	Sub-total cash compensation	Variable compensation with long-term incentive effect[1]	Total compensation
Christoph Vilanek	625	480	1,105	1,044	2,149
Joachim Preisig	444	480	924	720	1,644
Stephan Esch	445	144	589	616	1,205
	1,514	**1,104**	**2,618**	**2,380**	**4,998**

1 This is variable compensation from the SAR programme as well as the LTIP programme, including payments which were not cash-effective in the financial year and which were measured in accordance with IFRS 2.

Executive Board compensation 2011 according to IFRS

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

2 This is variable compensation from the SAR programme as well as the LTIP programme, including payments which were not cash-effective in the financial year and which were measured in accordance with IFRS 2.

The following shows the breakdown of variable compensation with a long-term incentive effect:

Variable compensation with long-term incentive effect 2012

Figures in €'000s	SAR programme compensation from change in the provision under IFRS 2 (non-cash-effective)	SAR programme compensation from actual payments	LTIP programme compensation from change in provision (non-cash-effective)	LTIP programme compensation from actual payments	Total variable compensation with long-term incentive effect
Christoph Vilanek	–332	571	805	0	1,044
Joachim Preisig	–191	375	536	0	720
Stephan Esch	–419	793	242	0	616
	–942	**1,739**	**1,583**	**0**	**2,380**

Variable compensation with long-term incentive effect 2011

Figures in €'000s	SAR programme compensation from change in the provision under IFRS 2 (non-cash-effective)	SAR programme compensation from actual payments	LTIP programme compensation from change in provision (non-cash-effective)	LTIP programme compensation from actual payments	Total variable compensation with long-term incentive effect
Christoph Vilanek	–120	0	481	0	361
Joachim Preisig	10	0	321	0	331
Stephan Esch	389	0	144	0	533
	279	**0**	**946**	**0**	**1,225**

In the financial year 2012, no new stock appreciation rights, stock options or other compensation instruments with a long-term incentive effect were granted to the members of the Executive Board of the Company. All stock appreciation rights of the members of the Executive Board which existed as of the previous year reference date were exercised in 2012; please also refer to our comments under item 27.1 of these notes, Stock appreciation rights of freenet AG. As of 31 December 2011, the value of the provisions for stock appreciation rights for Mr. Vilanek was 332 thousand euros; the corresponding figures for Mr. Preisig and Mr. Esch were 191 thousand euros and 419 thousand euros respectively. No provisions for stock appreciation rights were shown as of 31 December 2012 for Mr. Spoerr, Mr. Krieger and Mr. Berger (former members of the Executive Board), as all rights had been exercised in 2012 (for which a figure of 38 thousand euros was cash-effective in 2012) or had expired at the end of their life. As of 31 December 2011, provisions for stock appreciation rights totalling 273 thousand euros had been shown for these former members of the Executive Board.

In 2011, new variable salary components with a long-term incentive effect were awarded to the members of the Executive Board via the so-called "LTIP programme"; please refer to item 27.2 of these notes, LTIP programme of freenet AG. No payments were made out of this programme in 2012. As of 31 December 2012, the value of the provision for the LTIP programme for Mr. Vilanek was 1,286 thousand euros (previous year: 481 thousand euros); the value for Mr. Preisig was 857 thousand euros (previous year: 321 thousand euros), and the value for Mr. Esch was 386 thousand euros (previous year: 144 thousand euros).

In total, Executive Board emoluments in 2012 amounted to 2,618 thousand euros in accordance with clause 314 paragraph 1 no. 6a HGB. This figure does not include any variable compensation with a long-term incentive effect, as such elements had already been disclosed in the financial years in which the compensation instruments had been granted in accordance with HGB. In 2011, the Executive Board compensation in accordance with clause 314 paragraph 1 no. 6a HGB amounted to 6,279 thousand euros. Also in 2011, and in addition to the cash-effect fixed compensation and variable compensation of 2,880 thousand euros, there were also non-cash-effective compensation from the LTIP programme measured at fair value at the time of granting (3,586 thousand euros), negative compensation of 587 thousand euros due to changes in the conditions for exercising the stock appreciation rights as well as payments to former members of the Executive Board in the amount of 400 thousand euros for competition restriction clauses after the termination of their contracts.

An indirect pension commitment was granted to Mr. Esch in November 2004. In the financial year 2009, an indirect pension commitment was granted to Mr. Vilanek on the occasion of his appointment as Chairman of the Executive Board as of 1 May 2009. As of 31 December 2012, the defined benefit obligation (DBO) for Mr. Vilanek amounted to 974 thousand euros (previous year: 453 thousand euros); the corresponding figure for Mr. Esch was 1,531 thousand euros (previous year: 832 thousand euros). As of 1 September 2008, freenet AG took over the pension commitment granted to Mr. Preisig by the former debitel AG. As of 31 December 2012, the DBO for Mr. Preisig was 751 thousand euros (previous year: 468 thousand euros). The DBOs for Messrs. Spoerr, Krieger and Berger as former members of the Executive Board totalled 6,520 thousand euros as of 31 December 2012 (previous year: 4,014 thousand euros).

Current and post-service time expenses of 549 thousand euros (previous year: 454 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. This figure was spread over the following persons in 2012: Mr. Vilanek (250 thousand euros), Mr. Preisig (125 thousand euros), Mr. Esch (174 thousand euros); for 2011, the breakdown was as follows: Mr. Vilanek (138 thousand euros), Mr. Preisig (84 thousand euros) and Mr. Esch (232 thousand euros).

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

36.3 Compensation for the Supervisory Board

The compensation of the Supervisory Board is defined in the articles of association and consists of three components:

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

For each full financial year, the Supervisory Board members receive fixed basic compensation of 30,000 euros for each full financial year of membership on the board. The chairperson of the Supervisory Board receives double this amount, the deputy chairperson one and a half time this amount.

In addition, every Supervisory Board member receives an attendance fee of 1,000 euros for each Supervisory Board meeting he/she attends. Supervisory Board members who belong to a Supervisory Board committee—with the exception of the committee formed in accordance with clause 27 paragraph of the German Codetermination Act (Mitbestimmungsgesetz)—receive in addition an attendance fee of 1,000 euros for each attended meeting of the committee. The committee chairperson receives double this amount. The Supervisory Board decided in a voluntary self-restraint, to refrain from the remuneration of attendance fees for telephone meetings of the Board, its committees and for telephonic participation in physical meetings from the third quarter of 2010.

The Supervisory Board members also receive, after the end of each financial year, variable compensation in the amount of 500 euros for each 0.01 euro in dividends in excess of 0.10 euro per share of the company stock which are distributed to the shareholders for the previous financial year. The extent of the compensation is limited to that amount which is payable in the form of basic compensation. The chairperson of the Supervisory Board receives double this amount, the deputy chairperson one and a half times this amount.

For their activity during the financial year 2012, the members of the Supervisory Board of the Company received fixed compensation of 405.0 euros thousand as well as attendance fees of 113.0 thousand euros. In addition, profit-linked compensation of 406.5 thousand euros was also recorded as a cost. Whether this performance-linked compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2012. The total compensation for Supervisory Board activities was thus 924.5 thousand euros.

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

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

Compensation for the financial year 2012

Figures in €'000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr. Hartmut Schenk[1]	49.2	14.0	49.4	112.6
Nicole Engenhardt-Gillé[3]	45.0	8.0	45.1	98.1
Claudia Anderleit[3]	30.0	7.0	30.1	67.1
Joachim Halefeld[3]	30.0	9.0	30.1	69.1
Thorsten Kraemer	19.3	5.0	19.5	43.8
Prof. Dr. Helmut Thoma	19.3	5.0	19.5	43.8
Gesine Thomas[3]	19.3	4.0	19.5	42.8
Marc Tüngler	19.3	6.0	19.5	44.8
Steffen Vodel[3]	30.0	10.0	30.1	70.1
Robert Weidinger	19.3	8.0	19.5	46.8
Achim Weiss	30.0	5.0	30.1	65.1
Angela Witzmann[3]	10.0	2.0	10.0	22.0
	320.7	**83.0**	**322.4**	**726.1**
Former members				
Maarten Henderson[2]	21.4	12.0	21.3	54.7
Dr. Christof Aha	10.7	4.0	10.7	25.4
Dr. Arnold Bahlmann	10.7	2.0	10.7	23.4
Hans-Jürgen Klempau[3]	10.7	2.0	10.7	23.4
Niclas Rauscher	10.7	2.0	10.7	23.4
Matthias Schneider[3]	20.1	8.0	20.0	48.1
	84.3	**30.0**	**84.1**	**198.4**
	405.0	**113.0**	**406.5**	**924.5**

1 Chairman of the Supervisory Board since 10 May 2012.
2 Chairman of the Supervisory Board until 9 May 2012.
3 Employee representative in accordance with section 7 (1) clause 1 no. 1 MitbestG of 4 May 1976.

Compensation for the financial year 2011

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

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

37. Company acquisitions

On 18 December 2012, the Group concluded a purchase agreement for acquiring all shares and voting rights in Gravis – Computervertriebsgesellschaft mbH ("GRAVIS" in the following). Following cartel law approval, the takeover was closed as of 31 January 2013, which enabled the Group to acquire control over this subsidiary. GRAVIS is the only Apple dealer with nationwide coverage; it has a market share of approx. 14 percent of the German Apple retail market. GRAVIS also operates a significant online business.

A figure of 12.25 million euros was agreed as the cash purchase price. The cash purchase price is still subject to adjustments depending on the net working capital as well as the cash and financial liabilities of the acquired company—these purchase price adjustments will be definitively fixed on the basis of reference date financial statements of GRAVIS as of the time of the acquisition; however, these financial statements had not been prepared at the time at which these consolidated financial statements were approved. In addition, there may also be earn-outs in a range of between zero euros and 6.25 million euros; the exact amount of these earn-outs is based on EBITDA for the calendar year

2013 of GRAVIS and, under certain circumstances, may also depend on the EBITDA of the acquired company achieved for the calendar year 2012.

The aim of the acquisition of GRAVIS is to extend our range of high-quality Apple Lifestyle products in connection with mobile communications and mobile internet; this is consistent with the corporate strategy of our Group of becoming a genuine digital lifestyle provider. At the same time, we are planning to gradually introduce our existing digital lifestyle products in the field of energy, mobile communications services and service products into the GRAVIS distribution system. The planned expansion of mobile communications business in the GRAVIS branches is intended to be achieved by a direct transfer of know how of mobilcom-debitel Shop GmbH.

Since the acquisition of GRAVIS took place before these consolidated financial statements were approved for publication, although the initial accounting for the business combination is not complete at the time of this approval, the freenet Group took advantage of the exemption regulation of IFRS 3.B66. In particular, in view of the absence of data at the time of acquisition, it is not possible to provide the information with regard to acquired receivables, amounts recognised at the time of acquisition for every primary group of acquired assets and acquired liabilities, with regard to contingent liabilities, with regard to the total amount of goodwill and also with regard to transactions which had to be disclosed separately from the acquisition and the transfer of liabilities.

We are anticipating goodwill which is mainly attributable to future earnings opportunities and synergy potential in connection with the strengthening of our sales force in the field of high-value lifestyle products in connection with mobile devices. The goodwill will be attributed to the cash-generating unit “Mobile Communications”.

In segment reporting of the freenet AG Group, GRAVIS will be allocated to the segment “Mobile Communications”.

As of 31 December 2012, assets and liabilities of GRAVIS (without shareholders' equity) are as follows on the basis of a drafted balance sheet:

Assets and liabilities of GRAVIS as of 31 December 2012 (draft)

Assets

Figures in €'000s	31.12.2012
Non-current assets	
Intangible assets	1,096
Property, plant and equipment	5,743
	6,839
Current assets	
Inventories	23,490
Trade accounts receivable	3,250
Other receivables and other assets	3,486
Liquid assets	6,306
	36,532
	43,371

Liabilities

Figures in €'000s	31.12.2012
Non-current liabilities	
Debt	875
	875
Current liabilities	
Trade accounts payable	27,221
Other liabilities and deferrals	3,828
Current income tax liabilities	161
Debt	875
Other provisions	593
	32,678
	33,553

In the previous year the Group acquired a 51-percent stake in MFE at a cash purchase price of 1,000 thousand euros. The company was consolidated for the first time on 1 January 2011. As part of the purchase agreement it was offered to MFE, as non-controlling interest, to sell its remaining stake of 49 percent in MFE to freenet Group. In this context we refer to item 26.3, Retained earnings.

38. Disclosures in accordance with clause 315a HGB

The average number of employees in the Group (clause 314 paragraph 1 no. 4 HGB) has been shown in item 8, Personnel expenses, in these notes.

With regard to the disclosures concerning compensation of the executive bodies of the Company (clause 314 paragraph 1 no. 6 HGB), please refer to item 36, Transactions with related parties.

In accordance with clause 314 paragraph 1 no. 8 HGB, we hereby declare that the declaration of conformity in accordance with clause 161 AktG was submitted by the Executive Board and Supervisory Board of the Company in December 2012. It has been made permanently available to shareholders in the Internet at the following address: *www.freenet-group.de/unternehmen/corporate-governance/entsprechenserklaerung*

A total of 1,235 thousand euros in fees was paid to the auditor in accordance with clause 314 paragraph 1 no. 9 HGB during the financial year. Of this figure, 375 thousand euros relates to auditing services of RBS RoeverBroennerSusat, 503 thousand euros relates to auditing services of PricewaterhouseCoopers and 357 thousand euros relates to other certification services of PricewaterhouseCoopers.

In accordance with clause 313 paragraphs 2 and 3 HGB, we have provided the following overview for the companies included in the consolidated financial statements.

	Holding
Fully consolidated companies	
freenet Cityline GmbH, Kiel	100 %
freenet.de GmbH, Hamburg	100 %
freeXMedia GmbH, Hamburg	100 %
01019 Telefondienste GmbH, Hamburg	100 %
01024 Telefondienste GmbH, Kiel	100 %
01050.com GmbH, Hamburg	100 %
freenet Datenkommunikations GmbH, Hamburg	100 %
tellfon GmbH, Hamburg	100 %
01083.com GmbH, Hamburg	100 %
mobilcom-debitel GmbH, Schleswig	100 %
mobilcom-debitel Logistik GmbH, Schleswig	100 %
MobilCom Multimedia GmbH, Schleswig	100 %
klarmobil GmbH, Hamburg	100 %
CLAROMOVIL S.L., Madrid (Spain)	100 %
new directions GmbH, Hamburg	100 %
freenet Direkt GmbH, Hamburg	100 %
MFE Energie GmbH, Berlin	51 %
NRG Energieversorgung GmbH, Hamburg	100 %
Stanniol GmbH für IT & PR, Oberkrämer	100 %
mobilcom-debitel Shop GmbH, Oberkrämer	100 %
DEG Logistik GmbH, Oberkrämer	100 %
callmobile GmbH, Hamburg	100 %
Klarcall Dritte Beteiligungs GmbH, Hamburg	100 %
MIDRAY GmbH, Cologne	100 %
debitel go GmbH, Stuttgart	100 %
Proportionately consolidated companies	
FunDorado GmbH, Hamburg	50 %
Netcon Media s.r.o., Hlucin, Czech Republic	25 %
siXXup new Media GmbH, Pulheim	25 %

39. Major events after the balance sheet date

On 18 December 2012, the Group concluded a purchase agreement for acquiring all shares and voting rights in GRAVIS. Following cartel law approval, the takeover was closed as of 31 January 2013, which enabled the Group to acquire control over this subsidiary. GRAVIS is the only Apple dealer with nationwide coverage; it has a market share of approx. 14 percent of the German Apple retail market. GRAVIS also operates a significant online business. Please refer also to our comments in item 37 of these notes to the consolidated financial statements.

On 20 February 2013, the Group signed a purchase and transfer agreement to acquire 51 percent of the shares in MOTION TM Vertriebs GmbH, Troisdorf ("MOTION TM" in the following). The transaction is expected to close before the end of Q1/2013, following the usual merger clearance procedures by Germany's Federal Cartel Office.

A cash purchase price of 4.0 million euros was agreed. The cash purchase price is subject to adjustment depending on the acquired company's net current assets, cash funds, and financial liabilities. The binding determination of these purchase price adjustments will be based on MOTION TM's financial statements as at 31 December 2012, which had not yet been drawn up at the time these consolidated accounts were approved.

The acquisition strengthens freenet AG's sales strengths, particularly in the online market. In addition, with its sales platform "moon", MOTION TM offers the necessary systems expertise to support sales at our retail partners.

We expect this acquisition will result in goodwill, which is mainly attributable to future earnings potential in connection with the strengthening of our sales strength, particularly in the online market. The goodwill will be allocated to the cash-generating 'Mobile Communications' unit.

Other events of major significance have not occurred after the balance sheet date.

40. Consolidated statement of movements in non-current assets

Please consider the tables on the following double-page spread.

Consolidated movements in non-current assets as of 31 December 2012

Figures in €'000s	Cost of purchase or production					
	1.1.2012	Change in companies included in consolidation	Additions	Transfers	Disposals	31.12.2012
Intangible assets						
Internally-generated software	55,637	0	6,805	0	221	62,221
Software and licenses	228,664	–410	4,522	41	7,950	224,867
Trademarks	335,035	0	0	0	0	335,035
Customer relationships	486,310	0	528	0	878	485,960
Goodwill	1,116,868	–6	0	0	0	1,116,862
	2,222,514	**–416**	**11,855**	**41**	**9,049**	**2,224,945**
Property, plant and equipment						
Land, facilities on land and buildings	15,123	0	77	99	0	15,299
Switches and networks	109,037	0	0	–55,743	3,701	49,593
Technical equipment and machinery	20,990	–49	3,993	–4,439	1,364	19,131
Other office equipment	94,993	–259	5,023	–504	11,373	87,880
Payments on account and assets under construction	137	0	329	–173	3	290
	240,280	**–308**	**9,422**	**–60,760**	**16,441**	**172,193**
	2,462,794	**–724**	**21,277**	**–60,719**[1]	**25,490**	**2,397,138**

1 The transfers refer to a reclassification to current assets.

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

Figures in €'000s	Cost of purchase or production					
	1.1.2011	Change in companies included in consolidation	Additions	Transfers	Disposals	31.12.2011
Intangible assets						
Internally-generated software	45,732	122	10,953	890	2,060	55,637
Software and licenses	223,126	0	51,636	–1,686	44,412	228,664
Trademarks	335,035	0	0	0	0	335,035
Customer relationships	488,898	0	0	0	2,588	486,310
Goodwill	1,116,377	944	0	0	453	1,116,868
	2,209,168	**1,066**	**62,589**	**–796**	**49,513**	**2,222,514**
Property, plant and equipment						
Land, facilities on land and buildings	14,979	0	117	51	24	15,123
Switches and networks	111,969	0	0	960	3,892	109,037
Technical equipment and machinery	29,830	0	452	–1,802	7,490	20,990
Other office equipment	109,128	98	5,573	1,961	21,767	94,993
Payments on account and assets under construction	218	0	293	–374	0	137
	266,124	**98**	**6,435**	**796**	**33,173**	**240,280**
	2,475,292	**1,164**	**69,024**	**0**	**82,686**	**2,462,794**

Depreciation and impairment write-downs							Net book amounts	
1.1.2012	Change in companies included in consolidation	Additions	Impairment write-downs	Transfers	Disposals	31.12.2012	31.12.2012	1.1.2012
34,653	0	8,965	0	0	0	43,618	18,603	20,984
176,000	–349	27,333	920	17	7,803	196,118	28,749	52,664
22,700	0	4,851	0	0	0	27,551	307,484	312,335
386,968	0	97,299	0	0	878	483,389	2,571	99,342
0	0	0	0	0	0	0	1,116,862	1,116,868
620,321	**–349**	**138.448**	**920**	**17**	**8,681**	**750,676**	**1,474,269**	**1,602,193**
6,954	0	579	0	0	0	7,533	7,766	8,169
108,635	0	25	0	–55,502	3,573	49,585	8	402
18,879	–49	1,367	0	–4,406	1,358	14,433	4,698	2,111
76,530	–249	7,219	113	–535	10,863	72,215	15,665	18,463
2	0	0	0	0	2	0	290	135
211,000	**–298**	**9,190**	**113**	**–60,443**	**15,796**	**143,766**	**28,427**	**29,280**
831,321	**–647**	**147,638**	**1,033**	**–60,426**[1]	**24,477**	**894,442**	**1,502,696**	**1,631,473**

1 The transfers refer to a reclassification to current assets.

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

Büdelsdorf, 4 March 2013
freenet AG
The Executive Board

Christoph Vilanek | Joachim Preisig | Stephan Esch

Auditor's Report

We have audited the consolidated financial statements prepared by the freenet AG, Büdelsdorf, comprising the statement of income and the statement of comprehensive income, the statement of financial position, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the group management report in accordance with 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 entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, 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 IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, 5 March 2013

RBS RoeverBroennerSusat GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft

J. Nommensen

Driesch (Wirtschaftsprüfer) Nommensen (Wirtschaftsprüfer)

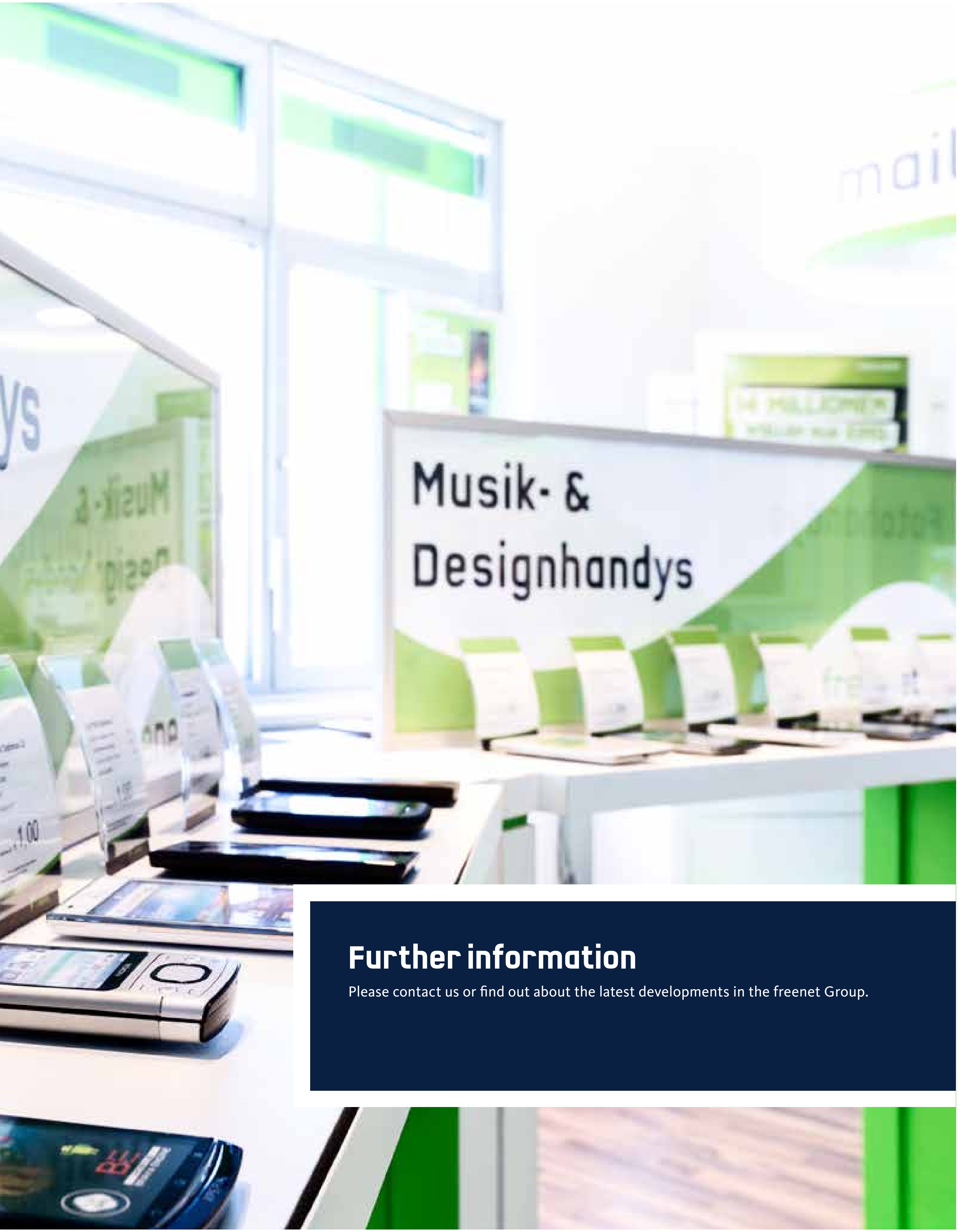
Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Büdelsdorf, 4 March 2013
freenet AG
Executive Board

Christoph Vilanek Joachim Preisig Stephan Esch


Allrounder-Hand
Sony Ericsson Arc S
4,2" großes Display
8,1 Megapixel Kamera
HD Videos
WLan, Bluetooth usw
Kaufpreis ab:* € 1,00
mobilcom debitel
Nokia 6700 slide
5 MP Kamera
MP3 Player
Bluetooth
UKW-Radio
€ 1,00



Further information

Please contact us or find out about the latest developments in the freenet Group.

Glossary

AktG German: Aktiengesetz; English: German Stock Corporation Act.

App Short form of “application”.

ARPU Average revenue per user.

B2B Business with business customers (B2B = Business to Business).

B2C Business with consumers (B2C = Business to Consumer).

CGU Cash generating unit; a cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cloud computing Describes the dynamic, demand-oriented offering, using and billing of IT services via a network. The services offered as part of cloud computing cover the entire range of information technology and include among others infrastructure (i. e. computing power, storage space), platforms and software.

COSO Committee of Sponsoring Organizations of the Treadway Commission; a voluntary private-sector organization in the US, dedicated to improving the quality of financial reporting on the basis of ethical behaviour, effective internal controls and good corporate governance.

Customer ownership Includes the postpaid and no-frills segments.

D&O insurance Directors’ and Officers’ Liability Insurance; insurance payable to the directors and officers of a company, or to the corporation itself, to cover damages or defense costs in the event they are sued for wrongful acts while they were with that company.

DBO Defined Benefit Obligation.

Dialog Consult Dialog Consult GmbH; management consultancy company with international project experience in the areas of corporate, competitive and market entry strategy; Industry focus on telecommunication among others.

Digital lifestyle Describes simplification of everyday life via technical equipment based on internet and/or smartphones.

Diluted earnings per share Diluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares outstanding increased by potentially diluting shares. The number of potentially diluting shares is calculated as the difference between the potential ordinary shares attributable to employee stock option programmes valued at the subscription price and the ordinary shares issuable at fair value.

DSL Digital Subscriber Line; a Digital Subscriber Line is used by households and companies for transmitting and receiving data at high transmission speed (up to 52,000 kbps).

DTAG Deutsche Telekom AG.

Earnings per share This ratio specifies the portion of consolidated net profit or loss which is attributable to an individual share. It is calculated by dividing the consolidated net profit/net loss by the weighted average number of issued shares.

EBIT Earnings before interest and taxes.

EBITDA Earnings before interest, taxes, depreciation and amortisation.

EBT Earnings before taxes.

EPS Earnings per share.

Federal Network Agency Federal Network Agency for Electricity, Gas, Telecommunication, Posts and Railways (German: Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen).

FIPL Financial instruments measured at fair value through profit and loss.

FLAC Financial liabilities measured at amortised cost.

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

GewStG German: Gewerbesteuergesetz; English: German Trade Tax Act.

Gross profit Revenue minus cost of materials.

HASPAX index Hamburg share index including the 25 most successful listed joint stock corporations from the metropolitan region of Hamburg.

HFS Held-for-sale financial instruments.

HGB German: Handelsgesetzbuch; English: German Commercial Code.

IFRS International Financial Reporting Standards; a collection of standards for the external reporting of companies.

ISIN International Securities Identification Number.

IT Information Technology; describes any technology that helps to produce, store and communicate information with the use of electronic computers and computer software.

IT migration IT migration involves moving a set of instructions or programmes, from one platform to another within a company.

KStG German: Körperschaftsteuergesetz; English: German Corporation Tax Act.

Long-Term Incentive Account See also LTIP.

LR Loans and receivables.

LTE Long Term Evolution; a new mobile communications standard and future successor of UMTS providing significantly higher transfer speeds in mobile communications with up to 300 megabit per second.

LTIP Long Term Incentive Programme; compensation programme with long-term incentive effect.

Merger & Acquisitions (M&A) Describes all processes concerning the transfer and the encumbrance of ownership in a company.

MitbestG German: Mitbestimmungsgesetz; English: German Codetermination Act.

MMS Multimedia Messaging Service; provides the possibility to send multimedia messages from a mobile phone to other mobile phones or regular e-mail addresses.

Mobile service provider Provider of mobile communications services without their own mobile network; they sell mobile telephony minutes, SIM cards and mobile telephones as well as value added services, such as SMS, in their own name and for their own account.

Mystery shopping A procedure to assess service quality, in which trained observers, so-called mystery shoppers, act like normal customers and perceive real customers situations.

Narrowband Analogue or digital data transmission with a speed of up to 128 kbps.

Netbook A lightweight, portable computer, especially designed for mobile internet usage and long battery life.

Pay services Pay services describes the offering and provisioning of digital services in digital media subject to a charge.

Portal Central web site which generally comprises a comprehensive range of navigation functions, aggregated content and additional services, such as e-mail.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Auditing and consulting services organisation in Germany.

Prime standard Stock market segment of the Frankfurt stock exchange with particularly high transparency requirements.

Recurring EBITDA EBITDA adjusted for one-off items.

Roaming A feature in wireless telecommunications, which ensures the extension of connectivity service in a location different from the home location. Roaming can also reach to similar networks of various network operators (national roaming) as well as to international network operators (international roaming).

SAR Stock appreciation rights.

SIM card Subscriber Identity Module; chip card with a processor and memory for mobile devices, storing various information, including the user number allocated by the network operator, and which identifies the user in the mobile network.

Smart home Automatization and interconnection of inhouse electricity (light, shutters etc.), electric appliances (washing machines, fridges etc.) and entertainment electronics (TV, radio and audio system etc.).

Smartphone Mobile device with touch and/or qwertz keyboard and feature set for easy internet access and/or e-mail transfer (for example push e-mail).

SMS Short message service.

Termination fee The charge which a telecommunications operator pays when it terminates a call in another operator's network.

UMTS Universal mobile telecommunications system; UMTS is a new high-performance standard which permits all types of communication and multi-media applications via mobile phones.

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

Unique user Describes the number of individual visitors to a website within a certain period of time, with several visits of the same user only being taken into account once.

VATM German: Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e. V.; English: The association of telecommunications and value added service providers.

WACC Weighted average cost of capital; the rate that a company is expected to pay on average to all its security holders to finance its assets.

WKN German: Wertpapierkennnummer; English: securities identification number.

WpHG German: Wertpapierhandelsgesetz; English: German Securities Trading Act.

Financial calendar

26 March 2013[1]
Publication of Consolidated Financial Statements/Annual Report 2012

8 May 2013[1]
Publication of interim report I/2013

23 May 2013[1]
Annual General Meeting

7 August 2013[1]
Publication of interim report II/2013

7 November 2013[1]
Publication of interim report III/2013

1 Probable dates.

Imprint, contact, publications

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

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

Current information concerning freenet AG and the freenet share is available on our website at: *www.freenet-group.de/en*.

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

freenet GROUP

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