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NEXTID

Annual Report 2009

Consolidated financial statements of freenet AG

freenet AG • Hollerstraße 126 • 24782 Büdelsdorf

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1. To our shareholders

From left to right:
Christoph Vilanek, Chief Executive Officer (CEO)
Axel Krieger, Chief Financial Officer (CFO)
Joachim Preisig, Chief Officer Operations&Integration
Stephan Esch, Chief Technical Officer (CTO)

1. To our shareholders

1.1 Key figures

Result in € million	2009	2008 adjusted[1]	Q4/2009	Q3/2009 adjusted[2]	Q4/2008 adjusted[1]
Third-party revenue	3,650.7	2,776.5	941.1	929.8	1,065.8
Gross profit	774.6	563.6	208.8	191.7	201.8
EBITDA	327.1	172.1	100.6	80.8	6.9
EBITDA recurring	393.1	255.0	120.9	98.8	80.4
EBIT	123.3	58.9	48.1	32.3	–44.1
EBT	35.6	–28.8	27.5	14.5	–92.5
Group result from continued operations	16.6	127.5	11.9	–11.3	–73.6
Group result from discontinued operations	239.9	–15.9	232.6	13.4	21.0
Group result	256.5	111.6	244.4	2.1	–52.6
Earnings per share (€)	2.00	1.01	1.91	0.02	–0.41

Balance	2009	2008 adjusted[1]	Q4/2009	Q3/2009 adjusted[2]	Q4/2008 adjusted[1]
Balance sheet total in € million	3,033.5	3,107.5	3,033,5	2,982.1	3,107.5
Shareholders' equity in € million	1,047.8	791.3	1,047.8	802.8	791.3
Equity ratio in %	34.5	25.5	34.5	26.9	25.5

Finances and investments in € million	2009	2008 adjusted[1]	Q4/2009	Q3/2009 adjusted[2]	Q4/2008 adjusted[1]
Cash flow from operating activities[3]	295.5	73.6	38.1	92.0	3.4
Depreciation and amortisation	203.8	113.1	52.5	48.5	50.9
Investments[3]	69.9	42.8	18.4	14.0	14.2
Net cash[3,4]	–789.8	–1,303.8	–789.8	–1,138.4	–1,303.8

Share	2009	2008	Q4/2009	Q3/2009	Q4/2008
Closing price XETRA (€)	9.39	4.15	9.39	9.33	4.15
Number of ordinary shares (in thousand)	128,061	128,061	128,061	128,061	128,061
Market capitalisation (in € thousand)	1,202,493	531,453	1,202,493	1,194,809	531,453

1 The previous year comparison figures have been adjusted retrospectively due to IFRS 5 (presentation of the STRATO Group as a discontinued operation). Furthermore retrospective reclassifications were made within the income statement items relating to continued operations because the contract between freenet AG and 1&1 Internet AG regarding the sale of the DSL business has now been signed.
2 The comparison figures have been adjusted retrospectively due to IFRS 5 (inclusion of the DSL distribution unit in the discontinued operation "DSL Business").
3 This information relates to the overall Group (including discontinued operations).
4 Starting in Q4/2009, freenet has decided to present the key figure "net cash" as the balance of cash and cash equivalents and financial liabilities. The inclusion of the retirement benefit obligations, which had a reducing effect, is no longer made. The previous year figures were adjusted accordingly.

Business performance by segment in € million	2009	2008 adjusted[1]	Q4/2009	Q3/2009 adjusted[2]	Q4/2008 adjusted[1]
Third-party revenue for the Group[3]	**3,650.7**	**2,776.5**	**941.1**	**929.8**	**1,065.8**
1. Revenue Mobile Communications	3,508.8	2,654.7	907.2	897.3	1,058.2
2. Revenue Broadband	232.3	302.6	42.0	61.1	68.8
3. Revenue Portal	43.3	47.8	12.7	9.9	11.5
4. Revenue Hosting	91.1	87.7	23.2	22.8	22.4
5. Revenue B2B	70.1	101.0	16.1	16.3	27.5
6. Revenue Narrowband	42.1	76.0	9.1	9.5	15.3
Group gross profit[3]	**774.6**	**563.6**	**208.8**	**191.7**	**201.8**
1. Gross profit Mobile Communications	708.2	468.9	191.6	175.8	185.5
2. Gross profit Broadband	67.1	64.1	14.9	22.0	11.1
3. Gross profit Portal	25.3	35.2	6.2	6.3	9.1
4. Gross profit Hosting	74.8	71.6	19.5	18.8	17.8
5. Gross profit B2B	17.7	25.6	5.5	3.5	6.2
6. Gross profit Narrowband	27.8	48.9	6.1	6.2	9.7

Selected key data	2009	2008	Q4/2009	Q3/2009	Q4/2008
Total customers freenet Group in million[4]	18.94	21.05	18.94	19.02	21.05
Thereof contract customers (incl. no-frills) in million	9.10	9.63	9.10	9.19	9.63
Mobile Communications[5]					
Mobile Communications customers in million	17.58	19.12	17.58	17.62	19.12
Thereof contract customers in million	8.43	8.83	8.43	8.46	8.83
Thereof prepaid customers in million	9.15	10.29	9.15	9.16	10.29
Gross new customers in million	4.28	17.21	1.27	1.09	1.42
Net additions in million	–1.54	13.42	–0.04	–0.33	–0.85
Monthly average revenue per user (ARPU)					
Contract customer in €	24.2	25.3	24.1	24.8	25.2
No-frills customer in €	5.4	5.7	5.3	6.0	5.5
Prepaid customer in €	3.0	3.2	3.1	3.2	3.0
Active Narrowband customers (internet + telephony) in million	0.87	1.41	0.87	0.88	1.41
Active registered members in million	6.88	7.92	6.88	7.16	7.92
Paid service customers Portal in million	0.48	0.52	0.48	0.52	0.52
Employees at the end of period	4,394	7,255	4,394	6,311	7,255

1 The previous year comparison figures have been adjusted retrospectively due to IFRS 5 (presentation of the STRATO Group as a discontinued operation). Furthermore retrospective reclassifications were made within the income statement items relating to continued operations because the contract between freenet AG and 1&1 Internet AG regarding the sale of the DSL business has now been signed.
2 The comparison figures have been adjusted retrospectively due to IFRS 5 (inclusion of the DSL distribution unit in the discontinued operation "DSL Business").
3 The differences in revenue/gross profit between the sum of the individual segments and the total segments are the result of effects under IFRS 5 and interdivision settlements.
4 Without DSL and without Hosting.
5 Only Germany.

1.2 Key events of the financial year 2009 in the freenet Group

January

- freenet and the Media-Saturn group sign an early renewal of their exclusive distribution partnership in marketing mobile communications products in the group's electronic stores.

April

- Christoph Vilanek is appointed Chief Executive Officer of freenet AG with effect from 1 May 2009.
- freenet signs a reconciliation of interests and redundancy programme with the workers' councils at the Stuttgart/Ettlingen and Elmshorn sites.

May

- Launch of the newly created mobile communications brand "mobilcom-debitel", accompanied by a major advertising campaign.

- freenet sells its DSL business to 1&1 Internet AG, a subsidiary of United Internet AG.

July

- At the Annual General Meeting of freenet AG, Dr. Christof Aha, Dr. Arnold Bahlmann, Maarten Henderson and Achim Weiss are elected as new members of the Supervisory Board.
- Thorsten Kraemer is elected as the new Chairman of the Supervisory Board.

September

- freenet converts its shares from bearer shares to registered shares.
- Eric Berger resigns from the Executive Board.

October

- The freenet.de portal is re-launched just in time for the 10th anniversary.
- freenet sells its customer care centre in Kiel to the adm group.
- Successful migration and shutdown of the old debitel IT system.

STRATO AG

November

- freenet sells STRATO AG and STRATO Rechenzentrum AG to Deutsche Telekom AG; the transaction is closed in December.

December

- freenet celebrates the 10th anniversary of the IPO of freenet.de AG.

1.3 Letter to shareholders

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

The financial year 2009 was characterised by great challenges for our company. Following the acquisition of the debitel Group in 2008, the task at hand was to systematically implement freenet's newly resolved strategic realignment of focusing on mobile communications and mobile Internet as its core business. And to do so under very difficult conditions – in the midst of the worst financial crisis and recession for many decades, with accordingly uncertain, cautious consumers and a competitive environment in the telecommunications market that continued tough.

We achieved this implementation systematically and step by step during 2009. As a result, the DSL business, which was no longer part of freenet's core business, the associated customer care centre in Kiel, as well as our webhosting subsidiary STRATO were sold during the year under review.

At the same time freenet also made great progress in restructuring its new core business. In addition to harmonising the various sites, the first stage of the IT integration was completed on schedule in fall, reducing the IT systems within the Group from three to two. A look at our personnel situation also illustrates our company's continued dynamic development: A quarter of the management now works at a different site than a year ago, half of the executives are also in different functions, and since the end of 2008 the number of employees in the Group has fallen by more than 2,800 to 4,394 at year-end 2009.

Our product and service campaign in the new core business of mobile communications/mobile Internet proves that commitment and performance have by no means suffered as a result of this: we managed to reinforce freenet's strong positioning as Germany's biggest network-independent mobile communications provider. In addition, in light of the company's realignment with mobile Internet use as a central element, we drove the development of mobile content and services in the portal business forward.

All the more satisfying, also and especially for our shareholders, is that this radical change has not affected the company's profitability. Quite the contrary: we have every reason to be proud of the results we are reporting for 2009, especially given the conditions they were achieved under. For instance, freenet AG was able to increase both recurring EBITDA – adjusted for one-off items – to 393.1 million euros and operating cash flow to 295.5 million euros year-on-year, while fully meeting the targets for the financial year 2009 – despite the difficult economic environment and the burdens associated with any comprehensive restructuring of a company. From cash flow and the above-mentioned sales of the DSL and hosting businesses, we were able to reduce our net debt by about 40 percent, from 1.3 billion euros at the end of 2008 to under 800 million euros at year-end 2009. As a result, net debt at the end of 2009 amounts to only slightly more than twice the recurring EBITDA.

In addition, the Executive Board and the Supervisory Board have decided to propose to the Annual General Meeting the payment of a dividend for the past financial year in the amount of 0.20 euro per share from retained earnings.

At this point we would like to thank everyone who has significantly contributed to this positive result: our customers, who have once more given us their trust, our employees who have worked for this success with tireless commitment and remarkable skill – including those who left the company during 2009 – and you, our shareholders, who remained loyal to us.

During the current year we will devote all our strength and experience to ensuring that freenet, your company, will successfully continue its sustained success story of the past ten years.

Christoph Vilanek

Stephan Esch

Axel Krieger

Joachim Preisig

1.4 Supervisory Board report

Thorsten Kraemer,
Chairman of the Supervisory Board

The Supervisory Board reports here on its activities during the financial year 2009. Consultations with the Executive Board especially focused on the integration of the Mobile Communications business, the IT system landscapes, as well as the sale of the DSL business and STRATO Group.

Supervision and advice in an ongoing dialogue with the Executive Board

In the financial year 2009 too, the Supervisory Board diligently performed the supervisory and advisory functions incumbent upon it by law and the articles of association. Many substantive issues were discussed and decided upon in the various Supervisory Board meetings.

The Supervisory Board regularly provided the Executive Board with advice on corporate governance and continually advised and oversaw its management of the business. The Executive Board involved the Supervisory Board in all decisions material to the governance of the company at an early stage and regularly and comprehensively reported on the company's business progress, corporate planning, strategic development and current situation both verbally and in writing. The proper, effective and efficient running of the company by the Executive Board gave no cause for complaint. In particular, we discussed in detail with the Executive Board the deviations taken by the business from the original plans and goals, and reviewed these on the basis of the documentation provided. Furthermore, the Executive Board implemented the company's strategic alignment, with regard to the focus on the Mobile Communications business and the sale of the STRATO Group and DSL business, in close consultation with the Supervisory Board.

All business events of material significance to the company were discussed in full by the Supervisory Board based on the Executive Board's reports. Based likewise on the Executive Board's reports and after review and deliberation, the Supervisory Board also 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.

In the financial year 2009, the Supervisory Board held seven actual meetings and four conference calls to deal in detail with the business and financial situation, the restructuring of the Mobile Communications business and the concept for integrating the IT system landscapes. In one case, the Supervisory Board took a decision by written procedure.

Attendance at the Supervisory Board meetings in the reporting period averaged 91 percent. No Supervisory Board member attended fewer than half of the meetings. The committees met in full in 2009 except for three meetings. When deciding on the sale of the STRATO Group, one Supervisory Board member who had formerly worked with one of the bidders abstained from participation in the meeting in order to avoid a potential conflict of interest.

Supervisory Board meetings

The meetings regularly presented and discussed the current business and financial situation and compliance with loan terms from financing agreements with the lending banks, as well as reporting on the progress of integration of the Mobile Communications business and the IT system landscapes. Matters pertaining to the Executive Board were also the subject of the meetings.

In a conference call on 28 January 2009 the full board advised on the allocation of responsibilities within the Executive Board following the resignation of Eckhard Spoerr.

On 25 March 2009 the content of the meeting was the compilation of the annual and consolidated financial statements on 31 December 2008. The results of the annual audit were discussed here together with the external auditors from the auditing firm PricewaterhouseCoopers. Based on its own examination, the Supervisory Board raised no objections to the audit results from the external auditors and followed the recommendation of the audit committee by approving the annual and consolidated financial statements, which were thereby formally adopted. Besides the adoption of the annual and consolidated financial statements the new marketing campaign for mobilcom-debitel was discussed.

At the meeting on 7 April 2009 Christoph Vilanek was appointed to the Executive Board and became Chief Executive Officer of freenet AG with effect from 1 May 2009.

On 19 May 2009 the agenda for the Annual General Meeting 2009, the Executive Board's proposal for the appropriation of profit and the sale of the broadband business were discussed.

In a conference call on 25 May 2009, the deliberations regarding the agenda for the Annual General Meeting and the DSL sales process were continued.

The meeting on 7 July 2009, held immediately prior to the Annual General Meeting, was used to prepare for the Annual General Meeting. At this meeting Joachim Preisig's appointment as a member of the Executive Board was also extended. On the same day a constitutive meeting took place following the Annual General Meeting, in which the new Chairman of the Supervisory Board was elected and appointments were made to the committees.

At the subsequent meeting on 14 August 2009 the meeting discussed the termination of the service contract with Executive Board member Eric Berger. This meeting was also used to discuss the customer care strategy. The Supervisory Board also dealt with the implications of the Act on the Appropriateness of the compensation for the Executive Board (VorstAG).

On 28 September 2009, the allocation of responsibilities within the Executive Board following the resignation of Eric Berger was resolved by telephone, and the sale of freenet Customer Care GmbH, Kiel, was approved. Other issues included matters pertaining to the Executive Board.

The conference call on 18 November 2009 featured deliberations on and resulted in the approval of the sale of the STRATO Group.

At the meeting on 7 December 2009 the plans for the financial year 2010 were discussed in detail with the Executive Board. In addition, the Supervisory Board discussed the corporate governance of the company and took a decision regarding the statement of compliance with the German Corporate Governance Code. In implementing new statutory provisions and the new recommendations of the Code, the Supervisory Board decided to adapt the Supervisory Board's procedural rules.

The meeting of 15 March 2010 focused on a discussion about the annual and consolidated financial statements of 31 December 2009. Details are set out in a special section of this report: "Audit of the annual and consolidated financial statements for the financial year 2009".

Work of the Supervisory Board committees

In order to deal efficiently with its duties, the Supervisory Board has set up one executive committee, and five sub-committees. These include the newly established IT/networks committee set up on 7 July 2009. The sub-committees prepare the issues and Supervisory Board resolutions to be discussed by the full board. To the extent that legislation permits, the Supervisory Board's decision-making authority was also delegated to sub-committees in some individual cases. The Chairman of the Supervisory Board chairs all of the committees, except the audit committee. The respective committee chairmen reported to the full Supervisory Board on the matters discussed at their sub-committee meetings.

Executive committee

The executive committee advises on key issues and prepares decisions of the Supervisory Board. The executive committee may, in place of the Supervisory Board, rule on the necessity of approving the actions and business of the Executive Board under the Executive Board's procedural rules, if the matter needs to be addressed urgently and a decision of the Supervisory Board cannot be made in time.

A total of five actual executive committee meetings and two conference calls were held.

Issues discussed at the meetings were support and consulting for M&A projects, such as the sale of the DSL business, freenet Customer Care GmbH and the STRATO Group. The committee also followed and monitored the progress of the integration of the Mobile Communications business.

Members: Thorsten Kraemer (Chair; since 7 July 2009), Maarten Henderson (since 7 July 2009), Franziska Oelte, Matthias Schneider.

Members who left: Prof. Dr. Helmut Thoma (Chair; up to 7 July 2009), Richard Roy (up to 7 July 2009).

Personnel committee

The personnel committee prepares the Supervisory Board's personnel decisions. It submits proposals for the compensation of the Executive Board, for the compensation system and for its regular review to the Supervisory Board for approval. The committee can make decisions on behalf of the Supervisory Board, subject to the mandatory responsibilities of the Supervisory Board, on personnel matters regarding members of the Executive Board.

In 2009, the personnel committee held a total of 12 actual meetings and four conference calls.

Besides the reorganisation of the Executive Board following the resignation of former CEO Eckhard Spoerr, the issues of discussion focused on the selection of a new CEO and the preparation of the employment contract for Christoph Vilanek as the new CEO. The committee also addressed the resignation of Executive Board member

Eric Berger and the subsequent allocation of responsibilities within the Executive Board. Further discussions were held regarding target agreements with Executive Board members and the impact of the Act on the Appropriateness of the compensation for the Executive Board (VorstAG).

Members: Thorsten Kraemer (Chair; since 7 July 2009), Prof. Dr. Helmut Thoma (Chair until 7 July 2009), Claudia Anderleit, Joachim Halefeld.

Members who left: Richard Roy (until 7 July 2009).

Audit Committee

The audit committee deals with accounting issues, especially the monitoring of the accounting process, the effectiveness of the internal control system, risk management system and internal auditing systems and prepares the decisions of the Supervisory Board regarding the annual and consolidated financial statements and the proposal for the appropriation of profit and the arrangements with the auditors (particularly the audit assignment, the determination of auditing focal points, the fee agreement, and any additional services).

There were a total of five actual meetings, including four with the participation of representatives from the accounting firm PricewaterhouseCoopers as auditors.

The committee closely advised and supervised the annual audit for 2008. Major issues here were the SAC accounting, the purchase price allocation of the debitel Group and the valuation of the goodwill of the Mobile Communications business. The committee recommended to the full board the approval of the annual and consolidated financial statements. The committee also regularly inspected the progress of the integration, as well as the company's status of compliance and risk management system. Other topics discussed at the meetings included the quarterly and semi-annual reports 2009 and changes to the responsibilities of the committee as per the amended version of clause 107 of the German Stock Corporation Act (AktG). The committee also dealt intensively with the audit 2009, requesting the statement of independence by the auditors pursuant to section 7.2.1 of the German Corporate Governance Code, monitoring the auditors' independence, and commissioning the auditors to conduct the audit.

Members: Maarten Henderson (Chair; since 7 July 2009), Dr. Christof Aha (since 7 July 2009), Matthias Schneider, Steffen Vodel.

Members who left: Prof. Dr. Hans-Joachim Priester (Chair; until 7 July 2009), Dr. Dieter Leuering (until 7 July 2009).

Mediation committee

The mediation committee pursuant to clause 27, paragraph 3 of the German Co-Determination Act (MitbestG), which is responsible for the tasks described in clause 31 paragraph 3 first sentence of the MitbestG, was not convened during the financial year 2009.

Members: Thorsten Kraemer (Chair since 7 July 2009), Dr. Arnold Bahlmann (since 7 July 2009), Franziska Oelte, Claudia Anderleit.

Members who left: Richard Roy (until 7 July 2009).

Nominations committee

The nominations committee, which for future new elections will suggest suitable candidates to the Supervisory Board to propose to the Annual General Meeting, dealt with the selection of candidates for the Supervisory Board at its only meeting in 2009 following the resignations of Dr. Dieter Leuering, Prof. Dr. Hans-Joachim Priester, Lars P. Reichelt and Richard Roy at the end of the Annual General Meeting 2009.

Members: Thorsten Kraemer (Chair since 7 July 2009), Dr. Arnold Bahlmann (since 7 July 2009), Achim Weiss (since 7 July 2009).

Members who left: Prof. Dr. Helmut Thoma (Chair; until 7 July 2009), Richard Roy (until 7 July 2009).

IT/Networks committee

The IT/networks committee was set up immediately following the Annual General Meeting on 7 July 2009 and tasked with monitoring and attending IT integration projects that are of particular importance for the Group. The committee met twice in 2009.

Issues discussed were the monitoring and attendance of the IT migration projects, their risks and technical details. In addition, the committee dealt with the status of the network and the prospects of the narrowband business.

Members: Thorsten Kraemer (Chair), Achim Weiss, Franziska Oelte, Matthias Schneider

Audit of the annual and consolidated financial statements for the financial year 2009

The annual financial statements for the financial year from 1 January to 31 December 2009 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 PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. The audit was commissioned by the Supervisory Board's audit committee in accordance with the resolution passed by the Annual General Meeting on 7 July 2009. The auditors issued an unqualified auditor's report. The freenet AG consolidated financial statements on 31 December 2009 were prepared in accordance with clause 315a of the German Commercial Code (HGB) based on the IFRS international accounting standards. The audit of these consolidated financial statements and of the Group management report was also unqualified.

The reports on these matters, as well as all other audit reports and financial statements documentation, were sent on time to all Supervisory Board members. They were discussed within the audit committee on 5 February 2010, 22 February 2010 and 15 March 2010 and in the meeting of the Supervisory Board on 15 March 2010. The auditors took part in the discussion of the annual and consolidated financial statements in the meetings of both the committee and the Supervisory Board. They reported on the material findings of the audits and made themselves available to the audit committee and Supervisory Board to answer any supplementary questions or provide further information. Details of the audit of the company's early risk-detection system were also included in the auditors' reports.

After 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 15 March 2010. The annual financial statements are thus formally adopted.

Furthermore the Supervisory Board has passed – in accordance with the recommendation of the audit committee – a resolution concerning the Executive Board's proposal for the appropriation of profit. In their meetings on 15 March 2010 the audit committee and the Supervisory Board have audited the proposal for the appropriation of profit and reviewed with the auditors.

Following this, the Supervisory Board agreed with and supports the Executive Board's proposal for the appropriation of cumulative profit.

Changes to the Supervisory Board and the Executive Board

Supervisory Board

Following the Annual General Meeting of 7 July 2009 Richard Roy, Dr. Dieter Leuering, Prof. Dr. Hans-Joachim Priester and Lars P. Reichelt left the Supervisory Board. Newly elected to the Supervisory Board by the Annual General Meeting on 7 July 2009 were Dr. Christof Aha, Maarten Henderson, Dr. Arnold Bahlmann and Achim Weiss.

Prof. Dr. Helmut Thoma resigned as Chairman of the Supervisory Board at the end of the Annual General Meeting on 7 in July 2009. On the same day, Thorsten Kraemer was elected as the new Chairman of the Supervisory Board.

Executive Board

Eckhard Spoerr left the Executive Board on 23 January 2009 as did Eric Berger on 30 September 2009. Christoph Vilanek was newly appointed to the Executive Board and made CEO with effect from 1 May 2009.

The Supervisory Board would like to thank all former members of the Supervisory Board and the Executive Board for their good cooperation, for their constructive support of the company and for their many years of work for the Group. The Supervisory Board would also like to express its appreciation to the members of the Executive Board and all employees of the Group for their personal commitment and hard work in a difficult environment.

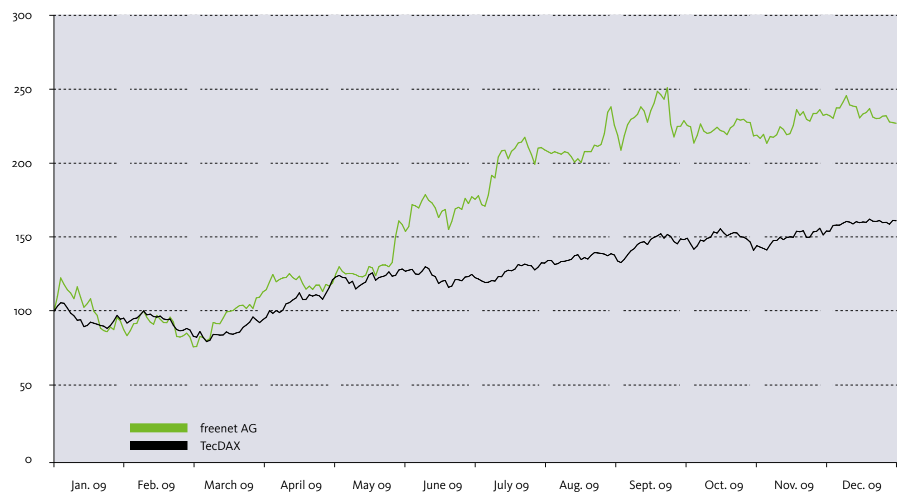
Büdelsdorf, 15 March 2010
The Supervisory Board

Thorsten Kraemer
Chairman of the Supervisory Board

1.5 The freenet share

Performance of the freenet share over the past twelve months

(indexed; 100 = Xetra closing price on 30 December 2008)



International financial markets

At the beginning of 2009, the general downward trend in the international financial markets, triggered by the international financial and economic crisis, continued and resulted in further declines on the worldwide stock exchanges.

In spring 2009, however, the international stock markets made a clear recovery: over the course of the year, the Stoxx 50 index for European blue chips increased by nearly 25 percent, the DAX was only slightly behind with a plus of 23.8 percent, and the TecDax for smaller technology-oriented companies, in which freenet AG is listed, actually went up by more than 60 percent as the year progressed.

freenet shares

freenet's share price startet out at 4.15 euros on 2 January 2009 and – like its benchmark index, the TecDAX – suffered price declines at the beginning of the year. The share hit its annual low at 3.16 euros on 2 March 2009. From March, however, the share began its recovery, supported by a positive market environment. Against this backdrop, freenet's share price rose all the way to 10.38 euros on 22 September 2009. At the end of the year, the freenet share was listed at 9.39 euros, 126 percent above the price at year-end 2008.

In all, 147.5 million freenet shares were traded via the XETRA system over the course of the year, compared to 161.1 million shares in the previous year. The average daily trading volume during the past financial year was 580.7 thousand shares, versus 634.2 thousand shares in 2008.

Shareholder structure

The capital stock of freenet AG consists of 128,061,016 registered no-par shares, each with a current pro rata share in the registered share capital of 1.00 euro per share.

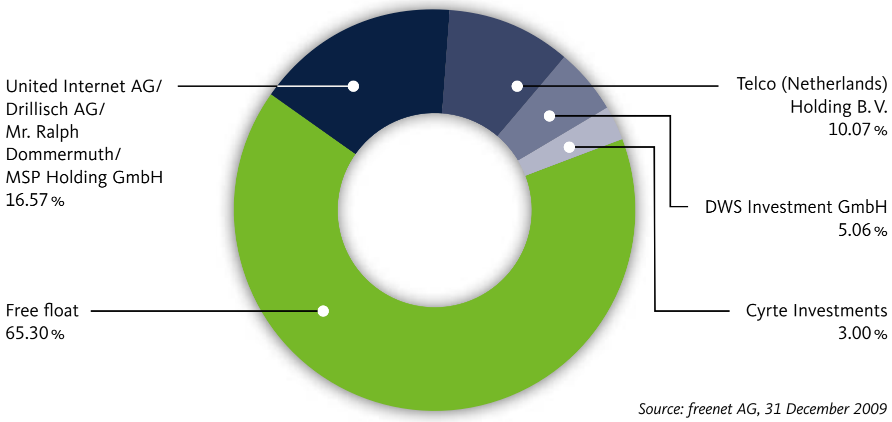
According to the notifications of voting rights received pursuant to clause 21 of the German Securities Trading Act (WpHG), freenet AG's shareholder structure changed as follows during the financial year 2009: in Q1/2009, Cyrte Investments announced that it held 3.00 percent of the voting rights (exceeding the threshold). Hermes Focus Asset Management Limited notified us in March that its share of the voting rights had fallen to 4.82 percent (falling below the threshold), and in May announced that it had fallen below the 3-percent threshold. In August, the group of shareholders consisting of United Internet AG, Drillisch AG and Mr. Ralph Dommermuth notified us that that their share of voting rights had fallen below the 25-percent and 20-percent thresholds. At that date, they owned 16.57 percent of freenet AG, either directly or via the joint MSP Holding GmbH. In September, Telco (Netherlands) Holding B.V. announced a decline in its share of voting rights in freenet AG, from 24.99 percent to 10.07 percent. Also in September, we received an announcement that DWS Investment GmbH had increased its voting rights to above the 3-percent threshold, to 3.27 percent, followed in October by another voting rights announcement, stating that the company now held 5.06 percent of the voting rights (exceeding the 5-percent threshold).

As a result of the notifications of voting rights received in the year under review, the shareholder structure at 31 December 2009 is as follows:

The largest shareholder in freenet AG at the end of the financial year is the shareholder group consisting of United Internet AG, Drillisch AG, and Mr. Ralph Dommermuth; as at 31 December 2009, it owns 16.57 percent either directly or via the MSP Holding GmbH. A 10.07-percent share is held by Telco (Netherlands) Holding B.V..

Other major shareholders in freenet AG are DWS Investment GmbH with 5.06 percent, and Cyrte Investments with 3.00 percent.

The free float thus amounts to 65.30 percent, and is distributed among a broad base of private and institutional investors in Germany and abroad.



Source: freenet AG, 31 December 2009

Deutsche Börse – new industry classification

On 19 June 2009, the Deutsche Börse (German stock exchange) reclassified the freenet share from the "software" sector to the "wireless communication" subsector of "telecommunication". As a result, freenet AG's strategic realignment towards mobile communications/mobile Internet as its core business is now reflected in its industry classification.

Conversion to registered shares

From 28 September 2009 on, freenet shares are traded as registered shares. The conversion of bearer shares into registered shares at a ratio of 1:1 had been resolved by the freenet AG Annual General Meeting on 7 July 2009.

As a result of the conversion to registered shares, freenet shares received a new WKN (securities identification number), ISIN (International Securities Identification Number) code and a new stock symbol to identify the security. The new WKN is: A0Z2ZZ; the new ISIN code is: DE000A0Z2ZZ5; the new stock symbol is: FNTN.

Earnings per share

Undiluted/diluted earnings per share (EPS) in the reporting year stood at 2.00 euros compared to 1.01 euro in 2008.

Undiluted/diluted EPS from continued operations in 2009 stood at 0.13 euro (1.15 euro in 2008) and the undiluted/diluted EPS from discontinued operations was 1,87 euro for the past financial year (–0.14 euro in 2008).

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

	2009	2008 adjusted
Undiluted earnings per share in €	**2.00**	**1.01**
Diluted earnings per share in €	**2.00**	**1.01**
Earnings per share from continued operations (undiluted) in €	0.13	1.15
Earnings per share from continued operations (diluted) in €	0.13	1.15
Earnings per share from discontinued operations (undiluted) in €	1.87	–0.14
Earnings per share from discontinued operations (diluted) in €	1.87	–0.14
Weighted average of shares outstanding in thousand (undiluted)	128,061	110,728
Weighted average of shares outstanding in thousand (diluted)	128,061	110,728

Dividend

The Executive Board and the Supervisory Board have decided to propose to the Annual General Meeting the payment of a dividend for the past financial year in the amount of 0.20 euro per share from retained earnings.

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
Capital Stock:	128,061,016.00 euros
Quantity of shares:	128,061,016

Xetra Trading Parameters

Symbol:	FNTN
Reuters Instrument Code:	FNTGN.DE
Trading Model Type:	Continuous Trading
Designated Sponsor:	Close Brothers Seydler Bank AG, Equinet Aktiengesellschaft

Further information on the freenet share is available at:
http://www.freenet.ag/investor/share.html

1.6 Corporate Governance report

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

Since issuing its last statement of compliance in December 2008, freenet AG has, with the exceptions listed below, complied with the recommendations contained in the current version of the German Corporate Governance Code (as issued on 6 June 2008/ as amended on 18 June 2009) and intends also to comply in future with the recommendations of the 18 June 2009 version of the German Corporate Governance Code, except in cases where there is a declaration to the contrary from the company below.

1. The company has taken out D&O insurance for its Board members. This insurance so far includes no excess for members of the Executive Board or the Supervisory Board (clause 3.8, sentence 5 of the Code). Clause 93 paragraph 2 sentence 2 of the German Stock Corporation Act – annexed by the Act on the Appropriateness of the compensation for the Executive Board issued on 5 August 2009 – specifies for the D&O insurance the obligation to agree an excess for the Executive Board. According to the transitional regulation in connection with the Act on the Appropriateness of the compensation for the Executive Board, the obligation has to be applied also for existing insurance contracts from 1 July 2010. The company intends to meet the legal requirements. With regard to the members of the Supervisory Board, an agreement of an excess is still not intended, as there is no visible benefit to the company associated with this. Acting responsibly is a given duty for all Board members.
2. The Supervisory Board so far has transferred the participation with the compensation system for the Executive Board, including key contract elements, and a regular review thereof to the Supervisory Board's personnel committee (clause 4.2.2, sentence 1 of the Code). Since commencement of the Act on the Appropriateness of the compensation for the Executive Board on 5 August 2009 and in future the full Supervisory Board will specify – at the proposal of the personnel committee – the overall compensation for the Executive Board members, resolve and regularly review the compensation system for the Executive Board.
3. No age limit is currently set either for members of the Executive Board or for members of the Supervisory Board. In the Supervisory Board's opinion it makes no sense that well-qualified people with great professional and personal experience should not be considered as candidates simply due to their age (clause 5.1.2, sentence 7 and clause 5.4.1, sentence 2 of the Code).

The Executive Board and the Supervisory Board made this declaration in December 2009 and have published it on the company's website.

Compensation report

Compensation for the Executive Board

Basic principles of compensation

The compensation for the members of the Executive Board of the company is broken down as follows:

Compensation for the financial year 2009 in €'000s	**Fixed compensation**	**Variable compensation from stock appreciation rights[1]**	**Other variable compensation**	**Total compensation**
Christoph Vilanek[2]	410	424	267	1,101
Axel Krieger	503	367	212	1,082
Stephan Esch	327	216	137	680
Joachim Preisig	422	331	400	1,153
Eric Berger[3]	205	142	62	409
Eckhard Spoerr[4]	53	1,110	29	1,192
	1,920	**2,590**	**1,107**	**5,617**

1 Incl. non-cash compensation valued in accordance with IFRS 2.
2 Compensation after being appointed to the Executive Board of freenet AG, i.e. for the period 1 May to 31 December 2009.
3 Fixed compensation and other variable compensation until the termination of the employment agreement, i.e. for the period 1 January to 30 September 2009; variable compensation from the stock appreciation programme for the full year 2009.
4 Fixed compensation and other variable compensation until the termination of the employment agreement, i.e. for the period 1 January to 23 January 2009; variable compensation from the stock appreciation programme for the full year 2009.

Compensation for the financial year 2008 in €'000s	**Fixed compensation**	**Variable compensation from stock appreciation rights[1]**	**Other variable compensation**	**Total compensation**
Eckhard Spoerr	641	–3,310	410	–2,259
Axel Krieger	361	–2,069	155	–1,153
Stephan Esch	254	–1,034	60	–720
Eric Berger	253	–620	60	–307
Joachim Preisig[2]	105	55	100	260
	1,614	**–6,978**	**785**	**–4,579**

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

In the financial year 2009, 400,000 stock appreciation rights were issued to Mr. Vilanek, who commenced his activity as Chairman of the Executive Board of freenet AG on 1 May 2009. The stock appreciation rights issued to Mr. Vilanek in 2009 had a total value of 509 thousand euros (fair value in accordance with IFRS2) at the point at which they were granted on 1 May 2009. In the financial year 2009, no new stock appreciation rights or stock options were issued to the other members of the Executive Board of the company.

Negative figures are shown for the Executive Board compensation for Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger; this is due to the decline in the provision for stock appreciation rights mainly attributable to reporting date factors. Disregarding the non-cash-effective compensation components from stock appreciation rights, Mr. Spoerr would have received compensation of 1,051 thousand euros in the financial year 2008; Mr. Krieger would have received 516 thousand euros, Mr. Esch would have received 314 thousand euros, Mr. Berger would have received 313 thousand euros and Mr. Preisig would have received 205 thousand euros.

In addition to the figures shown in the above table, a payment of 508 thousand euros was made to Mr. Berger in the financial year 2009 in order to cover contractual claims arising from his employment agreement as his employment agreement was prematurely cancelled as of 30 September 2009.

Overall, Executive Board compensation of 4,044 thousand euros was reported in 2009 in accordance with Section 314 (1) No. 6a HGB (cash-effective compensation including the payment to Mr. Berger in settlement of his contractual claims plus the new stock appreciation rights issued, shown at their total value upon granting in the financial year). In the previous year 2008, the Executive Board's compensation in accordance with section 314 (1) No. 6a HGB amounted to 5,790 thousand euros, including the payments of 2,000 thousand euros to Mr. Spoerr in order to cover contractual claims, plus the stock appreciation rights issued to Mr. Preisig with their total value of 1,391 thousand euros (fair value in accordance with IFRS2) when they were granted in 2008.

As of 31 December 2009, the provision for stock appreciation rights for Mr. Vilanek was stated as 424 thousand euros (previous year: 0); for Mr. Krieger, the provision was stated as 719 thousand euros (previous year: 352 thousand euros); for Mr. Esch, it was stated as 392 thousand euros (previous year: 176 thousand euros); for Mr. Preisig, it was stated as 386 thousand euros (previous year: 55 thousand euros); for Mr. Berger, it was stated as 248 thousand euros (previous year: 106 thousand euros), and for Mr. Spoerr it was stated as 1,673 thousand euros (previous year: 563 thousand euros).

As in the previous year, no cash-effective compensation was paid from stock options and stock appreciation rights in the financial year 2009.

In November 2004, an indirect pension commitment was granted to Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger. 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 2009, the Defined Benefit Obligations (DBO) were as follows: for Mr. Vilanek 115 thousand euros (previous year: 0), for Mr. Krieger 1,128 thousand euros (previous year: 473 thousand euros), for Mr. Esch 386 thousand euros (previous year: 164 thousand euros), for Mr. Berger 385 thousand euros (previous year: 163 thousand euros) and for Mr. Spoerr 1,442 thousand euros (previous year: 894 thousand euros). As of 1 September 2008, freenet AG took over the pension commitment granted to Mr. Preisig by debitel AG. As of 31 December 2009, the DBO for Mr. Preisig was 244 thousand euros (previous year: 137 thousand euros).

Current and past service time expenses of 820 thousand euros (previous year: 222 thousand euros) are shown in personnel expenses for the members of the Executive Board as a result of the pension commitments.

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

- Pensions

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

Upon termination of employment, freenet AG Board members are entitled to the benefits described under item 32 of the Notes.

- Premature termination of employment contract

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

In particular, the company's service contracts provide the following benefits in the event of termination of employment:

For the Chief Executive Officer Christoph Vilanek, the following rules apply from 1 May 2009:

- From his 60th birthday, Mr. Christoph Vilanek shall receive a pension amounting to 2.5 percent of final annual base salary for each contractual year commenced on the Board of the company, to a maximum of one-third of final annual base salary.
- Survivor annuity for the wife or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the pension.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. In the event of Mr. Vilanek terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

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

- Upon retirement on reaching the age of 60, Mr. Joachim Preisig shall receive a pension in the amount of 9,333.00 euros (guaranteed 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.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. In the event of Mr. Preisig terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

For the Board members Axel Krieger and Stephan Esch, as well as for the former Board members Eckhard Spoerr and Eric Berger following rules apply:

- The right to payment of salary and bonuses (based on the assumption of 100 percent achievement of targets) for the remaining period of the contract where by mutual agreement the service contract is ended or notice to end is served within, in either case, twelve months of a change of control of the company.
- From their 60th birthday, the aforementioned members of the Executive Board shall receive a pension amounting to 2.5 percent of final annual base salary for each year commenced on the Board of the company or its legal predecessor at freenet.de AG, to a maximum of one-third of final annual base salary (guaranteed pension).
- Survivor annuity for the wife or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. If employment is terminated due to a change of control, all stock appreciation rights remain in force and can be exercised regardless of the vesting period if the other exercise conditions are met within twelve months, but not later than the end of the term. In the event of a member of the Executive Board terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

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

Please also refer to item 32 in the notes for further information, in particular about compensation amounts, stock appreciation rights held, share ownership and other details.

Compensation for the Supervisory Board

Basic principles of compensation

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

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

The basic compensation was modified with a resolution of the Annual General Meeting of 7 July 2009. Starting with financial year 2009, 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 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) of the German Codetermination Act – receive in addition an attendance fee of 1,000 euros for each meeting of the committee. The committee chairperson receives double this amount.

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

For their activity during the financial year 2009, the members of the Supervisory Board of the Company received fixed compensation of 405.8 thousand euros and as well as attendance fees of 260 thousand euros. Performance-based compensation of 67.6 thousand euros was also recognised as an expense. Whether this performance-linked compensation will indeed be paid out depends on the profit appropriation resolution by the Annual General Meeting for the financial year 2009. The total compensation paid for Supervisory Board activities was thus 733.3 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 2009 (€'000s)	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Thorsten Kraemer[1]	44.5	32.0	7.4	84.0
Franziska Oelte[3]	45.0	16.0	7.5	68.5
Dr. Christof Aha	14.6	6.0	2.4	23.0
Claudia Anderleit[3]	30.0	25.0	5.0	60.0
Dr. Arnold Bahlmann	14.6	4.0	2.4	21.0
Joachim Halefeld[3]	30.0	25.0	5.0	60.0
Maarten Henderson	14.6	14.0	2.4	31.0
Hans-Jürgen Klempau[3]	30.0	11.0	5.0	46.0
Matthias Schneider[3]	30.0	25.0	5.0	60.0
Prof. Dr. Helmut Thoma[2]	45.6	42.0	7.6	95.2
Steffen Vodel[3]	30.0	14.0	5.0	49.0
Achim Weiss	14.6	5.0	2.4	22.0
	343.5	**219.0**	**57.3**	**619.7**
Former members				
Dr. Dieter Leuering	15.6	8.0	2.6	26.2
Prof. Dr. Hans-Joachim Priester	15.6	12.0	2.6	30.2
Lars P. Reichelt	15.6	1.0	2.6	19.2
Richard Roy	15.6	20.0	2.6	38.2
	62.3	**41.0**	**10.3**	**113.6**
	405.8	**260.0**	**67.6**	**733.3**

1 Chairman of the Supervisory Board since 7 July 2009.
2 Chairman of the Supervisory Board until 7 July 2009.
3 Employee representatives in accordance with section 7 (1) sent 1 no. 1 MitbestG of 4 May 1976.

Compensation for the financial year 2008 (€'000s)	Basic compensation	Attendance fees	Performance-based compensation[2]	Total
Active members				
Prof. Dr. Helmut Thoma	24.0	39.0	24.0	87.0
Franziska Oelte[1]	14.7	16.0	14.7	45.4
Claudia Anderleit[1]	5.8	11.0	5.8	22.6
Joachim Halefeld[1]	5.8	11.0	5.8	22.6
Hans-Jürgen Klempau[1]	5.8	6.0	5.8	17.6
Thorsten Kraemer	12.0	12.0	12.0	36.0
Dr. Dieter Leuering	12.0	14.0	12.0	38.0
Prof. Dr. Hans-Joachim Priester	12.0	16.0	12.0	40.0
Lars P. Reichelt	4.8	4.0	4.8	13.5
Richard Roy	12.0	21.0	12.0	45.0
Matthias Schneider[1]	5.8	11.0	5.8	22.6
Steffen Vodel[1]	5.8	8.0	5.8	19.6
	120.5	**169.0**	**120.5**	**410.1**
Former members				
Oliver Brexl	7.3	11.0	7.3	25.6
Birgit Geffke[1]	9.3	9.0	9.3	27.6
Sascha Lucht[1]	6.2	9.0	6.2	21.4
Andreas Neumann[1]	6.2	6.0	6.2	18.4
Kai Petersen[1]	6.2	5.0	6.2	17.4
Ulrike Scharlach[1]	6.2	5.0	6.2	17.4
	41.4	**45.0**	**41.4**	**127.7**
	161.9	**214.0**	**161.9**	**537.8**

1 Employee representatives in accordance with section 7 (1) sent 1 no. 1 MitbestG of 4 May 1976.
2 Variable compensation in accordance with section 11 (5) of the articles of association was not paid because no dividend for 2008 was adopted by the Annual General Meeting. The provision which had been created was reversed in the financial year 2009.

The provision for performance-based compensation set aside for the previous financial year was not paid out because the Annual General Meeting did not adopt a resolution for a dividend to be paid. A provision which had been created for this purpose was therefore reversed. The Supervisory Board compensation paid for the previous year totalled 375.9 thousand euros.

2. Group management report

The headquarters of freenet AG in Büdelsdorf.

2. Group management report

Important note:

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

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

2.1 Business operations and Group structure

Business operations

The freenet Group is the biggest network-independent telecommunications provider in Germany. The Group offers its customers a wide range of services, primarily in the field of mobile communications/mobile Internet.

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 T-Mobile, Vodafone, E-Plus and O_2 in Germany. freenet's activity as a mobile service provider is based on network operator contracts signed with the network operators. Under these contracts, the company buys mobile communications services from the network operators and markets them to their end customers. In addition to its own network-independent post-paid, pre-paid and no-frills services and rates, the company also offers the network operators' rates.

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

Alongside its proven online and direct-to-customer sales channels, the company can draw on exclusively branded shops and a large-scale presence in electronics retail and superstores; this makes it the largest network-independent sales and distribution platform for mobile communications products in Germany. Its marketing focus is essentially on the B2C business with private households in Germany.

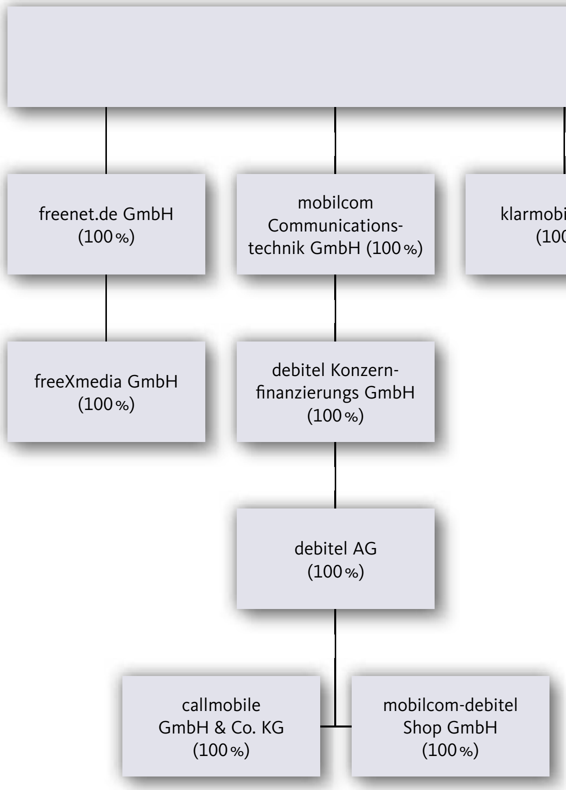
The company also operates an online portal and is increasingly offering content for mobile Internet as well. freenet's Portal business is rounded off by the online marketing agency freeXmedia, which at year-end 2009 was handling the marketing for 64 portals not operated by the Group.

Group structure

During the financial year under review, the Group disposed of its DSL and Hosting businesses. freenet Breitband GmbH, which served as the umbrella for the Group's DSL business, was sold to 1&1 Internet AG. freenet Customer Care GmbH, which handled customer service for the Broadband segment, is also no longer part of the Group, having been sold to adm Group GmbH & Co KG during the financial year 2009. The STRATO Group, comprised of STRATO AG and Strato Rechenzentrum AG, was sold to Deutsche Telekom AG.

Within the Group, the dug telecom aktiengesellschaft, Oberkrämer, was converted to the legal form of a GmbH (German Ltd.) in the past financial year and now does business as mobilcom-debitel Shop GmbH. All of freenet AG's shop activities are now summarised in mobilcom-debitel Shop GmbH.

Major companies in the Group:



2.2 Business and macroeconomic conditions

Market development 2009

Overall market

In 2009, the global economy was hit by the worst recession since the end of World War II, triggered by the near-collapse of the international finance and banking sector. With its strongly export-oriented economy and a still-restrained domestic economy, Germany was especially hard-hit by the global economic crisis: its gross domestic product shrank by 5 percent – the worst collapse seen in the German economy since the Federal Republic was founded.

Telecommunications market

According to figures published by Dialog Consult and the VATM (Association of Telecommunications and Value-Added Service Providers) the revenue decline observed across the German telecommunications market since 2005 continued during the past financial year. This took place against a backdrop of intense competition with more inexpensive rates and an increase in flat rates and bundled (all-in-one) products in this segment. Both traditional fixed-line telephony and mobile communications are affected; the trend towards increasingly using mobile devices for calls and downloading data has proven unable to compensate for downward-trending retail prices.

T-Mobile accounted for 30.5 percent of all revenue and remained the mobile communications market leader in 2009, followed by Vodafone (28.8 percent) and mobilcom-debitel, Germany's third-largest provider with a 14.5-percent share of the market. The VATM estimates that E-Plus and O_2 scored market shares of 12.9 and 11.9 percent respectively, while Drillisch accounted for 1.4 percent.

The number of activated SIM cards continued to grow, reaching 109.1 million at the end of December 2009, after 107.3 million in 2008. The high market penetration of currently 132.6 percent, along with a growth rate which has slowed considerably vs. previous years to just 1.7 percent, indicate that the mobile communications market is nearing saturation in terms of participant numbers.

But according to the Federal Network Agency's Activity Report, the market in mobile Internet services is set for growth: its potential is not yet fully exploited, especially because not all participants possess a UMTS-enabled device.

Ad sales market

The ad sales market was also hit by the severe economic crisis last year. The Central Association of the German Advertising Economy (ZAW) predicts that total advertising expenditure will have declined by over 1.5 billion euros in 2009, to only around 29 billion euros. This represents an accelerated continuation of the downward trend seen in 2008.

According to the ZAW, traditional media such as TV and radio stations and print publishers saw the most dramatic collapses in the history of German advertising.

Business performance of the freenet Group

For freenet AG, the past financial year was all about a strategic realignment to reflect its new focus on mobile communications and mobile Internet. This was accompanied by the harmonisation of the variety of brands and rates, the integration and restructuring of the individual parts of the company, and the sale of Group companies that no longer meet freenet's strategic realignment. Given these conditions and a market environment that continued difficult, freenet AG had a successful financial year in 2009.

Several points should be noted regarding the previous-year comparable figures shown in the following, as opposed to the figures published in last year's Group financial statements: one, in the first half of 2008 the debitel Group, which was acquired in early July 2008, was not yet consolidated in the Group; and two, the comparable figures were adjusted in accordance with IFRS 5 due to the sale of the STRATO Group. Apart from this, there were retrospective reclassifications to be made within the income statement items relating to continued operations for 2008, due to the completed sale of the broadband business. Please also refer to our remarks in the Notes under item 21.

Group revenue in 2009 increased by 874.2 million euros year-on-year to 3.65 billion euros – a plus of 31.5 percent. Gross profit and earnings of the Group also increased considerably in 2009: gross profit increased by 37.4 percent year-on-year to 774.6 million euros. At 327.1 million euros, EBITDA for 2009 was 90.1 percent above that of 2008. EBIT more than doubled year-on-year in 2009 – from 58.9 million euros to 123.3 million euros. Earnings before taxes soared by 64.4 million euros to 35.6 million euros in 2009; the previous year's EBT was –28.8 million euros.

The DSL business sold during the financial year, as well as the STRATO Group, also sold during the year under review, and debitel Nederland B.V., which was already sold in 2008, are shown in the Group figures as discontinued operations in accordance with IFRS 5. The discontinued operations contributed 239.9 million euros (–15.9 million euros in 2008) to the Group result, while the continued operations generated a Group result of 16.6 million euros (127.5 million euros in 2008) – in the previous year, there was non-recurring tax income in connection with the acquisition of the debitel Group.

The cumulated Group result from continued and discontinued operations thus increased by 129.8 percent year-on-year to 256.5 million euros.

Over the course of the year, the company was able to reduce its net financial debt by 514.0 million euros – from 1.30 billion euros to 789.8 million euros – thanks to positive cash flow from operations and the sale of the DSL business and the STRATO Group.

As a result of the successful restructuring of operations and sites, as well as the completed sales of subsidiaries, the freenet Group's number of employees dropped by 2,861 during the course of 2009, and is currently at 4,394.

Business performance by operations

Continued operations

Mobile Communications/Portal business
Following the debitel acquisition, a comprehensive concept for integration and restructuring the newly created group of companies was adopted at the end of 2008. freenet resolutely put this concept into action during 2009.

freenet also systematically expanded its new core business, mobile communications/mobile Internet, with a product and service offensive, thereby underscoring its strong competitive positioning as Germany's largest network-independent mobile communications provider. The Portal business was another focus of activities; this segment in particular contributes a great deal of expertise and experience with web content and web services – and marketing them – to the mobile Internet segment.

■ Mobile Communications
One initial and key step in expanding the new core business was the introduction of "mobilcom-debitel" as the new service-provider brand. In May, freenet launched a large-scale brand-building and brand-selling campaign for the new brand; it focused on the second half of 2009 and included TV and cinema commercials, advertising billboards, print ads, online advertising and various promotions. As a result, aided awareness of the new dual brand rose significantly after just a few months, to 84 percent.

The successful discount brands "klarmobil" and "callmobile" are being continued alongside the new "mobilcom-debitel" brand, as is the "talkline" brand (for direct sales) acquired as part of the debitel acquisition.

The launch of the new service-provider brand was accompanied by a consolidation and rebranding of the shops and retail spaces. This rebranding helps to visually reflect the company's strong positioning as Germany's largest network-independent mobile communications provider. The respective new customer calling rates were also gradually standardised by the end of the second quarter.

At the same time, we systematically push forward and accelerate the integration of the company during 2009, in terms of reducing the number of sites, exploiting synergies in our operations – in purchasing, sales, customer and accounts receivable management as well as process optimisation – and consolidating the various IT systems. We completed the first stage of the IT integration in mid-October, and by migrating the debitel and Talkline data and systems, reduced the number of IT systems used in the Group from three to two; preparations to further reduce them to a single system are already well underway.

Another milestone at the beginning of the year was the early contract extension of the cooperation with the Media-Saturn group: freenet will continue to be the exclusive vendor of its own offerings as well as mobile communications products offered by the carriers T-Mobile, Vodafone and E-Plus in more than 360 Saturn and Media Markt electronic markets, through the end of 2011.

On the product front, freenet systematically expanded its range in 2009, both in traditional mobile communications and especially in the growth market of mobile Internet. This is evident both in the range of attractive hardware and in the marketing of related products and services.

For instance, customers had early access to Google's G1 Smartphone, the first mobile device optimised for the mobile Internet, as well as to other Touchscreen mobiles such as the LG KM 900 Arena and the Samsung i900 Omnia. The range also included the new Netbooks Acer Aspire One 150X 3G, Samsung NC10 and LG X 120. Furthermore, from the end of July freenet replaced the network operator USB Internet dongles commonly available on the market with its own mobilcom-debitel Internet dongle (Surfstick): It can be used in any mobile network at speeds of up to 7.2 Mbit/sec, supports HSDPA and HSUPA and in August was equipped with a pre-paid roaming option, that can be used in six selected countries with up to 5 Gigabyte.

As part of the rebranding, freenet also standardised its rates for new customers, in order to achieve greater transparency in its customer relations. In this connection, the company began marketing new "Vario" rates which grant users great flexibility in choosing between included free minutes and free SMS and also allow them to switch between the various options month to month. These were followed by various flat rates and optional extras, as well as introductory and trial offers for the mobile Internet. They included for example the T@ke-away-Flat data option for 9.95 euros, which provides cost security when surfing on a mobile device for low monthly rates, and inexpensive Internet flat rates for surfing with an Internet dongle (Surfstick) or Netbook. The latter cater especially to Small-Office/Home-Office (SOHO) users. In the no-frills sector, freenet ran an introductory and trial promotion to open up mobile Internet use for new klarmobil customers. Finally, towards the end of the year, freenet offered "Try&Buy" trial offers for the mobile Internet – a low-cost data flat rate including a Surfstick for the Netbook, and a flat-rate promotion for mobile phones, available in all networks and for all calling plans for new and existing customers. Selected mobilcom-debitel mobile phones also come with preconfigured, free access to the freenet's mobile portal at http://mobil.freenet.de.

At the end of the financial year 2009, the Mobile Communications customer pool comprised 17.58 million participants (2008: 19.12 million): 8.43 million contract customers and 9.15 million pre-paid customers. Apart from the deliberate restriction of new customer acquisition to high-quality customers, the decline was due to "technical churn" in the prepaid business, in particular as a result of the deletion of inactive SIM cards by the network operators.

Flat rates, falling call rates, the migration of existing customers from high-revenue, high-margin rates to cheaper calling plans, as well as the sustainable success of the no-frills offerings are continually bringing down the cost of mobile telephony and surfing. Accordingly ARPU, or the average monthly revenue per user, continues to decline across the market, and freenet is no exception. In 2009, ARPU declined to 24.20 euros for classic contract customers, 5.40 euros for no-frills customers and 3.00 euros for prepaid customers, with the declining trend slowing down in the course of 2009. In the previous year, the figures were 25.30 euros, 5.70 euros and 3.20 euros respectively.

As a result of the debitel Group acquisition on 5 July 2008, revenues from the Mobile Communications segment increased from 2.655 billion euros in 2008 to 3.509 billion euros in 2009; the Mobile Communications segment now contributes around 96 percent of the Group's total revenue. Gross profit for 2009 was up by 51.0 percent year-on-year to 708.2 million euros.

■ Portal business

In the context of the company's strategic realignment, with mobile Internet use as a central element, expanding the mobile content and services played a major role in the Portal business. In 2009, freenet began by relaunching and expanding its mobile e-mail service and mobile portal.

At year-end 2009, the new e-mail service featuring a customer-oriented Web interface and elegant design included all the usual e-mail functions as well as convenient management of multiple e-mail accounts, a calendar, and mobile fax and voice message receiving on the Web-based voice mail; the mobile e-mail service thus now has all the communication options integrated in the stationary freenet*Mail*.

The mobile portal gives users a wide range of free editorial theme channels and interactive services – such as news, sports and communities – optimised for each type of mobile device. Over the course of the year, the company further expanded its mobile range to include mobil.4Players.de, one of Germany's most popular online gaming magazines with over 900,000 visitors a month, as well as a branded iPhone App Store with thousands of Apps, and the travel channel "Unterwegs" featuring up-to-date information and services for those planning to travel.

The stationary freenet portal was also upgraded over the course of the year. It now features an attractive new design, easy and intuitive navigation, clearly marked channels and additional high-quality content from market-leading content partners.

During 2009, freeXmedia significantly strengthened its position as an online marketer for portals not operated by the Group – from 47 Websites at the beginning of the year to 64 at year-end. At the same time, its marketing reach has increased once more according to the AGOF internet facts 2009-III: among other things, the company is Germany's leading marketer in the Automotive, Lifestyle and Outdoor&Funsport sectors.

Nonetheless the Portal business, comprised of E-Commerce/Advertising and Paid Services, was affected by the downward trend in the ad sales market. Revenue for 2009 fell by 9.5 percent year-on-year to 43.3 million euros, and gross profit was down from 35.2 million euros to 25.3 million euros.

Other activities

■ Narrowband business and B2B services

Both segments have been impacted by rapidly and radically changing conditions for several years. On the one hand, the triumphant advance of mobile communications and extensive DSL offerings that are increasingly replacing traditional fixed-line telephony, narrowband Internet access and VPN networks for B2B customers; and on the other hand, regulatory restrictions on Teletext advertising, on the 0900 service hotlines and the directory assistance hotlines, as well as the State Media Authorities' new Lottery Ordinance, which came into effect since February 2009, have impacted the B2B services business in particular.

As a result, both segments suffered considerable declines in income and gross profits in 2009: revenue in B2B services fell by 30.7 percent to 70.1 million euros, and in the narrowband business by 44.5 percent to 42.1 million euros. Gross profits were down 31.0 percent to 17.7 million euros in B2B services and by 43.2 percent to 27.8 million euros in the narrowband business.

Discontinued operations

Broadband and Webhosting

As a consequence of the Group's new focus on mobile communications/mobile Internet, freenet sold its DSL and Webhosting business in 2009.

On 26 May 2009, freenet AG signed a contract with the United Internet subsidiary 1&1 Internet AG for the sale of freenet Breitband GmbH, including all freenet*DSL* and freenet*Komplett* contracts. A preliminary purchase price of 123 million euros was agreed for the sale, but is subject to purchase price adjustments based on parameters that were not yet finally determined at the time this financial statements was drawn up. After cartel clearance was received on 26 June, the technical migration of the DSL business – and hence the completion of the sale – was implemented as planned on 30 November 2009. freenet Breitband GmbH's business consisted of offering broadband Internet connectivity and Voice over IP.

On 19 November 2009, freenet AG and Deutsche Telekom AG signed a contract for the sale of the STRATO Group, consisting of three companies: STRATO AG, STRATO Rechenzentrum AG and Cronon AG. A preliminary purchase price of 275 million euros was agreed for the sale but is subject to purchase price adjustments based on parameters that were not yet finally determined at the time this financial statement was drawn up. After cartel clearance was received on 18 December 2009, the sale was finalised on 31 December 2009.

The STRATO Group's business operations included offerings for B2C as well as B2B customers in Germany and abroad, essentially pertaining to the registration of top-level domains, provision of Web space, and implementing the software applications needed for this.

Please also refer to our remarks under Item 21 in the Notes.

Research & Development

With its core businesses being mobile communications/mobile Internet and the Portal business, freenet AG is a service provider in the telecommunications market. Therefore the company does not maintain a separate Research & Development department.

At the same time, rapid technological progress and strong competition in this sector make it necessary to keep abreast of market trends and continually adjust the product and services portfolio to new market and customer requirements. freenet secures its long-term competitiveness by developing and/or evolving innovative offerings.

During the year under review, developments in the mobile Internet sector were especially formative for trends in the market: new technologies and devices (Smartphones, Netbooks and Internet dongles/Surfsticks) as well as the growing availability of mobile content, coupled with the progressive expansion of data networks, further advanced the convergence of mobile communications and the Internet. The business with mobile data traffic finally became a mass market in 2009, as borne out by accenture's "Mobile Web Watch 2009" survey.

In this context, freenet AG further expanded its portfolio of mobile communications and mobile Internet products and services, within the scope of its business model. Essentially, this involved:

- the relaunch and extension of the mobile portal,
- the expansion of the mobile Internet product range,
- the development of Apps for Smartphones, and
- the marketing of innovative, customer-friendly data products (Netbooks and data options).

2.3 Sustainability report

As a company, freenet AG has a responsibility not only to its customers and shareholders, but also – in the spirit of comprehensive stakeholder value – to its employees, the society, and the environment.

In this context, freenet AG was active last year in the areas of personnel, social engagement and environmental protection.

Employees

Because freenet's success is founded on the efforts and achievements of all its employees, the Group embraces a responsible human ressources policy.

In the area of human ressources development, freenet offers a comprehensive range of training, sophisticated further training, and development programmes for selected managers. The rewards for professional commitment include flat hierarchies with great decision-making freedom, extra benefits (such as special employee rates and subsidised staff cars) and financial rewards (bonuses).

freenet promotes a healthy balance between work and family life by offering flexible parental leave and working hours, kindergarten allowances and the option of working from home (Home Office).

For a healthy workplace environment, freenet offers ergonomically designed workstations, healthy-back training and physiotherapy sessions. Employees are also invited to take advantage of in-house and external sport offerings and – at some sites – special Health Days with medical check-ups.

freenet AG attaches great importance to a direct dialogue with its employees. Using various channels, in particular a redesigned Group-wide intranet, it regularly keeps employees informed about major changes in the company while also offering them the possibility to help shape the company's future, e.g. by contributing good ideas.

Social engagement

freenet AG embraces its responsibility to society outside the business as well.

For instance, freenet sponsors a good dozen children's, youth and sports foundations in Germany with amounts sometimes in the hundreds of thousands, as well as regional sport clubs and schools. Companies in the Group sponsor an Albert Schweitzer Children's Village in Thuringia and a school for vision- and hearing-impaired children in Heiligenbronn.

Numerous employees also participate in the "Helping Hands" event, which annually finances and assembles a larger piece of playground equipment on a playground in the region around the Büdelsdorf site.

In addition, our employees regularly donate blood to charities and sponsor "adopted" children in the Third World.

freenet also places a priority on good relations with its customers. This is evident, for example, in its reliable and competent customer service, in special mobile rate discounts for seniors and customer advisories about paid features, as well as in codes of conducts, monitoring and blacklists for chats and communities, and in the strict protection of customer privacy/data.

Environmental protection

As a company providing services, freenet AG is less affected by environmental protection requirements than production companies. Nonetheless, the Group is committed to environmental protection and promotes a responsible handling of the resources used wherever it can.

For example, freenet has switched its data centre in Düsseldorf to energy-saving computer systems and “green” electricity.

freenet has a highly efficient logistics partner in the GLS Group, whose company philosophy also puts an emphasis on sustainability. Wherever possible, freenet uses reusable large paperboard containers for in-house storage, and reusable europallets.

Another key area in a company with over 4,300 employees is the handling of its staff vehicles: freenet subsidises fuel-efficient cars by granting particularly favourable employee conditions, and in choosing its staff cars also considers emission categories and CO_2 guidelines, and favours the latest, most environmentally friendly technology.

The Group’s approach to environmental protection is rounded off by numerous smaller measures: For instance, all employees are urged to separate their waste and reduce paper consumption – accordingly, we don’t produce printed copies of our interim reports. Wherever possible, business travel should be replaced by conference calls and video conferencing.

freenet AG also gives its customers opportunities to actively help protect the environment by offering online invoices, a repair service and buyback of used mobile phones.

2.4 Assets, financial position and results

Assets, financial position and results

When comparing the consolidated financial statements from 2009 with the published consolidated financial statements for the previous year 2008, the following should be considered: during the first half of 2008, the debitel Group was not yet included in the consolidated financial statements of freenet AG as it was acquired at the beginning of July 2008 – the items in the income statement for continued operations mainly indicate significant increases compared to the previous year as a result of this acquisition.

Furthermore, during the financial year 2009, the "DSL business" of the Group (deconsolidation on 30 November 2009) and the STRATO Group (deconsolidation on 31 December 2009) were sold and have been reported in these consolidated financial statements as discontinued operations. In contrast to 31 December 2008, therefore, the balance sheet items relating to these operations are no longer included in the consolidated balance sheet. Due to the sale of the STRATO Group, the comparative figures in the income statement for 2008 have been retrospectively adjusted by means of reclassification to the discontinued operations, while the "DSL business" of the Group was already listed in the consolidated financial statements in 2008 as a discontinued operation. Because of the sale of the "DSL business", retrospective reclassifications had to be made within the income statement items 2008 for both the continued and the discontinued operations. debitel Netherlands, which belongs to the debitel Group, was already sold with effect from 30 December 2008 and has therefore been deconsolidated. In the comparative figures in the income statement for 2008, debitel Netherlands has been designated as a discontinued operation, too.

The comparability of the result from discontinued operations for 2009 with the previous year is limited because the "DSL" business was only consolidated for eleven months in 2009 compared with 12 months in 2008, debitel Netherlands was consolidated for about six months in 2008 and was no longer consolidated at all in 2009 and, finally, the result from discontinued operations in 2009 was affected considerably by the profits made from the sale of discontinued operations totalling 239.9 million euros (previous year: 36.5 million euros).

If a comparison is made with the previous year in the following comments, it is with the retrospectively adjusted comparative figures for the previous year.

Key items in the consolidated financial statements

Revenue increased in the financial year 2009 by 31.5 percent to 3,650.7 million euros. Primarily due to the consolidated whole year figures for the debitel Group, the Mobile Communications segment increased its third-party revenue from 2,559.6 million euros (excluding the discontinued operation debitel Netherlands) to 3,499.7 million euros. Third-party revenue for the segments Portal (40.5 million euros compared to 43.4 million euros in 2008), B2B (68.1 million euros compared to 99.3 million euros in 2008) and Narrowband (42.1 million euros compared to 76.0 million euros in 2008) fell compared to the previous year. While the portal business was unable to escape the downward trend in the advertising market, B2B and Narrowband have for several years been affected by considerably altered framework conditions.

The Broadband and Hosting segments are almost identical to the operations divested in the financial year 2009 “DSL business” and STRATO Group, and, on the basis of their inclusion in the discontinued operations, have almost had no impact on revenue from continued operations.

The increase in revenue described above and the rise in purchasing volume to 2,876.1 million euros (2008: 2,212.9 million euros) have led to an increase in gross profit of 211.0 million euros to 774.6 million euros (2008: 563.6 million euros). Overall, the gross profit margin increased by 0.9 percentage points to 21.2 percent (2008: 20.3 percent), which is due to a great extent to the margin improvement in the Mobile Communications segment.

The average number of employees in the Group has increased over the previous year by 6.4 percent, from 5,658 to 6,020 employees. In terms of share price dependent expenses, personnel expenses increased by 2.9 million euros in the financial year 2009 due to the employee stock option programme (previous year: reduction in personnel expenses of 10.4 million euros). Personnel expenses not dependent on the share price increased by 8.4 percent in comparison to the previous year, from 187.8 million euros to 203.5 million euros. At the end of the financial year, the Group had 4,394 employees (previous year: 7,255 employees). The significant decrease in the number of employees is partly related to the restructuring in the mobile communications business, primarily in Elmshorn and Stuttgart, in connection with the integration of the debitel Group in the freenet Group. The other main reason for this decline is the sale of the “DSL business”, including the Kiel call centre, and the sale of the STRATO Group.

The balance of other operating expenses and other operating income for 2009 amounted to expenses of 253.0 million euros, an increase of 36.0 million euros compared with the previous year (217.0 million euros). Largely due to the sum of these effects, the EBITDA increased compared to the previous year, from 172.1 million euros to 327.1 million euros. In the financial year 2009, as in the previous year, EBITDA was generated for the most part in the Mobile Communications segment (322.6 million euros in 2009 compared with 124.0 million euros in 2008). A portion of the increase in the Mobile Communications segment EBITDA is related to the whole year consolidation of the debitel Group, whereas in 2008 it was only included in the consolidated financial statements for just under six months. The improvement in the Mobile Communications EBITDA is also due to the systematically continued integration of the company’s units after acquisition of the debitel Group in 2008 triggered a strategic realignment of the Group with a clear focus on mobile communications. The results of this integration have been particularly clear in the past financial year, especially with regard to the reduction in the number of corporate sites as well as the realisation of cost savings and also process optimisations. There has thus been a positive impact on items in the income statement in terms of a relative reduction in personnel expenses and other operating expenses. In the Portal segment (EBITDA of 4.9 million euros compared to 7.5 million euros in the previous year) and the other continued operations of B2B, Narrowband and the holding activities (EBITDA of –0.3 million euros compared to 40.5 million euros in 2008) there have been reductions in earnings, resulting primarily from the decline in gross profit described above in the segments of Narrowband and B2B and additionally from the increase in share price dependent personnel expenses by 13.3 million euros in the area of holding activities.

Depreciation and impairment write-downs amounted to 203.8 million euros compared to 113.1 million euros in the previous year. Of this increase of 90.7 million euros, 62.8 million euros is attributable to write-downs of intangible assets such as customer relationships and trademarks, which were included in the consolidated balance sheet on the occation of the purchase price allocation in connection with the debitel acquisition: whereas in the financial year 2009 124.9 million euros were written-off in this respect in twelve months, in 2008 62.1 million euros were written-off with regard to these assets in just under 6 months.

Net interest income, as a balance of interest income and interest expense, amounted to –87.8 million euros, the same as the previous year, and this was accounted for mainly by financial liabilities to banks and shareholders raised as part of the acquisition of the debitel Group, as was the case in 2008. The constant level of net interest income represents a significant relative improvement, taking into account the different periods of the inclusion of these financial liabilities in the consolidated financial statements (twelve months in 2009 compared with nearly 6 months in 2008), and this is mainly due to the scheduled and unscheduled repayments of these financial liabilities as well as the reduction relative to the previous year of the average level of interest payments.

Thus, in 2009, a consolidated pre-tax profit of 35.6 million euros was registered with regard to the continued operations – compared to a consolidated pre-tax loss of 28.8 million euros for the previous year.

The result from taxes on income declined compared to 2008 by 175.3 million euros. Tax income of 156.3 million euros was recorded during the previous year whereas in the financial year under review tax expense of 19.0 million euros was incurred. This reduction is mainly explained by a one-off deferred tax effect on the previous year. The tax income in 2008 was largely attributable to a write-up of deferred tax assets for tax loss carryforwards relating to the acquisition of the debitel Group: as of 31 December 2008 it was apparent that freenet AG would be able to offset taxable profits of the debitel Group and thus leverage its tax loss carryforwards in the future due to an income tax integration planned and implemented in the financial year 2009 with the major companies of the debitel Group.

While in 2009 Group result from continued operations after tax was 16.6 million euros (compared to a Group result from continued operations of 127.5 million euros in the previous year), discontinued operations (“DSL business” and the STRATO Group) recorded a Group result of 239.9 million euros in 2009. It should be noted here that all expense and income in relation to discontinued operations has been excluded from continued operations.

The loss reported in 2008 for discontinued operations, which totalled 15.9 million euros, resulted from the activities of the operations “DSL business”, STRATO Group and also debitel Netherlands.

The Group result from continued and discontinued operations reported in 2009 amounted to 256.5 million euros, compared to a Group result of 111.6 million euros registered in the previous year.

As of 31 December 2009, the Group's total assets amounted to 3,033.5 million euros, 74.0 million euros or 2.4 percent lower than at the end of the previous year (31 December 2008: 3,107.5 million euros). The slight decrease in total assets is primarily attributable to the sale of the "DSL business" and the STRATO Group in the financial year 2009.

Non-current assets decreased by 10.1 percent to 1,958.2 million euros (31 December 2008: 2,179.3 million euros) and were dominated as in the previous year by intangible assets and goodwill. The decline in non-current assets is mainly due to the depreciation and write-downs of intangible assets in the financial year amounting to 186.8 million euros, of which 124.9 million euros were related to write-downs on intangible assets such as customer relationships and trademarks which were included on the occasion of the purchase price allocation in connection with the debitel acquisition. In addition, due to the sale of the STRATO Group and the "DSL business", intangible assets at residual carrying amounts of 60.8 million euros left the Group, whereas in 2009 the balance of other net additions to intangible assets, primarily regarding software and licenses and especially a distribution right, amounted to 49.9 million euros.

The reduction in property, plant and equipment by 45.5 million euros to 52.1 million euros is due to a great extent to the sale of STRATO. An opposite development is the increase in deferred tax assets of 12.2 million euros, from 14.9 million euros to 27.1 million euros. It should be noted that the deferred tax assets on tax loss carryforwards are identified in this item. Furthermore, the deferred tax liabilities on temporary differences between tax balance sheet values and book values of assets and liabilities are included in this item, which witnessed a reduction due to the deconsolidation of the STRATO Group.

Current assets increased by 15.9 percent to 1,075.3 million euros (31 December 2008: 928.2 million euros), due mainly to an increase in cash and cash equivalents (by 348.1 million euros), with 362.8 million euros of proceeds deriving from the sale of the "DSL business" and the STRATO Group. Corresponding to the development of revenue, there was a reduction in current trade accounts receivable of 53.4 million euros or 9.9 percent, to 487.3 million euros.

As of 31 December 2008, assets attributable to the discontinued operation "DSL business" were listed as 118.4 million euros in the balance sheet item "Assets of disposal group classified as held-for-sale" – due to the sale of the "DSL business", this balance sheet item was valued at zero on 31 December 2009.

On the liabilities side, there was an increase in shareholders' equity: on 31 December 2009, shareholders' equity amounted to 1,047.8 million euros (31 December 2008: 791.3 million euros). This increase of 256.5 million euros is wholly a result of the net profit achieved by the Group in 2009.

The equity ratio rose to 34.5 percent from 25.5 percent at the end of the previous year.

Regarding non-current and current liabilities, which fell in total from 2,316.2 million euros (as of 31 December 2008) to 1,985.8 million euros on 31 December 2009 (by 14.3 percent), the reduction in borrowings by 166.2 million euros, including 155.8 million euros from the cash redemption of borrowings, should be emphasised. The trade accounts payable, other payables and provisions for other liabilities and charges amount in total to 667.6 million euros as of 31 December 2009 (31 December 2008: 767.7 million euros), down by 100.1 million euros compared to the previous year. This decrease was primarily attributable to the sale of the STRATO Group and to significant use of provisions such as the provision for restructuring in the personnel area.

The liabilities attributable to the discontinued operation “DSL business” have been reported as liabilities of disposal group classified as held-for-sale on 31 December 2008. The sale resulted in a significant decrease in this balance sheet item, from 83.9 million euros in the previous year to 16.5 million euros on 31 December 2009 – these were formed for future contingent losses arising from the liquidation or sale of the remaining DSL business.

Cash flow from operating activities

Compared to the same period in the previous year, the cash inflow from operating activities rose by 221.9 million euros to 295.5 million euros.

This is mainly the result of the increase in earnings: Earnings before interest, taxes, depreciation and amortisation (EBITDA) for the whole Group, including discontinued operations, rose by 401.7 million euros compared to the previous year. Adjusted for the proceeds from the sale of subsidiaries included in this number (incoming payments from the sale of subsidiaries are shown under investment activities) the increase in EBITDA amounted to 198.3 million euros. Operating cash inflow of 54.7 million euros was achieved through the reduction of current assets. A decrease of cash flow was produced by the reduction of provisions (–76.4 million euros) and liabilities (–0.7 million euros). Due to a reclassification of 49.7 million euros from provisions to the trade accounts payable and other payables, this effect can be considered only in a compiled form.

In addition, in the financial year 2009 there was cash outflow of 20.8 million euros relating to income tax payments.

Cash flow from investing activities

In the financial year 2009, the cash inflow from investing activities increased compared to the same period in the previous year by 317.9 million euros to 307.8 million euros.

The main reason for this development in the cash flow is cash proceeds of 362.8 million euros for the sale of the DSL business and the STRATO Group. This figure includes proceeds from the preliminary purchase prices of 120.4 million euros for the sale of the DSL business and 289.9 million euros for the sale of the STRATO Group that may still be subject to adjustments in 2010. At the time of the deconsolidation of the companies that were sold, cash and cash equivalents of 47.5 million euros left the Group so that the sum of the proceeds was 362.8 million euros. Other proceeds attributable to investing activities, primarily from the sale of fixed assets (6.7 million euros) and interest payments (6.7 million euros), have developed during the financial year under review in a similar way compared to the previous year.

Cash outflow of 69.9 million euros has arisen within the normal scope for the renewal and expansion of intangible fixed assets, primarily usage rights and licenses, as well as for property, plant and equipment.

Cash flow from financing activities

Cash flow from financing activities decreased compared to the same period in the previous year by 204.9 million euros, from –47.1 million euros to –252.0 million euros.

In the financial year 2009, financial liabilities, which were mainly raised in the previous year for the acquisition of the debitel Group, were reduced by 155.8 million euros. In addition, there were interest payments, mainly for loans raised in connection with the debitel acquisition, amounting to 96.2 million euros.

The following table shows some key figures for the Group:

In €'000s	2009	2008	Change
Revenue	3,650,670	2,776,478	874,192
Gross profit	774,589	563,553	211,036
EBITDA	327,143	172,077	155,066
EBIT	123,338	58,934	64,404
EBT	35,564	–28,810	64,374
Group result from continued operations	16,552	127,514	–110,962
Group result from discontinued operations	239,938	–15,916	255,854
Group result	256,490	111,598	144,892

Summary statement on the business performance in 2009:

In the financial year 2009, the freenet Group was able to improve key performance indicators such as Group revenue, gross profit, EBITDA, EBIT and EBT as well as Group result in comparison to the previous year. The Group result from continued operations has been affected by a positive one-off income tax effect in the previous year. As the cash flow from operating activities and cash flow from investing activities (by virtue of the sales of the STRATO Group and of the “DSL business” completed in 2009) increased significantly compared to the previous year, a net cash flow of 351.4 million euros has been achieved compared to 16.5 million euros in the previous year despite significantly greater debt servicing in 2009.

These results confirm freenet to successfully continue its strategy of focusing on the core businesses of mobile communications/mobile Internet together with the portal business.

2.5 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 effective early risk detection, monitoring and management system within the Group, which complies with all statutory requirements for a risk management system.

In addition, 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.

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

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

Risk management is supported by the auditing department, which conducts regular and case-by-case reviews of compliance with the guidelines.

The Group's risk management methods and systems are continually reviewed, evolved and adjusted. As part of the audit of the annual financial statements for the financial year 2009, the auditor also reviewed freenet AG's risk management 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.

Many potential risks were eliminated by the sale of the DSL business, freenet Customer Care GmbH, and the STRATO Group during the year under review.

Market and competition risks

With the debitel acquisition and the attendant considerable expansion of the Mobile Communications segment, the market risks related to the mobile communications business have increased significantly. For that reason and for the reason that the DSL business and the STRATO Group have been sold, freenet's options for diversifying risks across other segments or operations are considerably reduced.

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

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

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

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

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

Since 2008, mobile communications revenue from “non-voice services” increased considerably due to the strong rise in use of data services. freenet plans to use the growth opportunities of mobile Internet to offset price-related declines in revenue from voice services. If freenet does not manage to generate appropriate mobile reach or if the network operators don't 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 subsidies for mobile communication devices will also likely result in a higher capital commitment and marketing risk. The customers' clear preference for new devices, combined with economies of scale when purchasing from manufacturers and network operators, and the high number of points of sales translate to considerable opportunities.

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

Unemployment could rise dramatically in 2010 in Germany if the economy does not pick up swiftly once the short-time work provisions expire. B2C customers hit by this are likely to restrict their telephony budgets.

The Hertie and Karstadt bankruptcies triggered by the unfavourable economic conditions have eliminated or negatively affected two of freenet AG’s distribution channels. It cannot be ruled out that if conditions continue poor, other distribution channels could be eliminated or negatively affected.

Should the financial and economic crisis continue to have a negative impact on macroeconomic conditions, this could under certain circumstances result in the Group no longer being able to deliver on its agreements with the financing banks. Under certain circumstances this could lead to a right for the financing banks to declare the loans due and payable.

Technical infrastructure

Maintaining the operational availability and efficiency of the technical infrastructure, including the company’s data centres and billing systems, is of major importance for successful business operations and its continuity. This is especially true against the background of the IT migrations ahead in the years 2010 and 2011, which are enormously complex projects. Network outages or service problems caused by system faults or failures can lead to the loss of customers and also result in financial losses for the company. Moreover, the complex plans for integration resulting from combining the company’s units are tying up considerable resources. As far as freenet uses the services of third parties in this connection, these risks are not fully within the company’s control.

Dependency on third parties

In the Narrowband segment, collection of the majority of customer receivables is handled via Deutsche Telekom AG (DTAG), so freenet is dependent on the efficiency and commitment of DTAG.

Tax risks

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

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

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

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

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 under a single shareholder or several shareholders with parallel interests through other measures. The above-described legal consequences apply accordingly.

Financial risks

The liabilities to banks shown under borrowings stem from variable-interest loans. In connection with the debitel acquisition, freenet has guaranteed to continue payments on the debitel Group's liabilities under a syndicated loan contract in the amount of approximately 962 million euros (as of 31 December 2009). The syndicated loan contract also includes a revolving credit line in the amount of 150 million euros. The covenants of the syndicated loan contract restrict the company's financial leeway. Under certain conditions, freenet AG can draw down loans of up to half of the amount of its revolving credit line under the syndicated loan contract. Moreover, the company is only allowed to raise third-party loans beyond the syndicated loan contract within stringent restrictions.

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

The above mentioned restrictions can – on their own or in interaction with other factors, such as a deteriorating economy – have a negative impact on freenet's assets, financial position and results. In the event of a change of control, the consortium banks have a special right of cancellation. This would negatively affect the company's ability to continue doing business and could even result in freenet's insolvency.

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

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.

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.

Please also refer to item 31 of the Notes which contains a detailed categorisation and elaboration of financial risks, and in particular the principles, goals and implemented measures of the freenet Group's financial risk management.

Legal risks

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

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

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

Some individual shareholders are of the view that the capital increase through contribution of mobilcom AG, the company's legal predecessor, in November 2000 was flawed and/or that the contribution in kind rendered was not of any value, with the consequence that on the one hand the company would still be entitled to compensation claims against France Télécom running into billions and further that the shares issued to France Télécom would have had no voting rights.

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

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

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

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

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

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

The elements of the internal monitoring system in the freenet Group consist of both process-related and non-process-related measures. Besides manual process controls, another key element of process-related monitoring are the automated IT process controls.

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.

2. 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. In preparing the consolidated financial statements of freenet AG, the subsidiaries enrich their respective company financial statements with further information to create standardised reporting packages, which are managed in MS Excel. freenet AG uses SAP's "EC-CS" module as its consolidation system at the top Group level. When preparing the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the capital, liabilities 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 summarised for various subgroups. The individual notes are taken from the standardised reporting packages in each case; the notes are then consolidated 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.

3. 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. This also ensures that inventory stocktaking is properly implemented and that assets and liabilities are properly recognised, measured and carried in the consolidated financial statements. The control operations also ensure that booking records provide reliable and comprehensible information.

The freenet AG Group audit is integrated in the freenet Group's internal monitoring system with non-process-related review activities, and is supervised in this by the Supervisory Board, in this instance the freenet AG audit committee in particular.

The Group auditor and other review bodies are also involved in the freenet Group's monitoring with non-process-related review activities. In particular, the Group auditor's review of the consolidated financial statements and the included financial statement forms from the subsidiaries represent the major process-related monitoring measure with regard to the Group accounting process.

2.6 Information required under takeover law (clause 315 paragraph 4 of the German Commercial Code HGB)

Composition of capital stock

The subscribed capital (capital stock) of freenet AG amounts to 128,061,016 euros and is divided into 128,061,016 individual registered shares. In the financial year under review (2009), the bearer shares were converted into registered shares. Each share confers one vote at the Annual General Meeting.

Shareholdings exceeding 10 percent of the voting rights

One shareholder whose direct or indirect shareholdings in the Group exceed 10 percent is a shareholder group composed of United Internet AG, Drillisch AG and Mr. Ralph Dommermuth, which owns a total 16.57 percent of our capital stock. At 31 December 2009, the Telco (Netherlands) Holding B.V., a holding company majority-controlled by Permira Fonds, held a 10.07 percent share.

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

Authorisation of the Executive Board to issue shares

In accordance with clause 4 paragraph 6 of the Articles of Association, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the Group's capital stock, at one time or in several increments, by up to 16,030,508 euros by issuing up to 16,030,508 new bearer or registered shares against cash or contributions in kind, on or before 18 August 2010 (capital authorised in 2005).

Clause 4 paragraph 7 of the Articles of Association authorises the Executive Board, with the approval of the Supervisory Board, to increase the Group's capital stock at one time or in several increments, by up to 20,000,000 euros by issuing up to 20,000,000 new bearer or registered shares against cash or contributions in kind, on or before 6 July 2011 (capital authorised in 2009).

Authorisation of the Executive Board to buy back shares

The Annual General Meeting of 7 July 2009 authorised the Executive Board to buy back shares up to 10 percent of the current capital stock of 128,061,016 on or before 6 January 2011. This authority may be exercised by the Group or its subsidiaries or by third parties on account of the Group or its subsidiaries. The Executive Board chooses whether the buyback shall take place via the stock exchange, a public purchase offer, a solicitation to submit offers (request to sell), the issuance of sell-out 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 took on upon the transfer of the syndicated loan. In some cases, freenet has no influence on the conditions under which the consortium banks obtain a right to call the loan.

This is true in particular for the right to call the loan in the event of a change of control at the company. Such a change of control already exists, provided the obligation to submit a takeover bid exists, if one party, or several parties acting jointly, obtain a majority at the Annual General Meeting. In the event of a cancellation, freenet bears the risk that subsequent financing to settle the syndicated loan contract cannot be obtained or can only be obtained on terms that are unfavourable for freenet. If no subsequent financing can be obtained, freenet would be exposed to the risk that the consortium banks liquidate the pledged shares in the essential companies, as well as other collateral furnished by the freenet Group.

Indemnity agreement

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

2.7 Compensation report of the Executive Board and the Supervisory Board

Compensation for the Executive Board

Basic principles of compensation

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

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

For the financial year 2009, compensation for the members of the Executive Board totalled 5,617 thousand euros, versus –4,579 thousand euros in 2008. Of this, 1,920 thousand euros were fixed compensation components, while the variable components amounted to 3,697 thousand euros.

In the financial year 2009, 400,000 stock appreciation rights were issued to Mr. Vilanek, who commenced his activity as Chairman of the Executive Board of freenet AG on 1 May 2009. The stock appreciation rights issued to Mr. Vilanek in 2009 had a total value of 509 thousand euros (fair value in accordance with IFRS2) at the point at which they were granted on 1 May 2009. In the financial year 2009, no new stock appreciation rights or stock options were issued to the other members of the Executive Board of the company.

Negative figures are shown for the Executive Board compensation for Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger; this is due to the decline in the provision for stock appreciation rights mainly attributable to reporting date factors. Disregarding the non-cash-effective compensation components from stock appreciation rights, Mr. Spoerr would have received compensation of 1,051 thousand euros in the financial year 2008; Mr. Krieger would have received 516 thousand euros, Mr. Esch would have received 314 thousand euros, Mr. Berger would have received 313 thousand euros and Mr. Preisig would have received 205 thousand euros.

In addition to the compensations shown above, a payment of 508 thousand euros was made to Mr. Berger in the financial year 2009 in order to cover contractual claims arising from his employment agreement as his employment agreement was prematurely cancelled as of 30 September 2009.

Overall, Executive Board compensation of 4,044 thousand euros was reported in 2009 in accordance with Section 314 (1) No. 6a HGB (cash-effective compensation including the payment to Mr. Berger in settlement of his contractual claims plus the new stock appreciation rights issued, shown at their total value upon granting in the financial year). In the previous year 2008, the Executive Board's compensation in accordance with section 314 (1) No. 6a HGB amounted to 5,790 thousand euros, including the payments of 2,000 thousand euros to Mr. Spoerr in order to cover contractual claims, plus the stock appreciation rights issued to Mr. Preisig with their total value of 1,391 thousand euros (fair value in accordance with IFRS2) when they were granted in 2008.

As of 31 December 2009, the provision for stock appreciation rights for Mr. Vilanek was stated as 424 thousand euros (previous year: 0); for Mr. Krieger, the provision was stated as 719 thousand euros (previous year: 352 thousand euros); for Mr. Esch, it was stated as 392 thousand euros (previous year: 176 thousand euros); for Mr. Preisig, it was stated as 386 thousand euros (previous year: 55 thousand euros); for Mr. Berger, it was stated as 248 thousand euros (previous year: 106 thousand euros), and for Mr. Spoerr it was stated as 1,673 thousand euros (previous year: 563 thousand euros).

As in the previous year, no cash-effective compensation was paid from stock options and stock appreciation rights in the financial year 2009.

In November 2004, an indirect pension commitment was granted to Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger. 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 2009, the Defined Benefit Obligations (DBO) were as follows: for Mr. Vilanek 115 thousand euros (previous year: 0), for Mr. Krieger 1,128 thousand euros (previous year: 473 thousand euros), for Mr. Esch 386 thousand euros (previous year: 164 thousand euros), for Mr. Berger 385 thousand euros (previous year: 163 thousand euros) and for Mr. Spoerr 1,442 thousand euros (previous year: 894 thousand euros). As of 1 September 2008, freenet AG took over the pension commitment granted to Mr. Preisig by debitel AG. As of 31 December 2009, the DBO for Mr. Preisig was 244 thousand euros (previous year: 137 thousand euros).

Current and past service time expenses of 820 thousand euros (previous year: 222 thousand euros) are shown in personnel expenses for the members of the Executive Board as a result of the pension commitments.

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

Pensions

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

Upon termination of employment, freenet AG Board members are entitled to the benefits described under item 32 of the Notes.

Premature termination of employment contract

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

In particular, the company's service contracts provide the following benefits in the event of termination of employment:

For the Chief Executive Officer Christoph Vilanek, the following rules apply from 1 May 2009:

- From his 60th birthday, Mr. Christoph Vilanek shall receive a pension amounting to 2.5 percent of final annual base salary for each contractual year commenced on the Board of the company, to a maximum of one-third of final annual base salary.
- Survivor annuity for the wife or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the pension.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. In the event of Mr. Vilanek terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

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

- Upon retirement on reaching the age of 60, Mr. Joachim Preisig shall receive a pension in the amount of 9,333.00 euros (guaranteed 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.

- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. In the event of Mr. Preisig terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

For the Board members Axel Krieger and Stephan Esch, as well as for the former Board members Eckhard Spoerr and Eric Berger following rules apply:

- The right to payment of salary and bonuses (based on the assumption of 100 percent achievement of targets) for the remaining period of the contract where by mutual agreement the service contract is ended or notice to end is served within, in either case, twelve months of a change of control of the company.
- From their 60th birthday, the aforementioned members of the Executive Board shall receive a pension amounting to 2.5 percent of final annual base salary for each year commenced on the Board of the company or its legal predecessor at freenet.de AG, to a maximum of one-third of final annual base salary (guaranteed pension).
- Survivor annuity for the wife or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. If employment is terminated due to a change of control, all stock appreciation rights remain in force and can be exercised regardless of the vesting period if the other exercise conditions are met within twelve months, but not later than the end of the term. In the event of a member of the Executive Board terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

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

Please also refer to item 32 in the notes for further information, in particular about compensation amounts, stock appreciation rights held, share ownership and other details.

Compensation for the Supervisory Board

Basic principles of compensation

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

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

The basic compensation was modified with a resolution of the Annual General Meeting of 7 July 2009. Starting with financial year 2009, 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 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) of the German Codetermination Act – receive in addition an attendance fee of 1,000 euros for each meeting of the committee. The committee chairperson receives double this amount.

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

For their activity during the financial year 2009, the members of the Supervisory Board of the Company received fixed compensation of 405.8 thousand euros and as well as attendance fees of 260 thousand euros. Performance-based compensation of 67.6 thousand euros was also recognised as an expense. Whether this performance-linked compensation will indeed be paid out depends on the profit appropriation resolution by the Annual General Meeting for the financial year 2009. The total compensation paid for Supervisory Board activities was thus 733.3 thousand euros.

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

The provision for performance-based compensation set aside for the previous financial year was not paid out because the Annual General Meeting did not adopt a resolution for a dividend to be paid. A provision which had been created for this purpose was therefore reversed. The Supervisory Board compensation paid for the previous year totalled 375.9 thousand euros.

2.8 Supplementary report

The Executive Board has decided to propose to the Supervisory Board a dividend payout in the amount of 0.20 euro per share from freenet AG's retained earnings – this decision was published on 9 February 2010 in connection with the announcement of the preliminary figures.

In January 2010, Telco (Netherlands) Holding B.V. announced a decline in its share of voting rights in freenet AG from 10.07 percent to 0.00 percent.

The vendor note of approx. 146 million euros included under short-term financial debt in the consolidated balance sheet at 31 December 2009 was completely repaid at the beginning of February 2010.

2.9 Opportunities and forecast

Opportunities

By focusing on its core businesses mobile communications/mobile Internet with the Portal business, in connection with the systematic implementation of the restructuring and integration programme adopted at the end of 2008, the company is creating the conditions to ensure its long-term competitiveness.

This can lead to the following opportunities:

- Stabilisation of systems and processes to resolutely exploit existing synergies;
- Exploitation of further synergies and cost savings through the final merge of the system landscapes: reduction from two IT systems to one;
- Use of created distribution power to market new products;
- Exploitation of growth opportunities in the data market and added potential by further extending the mobile portal & Internet.

Forecast

Macroeconomic development

Following the economic collapse triggered by the financial and economic crisis, Germany's gross domestic product – adjusted for prices – showed moderate growth again in the summer half-year of 2009. In its Annual Economic Report, the German government predicts that the recovery will continue in 2010. However, at the same time the government expects another decline in employment rates, which is bound to negatively impact private consumption. With the aid of the adopted emergency programme, the German government forecasts an average 1.4 percent rise in the real gross domestic product for 2010.

Telecommunications market

The trend to declining revenues in the telecommunications market due to dwindling retail prices continues in 2010, albeit not on the same scale as in 2009: the experts at the VATM expect a decline of between 2 and 3 percent.

freenet Group

The freenet Group's segments do business in fiercely competitive markets, with varying growth rates and in some cases declining user numbers; for 2010 and 2011, the company currently expects the following developments:

In the core businesses mobile communications/mobile Internet and Portal, the emphasis will continue to be on acquiring and retaining high-quality customers. In this connection, the company expects to see a decline in the customer base as compared with 31 December 2009.

The Group is trying to partially counteract the price decline expected across the market and the attendant decline in ARPUs by improving the quality of its customer base and by marketing data turnover. Given the situation, the Group expects to see a year-on-year revenue decline.

The Group's strategically important online portal is increasingly offering mobile Internet content as well, in order to achieve a good positioning in the growth market of mobile Internet.

In addition the Group operates an online marketing agency. However, its future growth opportunities depend on how the ad sales market, which was hard hit by the financial crisis, develops.

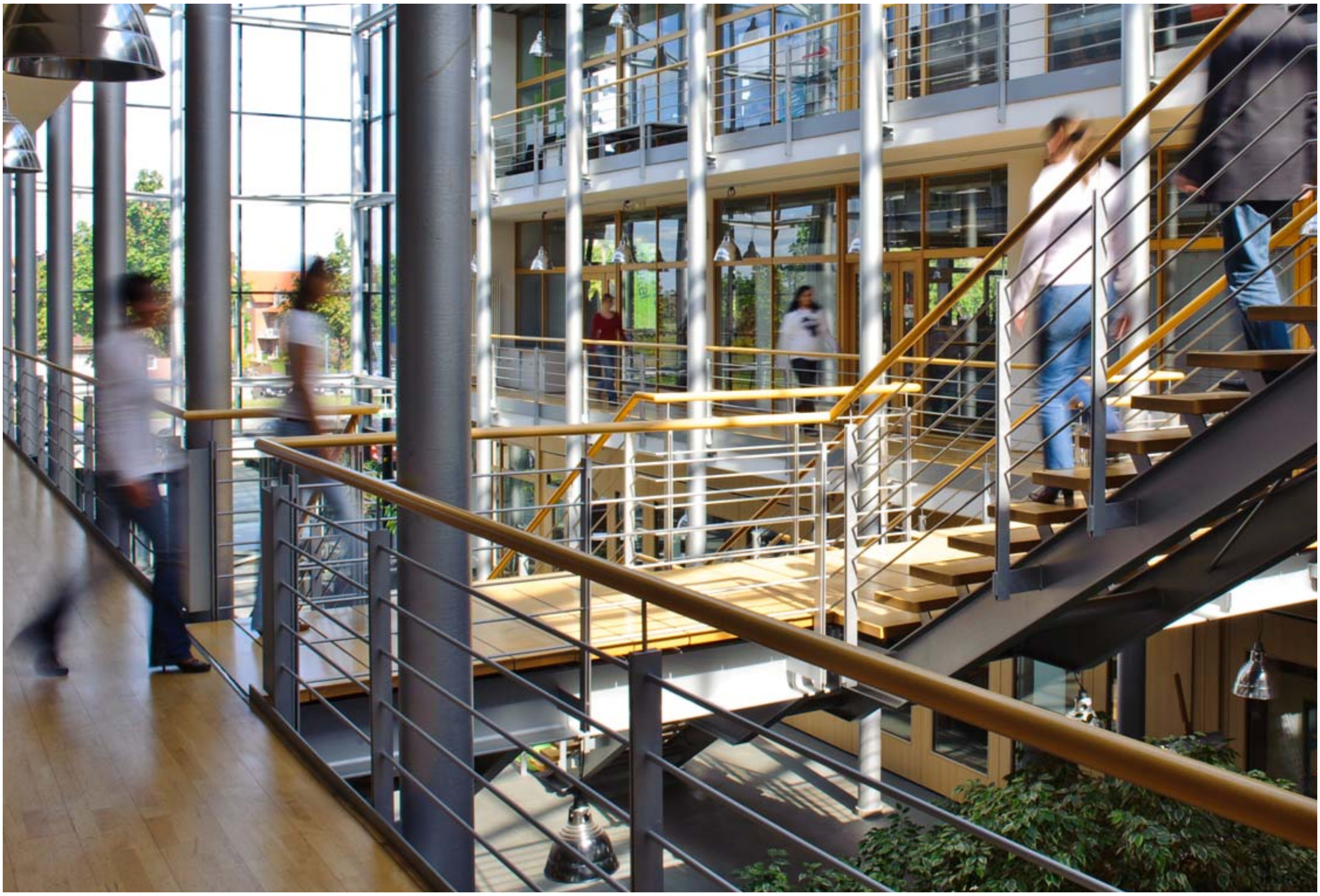
The Group expects to see a year-on-year increase in its earnings before tax (EBT) compared to 2009.

Summary statement on the business performance of the Group

During the financial year 2009, freenet AG was able to increase its EBITDA profitability and free cash flow year-on-year despite the negative macroeconomic conditions and the structural strain caused by the restructuring of the Mobile Communications segment.

These results validate freenet AG's strategy of focusing on the core businesses mobile communications/mobile Internet with the Portal business, with the aim of securing and enhancing its long-term profitability and strong cash flow and continue paying down its debt.

Büdelsdorf, 2 March 2010
The Executive Board



3. Consolidated financial statements

The headquarters of freenet AG in Büdelsdorf (interior view).

3. Consolidated financial statements

3.1 Overview

3.2 Consolidated income statement and consolidated statement of comprehensive income for the period from 1 January to 31 December 2009

In €'000s	Note	1.1.2009 – 31.12.2009	1.1.2008 – 31.12.2008 adjusted
Revenue	1	3,650,670	2,776,478
Other operating income	2	115,091	90,042
Other own work capitalised		10,192	1,382
Cost of materials	3	–2,876,081	–2,212,925
Personnel expenses	4	–206,363	–177,410
Depreciation and impairment write-downs on property, plant and equipment and intangible assets	5	–203,805	–113,143
Other operating expenses	6	–368,051	–307,049
Operating result		**121,653**	**57,375**
Share of results of associates	14	1,685	1,559
Interest receivable and similar income	7	15,268	8,487
Interest payable and similar expenses	8	–103,042	–96,231
Result before taxes on income		**35,564**	**–28,810**
Taxes on income	9	–19,012	156,324
Group result from continued operations		**16,552**	**127,514**
Group result from discontinued operations	21	**239,938**	**–15,916**
Group result		**256,490**	**111,598**
Group result attributable to shareholders of freenet AG		256,485	112,182
Group result attributable to minority interest		5	–584
Earnings per share (undiluted) in €	10	**2.00**	**1.01**
Earnings per share (diluted) in €	10	**2.00**	**1.01**
Earnings per share from continued operations (undiluted) in €	10	0.13	1.15
Earnings per share from continued operations (diluted) in €	10	0.13	1.15
Earnings per share from discontinued operations (undiluted) in €	10	1.87	–0.14
Earnings per share from discontinued operations (diluted) in €	10	1.87	–0.14
Weighted average of shares outstanding in thousand (undiluted)		128,061	110,728
Weighted average of shares outstanding in thousand (diluted)		128,061	110,728

In €'000s	1. 1. 2009 – 31. 12. 2009	1. 1. 2008 – 31. 12. 2008 adjusted
Group result	**256,490**	**111,598**
Change in fair value of held-for-sale financial instruments	12	47
Taxes on income recognised directly in equity	–4	–14
Change in value recognised directly in equity	**8**	**33**
Consolidated comprehensive income	**256,498**	**111,631**
Consolidated comprehensive income attributable to shareholders of freenet AG	256,493	112,215
Consolidated comprehensive income attributable to minority interest	5	–584

3.3 Consolidated balance sheet as of 31 December 2009

Assets in €'000s	Note	31.12.2009	31.12.2008
Non-current assets			
Intangible assets	11, 12	735,082	929,188
Goodwill	11, 12	1,116,505	1,120,162
Property, plant and equipment	11, 12	52,103	97,575
Investments in associates	14	3,645	3,462
Other investments	15	2,190	730
Deferred income tax assets	16	27,090	14,878
Trade accounts receivable	18	3,755	51
Other receivables and other assets	18	17,817	13,275
		1,958,187	**2,179,321**
Current assets			
Inventories	17	52,057	73,382
Current income tax claims	20	10,005	7,469
Trade accounts receivable	18	487,296	540,685
Other receivables and other assets	18	45,689	55,971
Cash and cash equivalents	19	480,291	132,224
Assets of disposal group classified as held-for-sale	21	0	118,428
		1,075,338	**928,159**
		3,033,525	**3,107,480**

Shareholders’ equity and liabilities in €’000s	Note	31. 12. 2009	31. 12. 2008 adjusted
Shareholders’ equity			
Share capital	22	128,061	128,061
Capital reserves	22	737,536	737,536
Revaluation reserve		41	33
Retained earnings		181,980	–74,505
Capital and reserves attributable to shareholders of freenet AG		**1,047,618**	**791,125**
Minority interest in shareholders’ equity		141	136
		1,047,759	**791,261**
Non-current liabilities			
Trade payables	24	3	351
Other payables	24	54,138	10,081
Borrowings	26	718,207	1,283,747
Retirement benefit obligations	27	24,194	22,068
Provisions for other liabilities and charges	28	12,792	66,946
		809,334	**1,383,193**
Current liabilities			
Trade accounts payable	24	390,289	425,093
Other payables	24	177,927	191,461
Current income tax liabilities	25	7,337	6,286
Borrowings	26	551,874	152,527
Provisions for other liabilities and charges	28	32,469	73,718
Liabilities of disposal group classified as held-for-sale	21	16,536	83,941
		1,176,432	**933,026**
		3,033,525	**3,107,480**

3.4 Schedule of changes in equity for the period from 1 January to 31 December 2009

In €'000s	Share capital	Capital reserves	Revaluation reserve	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Minority interest in shareholders' equity	Shareholders' equity
As of 1.1.2008	**96,061**	**390,144**	**0**	**–186,687**	**299,518**	**720**	**300,238**
Stock-based compensation	0	18	0	0	18	0	18
Increase of capital due to debitel acquisition	32,000	349,760	0	0	381,760	0	381,760
Transaction cost of the capital increase	0	–2,386	0	0	–2,386	0	–2,386
Consolidated comprehensive income	0	0	33	112,182	112,215	–584	111,631
As of 31.12.2008	**128,061**	**737,536**	**33**	**–74,505**	**791,125**	**136**	**791,261**
As of 1.1.2009	**128,061**	**737,536**	**33**	**–74,505**	**791,125**	**136**	**791,261**
Consolidated comprehensive income	0	0	8	256,485	256,493	5	256,498
As of 31.12.2009	**128,061**	**737,536**	**41**	**181,980**	**1,047,618**	**141**	**1,047,759**

3.5 Consolidated statement of cash flows from 1 January to 31 December 2009

In €'000s	Note	1.1.2009 – 31.12.2009	1.1.2008 – 31.12.2008
Result from continued and discontinued operations before tax		**264,779**	**–42,444**
Adjustments:			
Depreciation and impairment on items of fixed assets	5, 21	224,872	130,287
Decrease/increase in provisions	21, 27, 28	–76,372	38,369
Interest income	7, 21	–15,430	–7,988
Interest expenses	8, 21	103,179	95,816
Share of results of associates	14	–1,685	–1,559
Other non-payment components		23	51
Loss/profit on disposals of fixed assets		2,816	–5,433
Decrease/increase of inventories, trade receivables and other assets not attributed to investing or financing activities		54,737	–87,309
Decrease of trade payables and other liabilities not attributed to investing or financing activities		–659	–5,828
Proceeds of the sale of subsidiaries	21, 30	–239,920	–36,510
Income taxes paid	9	–20,797	–3,837
Cashflow from operating activities		**295,543**	**73,615**
Purchase of property, plant and equipment		–19,410	–23,828
Purchase of intangible assets		–50,510	–17,838
Cash-proceeds from disposals of intangible and tangible fixed assets		6,734	10,888
Purchase of subsidiaries		0	–10,807
Cash inflow from the acquisition of cash		0	37,385
Payments for the acquisition of other investments		0	–398
Proceeds from the sale of subsidiaries	21, 30	362,793	8,117
Cash outflow from the disposal of cash		0	–21,751
Cash inflow from associates	14	1,502	1,271
Interest received		6,726	6,928
Cashflow from investing activities		**307,835**	**–10,033**
Cash-payments in connection with capital increases		0	–4,386
Cash repayments of bonds and borrowings	26	–155,813	–103
Interest paid		–96,197	–42,608
Cashflow from financing activities		**–252,010**	**–47,097**
Cash-effective change in cash and cash equivalents		**351,368**	**16,485**
Cash and cash equivalents at 1.1.		**–19,950**	**–36,435**
Cash and cash equivalents at 31.12.		**331,418**	**–19,950**

3.6 Consolidated statements of movements in non-current assets as of 31 December 2009

In €'000s	Cost of purchase or production					
	1.1.2009	Change in companies included in consolidation	Additions	Transfers	Disposals	31.12.2009
Intangible assets						
Internally-generated software	26,755	−175	9,989	203	9	36,763
Software and licences	231,166	−25,616	39,855	1,580	4,366	242,619
Trademarks	352,639	−17,704	100	0	0	335,035
Customer relationship	524,870	−36,304	506	0	0	489,072
Goodwill	1,120,162	−3,717	60	0	0	1,116,505
	2,255,592	**−83,516**	**50,510**	**1,783**	**4,375**	**2,219,994**
Property, plant and equipment						
Land, facilities on land and buildings	14,930	0	5	0	21	14,914
Switches and networks	187,670	0	574	61	10,395	177,910
Technical equipment and machinery	50,343	−31,516	3,286	2,882	1,390	23,605
Other office equipment	143,441	−19,098	15,220	−2,938	16,146	120,479
Payments on account and assets under construction	1,597	0	325	−1,788	5	129
	397,981	**−50,614**	**19,410**	**−1,783**	**27,957**	**337,037**
	2,653,573	**−134,130**	**69,920**	**0**	**32,332**	**2,557,031**

Depreciation and impairment write-downs							Net book amounts	
1. 1. 2009	**Change in companies included in consolidation**	**Additions**	**Impairment write-downs**	**Transfers**	**Disposals**	**31. 12. 2009**	**31. 12. 2009**	**1. 1. 2009**
11,534	–11	6,594	2,471	0	0	20,588	16,175	15,221
119,612	–12,423	48,649	9,433	2	1,983	163,290	79,329	111,554
5,178	0	7,820	0	0	0	12,998	322,037	347,461
69,918	–10,258	111,873	0	–2	0	171,531	317,541	454,952
0	0	0	0	0	0	0	1,116,505	1,120,162
206,242	**–22,692**	**174,936**	**11,904**	**0**	**1,983**	**368,407**	**1,851,587**	**2,049,350**
5,248	0	565	0	0	12	5,801	9,113	9,682
177,011	0	4,175	6,193	0	10,395	176,984	926	10,659
34,441	–19,887	4,623	1,480	0	1,259	19,398	4,207	15,902
83,706	–12,818	20,728	268	0	9,133	82,751	37,728	59,735
0	0	0	0	0	0	0	129	1,597
300,406	**–32,705**	**30,091**	**7,941**	**0**	**20,799**	**284,934**	**52,103**	**97,575**
506,648	**–55,397**	**205,027[1]**	**19,845[1]**	**0**	**22,782**	**653,341**	**1,903,690**	**2,146,925**

1 The additions to depreciation in the amount of 205,027 thousands euros and the impairment write-downs in the amount of 19,845 thousand euros are included in the income statement as follows:

Depreciation and impairment write-downs on property, plant and equipment and intangible assets	203,805
Group result from discontinued operations	21,067
	224,872

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

In €'000s	Cost of purchase or production					
	1. 1. 2008	Change in companies included in consolidation	Additions	Transfers	Disposals	31. 12. 2008
Intangible assets						
Internally-generated software	8,489	13,042	5,582	0	358	26,755
Software and licences	131,035	89,171	13,309	0	2,349	231,166
Trademarks	17,833	334,806	0	0	0	352,639
Customer relationship	65,848	473,686	100	0	14,764	524,870
Goodwill	110,304	1,097,881	2	0	88,025	1,120,162
	333,509	**2,008,586**	**18,993**	**0**	**105,496**	**2,255,592**
Property, plant and equipment						
Land, facilities on land and buildings	13,074	1,856	0	0	0	14,930
Switches and networks	184,812	0	2,883	0	25	187,670
Technical equipment and machinery	46,263	112	2,933	1,672	637	50,343
Other office equipment	105,007	45,104	16,663	–1,639	21,694	143,441
Payments on account and assets under construction	33	275	1,349	–33	27	1,597
	349,189	**47,347**	**23,828**	**0**	**22,383**	**397,981**
	682,698	**2,055,933**	**42,821**	**0**	**127,879**	**2,653,573**

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

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

Depreciation and impairment write-downs on property, plant and equipment and intangible assets	113,143
Group result from discontinued operations	17,144
	130,287

3.7 Notes to the consolidated financial statements of freenet AG for the period ended 31 December 2009

A. General information

freenet AG (also referred to in the following as "the Company"), the Group's parent company (also referred to in the following as "freenet"), is registered in Büdelsdorf, Germany. The Group provides telecommunications services in the segments Mobile Communications, Broadband, Hosting, B2B as well as Narrowband. As the "DSL Business" of the Group and the STRATO Group (please refer to our comments to item 21) were sold in the financial year 2009, the Broadband and Hosting segments will no longer be applicable in future.

B. Accounting standards

The consolidated financial statements for 2009 have been prepared in accordance with the IFRS of the International Accounting Standards Board (IASB) as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) which are applicable until 31 December 2009 in the European Union. The regulations of commercial law applicable in accordance with section 315a HGB have additionally been taken into consideration.

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

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 reference date of the consolidated financial statements.

The following table shows the new or modified standards (IAS/IFRS) or interpretations (IFRIC), which are the subject of mandatory adoption with effect from 1 January 2009, or which have been the subject of early voluntary adoption since 1 January 2009, and the related impact on the Group:

Standard/Interpretation		**Mandatory application**	**Adoption by EU Commission**	**Impact**
IAS 1	Presentation of Financial Statements	1.1.2009	17.12.2008	Presentation of components of financial statements
IAS 23	Borrowing Costs	1.1.2009	10.12.2008	None
IAS 32	Financial Instruments: Presentation (Puttable Financial Instruments and Obligations Arising upon Liquidation)	1.1.2009	21.1.2009	None
IFRS 1/ IAS 27	Cost of Purchase of Shares in Subsidiaries, Joint Ventures or Associates	1.1.2009	23.1.2009	None
IFRS 2	Share-Based Payment (Exercising Conditions and Anulments)	1.1.2009	16.12.2008	None
IFRS 7	Changes to IFRS 7: Improved Disclosures for Financial Instruments	1.1.2009	1.12.2009	Change to reporting of financial instruments
Various	Annual Improvements Project 2008 – Improvements to the IFRS	1.1./ 1.7.2009	23.1.2009	No material impact
IFRIC 13	Customer Retention Programme	1.1.2009	16.12.2008	None
IFRIC 14	IAS 19 – The Limit on a Defined-Benefit Asset, Minimum Funding Requirements and their Interaction	1.1.2009	16.12.2008	None
IFRIC 9/ IAS 39	Changes to IFRIC 9 and IAS 39: Embedded Derivatives	31.12.2008	1.12.2009	None

The following table shows the new or modified standards (IAS/IFRS) or interpretations (IFRIC) which are not the subject of mandatory adoption in the financial year 2009 and their probable impact on the Group:

Standard/Interpretation		Mandatory application	Adoption by the EU Commission	Impact
IAS 27	Consolidated and Separate Financial Statements under IFRS	1.7.2009	12.6.2009	Depending on the nature and extent of future transactions. The impact cannot be estimated at present.
IAS 39	Financial Instruments: Recognition and Measurement (Permissible Underlyings as Part of Hedges)	1.7.2009	16.9.2009	None
IAS 39/ IFRS 7	Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures	13.9.2009	10.9.2009	None
IFRS 3	Business Combinations	1.7.2009	12.6.2009	Depending on the nature and extent of future transactions. The impact cannot be estimated at present.
IFRIC 12	Service Concession Arrangements	1.10.2009	26.3.2009	None
IFRIC 15	Agreements for the Construction of Real Estate	1.1.2010	27.7.2009	None
IFRIC 16	Hedges for a Net Investment in a Foreign Operation	1.7.2009	5.6.2009	None
IFRS 1	Restructuring of the Standard	1.7.2009	26.11.2009	None
IFRS 2	Changes to IFRS 2: Share-based Payments with Cash Settlement in the Group	1.1.2010	Q1 2010	Still being reviewed by management.
IFRS 9	Financial Instruments	1.1.2013	Pending	n/a
IAS 32	Changes to IAS 32: Classification of Subscription Rights	31.12.2010	21.12.2009	Still being reviewed by management.
Various	Annual Improvements Project 2009 - Improvements to the IFRS	Depending on the standard	Q1 2010	Still being reviewed by management.
IFRIC 17	Distributions of Non-Cash Assets to Owners	31.10.2009	27.11.2009	Still being reviewed by management.
IFRIC 18	Transfers of Assets from Customers	31.10.2009	1.12.2009	Still being reviewed by management.

C. Consolidated companies

The consolidated financial statements include all companies with respect to which the Company is directly or indirectly in a position to determine the Company's financial and business policies in such a way that the Group parent benefits from the activities of the company in question. For a complete list of all companies included in freenet AG's consolidated financial statements, please consult our disclosures in accordance with section 315a HGB in item 33.

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

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

01024 Telefondienste GmbH, freeXmedia GmbH, freenet Datenkommunikations GmbH, 01050.com GmbH, tellfon GmbH, 01083.com GmbH, new directions GmbH, freenet Direkt GmbH, MobilCom Multimedia GmbH, debitel AG, debitel Konzernfinanzierungs GmbH, debitel Mobile Services Holding GmbH, mobilcom-debitel Shop GmbH, DEG Logistik GmbH, Stanniol GmbH für IT & PR, MIDRAY GmbH, g04mobile GmbH as well as meOme GmbH will take advantage of the exemption regulations specified in section 264 (3) HGB for the annual financial statements for the period ending 31 December 2009.

With regard to the disclosures concerning the main subsidiaries deconsolidated in the financial year 2009, please refer to item 21.

D. Consolidation principles

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

The purchase method was applied to the consolidation of equity.

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

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

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

Joint ventures are included in the consolidated financial statements using the proportional consolidation method. The Group's shares of the assets, liabilities, 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 joint venture's equity capital which is attributable to the freenet Group. Goodwill arising from the acquisition of associates is not disclosed separately.

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

E. Accounting and valuation methods

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

(a) Revenue

The Group mainly provides services for a short period. Revenue is recognised after the services have been rendered completely if the amount of revenue can be reliably determined and if it is sufficiently likely that a future economic benefit will accrue 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:

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 products is recognised when the products are delivered to the customer or the distributor.

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

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

The Group receives commission revenue from the mobile communications networks principally for attracting new users 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 average revenue per customer. Advertising cost subsidies are also granted for individual actions and are recognised in the revenue. Where claims extend beyond the period in which the services were performed, commission revenue is accrued accordingly.

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

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

(b) Borrowing costs

Borrowing costs are capitalised if a qualified asset exists. Other borrowing costs are recognised as expense.

(c) Intangible assets

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

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

The "debitel" brand name is an asset with an indeterminate 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.

On the other hand the "talkline" and "callmobile" brand names have a definite useful life. Brand names are shown with their cost of purchase and are depreciated over their probable useful economic life on a straight-line basis. On the closing date

31 December 2009, the residual service life for the “talkline” brand is 72 months; for the “callmobile” brand, it is 48 months.

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

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

Customer relations are depreciated over a period of 42 to 66 months using the straight-line method. The main customer relations shown in the consolidated financial statements relate to “debitel postpaid” as well as “talkline postpaid”; these are both written down over a useful life of 36 months as of 31 December 2009.

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

(d) Property, plant and equipment

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

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

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

Asset	Useful life in years
Buildings	25 to 33 years
Technical equipment and machinery	3 to 19 years
Motor vehicles	2 to 7 years
IT equipment	3 to 10 years
Telecommunications equipment and hardware	3 to 6 years
Leasehold improvements	3 to 10 years

(e) Impairment of non-monetary assets

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

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

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

(f) Leases

Leases where the Group is the lessee

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

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

In the case of finance leases, IAS 17 specifies that the leased assets of which the Group is classified as the beneficial owner are capitalised and depreciated over their expected useful lives. Accordingly, the liability arising from the lease is shown as a liability and reduced by the repayment content of the leasing instalments which have already been made. The interest content of the leasing instalments is recognised directly in the income statement. As of the closing date 31 December 2009, no contracts were classified as finance leases.

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 taken out. Lease payments received are broken down into an interest portion and a capital (redemption) portion. The interest components are recognised as financial income on an accrual basis. As of the closing date 31 December 2009, there are no contracts in which the Group is classified as the lessor.

(g) Investments in associates

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

(h) Financial instruments

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

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

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

i. Financial assets measured at fair value through profit or loss

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

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

ii. Loans and receivables

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

iii. Held-to-maturity financial assets

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

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

iv. Held-for-sale financial assets

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

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

Measurement of financial instruments

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

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

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

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

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 or impaired, and also within the framework of amortisations.

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

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

Cash and cash equivalents

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

Liabilities

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

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

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

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

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

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

Impairment of financial assets

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

In the case of listed equities which are categorised as held for sale, a major or permanent decline of the fair value of the securities to a level below their cost of purchase is considered to be an objective indication of an impairment. If no market prices are available, other valuation methods are used, e.g. the DCF method.

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

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

The 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.

Derecognition of financial assets

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

(i) Inventories

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

(j) Foreign currency transactions

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

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

(k) Shareholders' equity

Ordinary shares and profit reserves are shown as shareholders' equity.

(l) Pension provisions

Pension provisions are measured and recognised in accordance with IAS 19.

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

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

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

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

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

(m) Other provisions

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

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

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

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

(n) Employee participation programmes

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

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

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

Stock options of the former mobilcom AG
The former mobilcom AG had set up a stock-based compensation plan which is funded by equity instruments. The fair value of the work provided by the employees in return for the granting of options is recognised as an expense. The entire expense, which has

to be recognised over the period until the point at which the options become vested, is calculated on the basis of the fair value of the options which have been granted. The estimate of the number of options which are expected to become exercisable is reviewed on every balance sheet day.

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

(o) Deferred 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.

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.

(p) Accruals and deferrals for public subsidies

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

(q) Exercise of management discretion

We provide the following details pursuant to IAS 1.122:

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

An evaluation of the value of the receivables 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.

It was necessary for estimates to be made on the basis of management's assessments of individual cases in order to calculate the result of the discontinued operation "DSL Business" and for calculating the way in which this result is broken down over the individual items of the income statement – please refer to item 21 "Discontinued operations".

At the point at which these financial statements were prepared, the purchase prices attributable to the major sales of subsidiaries (freenet Breitband GmbH, Strato sub-group) were not yet binding, because the parameters which might result in purchase price adjustments had not yet been finally defined. The Group has used estimates to calculate the extent of the receivables or liabilities attributable to the purchase price adjustments which are still expected.

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

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

(r) Forward looking assumptions and margins of error

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

With regard to the forward-looking assumptions made within the framework of the tests relating to potential goodwill impairments (book value as of 31 December 2009: 1,116.5 million euros; previous year: 1,120.2 million euros) as well as impairments of intangible assets with an indefinite useful economic life (book value as of 31 December 2009: 293.3 million euros, previous year: 311.0 million euros), please refer to item 12 "Test for impairment of non-monetary assets". A sensitivity assessment regarding the impairment test for the assets allocated to the "Mobile Communications" CGU has established that the fair value less costs to sell would decline by approx. 225 million euros if the WACC were increased by 0.5 percentage points and would increase by approx. 260 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 566 million euros or increase by 655 million euros; this would not result in any impairment with regard to the assets allocated to this CGU.

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 16 "Deferred tax assets and deferred tax liabilities".

With regard to the creation of the provision for contingent losses for any vacancy of rented shops and office buildings, assumptions have been made in relation to the possibility of these areas being sublet in future. With regard to the valuation of the provision for contingent losses for decommissioning the network in the "DSL Business" operation as well as the related impairment of assets recognised as of 31 December 2009, assumptions have essentially been made in relation to the extent of the future losses as well as the recoverable residual value of the relevant assets.

With regard to the assumptions and estimates made in the binomial model used for determining the provisions for outstanding stock options and stock appreciation rights according to IFRS 2 as of 31 December 2009, please refer to item 23 "Employee participation programmes".

With regard to pension provisions and similar obligations, item 27 describes how forward-looking assumptions have been made for the valuation of the provisions for pensions and similar obligations. This involves the recognition of a discount rate, the trend in pensions, the assessment of the future development of the pensionable income of the beneficiary as well as an assessment of an expected return on the plan assets.

With regard to the measurement of restructuring provisions for paying severance payments, it was necessary to make estimates regarding the number of employees who will receive severance payments after the balance sheet date from the restructuring programme, and it was also necessary to make estimates regarding the amount of the severance payment which will probably be payable for each employee. These estimates were made on the basis of experience gained with previous restructuring programmes. Please refer to item 28 "Other provisions".

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

Discontinued operations and held-for-sale long-term assets, which are classified as held-for-sale, are shown at the lower or 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 held-for-sale long-term assets, depreciation of the corresponding assets is no longer calculated.

The held-for-sale assets or the held-for-sale group of assets are reclassified as "Continued operations" when the criteria of IFRS 5 are 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.

(t) Comparable figures and changes in the accounting policies

The consolidated financial statements 2009 can only be compared to a limited extent with the consolidated financial statements for the previous year because the companies of the debitel Group which account for a considerable percentage of the assets, liabilities, expenses and income of the Group were included in the consolidated financial statements for the first time in the financial year 2008 (consolidation as of 5 July 2008; 24:00 hours). Accordingly, the companies of the debitel Group (with the exception of debitel Netherlands) were consolidated for 12 months in the consolidated financial statements 2009, but were only consolidated for approximately six months in the consolidated financial statements 2008. debitel Netherlands was sold and deconsolidated as of 30 December 2008, and was thus included in the consolidated financial statements 2008 for approximately six months, but as discontinued operations.

The subsidiary freenet Breitband GmbH was deconsolidated as a result of the sale of the subsidiary as of 30 November 2009 – this has resulted in a further restriction with regard to comparability with the previous year, because DSL Business in these financial statements has only been consolidated for 11 months (instead of 12 months, as was the case in the previous year).

The previous year comparison figures have been retrospectively adjusted for the presentation of the operations of the Strato Group in the income statement as discontinued operations in accordance with IFRS 5. Whereas "DSL Business" had been shown as discontinued operations in the consolidated financial statements as of 31 December 2008, the previous year comparison figures have been adjusted with regard to changes in the structure within the income statement of these discontinued operations. Please refer to item 21 "Discontinued operations".

F. Segment reporting

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

The Executive Board organises and manages the Company on the basis of the differences between the individual products and services offered by the Company. Because the Group exercises its business operations almost exclusively in Germany, there is no organisation and management based on geographical regions. The Group operated in the following operating segments in 2009:

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

With the sale of the “DSL Business” of the Group and the STRATO Group which took place in the financial year 2009 (please refer to our comments to item 21), those parts of the company which were virtually identical with the Broadband and Hosting segments have now been sold.

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

Income and expenses are allocated to the segments on the basis of selected criteria and economic relevance. In the case of revenue, cost of materials and gross profit, this allocation can clearly be made on the basis of the dimensions of the cost centre; this means that the entire Group gross profit has been completely allocated to segments.

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

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

The comparable figures of the previous year in segment reporting have been retrospectively adjusted, and are thus not identical with the corresponding figures in the segment report 2008, as published in the consolidated financial statements 2008. With regard to the background to this retrospective adjustment, please refer to item 21 “Discontinued operations”.

Segment report 1.1.2009 – 31.12.2009 €'000s	Mobile Communications	Broadband	Portal
Third-party revenue	**3,499,740**	**232,274**	**40,451**
Intersegment revenue	9,088	0	2,843
Revenue, total	3,508,828	232,274	43,294
Cost of materials, third parties	**–2,798,455**	**–157,413**	**–14,317**
Intersegment cost of materials	–2,143	–7,803	–3,690
Cost of materials, total	–2,800,598	–165,216	–18,007
Segment gross profit	**708,230**	**67,058**	**25,287**
Other operating income			
Other own work capitalised			
Personnel expenses			
Depreciation and impairment write-downs			
Other operating expenses			
Share of results of associates			
Group result before financial result and taxes on income			
Group financial result			
Taxes on income			
Group result from continued operations			
Group result from discontinued operations			
Group result			
Group result attributable to shareholders of freenet AG			
Group result attributable to minority interest			

Of the figure of 123,338 thousand euros shown for EBIT in continued operations, 136,433 thousand euros are attributable to the Mobile Communications segment, 4,253 thousand euros are attributable to the Portal segment and –17,348 thousand euros are attributable to the Fixed Network segment (consisting of the sum of the B2B, Narrowband and Holding activities).

Of the figure of 327,143 thousand euros shown for EBITDA in the continued operations, 322,601 thousand euros are attributable to the Mobile Communications segment, 4,862 thousand euros are attributable to the Portal segment and –320 thousand euros are attributable to the Fixed Network segment.

Of the figure of 64.0 million euros shown for investments in continued operations (excluding the payments for the acquisition of subsidiaries and equity participations), 49.2 million euros are attributable to the Mobile Communications segment and 14.8 million euros are attributable to the Fixed Network segment.

Hosting	B2B	Narrowband	Elimination of intersegment revenue and costs	Effects regarding IFRS 5	Total
88,674	**68,088**	**42,069**	**0**	**–320,626**	**3,650,670**
2,476	1,975	79	–16,461	0	0
91,150	70,063	42,148	–16,461	–320,626	3,650,670
–15,676	**–50,507**	**–14,391**	**0**	**174,678**	**–2,876,081**
–702	–1,880	–1	16,219	0	0
–16,378	–52,387	–14,392	16,219	174,678	–2,876,081
74,772	**17,676**	**27,756**	**–242**	**–145,948**	**774,589**
					115,091
					10,192
					–206,363
					–203,805
					–368,051
					1,685
					123,338
					–87,774
					–19,012
					16,552
					239,938
					256,490
					256,485
					5

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

Of the figure of 58,934 thousand euros shown for EBIT in continued operations, 28,545 thousand euros are attributable to the Mobile Communications segment, 6,919 thousand euros are attributable to the Portal segment and 23,470 thousand euros are attributable to the Fixed Network segment (consisting of the sum of the B2B, Narrowband and Holding activities).

Of the figure of 172,077 thousand euros shown for EBITDA in continued operations, 124,049 thousand euros are attributable to the Mobile Communications segment, 7,547 thousand euros are attributable to the Portal segment and 40,481 thousand euros are attributable to the Fixed Network segment.

Of the figure of 36.7 million euros shown for investments in continued operations (excluding the payments for the acquisition of subsidiaries and equity participations), 25.5 million euros are attributable to the Mobile Communications segment and 11.2 million euros are attributable to the Fixed Network segment.

Hosting	B2B	Narrowband	Elimination of intersegment revenue and costs	Effects regarding IFRS 5 (adjusted)	Total (adjusted)
83,553	**99,308**	**75,972**	**0**	**–472,194**	**2,776,478**
4,159	1,739	1	–21,144	0	0
87,712	101,047	75,973	–21,144	–472,194	2,776,478
–15,271	**–73,330**	**–27,077**	**0**	**323,178**	**–2,212,925**
–797	–2,110	–2	19,341	0	0
–16,068	–75,440	–27,079	19,341	323,178	–2,212,925
71,644	**25,607**	**48,894**	**–1,803**	**–149,016**	**563,553**
					90,042
					1,382
					–177,410
					–113,143
					–307,049
					1,559
					58,934
					–87,744
					156,324
					127,514
					–15,916
					111,598
					112,182
					–584

G. Notes to the consolidated income statement

1. Revenue

A breakdown of revenue of 3,651 million euros (previous year: 2,776 million euros) is set out in section F. Segment reporting.

Of external revenue generated in the Mobile Communications segment, 2,593 million euros (previous year: 1,960 million euros) relates to rentals and fees, and 586 million euros (previous year: 464 million euros) relates to fees for premiums and commissions, and 320 million euros (previous year: 219 million euros) relates to the sale of mobile communications devices and accessories.

2. Other operating income

The other operating income mainly comprises income from dunning charges and charges for reversing direct debits, advertising cost subsidies, income from charging fees to employees for the use of company cars, rental income as well as income from the reversal of provisions and accrued liabilities.

This item also includes income from the sale of shops as a result of the reorganisation of branch operations.

As a result of the retrospective adjustment of the breakdown of results for 2008 of the discontinued operations “DSL Business” over the individual items of the income statement, which also involved a retrospective adjustment of the Group result for 2008 from continued operations, the figure shown for other operating income for the comparison year 2008 is 81,772 thousand euros lower than the figure reported in the published consolidated financial statements for 2008 – please refer to our comments to item 21 “Discontinued operations”.

3. Cost of materials

Cost of materials are broken down as follows:

€’000s	2009	2008 adjusted
Costs of purchased goods	513,638	399,790
Costs of purchased services	2,362,443	1,813,135
	2,876,081	**2,212,925**

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

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

4. Personnel expenses

Personnel expenses are broken down as follows:

€'000s	2009	2008 adjusted
Wages and salaries	175,196	155,388
Social contributions	31,167	22,022
	206,363	**177,410**

The average number of people employed by the Group rose by 6.4 percent (from 5,658 to 6,020) compared with the previous year. In the course of the financial year 2009, mainly as a result of the restructuring measures carried out at the Mobile Communication locations in Elmshorn and Stuttgart and also as a result of the sales of "DSL Business" and the STRATO Group, there was a significant reduction in the number of employees, starting from a figure of 7,255 employees as of 31 December 2008 to a final figure of 4,394 employees as of 31 December 2009.

We have provided the following overview regarding personnel expenses as a function of the development in the share price:

€'000s	2009	2008
Stock appreciation rights	2,940	–10,398
Stock options (former mobilcom AG)	0	–38
	2,940	**–10,436**

The stock appreciation programme of the company has resulted in personnel expenses of 2,940 thousand euros (previous year: reduction of 10,398 thousand euros in personnel expenses). For an explanation of the stock appreciation programme and also the stock option plan, please refer to our comments to item 23 "Employee participation programmes" and also to section (n) of the accounting and valuation methods.

Personnel expenses also comprise an expense of 920 thousand euros for defined benefit plans (previous year: 854 thousand euros), see also item 27 "Pension provisions and similar obligations".

Personnel expenses include a figure of 15,307 thousand euros as the employer's social insurance contribution as costs of defined contribution benefit plans (previous year: 11,272 thousand euros).

As a result of the retrospective adjustment of the breakdown of results for 2008 of the discontinued operations "DSL Business" over the individual items of the income statement, which also involved a purely retrospective adjustment of the Group result for 2008 from continued operations, the figure shown for personnel expenses for the comparison year 2008 is 27,346 thousand euros lower than the figure reported in the published consolidated financial statements for 2008 – please refer to our comments to item 21 "Discontinued operations".

5. Depreciation and impairments

The following table sets out the depreciation and impairments:

€'000s	2009	2008 adjusted
Depreciation on intangible assets	172,351	90,204
Impairment write-downs on intangible assets	4,165	0
Depreciation on property, plant and equipment	27,066	22,939
Impairment write-downs on property, plant and equipment	223	0
	203,805	**113,143**

Most of the impairments recognised in relation to intangible assets are attributable to enterprise-wide IT integration within the debitel Group, which was completed before the end of the financial year. Impairments were recognised in relation to the full value of software and leasing rights as well as self-created software and development costs for self-created software because, as a result of using an alternative software solution, the value in use has been estimated to be zero. Because of the specific nature of the previous software solution, it can be assumed that the value in use is equivalent to the fair value less costs to sell. Under property, plant and equipment, impairments were recognised in relation to tenant fittings in connection with location closures.

6. Other operating expenses

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

In the financial year, costs of impairments and the default of receivables totalling 31,924 thousand euros (previous year: 22,648 thousand euros) were incurred. Of this figure, trade accounts receivable accounted for 31,862 thousand euros (previous year: 22,735 thousand euros) and other assets accounted for 62 thousand euros (previous year: −87 thousand euros).

Payments of 75,664 thousand euros (previous year: 59,314 thousand euros) were recognised in the income statement for rental and leasing contracts.

A figure of 18 thousand euros (previous year: 0 thousand euros) is shown for foreign currency translation under other operating expenses.

As a result of the retrospective adjustment of the breakdown of results for 2008 of the discontinued operations “DSL Business” over the individual items of the income statement, which also involved a purely retrospective adjustment of the Group result for 2008 from continued operations, the figure shown for the other operating expenses for the comparison year 2008 is 60,293 thousand euros lower than the figure reported in the published consolidated financial statements for 2008 – please refer to our comments to item 21 “Discontinued operations”.

7. Other interest and similar income

Other interest and similar income consists of the following items:

€'000s	2009	2008 adjusted
Interest receivable from banks, debt collection and similar income	5,458	6,661
Market valuation of derivative financial instruments	8,109	0
Compound interest from assets	601	1,155
Interest of tax refund	1,100	671
	15,268	**8,487**

8. Interest and similar expenses

Interest and similar expenses are broken down as follows:

€'000s	2009	2008 adjusted
Interest payable to banks and similar costs	93,354	61,967
Expense of cumulative interest in relation to liabilities	6,811	2,119
Expense of the valuation of derivative financial instruments	0	30,517
Interest on supplementary tax payments	1,446	941
Interest on pension obligations	1,398	648
Interest on finance leases	33	39
	103,042	**96,231**

9. Taxes on income

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

€'000s	2009	2008 (adjusted)
Current tax expense for the financial year	–20,561	–16,665
Current tax income for previous years	1,066	1,405
Deferred tax expense (previous year: tax income) due to the impairment (previous year: write-up) of deferred tax assets	–18,866	131,619
Deferred tax income due to temporary differences	32,185	37,809
Deferred tax expense attributable to tax rate changes	–2,113	–126
Actual tax expense (previous year: tax income) of continued and discontinued operations	**–8,289[1]**	**154,042[2]**

1 Of the figure of 8,289 thousand euros shown as actual tax expense for the year 2009, 19,012 thousand euros are tax expense in relation to the continued operations, and 10,723 thousand euros are tax income relating to the discontinued operations.

2 Of the figure of 154,042 thousand euros shown as actual tax income for the year 2008, 156,324 thousand euros are tax income in relation to the continued operations, and 2,282 thousand euros are tax expense relating to the discontinued operations.

For further details concerning deferred taxes, please refer to item 16 “Deferred tax assets and liabilities”.

Applying the average tax rate of the consolidated companies to the consolidated result before taxes on income would result in anticipated tax expenses of 80.0 million euros (previous year: tax income of 12.6 million euros). The difference between this amount and the actual tax expense of 8.3 million euros (previous year: tax income of 154.0 million euros) is shown in the following reconciliation.

€’000s	2009	2008
Result from continued and discontinued operations	**264,779**	**–42,444**
Expected tax expense (previous year: tax income) applying a tax rate of 30.2 % (previous year: 29.8%)	–79,963	12,648
Change in the allowance for deferred tax assets and non-recognised deferred tax assets in relation to losses carried forward	9,541	146,768
Tax effect of non-allowable expenses and tax-free income	43,869	–6,969
Effects from changes in tax rate	–2,113	–126
Tax income from previous years	1,066	1,405
Other income and expenses	19,311	316
Actual tax expense (previous year: tax income) of continued and discontinued operations	**–8,289**[1]	**154,042**[2]
Effective rate in percent	3.13	362.93

1 Of the figure of 8,289 thousand euros shown as actual tax expense for the year 2009, 19,012 thousand euros are tax expense in relation to the continued operations, and 10,723 thousand euros are tax income relating to the discontinued operations.

2 Of the figure of 154,042 thousand euros shown as actual tax income for the year 2008, 156,324 thousand euros are tax income in relation to the continued operations, and 2,282 thousand euros are tax expense relating to the discontinued operations.

The other income and expenses for the financial year 2009 (net income of 19,311 thousand euros) are mainly attributable to the elimination of deferred tax liabilities recognised in the income statement in connection with the sale and thus the deconsolidation of the STRATO Group. For the Group companies, a corporation tax rate of 15 percent (previous year: 15 percent) was used in the financial year 2009 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 411.46 percent (previous year: 400.09 percent) were also used. The deferred taxes in the financial year 2009 were calculated with an average rate of 30.2 percent (previous year: 29.8 percent).

10. Earnings per share

Undiluted earnings per share

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

	2009	2008 adjusted
Group result attributable to shareholders of freenet AG in €'000s	256,485	112,182
Weighted average of shares outstanding	128,061,016	110,727,683
Earnings per share in € (undiluted)	**2.00**	**1.01**
Thereof from continued operations in €	0.13	1.15
Thereof from discontinued operations in €	1.87	–0.14

Diluted earnings per share

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

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

	2009	2008 adusted
Group result attributable to shareholders of freenet AG in €'000s	256,485	112,182
Weighted average of shares outstanding	128,061,016	110,727,683
Weighted average of shares outstanding plus potential number of diluting shares	128,061,016	110,727,683
Earnings per share in € (diluted)	**2.00**	**1.01**
Thereof from continued operations in €	0.13	1.15
Thereof from discontinued operations in €	1.87	–0.14

H. Notes to the consolidated balance sheet

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

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

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

The following table sets out the book values of these brand rights and customer relations as of 31 December 2009:

€'000s	31.12.2009	31.12.2008
"debitel" brand	293,204	293,204
"Talkline" brand	27,586	32,173
"callmobile" brand	1,019	1,273
"_dug" brand	0	2,978
Customer relations debitel postpaid	173,608	231,220
Customer relations debitel prepaid	15,068	22,552
Customer relations Talkline postpaid	116,138	154,678
Customer relations Talkline prepaid	5,929	8,874
Customer relations callmobile	3,288	4,107
	635,840	**751,059**

In addition to the brand rights and customer relations from the debitel acquisition, further intangible assets of 99.2 million euros are shown as of 31 December 2009 (31 December 2008: 178.1 million euros).

The income statement was only affected to a limited extent by research and development expenses.

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

€'000s	31.12.2009	31.12.2008
Mobile Communications	1,111,830	1,111,770
Hosting	0	3,717
Others	4,675	4,675
	1,116,505	**1,120,162**

12. Impairment test for non-monetary assets

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

Goodwill of 1,111,830 thousand euros was allocated to the cash generating unit ("CGU") "Mobile Communications" (previous year: 1,111,770 thousand euros); an intangible asset with an undefined service life of 293,204 thousand euros was allocated to the brand "debitel" (previous year: 293,204 thousand euros). The business models "Postpaid", "Prepaid", "No frills" as well as "Original Mobile Network Operator Business" are combined in the "Mobile Communications" CGU.

Because it is possible for cash flows to be allocated to the brand "debitel", the capital value oriented method in the form of the licence price analogy method was used for determining the fair value less costs to sell. The licence rate for the brand "debitel" calculated on the basis of comparable transactions is 1.5 percent, with due consideration being given to its specific strength as a premium brand. The planned brand-relevant revenue for the brand "debitel" is taken from the planning for the CGU "Mobile Communications" described in the text below. The capitalisation rate (WACC) after tax used for calculating the fair value is 7.4 percent as of the closing date (previous year: 7.4 percent). With regard to the capitalisation rate in the subsequent phase (starting 2015), a discount of 0.5 percent has been assumed as a result of growth assumptions (previous year: 1.0 percent). It was not necessary for any impairment to be recognised for the brand "debitel".

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 2014 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 event and value drivers. In principle, the gross profit of the "Mobile Communications" CGU can be broken down into two earnings flows, the contribution to results made by existing customers and customer retention. 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.

The WACC after tax which has been derived from the special risk structure of the CGU "Mobile Communications" on the basis of market data and which has been used for calculating the fair value is 7.4 percent (previous year: 7.4 percent). With regard to the capitalisation rate in the subsequent phase (starting 2015), a discount of 0.5 percent has been assumed as a result of growth assumptions (previous year: 1.0 percent).

The impairment test 2009 carried out in relation to the "Mobile Communications" CGU established that no impairment has to be recognised in relation to the allocated goodwill as well as the intangible assets with an indefinite service life.

In the financial year 2009, impairments of 4,388 thousand euros were recognised in relation to non-monetary assets for the continued operations – please refer to item 5 "Depreciation and impairments". No impairment costs were recognised in the financial year 2008.

13. Joint ventures

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

The following assets, liabilities, income and expenses are shown as of 31 December 2009 or in the financial year 2009:

€'000s	**FunDorado GmbH**	**Attributable to the Group**
Current assets	2,240	1,120
Non-current assets	1,526	763
	3,766	**1,883**
Current liabilities	1,938	969
Non-current liabilities	104	52
	2,042	**1,021**
Income	8,604	4,302
Expenses	7,602	3,801

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

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

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 2009. In the financial year 2009, FunDorado GmbH employed an average of 38 persons (previous year: 34).

Effective 13 October 2006, FunDorado GmbH acquired a 50 percent stake in NetCon Media s.r.o. based in Hlucin, the Czech Republic (referred to in the following as NetCon). The Company produces content which is designed primarily to be used in the fee-based internet portal of FunDorado. NetCon in turn owns a 100 percent stake in its sales company siXXup new Media GmbH, Pulheim (referred to in the following as siXXup). NetCon as well as siXXup are both included as joint ventures in the consolidated financial statements. For the sake of simplicity, 1 November 2006 has been chosen as the date of initial consolidation.

Including the balances of its subsidiary siXXup, NetCon shows the following assets, liabilities, income and expenses as of 31 December 2009 and for the financial year 2009:

€'000s	NetCon Media s. r. o.	Attributable to the Group
Current assets	261	65
Non-current assets	182	46
	443	**111**
Current liabilities	81	20
Non-current liabilities	0	0
	81	**20**
Income	1,126	282
Expenses	1,048	262

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

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

In the financial year 2009, NetCon, including its subsidiary, employed an average of 71 persons (previous year: 58).

As of 31 December 2009, there were no contingent obligations or capital commitments in connection with the Group interest in these joint ventures.

14. Investments in associates

The book value of companies accounted for using the equity method as of 31 December 2009 was 3,645 thousand euros (previous year: 3,462 thousand euros); as was the case in the previous year, this related to KielNET GmbH Gesellschaft für Kommunikation, Kiel (referred to in the following as “KielNET”). The Group owns a 50 percent stake in this company. If voting in the case of resolutions is tied, the deciding vote is held by Stadtwerke Kiel AG, Kiel. KielNET supplies telecommunication services within the license area in the Kiel region.

In the financial year 2009, KielNET generated revenue of 20,392 thousand euros (previous year: 20,818 thousand euros) as well as net income of 3,370 thousand euros (previous year: 3,118 thousand euros). As of 31 December 2009 the assets of this company amounted to an aggregate 17,074 thousand euros (previous year: 19,079 thousand euros), and the liabilities amounted to an aggregate 9,835 thousand euros (previous year: 12,206 thousand euros).

The 183 thousand euros increase in the book value of the companies accounted for using the equity method compared with 31 December 2008, in conjunction with earnings of 1,685 thousand euros (previous year: 1,559 thousand euros) generated by the companies accounted for using the equity method in 2009, is due to the fact that a dividend payment of 1,502 thousand euros was received from KielNET; this has to be treated as a reduction in the equity participation.

15. Other investments

The other financial investments shown as of the balance sheet date mainly comprise the investment in Libri.de GmbH, Hamburg with an unchanged book value of 304 thousand euros as well as the investment in Pocketfilm Media Entertainment GmbH, Frechen, of 398 thousand euros. These investments were shown at cost.

The other investments also mainly comprise a silent participation (500 thousand euros) measured at cost of purchase as well as equity-linked bonds (987 thousand euros) which are used as rent security for shops and which are measured at fair value. In the previous year, the silent participation was stated as 500 thousand euros, and the equity-linked bonds were stated as 961 thousand euros under other receivables and other assets.

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

16. Deferred tax assets and liabilities

After temporary differences were taken into consideration, deferred tax assets and liabilities were calculated using the liability method with a total tax rate of 30.2 percent (previous year: 29.8 percent).

The following amounts are shown in the consolidated balance sheet:

€'000s	31.12.2009	31.12.2008
Deferred tax assets	27,090	14,878
Deferred tax liabilities	0	0
	27,090	**14,878**

The overhang of 27.1 million euros (previous year: 14.9 million euros) shown for deferred tax assets is considered to be entirely of a short-term nature because of the expected utilisation of tax losses carried forward.

Changes in the disclosed deferred tax assets and liabilities for the financial year 2009 and 2008 are shown in the following two tables:

Changes in deferred tax assets and liabilities in 2009 €'000s	1.1.2009	Changes in group of consolidated companies	Shown directly in equity	Income and expenses from taxes on income	31.12.2009
Property, plant and equipment	–1,110	–4	0	842	–272
Intangible assets	–251,670	0	0	49,585	–202,085
Financial assets	–928	0	–4	794	–138
Loss carry-forwards	234,103	0	0	–18,866	215,237
Provisions	14,867	–30	0	–8,072	6,765
Other liabilities and accruals	1,454	1,053	0	–2,498	9
Debt	–547	0	0	980	433
Other liabilities and accruals	18,709	–9	0	–11,559	7,141
	14,878	**1,010**	**–4**	**11,206**	**27,090**

The income tax expenses and income (11,206 thousand euros) are shown in the consolidated income statement as follows:

€'000s	2009
Taxes on income	–6,107
Group result from discontinued operations	17,313
	11,206

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

The deferred tax assets and deferred tax liabilities developed as follows in the financial year 2008:

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

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

€'000s	2009	2008
As of 1.1.	**14,878**	**82,657**
Change in group of consolidated companies	1,010	–237,081
Shown directly in equity	–4	0
Tax income	11,206	169,302
As of 31.12.	**27,090**	**14,878**

The existing tax loss carry-forwards which 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 2009, deferred taxes relating to tax loss carry-forwards amounted to 215,237 thousand euros (previous year: 234,103 thousand euros). Of this item, corporation tax loss carry-forwards account for 105,307 thousand euros (previous year: 114,775 thousand euros), and loss carry-forwards which are attributable to trade tax accounted for 109,930 thousand euros (previous year: 119,328 thousand euros). Further loss carry-forwards for which no deferred tax assets have been recognised in the consolidated financial statements relate to corporation tax (2.3 billion euros) and trade tax (1.7 billion euros) (previous year: 2.1 billion euros corporation tax and 1.6 billion euros trade tax).

17. Inventories

Inventories are broken down as follows:

€'000s	31.12.2009	31.12.2008
Mobile telephones/accessories	29,928	40,875
Bundles and voucher	15,304	20,009
SIM cards	5,708	8,891
Other	1,117	3,607
	52,057	**73,382**

An impairment of 3,679 thousand euros (previous year: 4,904 thousand euros) has been recognised in relation to year-end stocks of inventories.

18. Receivables and other assets

This item is broken down as follows:

€'000s	31.12.2009	31.12.2008
Trade accounts receivable	491,051	540,736
Other assets	45,700	42,831
Advance payments	17,806	26,415
	554,557	**609,982**

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

The total of trade accounts receivable and the other non-derivative financial assets, less impairments which had been recognised, amounted to 520,943 thousand euros as of 31 December 2009 (previous year: 565,923 thousand euros). In the freenet Group, the most significant item in this category are trade accounts receivable. These are due mainly from end customers, and to a lesser extent they are due from business customers, dealers and sales partners.

Invoices in the Mobile Communications, Broadband, Portal and Hosting segments are raised by the Group itself. In the B2B and Narrowband segments, some of the invoices are raised by the Group itself, and the collection services of Deutsche Telekom AG (DTAG) are used for some other invoices.

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

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

As of 31 December 2009, trade accounts receivable and other non-derivative financial assets of 355,851 thousand euros (31 December 2008: 330,890 thousand euros) are neither impaired nor overdue.

Trade accounts receivable and other non-derivative financial assets of 24,386 thousand euros (31 December 2008: 28,489 thousand euros) are overdue but are not impaired. These receivables are due from various customers who have not defaulted in the past.

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

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

In the year under review, sales of receivables resulted in income of 506 thousand euros (previous year: costs of 3,128 thousand euros). All major risks and opportunities associated with ownership of these receivables were transferred to the buyer.

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

€'000s	**Carrying amount 31.12.2009**	**Thereof: On closing date neither impaired nor overdue**	**Thereof: On closing date not impaired and overdue by**		
			Fewer than 90 days	**Between 91 and 180 days**	**More than 180 days**
Trade accounts receivable	491,051	327,917	15,632	2,070	5,994
Other non-derivative financial assets	29,892	27,934	0	127	563
	520,943	**355,851**	**15,632**	**2,197**	**6,557**

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

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

€'000s	
Impairments created as of 31 December 2008	125,397
Impairments released due to deconsolidation (at time of deconsolidation)	–2,827
Impairments created as of 31 December 2009	126,280
Net allocation to impairments in the financial year 2009	**3,710**

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

Of the figure stated for receivables and other assets, 4,606 thousand euros (previous year: 192 thousand euros) are attributable to related parties, see item 32 "Transactions with related parties".

19. Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

€'000s	31.12.2009	31.12.2008
Cash in hand and cash at banks	480,285	132,218
Securities (money market paper)	6	6
	480,291	**132,224**

The following is a reconciliation of cash and cash equivalents 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:

€'000s	31.12.2009	31.12.2008
Cash and cash equivalents of continued operations	480,291	132,224
Cash and cash equivalents of discontinued operations	0	244
Liabilities as part of current finance scheduling due to banks	–148,873	–152,418
	331,418	**–19,950**

20. Current tax assets

The current tax assets relate essentially to receivables resulting from overpayments of corporation tax and trade tax for the assessment period 2009.

21. Discontinued operations

As was the case in the previous year financial statements for the period ending 31 December 2008, "**DSL Business**", which is essentially equivalent to the Broadband segment of the Group, has been shown as discontinued operations.

On 26 May 2009, freenet AG and 1&1 Internet AG, a subsidiary of United Internet AG, signed an agreement regarding the sale of all shares in freenet Breitband GmbH.

A provisional purchase price of 123 million euros was agreed for the sale; this provisional price is still subject to adjustments with regard to parameters which have not yet been finally determined at the point at which these financial statements were prepared. As of the closing date and also by the time at which these financial statements were prepared, the Group had already received an amount of 120,383 thousand euros.

This transaction was carried out in two stages, and was completed with technical customer migration as of 30 November 2009. This was the date on which the control over of the operation which was sold was transferred to the acquiring party; accordingly, this was also the date at which freenet Breitband GmbH was deconsolidated.

The business of freenet Breitband GmbH consisted of broadband Internet connections and access as well as the range of broadband voice services (Voice over IP).

The "DSL Business" operation also included freenet Customer Care GmbH, which operated a call centre at the location in Kiel primarily for DSL activities. This company was sold with the purchase agreement of 6 October 2009, with completion as of 30 November 2009, to adm Group GmbH & Co. KG, Berlin.

With the purchase agreement of 19 November 2009, freenet AG sold all shares in STRATO AG (and thus also the indirect holding in the latter's wholly owned subsidiary Cronon AG) as well as STRATO Rechenzentrum AG to Deutsche Telekom AG, Bonn. The operation was deconsolidated as of 31 December 2009 as a result of the control being transferred to the acquiring party.

The three companies STRATO AG, STRATO Rechenzentrum AG and Cronon AG are described as the "**STRATO Group**" in the following. The STRATO Group was allocated to the Hosting segment. The activities of the STRATO Group comprised services and products offered to end customers and business customers in Germany and abroad, mainly comprising the registration of top-level domains, the provision of web space and the implementation of related software solutions.

A provisional purchase price of 275 million euros was agreed for the sale; this provisional price is still subject to adjustments with regard to parameters which have not yet been finally determined at the point at which these financial statements were prepared. As of the closing date and also by the time at which these financial statements were prepared, the Group had already received an amount of 289,945 thousand euros after the parties to the agreement had assessed the purchase price adjustments.

As detailed in the consolidated financial statements of freenet AG for the period ending 31 December 2008, debitel Netherlands was sold as of 30 December 2008. In the previous year accounts, the income statement of this company was shown under discontinued operations for the period in which it was consolidated in the freenet Group (6 July 2008 to 30 December 2008).

In the previous year accounts for the period ending 31 December 2008, the balance sheet items of the discontinued operation "DSL Business" are shown as follows:

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

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

The result from discontinued operations in 2009 and 2008 is broken down as follows:

€'000s	2009			2008 (adjusted)			
	DSL business	**STRATO**	**Total**	**DSL business**	**STRATO**	**debitel Netherlands**	**Total**
Revenue	232,213	88,413	320,626	304,583	83,286	84,325	472,194
Other operating income	3,468	2,359	5,827	2,402	4,202	0	6,604
Profit from the disposal of discontinued operations	16,948	222,972	239,920	0	0	36,510	36,510
Cost of materials	–161,464	–13,214	–174,678	–231,622	–11,123	–80,433	–323,178
Personnel expenses	–19,459	–20,297	–39,756	–28,520	–18,383	–3,834	–50,737
Depreciation	0	–5,610	–5,610	–3,980	–11,748	–1,416	–17,144
Impairment write-downs	–15,457	0	–15,457	0	0	0	0
Other operating expenses	–77,116	–24,567	–101,683	–107,377	–22,953	–7,469	–137,799
Interest and similar income	29	163	192	900	143	6	1,049
Interest and similar expenses	0	–166	–166	–850	–283	0	–1,133
Taxes on income	0	14,163	14,163	0	–2,282	0	–2,282
Taxes on the profit from the disposal of discontinued operations	–2,240	–1,200	–3,440	0	0	0	0
Result from discontinued operations	**–23,078**	**263,016**	**239,938**	**–64,464**	**20,859**	**27,689**	**–15,916**

Intangible assets and property, plant and equipment which were not sold following the sale of freenet Breitband GmbH are still shown as held-for-sale as part of the overall plan for disposing of “DSL Business”. The Group still intends to sell these operations. The sale is expected to take place in the year 2010.

In the financial year 2009, an impairment of 15,457 thousand euros was recognised in relation to the held-for-sale intangible assets and property, plant and equipment. In addition, in the balance sheet as of 31 December 2009, a provision of 16,536 thousand euros was created for pending services in relation to these intangible assets and property, plant and equipment, and was shown under the position “Liabilities in connection with the disposal of certain assets”. Both factors were shown in the current result from discontinued operations in 2009.

With regard to the effects of the sales of the STRATO Group and “DSL Business” on the assets and liabilities in the consolidated balance sheet as of 31 December 2009 and also the effects on the Group cash flow, please refer to item 30, Notes to the consolidated cash flow statement.

Explanation of the retrospective adjustment of the result after tax of the “DSL Business” operation for the financial year 2008

The breakdown of the result after tax for the discontinued operations “DSL Business” has been retrospectively adjusted for the financial year 2008. This change became necessary as a result of improved knowledge concerning the contractual form of the future relations between the freenet Group and “DSL Business” or the latter’s purchaser 1&1 Internet AG.

The previous breakdown of the result after tax for “DSL Business” was based on the assumption that the internal relations between the freenet Group and “DSL Business” will not be terminated within a brief period after the completed sale. The result after tax of “DSL Business” has therefore been calculated in relation to the expenses and income in connection with the internal relations before consolidation of expenses and income. It was no longer possible for this assumption to be maintained as a result of the completion of the sale of “DSL Business” to 1&1 Internet AG.

The purchase agreement with 1&1 Internet AG specifies that the continued operations will essentially only provide their internal relations to freenet Breitband GmbH for a brief period after the point of migration. The result after tax of “DSL Business” has therefore been calculated for the financial years 2008 and 2009 in relation to the expenses and income connected with the internal relations after consolidation of expenses and income.

Accordingly, it has become necessary to retrospectively adjust the income statement for the financial year 2008 in relation to the breakdown of the individual income statement items of the result after tax of “DSL Business” and also with regard to the breakdown of the income statement for continued operations, in order to explain the financial impact resulting from the sale of “DSL Business”.

For the continued operations, this adjustment compared with the previous treatment in the published consolidated financial statements for 2008 essentially involves lower revenue and other operating income as well as lower overhead costs. For the discontinued operations, this primarily involves lower other operating expenses and higher personnel expenses.

The following table uses the corresponding income and expense items to show the effects resulting from the retrospective adjustment of the previous year figures. The table shows the difference between the figures published in the previous year and the currently reported figures for the continued operations for the financial year 2008.

€'000s	**2008**
	Difference between adjusted and reported figures
Revenue	–14,062
Other operating income	–81,772
Cost of materials	8,195
Personnel expenses	27,346
Depreciation	0
Other operating expenses	60,293
Interest and similar income	0
Interest and similar expenses	0
Result from discontinued operations	**0**

Major aspects of this retrospective adjustment are as follows: Compared with the original figures in the published consolidated financial statements for 2008, the other operating income of the continued operations 2008 are 81,772 thousand euros lower, personnel expenses of the continued operations 2008 are 27,346 thousand euros lower, and the other operating expenses of the continued operations 2008 are 60,293 thousand euros lower.

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

Of the reported cash flow from current operations, cash outflows of 10.4 million euros are attributable to the disclosed operations “DSL Business” in 2009 (previous year: cash outflows of 85.8 million euros). In the reporting period and also in the comparable period, the cash outflows from investing and financing activities attributable to DSL Business are negligible.

Of the reported cash flow from operating activities, cash inflows of 36.9 million euros are attributable to the discontinued operations STRATO Group in 2009 (previous year: cash inflows of 30.7 million euros). Of the figure shown for cash outflow from investing activities, 5.9 million euros (previous year: 4.7 million euros) are attributable to the discontinued operations STRATO Group. In the reporting period and also in the comparable period, the cash flows from financing activities attributable to the STRATO Group are negligible.

In 2008, debitel Netherlands (which has been sold) accounted for cash outflow of 69.8 million euros under the reported cash flow from operating activities, inflows of 30.5 million euros under cash flow from investing activities as well as inflows of 12.6 million euros under cash flow from financing activities.

22. Share capital and additional paid-in capital

The issued share capital of the company is 128,061 thousand euros. Pursuant to a resolution of the Annual General Meeting, bearer shares were changed over to registered shares on 28 September 2009. 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 section 71 (1) no. 8 AktG, the Executive Board was authorised by the Annual General Meeting on 7 July 2009, 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. This authorisation is applicable until 6 January 2011.

In addition to the authorisation pursuant to section 71 (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 29 May 2009 under items 7 and 8 on the agenda in the invitation to attend the Annual General Meeting 2009 in the Electronic Federal Gazette.

Authorised capital

On 19 August 2005, the Annual General Meeting of the Company adopted authorised capital of 48,030,508 euros, which was entered in the commercial register on 2 March 2007. The Executive Board utilised 32,000,000 euros of the authorised capital 2005 with the approval of the Supervisory Board pursuant to resolutions of 27 April 2008. After the capital increase in the financial year 2008, the authorised capital 2005 continues to exist in the amount of 16,030,508 euros.

In accordance with section 4 (6) of the articles of association, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital by 18 August 2010 on one occasion or in several amounts on several occasions by a total of up to 16,030,508 euros by way of issuing up to 16,030,508 new no-par value registered or bearer shares in return for cash and/or non-cash contributions (authorised capital 2005). The Executive Board is also authorised to exclude the shareholders' subscription rights in legally permitted instances listed in section 4 (6) of the articles of association.

On 7 July 2009, the Annual General Meeting of the Company adopted authorised capital of 20,000,000 euros, which was entered in the commercial register on 9 September 2009. In accordance with section 4 (7) of the articles of association, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company's share capital by 6 July 2014 on one occasion or in several amounts on several occasions by a total of up to 20,000,000 euros by way of issuing new no-par value registered or bearer shares in return for cash and/or non-cash contributions (authorised capital 2009). The Executive Board is also authorised to take a decision with regard to excluding shareholders' subscription rights in legally permitted cases and subject to the approval of the Supervisory Board.

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/I).

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

In order to be in a position to issue new shares of the Company to the option holders in accordance with the regulations set out in the option conditions if the above-mentioned stock options are exercised, contingent capital of 318,447 euros was created in section 4 (8) of the articles of association. The contingent capital increase is only carried out to the extent that the holders of the option rights actually exercise their right to subscribe for shares of the Company and only to the extent that the Company does not grant any of its own shares or pay cash in order to fulfil the option rights. The new shares participate in profits from the beginning of the financial year in which they are issued. So far, no shares have been issued out of the contingent capital 2007.

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

The issue amount for the new registered no-par-value shares is based on the rules set out in section 4 (9) of the articles of association. The contingent capital increase is only to be carried out to the extent to which conversion or option rights are utilised or to which holders with a conversion obligation meet their conversion obligation and if treasury shares are not used for settlement or if the Company does not provide a cash settlement. The new shares will carry a dividend entitlement from the beginning of the financial year in which they are issued. The Executive Board is authorised to fix the further details for carrying out the contingent capital increase.

23. Employee participation programmes

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

Stock appreciation rights of freenet AG
In the course of 2006, freenet AG introduced a so-called stock appreciation programme by issuing a total at present of 5,145,000 stock appreciation rights (Aktienwertsteigerungsrechte – AWRs) to senior executives, including members of the Executive Board (referred to as programme 1 in the following). In the financial year 2008, stock appreciation rights were issued in two additional programmes: In programme 2, 720,000 stock appreciation rights were issued to senior executives as of 1 April 2008; as of 30 September 2008, 400,000 stock appreciation rights were granted to Mr. Joachim Preisig on the occasion of his appointment to the Executive Board of freenet AG (programme 3). In the financial year 2009, 400,000 AWRs (programme 4) were issued to Mr. Christoph Vilanek as of 1 May 2009 on the occasion of his appointment to the Executive Board.

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

The value of dividend payments to the shareholders and other benefits for the shareholders are each deducted from the strike price in accordance with recognised 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), 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 (programme 4), starting with 29 April 2010, 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 (programme 1) or by at least ten percent (programmes 2, 3 and 4) at least on one occasion in the period starting immediately before the corresponding stock appreciation rights become exercisable and ending with the expiry of the relevant programme. For the stock appreciation rights of the tranches two to five, the percentage is incremented by five percentage points per tranche (programme 1) 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 (programme 1) and 50 percent increase in relation to the strike price for the tranche 5 (programmes 2, 3 and 4).

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

The term of all stock appreciation rights is due to end on 2 February 2012 (programme 1), 1 April 2014 (programme 2), 1 September 2014 (programme 3) and 1 May 2015 (programme 4) respectively. The exercise period in each instance is defined as the period which commences 31 stock exchange trading days on the stock exchange in Frankfurt am Main after the end of the first ordinary Annual General Meeting of the Company after the end of the corresponding shut-out period until the end of the term.

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

Stock appreciation rights programme 1	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2008	Issued	Exercised	Disposals	Balance SARs 31.12.2009	Provisions 31.12.2009 €'000s
Tranche 1	11.16	11.72	27.00	2.2.2012	9,000	0	0	0	9,000	
Tranche 2	11.16	12.28	27.00	2.2.2012	1,014,000	0	0	267,000	747,000	
Tranche 3	11.16	12.84	27.00	2.2.2012	1,014,000	0	0	267,000	747,000	
Tranche 4	11.16	13.40	27.00	2.2.2012	1,014,000	0	0	267,000	747,000	
Tranche 5	11.16	13.95	27.00	2.2.2012	1,014,000	0	0	267,000	747,000	
					4,065,000	**0**	**0**	**1,068,000**	**2,997,000**	**3,918**

Stock appreciation rights programme 2	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2008	Issued	Exercised	Disposals	Balance SARs 31.12.2009	Provisions 31.12.2009 €'000s
Tranche 1	11.33	12.46	21.00	1.4.2014	138,000	0	0	97,500	40,500	
Tranche 2	11.33	13.60	21.00	1.4.2014	138,000	0	0	97,500	40,500	
Tranche 3	11.33	14.73	21.00	1.4.2014	138,000	0	0	97,500	40,500	
Tranche 4	11.33	15.86	21.00	1.4.2014	138,000	0	0	97,500	40,500	
Tranche 5	11.33	17.00	21.00	1.4.2014	138,000	0	0	97,500	40,500	
					690,000	**0**	**0**	**487,500**	**202,500**	**267**

Stock appreciation rights programme 3	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2008	Issued	Exercised	Disposals	Balance SARs 31.12.2009	Provisions 31.12.2009 €'000s
Tranche 1	11.46	12.61	21.46	1.9.2014	80,000	0	0	0	80,000	
Tranche 2	11.46	13.75	21.46	1.9.2014	80,000	0	0	0	80,000	
Tranche 3	11.46	14.90	21.46	1.9.2014	80,000	0	0	0	80,000	
Tranche 4	11.46	16.04	21.46	1.9.2014	80,000	0	0	0	80,000	
Tranche 5	11.46	17.19	21.46	1.9.2014	80,000	0	0	0	80,000	
					400,000	**0**	**0**	**0**	**400,000**	**386**

Stock appreciation rights programme 4	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2008	Issued	Exercised	Disposals	Balance SARs 31.12.2009	Provisions 31.12.2009 €'000s
Tranche 1	8.00	12.61	18.00	1.5.2015	0	100,000	0	0	100,000	
Tranche 2	8.00	13.75	18.00	1.5.2015	0	100,000	0	0	100,000	
Tranche 3	8.00	14.90	18.00	1.5.2015	0	100,000	0	0	100,000	
Tranche 4	8.00	16.04	18.00	1.5.2015	0	50,000	0	0	50,000	
Tranche 5	8.00	17.19	18.00	1.5.2015	0	50,000	0	0	50,000	
					0	**400,000**	**0**	**0**	**400,000**	**424**

The obligation arising from the stock appreciation rights programme was determined in accordance with IFRS 2 using an option price model (binomial model). In the financial year 2009, this programmeresulted in personnel expenses of 2,940 thousand euros, which were attributable exclusively to the allocation to the provision compared with 31 December 2008. No AWRs were exercised in 2009, and there were accordingly no cash payments resulting from AWRs being exercised. A provision for other liabilities and charges of 4,995 thousand euros, including 3,395 thousand euros current provisions and 1,600 thousand euros non-current provisions, is shown for the outstanding stock appreciation rights as of 31 December 2009.

The ranges of the option prices for each stock appreciation right are between 1.33 euro and 1.86 euro for programme 1, between 2.08 euros and 2.34 euros for programme 2, between 2.33 euros and 2.46 euros for programme 3 and between 3.26 euros and 3.61 euros for programme 4.

The valuation parameters of the option price model for all four programmes have been set as follows: the share price of the company on the closing date (9,39 euros) has been used as the share price. The expected volatility was defined as 50.0 percent – it was determined using an estimate of the future performance of the share price of the Company taking account of a mean value between the historical volatility of matching maturities as well as the implied volatility of the shares of freenet AG. The risk-free interest rate was determined on the basis of the yield structure curve of German Federal Bonds as of the balance sheet date. As of 31 December 2009, the risk-free interest rate for the individual tranches of programme 1 was between 0.87 and 1.27 percent; the risk-free interest rate for programme 2 was between 1.42 and 2.21 percent, the risk-free interest rate for programme 3 was between 1.62 and 2.42 percent, and the risk-free interest rate for programme 4 was between 1.75 and 2.51 percent. For each of the measured tranches of the individual programmes, the expected remaining term of the stock appreciation rights was determined as the remaining waiting time as of the valuation reference date plus half of the remaining term after the end of the waiting time is attained. Further parameters such as the relative success targets of the individual tranches of the programmes have also been taken into consideration.

Stock options of the former mobilcom AG

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

The options are not permitted to be exercised before the expiry of two years after the point at which they are issued (shut-out period). Assuming success in meeting a relative target of a 20 percent increase in the share price compared with the strike price, up to 50 percent of the option rights which have been granted can be exercised after the shut-out period; a further 25 percent can be exercised for the first time after a period of three years, and the remaining options can only be exercised four years after the time at which the options were issued. After the expiry of the corresponding shut-out period, a further period of three years is defined as the period in which the rights can be exercised. Details concerning the options which have been issued so far are set out in the following table:

Stock options	Strike price €	Target price €	Maturity	Balance stock options 1.1.2009	Expired	Exercised	Disposals	Balance stock options 31.12.2009
Tranche 2004	17.09	20.51	31.3.2011	109,905	31,952	0	4,541	73,412
				109,905	**31,952**	**0**	**4,541**	**73,412**

The 73,412 (previous year: 109,905) share options which had not been exercised as of the balance sheet date are options which are linked to the employee's relationship within the Group.

No stock options were exercised last year because the exercise conditions had not been satisfied.

The difference to be granted for each option of tranche 2004 is defined as the difference between the average XETRA closing price of the shares of the Company on the last ten trading days before the exercise date and the exercise price of 20.51 euros.

The options recognised as disposals (4,541 options; previous year: 17,789) were issued to employees whose employment contract at a Group company had been terminated before the end of the exercise period.

In addition, the financial year saw the expiry of 31,952 (previous year: 8,600) stock options for which the contractually defined exercise period expired or which expired upon maturity.

The stock options of the 2004 tranche are valued by means of a binomial model. In these models, possible developments of a stock price are modelled using a binomial decision tree. The valuation is based on the following assumptions: With the exercise price of 20.51 euros, the closing price of freenet shares on the Frankfurt stock exchange (XETRA) on 30 December 2009 was used (9.39 euros). The expected volatility was set at 50.0 percent – it was estimated using an estimate of the future performance of the share price of freenet AG in XETRA trading of the Frankfurt stock exchange, including historical volatility of matching maturities. The risk-free interest rate of matching maturities was determined separately for the vested options and also for the non-vested options on the basis of the yield structure curve of German Bunds as of the closing date. As of 31 December 2009, this resulted in a risk-free interest rate of approx. 1.3 percent for the programme. The relevant period until the expiry date was used as the expected remaining term of the stock options. Further parameters such as the relative success targets of the programme were also taken into consideration.

No further provisions were created as of 31 December 2009 for the stock option programme of the former mobilcom AG because the stock options had to be classified as worthless in accordance with the valuation model which was applied. The option price for each stock option amounted to almost 0.00 euro as of this date.

24. Trade accounts payable, other liabilities and accruals

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

€'000s	31.12.2009	31.12.2008
Trade accounts payable	390,292	425,444
Advance payments received	101,891	102,839
Other liabilities and accruals	130,174	98,703
	622,357	**626,986**

The other liabilities and accruals as of 31 December 2008 included accruals of 1,275 thousand euros for public sector subsidies relating to the STRATO Group. Following the completed sale of the STRATO Group, no other liabilities and accruals for public sector subsidies are shown as of 31 December 2009.

In the financial year 2009, a figure of 701 thousand euros (previous year: 829 thousand euros) from the proportionate reversal of the accruals for public sector subsidies was recognised in the income statement, as described in E. Accounting and valuation methods, section (p).

Of the figure shown for liabilities, 47 thousand euros (previous year: 58 thousand euros) are attributable to related parties; please refer to item 32, Transactions with related parties.

Of the figure shown for liabilities, 568,216 thousand euros (previous year: 616,554 thousand euros) are due within the next 12 months. Liabilities of 54,141 thousand euros (previous year: 10,432 thousand euros) have a maturity between one year and five years. As in the previous year, no liabilities have a maturity of more than five years.

With regard to other liabilities which are due to mature after 31 December 2010, 21,076 thousand euros are discounted at a rate of 7.80 percent, and 28,723 thousand euros are discounted at a rate of 4.75 percent. The market value of these liabilities totalled 51,241 thousand euros as of 31 December 2009. For the remaining long-term other liabilities of 4,339 thousand euros, the market value is approximately equivalent to the recognised book value.

The maturities of those liabilities which are shown in the categories Trade accounts payable and other non-derivative financial liabilities are as follows: 454,537 thousand euros (previous year: 512,617 thousand euros) are due within one year, 40,092 thousand euros (previous year: 5,556 thousand euros) are due between one year and five years, and 14,046 thousand euros (previous year: 0 thousand euros) are due more than five years after the closing date.

25. Current income tax liabilities

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

26. Debt

Debt is structured as follows:

€'000s	31.12.2009	31.12.2008
Non-current		
Liabilities due to banks	718,207	1,145,044
Liabilities due to shareholders (vendor loans)	0	138,198
Liabilities from finance leases	0	505
	718,207	**1,283,747**
Current		
Liabilities due to banks	406,251	152,418
Liabilities due to shareholders (vendor loans)	145,623	0
Liabilities from finance leases	0	109
	551,874	**152,527**
	1,270,081	**1,436,274**

The long-term debt of approx. 718 million euros shown as of 31 December 2009 in the Group (previous year: approx. 1,284 million euros) is related to the long-term proportion of two bank loans taken on for financing the acquisition of debitel in 2008 and is due to be repaid as of 31 July 2014. The short-term debt of approx. 552 million euros reported as of 31 December 2009 (previous year: approx. 153 million euros) consists mainly of the vendor loan (approx. 146 million euros), the short-term part of the two bank loans detailed above (approx. 244 million euros), a revolving credit line at the banks which financed the debitel acquisition (approx. 147 million euros) as well as derivative financial instruments (swaps) (approx. 13 million).

Of the debt, 145.6 million euros are due to related parties (previous year: 138.2 million euros); please refer to item 32.

Netted with cash and cash equivalents, net debt in the Group is reported as 789.8 million euros as of 31 December 2009 (previous year: 1,303.8 million euros).

27. Pension provisions and similar obligations

The pension obligations are a consequence of indirect and 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:

€'000s	31.12.2009	31.12.2008
Present value of funded obligations	3,700	1,830
Present value of unfunded obligations	26,457	21,411
Fair value of plan assets	–1,389	–1,122
Actuarial losses (profits)	–4,574	–51
Provision shown in balance sheet	**24,194**	**22,068**

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:

€'000s	2009	2008
As of 1.1.	**23,241**	**1,632**
Past service costs	545	0
Current service cost	432	1,015
Interest expense	1,398	1,046
Employees' contributions	1,095	236
Actuarial losses (profits)	4,308	–593
Payments made	–862	–188
Business combinations	0	32,398
Disposals due to deconsolidation	0	–12,305
As of 31.12.	**30,157**	**23,241**

The business combinations of the previous year comprised the acquisition of the debitel Group. The disposals due to deconsolidation of the previous year were shown as a result of the sale of debitel Netherlands.

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

€'000s	2009	2008	2007	2006	2005
Present value of funded obligation	3,700	1,830	1,550	1,453	1,283
Present value of unfunded obligation	26,457	21,411	82	78	74
Fair value of plan assets	–1,389	–1,122	–829	–699	–400
Net income/(net loss) of the plan	**28,768**	**22,119**	**803**	**832**	**957**
Experience-based adjustments of the liabilities of the plan	–79	–5	4	4	0
Experience-based adjustments of the assets of the plan	–214	–97	–255	–22	–89

The plan assets consist of a reinsurance policy concluded by the benevolent fund set up for this purpose with a fair value of 1,389 thousand euros (31 December 2008: 1,122 thousand euros) and are invested in equity funds or shares. The following table sets out the development in fair value:

€'000s	2009	2008
As of 1.1.	**1,122**	**829**
Business combinations	0	12,156
Expected income from plan assets	56	373
Difference between expected and actual income from plan assets	–214	–25
Employers' contributions to plan assets	425	490
Employees' contributions to plan assets	0	70
Payments made	0	–25
Disposals due to deconsolidation	0	–12,746
As of 31.12.	**1,389**	**1,122**

The actual expenses from the plan assets amount to 158 thousand euros (2008: Income of 348 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 2010, freenet is expecting payments into the plan assets of 581 thousand euros as well as payments out of the plan assets for pensions of 370 thousand euros.

The following items are recognised in the consolidated income statement:

€'000s	2009	2008
Current and past service cost	976	1,015
Interest expense	1,398	1,046
Actuarial losses (realised)	0	0
Expected income from plan assets	–56	–373
Total cost of defined benefit plans	**2,318**	**1,688**
thereof recognised in personnel expenses (item 4)	920	854
thereof recognised in interest and similar expenses (item 8)	1,398	648
thereof recognised in the result from discontinued operations	0	186

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

€'000s	2009	2008
As of 1.1.	**22,068**	**829**
Business combinations	0	20,242
Total cost recognised in the consolidated income statement	2,318	1,688
Payments made in relation to plan assets	–1,287	–653
Employees' contributions	1,095	166
Disposals due to deconsolidation	0	–204
As of 31.12.	**24,194**	**22,068**

The main actuarial assumptions are as follows:

In percent	31.12.2009	31.12.2008
Discount rate	5.1	6.0
Expected income from plan assets	5.0	5.0
Future salary increases (programme debitel)	2.5	2.5
Future salary increases (programme freenet)	0.0	0.0
Future pension increases	2.0	2.0

The discount rate of 5.10 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 reference 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 expected 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.

28. Other provisions

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

€'000s	1.1.2009	Consumption	Reversal	Compounding	Allocation	Disposals due to deconsolidation	Reclassification	31.12.2009
Restructuring	58,057	38,635	3,615	0	625	0	0	16,432
Exclusive distribution right	25,209	0	0	0	0	0	25,209	0
Contingent liabilities	24,530	0	0	0	0	0	24,530	0
Contingent losses	21,167	6,923	3,237	1,109	2,577	186	0	14,507
Obligation to restore assets to original condition	5,792	200	852	126	86	670	0	4,282
Litigation risks	2,826	737	1,172	0	3,053	12	0	3,958
Outstanding stock options and stock appreciation rights	2,055	0	0	0	2,940	0	0	4,995
Warranty/guarantee	488	0	14	0	73	0	0	547
Other	540	0	0	0	0	0	0	540
	140,664	**46,495**	**8,890**	**1,235**	**9,354**	**868**	**49,739**	**45,261**

The provisions for restructuring mainly comprise personnel costs incurred in connection with the integration of the acquired debitel Group. The outflow of assets for these provisions is expected for 2010.

The provision created as of 31 December 2008 for an exclusive distribution right relates to the extension option for a contract for ensuring exclusivity with a trading line. When this option was drawn in 2009, this position was reclassified under other liabilities and accruals.

The provisions for contingent liabilities shown as of 31 December 2008 were created in relation to a mobile network operator for future payments which become due subject to a condition which had not yet been satisfied as of the closing date 31 December 2008. This condition was satisfied in the reporting year 2009, and the item was accordingly reclassified under trade accounts payable.

The provisions for potential losses relate to vacancy costs for rented shops and office buildings (10,635 thousand euros); an asset outflow of 3,464 thousand euros is expected in 2010, and an asset outflow of 7,171 thousand euros is expected in the period 2011 to 2017 – interest has been applied at a rate of 6.00 percent in this case. In addition, the provisions for potential losses mainly include expected losses from negative-margin tariffs as well as costs of contractual minimum purchase quantities of 3,872 thousand euros, for which the probable asset outflow is expected in 2010.

The figure stated for the provision for the obligation to restore assets to original condition relates to obligations to restore leasehold improvements at various technical and administration locations of the Group. After the probable expiry of the underlying tenancy agreements, the outflow of funds is expected to be 801 thousand euros in 2010 and 3,481 thousand euros in the years 2011 to 2018. The provisions have again been compounded with a rate of 6.0 percent.

The provision for litigation risks primarily concerns the presumed costs from various legal actions against group companies. Most of this provision relates to litigation with former trade partners and customers as well as issues of competition law. The Group expects that the majority of the disputed questions will be settled during financial 2010. More information is not given here so that the legal and negotiating position is not announced ahead of time, thereby creating a risk for the position.

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

I. Other details

29. Other financial obligations, contingencies, securities for loans

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

€'000s	31.12.2009	31.12.2008
Rent and leasing obligations		
Due within one year	38,143	48,184
Due between one year and five years	74,793	101,909
Due term greater than five years	22,044	47,797
	134,980	**197,890**
Maintenance, support and other obligations		
Due within one year	16,504	24,754
Due between one year and five years	21	8,459
Due term greater than five years	0	5,500
	16,525	**38,713**
Acceptance obligations from orders		
Regarding intangible assets	585	5,582
Regarding property, plant and equipment	21	590
Regarding inventories, expenses and services	20,245	46,627
	20,851	**52,799**
	172,356	**289,402**

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 rental and leasing agreements. The conditions of these extension options are in all cases freely negotiable or identical to the current conditions of the agreements. The obligations arising from maintenance, support and other agreements relate mainly to agreements for the maintenance of IT hardware and databases, building services engineering as well as the network infrastructure.

The acceptance obligations from orders at the end of the financial year amounted to 20,851 thousand euros (previous year: 52,799 thousand euros). Of this figure, 606 thousand euros (previous year: 6,172 thousand euros) are attributable to the procurement and production of fixed assets. Further purchase obligations of 20,245 thousand euros (previous year: 46,627 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.

The considerable reduction in other financial obligations compared with the previous year closing date is closely linked to the disposal of DSL Business which was completed in the financial year 2009, and the consequent start to the process of restructuring the landline network of freenet Cityline GmbH, as well as the sale of the STRATO Group which was also completed in 2009.

Major assets of the Group were provided as collateral for the debt raised within the framework of the debitel acquisition. freenet AG as well as major Group companies are borrowers or entered into the loan agreement as guarantors. These companies have mainly assigned their relevant accounts receivable due from banks existing in the form of cash and cash equivalents, major parts of its receivables and other assets as well as certain intangible assets as collateral to the lenders. With regard to the balance sheet as of 31 December 2009, this means that most of the trade accounts receivable, other receivables, other assets as well as a small percentage of intangible assets have been pledged as collateral.

Other liability obligations exist with regard to letters of comfort and guarantees for rents and amounted to 10,545 thousand euros (previous year: 7,272 thousand euros) as of the balance sheet date.

30. Notes to the consolidated cash flow statement

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

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

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.

Cash flow from operating activities

Compared with the corresponding previous year period, the cash flow from operating activities increased by 221.9 million euros to 295.5 million euros.

This is mainly due to the increase in results: earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by 401.7 million euros for the overall Group compared with the previous year (incl. discontinued operations); adjusted by the figure included for the proceeds of the sale of subsidiaries (the inflows from the sale of subsidiaries are shown in investing activities), this results in an 198.3 million euros increase in EBITDA. Inflows of 54.7 million euros in operating cash flow were also achieved as a result of the reduction in current assets. Cash flow was reduced by the reduction in provisions (–76.4 million euros) and liabilities (–0.7 million euros). Because a figure of 49.7 million euros was reclassified from provisions and is now shown under trade accounts payable as well as other liabilities and accruals (see also our explanations to item 28), this effect can only be considered on an aggregate basis.

Cash outflows of 20.8 million euros also resulted from income tax payments in the financial year 2009.

Cash flow from investing activities

During the financial year, the inflow of cash attributable to investing activities increased by 317.9 million euros compared with the previous year to 307.8 million euros.

This development in cash flow is mainly attributable to inflows of 362.8 million euros generated by the disposal of DSL Business and the STRATO Group. Inflows are also reported for provisional purchase prices, which might be subject to adjustments in the year 2010, for the sale of DSL Business (120.4 million euros) and also for the disposal of the STRATO Group (289.9 million euros). At the point at which the companies which were sold were deconsolidated, the sale resulted in an outflow of 47.5 million euros on the other side, resulting in total inflows of 362.8 million euros. There were no unusual developments during the financial year compared with the previous year with regard to further inflows which are classified under investing activities, primarily from the sale of fixed assets (6.7 million euros) and interest (6.7 million euros).

Cash outflows of 69.9 million euros (within the normally expected range) resulted from the renewal and expansion of intangible assets, in particular rights of use and licences as well as for property, plant and equipment.

Cash flow from financing activities

Compared with the comparable period of the previous year, cash flow from financing activities declined by 204.9 million euros from –47.1 million euros to –252.0 million euros.

In the financial year, debt which had been mainly raised in the previous year for the acquisition of the debitel Group was reduced by 155.8 million euros. There were also interest payments of 96.2 million euros, mainly for the loans raised on the occasion of the debitel acquisition.

Impact of the sale of subsidiaries on the cash flow

The following list shows the impact of the sales, and consequently the deconsolidation of the STRATO Group and "DSL Business", on the assets and liabilities in the consolidated balance sheet as of 31 December 2009 and also on the consolidated cash flow. The figures were determined at the times of deconsolidation.

€'000s	Impact[1] of the deconsolidations on the consolidated balance sheet		
	STRATO Group	DSL business	Total
Intangible assets	54,633	10,176	64,809
Goodwill	3,717	88,025	91,742
Property, plant and equipment	17,176	728	17,904
Deferred income tax assets	–1,009	0	–1,009
Inventories	221	8	229
Trade accounts receivable	–33,484	6,934	–26,550
Other receivables and other assets	8,067	1,220	9,287
Trade accounts payable	–1,338	–807	–2,145
Other payables	–26,522	–3,264	–29,786
Current income tax liabilities	–235	0	–235
Borrowings	–505	0	–505
Provisions for other liabilities and charges	–670	–198	–868
Cash and cash equivalents	46,922	613	47,535
Profits from the sale of subsidiaries	222,972	16,948	239,920
Proceeds from purchase price	**289,945**	**120,383**	**410,328**
Cash and cash equivalents of subsidiaries sold at the time of the sale	–46,922	–613	–47,535
Proceeds from the sale of subsidiaries	**243,023**	**119,770**	**362,793**

1 Assets: (+) = decrease in consolidated balance sheet; (-) = increase in consolidated balance sheet
Shareholders' equity and liabilities: (+) = increase in consolidated balance sheet; (-) = decrease in consolidated balance sheet

31. Additional information concerning financial instruments

Disclosures in accordance with IFRS 7

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

We have set out the following information for the presentation of the financial instruments in the Group as of 31 December 2009 and as of 31 December 2008, the related allocation to classes and reconciliation with the corresponding valuation categories under IAS 39:

Financial instruments according to classes as of 31 December 2009 €'000s	Valuation category according to IAS 39	Carrying amount 31.12.2009	Approach				Fair Value 31.12.2009
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	480,291	480,291				480,291
Total cash and cash equivalents		**480,291**	**480,291**				**480,291**
Other financial assets (measured at cost of purchase)	HFS	1,203		1,203			–
Other financial assets (measured at fair value directly in equity)	HFS	987				987	987
Total financial assets		**2,190**					
Trade accounts receivable	LR	491,051	491,051				491,051
Other non-derivative financial assets	LR	29,892	29,892				29,892
Held-for-sale other assets	HFS	5,174				5,174	5,174
Non-financial assets		28,440					
Sum of other receivables and other assets		**63,506**					
Liabilities							
Trade accounts payable	FLAC	390,292	390,292				390,292
Financial debt (liabilities due to banks and shareholders)	FLAC	1,256,621	1,256,621				1,256,621
Liabilities from finance leases	FLAC	0	0				0
Derivative financial liabilities	FIPL	13,460			13,460		13,460
Sum of financial liabilities		**1,270,081**					**1,270,081**
Other non-derivative financial liabilities	FLAC	118,383	118,383				119,993
Non-financial liabilities		113,682					
Sum of other liabilities and deferrals		**232,065**					
Thereof aggregated by valuation categories according to IAS 39:							
Held-for-sale financial instruments (HFS)	HFS	7,364		1,203		6,161	6,161
Loans and receivables (LR)	LR	1,001,234	1,001,234				1,001,234
Financial instruments measured at value through profit or loss (FIPL)	FIPL	–13,460			–13,460		–13,460
Financial liabilities measured at amortised cost (FLAC)	FLAC	–1,765,296	–1,765,296				–1,766,906

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

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

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

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

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

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

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

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

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

The market value of the derivative financial instruments which are not exchange-traded is determined by the Group on the basis of recognised actuarial methods (discounted cash flow method). 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 internally calculated market values are regularly compared with market value confirmations of the external contract partners.

Trade accounts payable and other financial liabilities and accruals normally have short remaining terms; the recognised figures are approximately equivalent to the market value. The following overview shows the major parameters used as the basis for valuing the financial instruments measured at fair value. The individual levels are defined in accordance with IFRS 7 as follows:

Level 1:
Unchanged use of prices on active markets for identical financial assets or financial liabilities.

Level 2:
Use of input factors which are not the listed prices recognised in Level 1, but which are directly (i.e. in the form of a price) or indirectly (i.e. derived from prices) observable for the financial asset or the financial liability.

Level 3:
Use of factors which are not based on observable market data for measuring the financial asset or the financial liability (input factors not based on observable market data).

Fair value hierarchy 2009 (€'000s)	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	5,174	5,174		
Other financial assets	987	987		
Derivative financial liabilities	–13,460		–13,460	
Total	**–7,299**	**6,161**	**–13,460**	

For the individual categories of financial instruments in accordance with IAS 39, the following net results were shown in the financial year 2009 and in the previous year:

Net results by valuation categories 2009 (€'000s)	From interest	From subsequent measurement			From disposal	Net result
		At fair value (income statement)	At fair value (in equity)	Impairment/ receivables losses		
Valuation category						
Held-for-sale financial instruments (HFS)	0	0	12	0	0	12
Loans and receivables (LR)	5,458	0	0	–32,430	506	–26,466
Financial instruments measured at fair value through profit or loss (FIPL)	–4,463	8,109	0	0	0	3,646
Financial liabilities measured at amortised cost (FLAC)	–88,891	0	0	0	0	–88,891
	–87,896	**8,109**	**12**	**–32,430**	**506**	**–111,699**

Net results by valuation categories 2008 adjusted (€'000s)	From interest	From subsequent measurement			From disposal	Net result
		At fair value (income statement)	At fair value (in equity)	Impairment/ receivables losses		
Valuation category						
Held-for-sale financial instruments (HFS)	0	0	33	0	0	33
Loans and receivables (LR)	5,348	0	0	–19,520	–3,128	–17,300
Financial instruments measured at fair value through profit or loss (FIPL)	1,313	–30,517	0	0	0	–29,204
Financial liabilities measured at amortised cost (FLAC)	–61,967	0	0	0	0	–61,967
	–55,306	**–30,517**	**33**	**–19,520**	**–3,128**	**–108,438**

Net gains and losses from loans and receivables include changes in the impairments, gains and losses from derecognition as well as inflows and recoveries in the value of previously written-off loans and receivables.

Net gains and losses from the category of financial instruments measured at fair value through profit and loss include the income and expenses from interest as well as the market valuation of the interest swap as well as income from the market valuation of money market paper.

Net gains and losses from the category of held-for-sale financial instruments comprise impairments as well as gains and losses from derecognition.

Net gains and losses from financial liabilities at amortised cost of purchase comprise gains or losses from derecognition.

In addition, information concerning interest income and interest expenses of the financial assets and financial liabilities not recognised at fair value through profit and loss are shown using the effective interest rate method.

Principles and objectives of financial and capital risk management

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

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

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

The Group Treasury department provides services to the operating segments and co-ordinates access to the financial markets. In addition, it monitors and manages the market and liquidity risks associated with the operating segments of the Group by way of regular internal risk reporting which analyses the risks on the basis of degree and extent. The overriding priority for the Group Treasury department is the principle of minimising risk; a further important objective is to optimise net interest income. Prudent liquidity management controlled by the Group Treasury department involves holding an adequate reserve of cash and cash equivalents, the possibility of obtaining finance by way of an adequate commitment of credit lines and the possibility of closing open market positions. Liquidity risks are reduced by permanently monitoring the finance status and by maintaining adequate reserves in the form of credit lines.

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

The primary objective of the capital risk management of the Group is to monitor the financial covenants specified in the syndicate loan agreement, where failure to meet such financial covenants might involve the loans being called in immediately. The main financial covenants are defined in relation to the interest cover (ratio between recurring EBITDA and net interest income) in the Mobile Communications segment as well as the debt cover (ratio between net debt and recurring EBITDA) of the Mobile Communications segment.

At the Group level, the ratio between Group net debt and Group equity in accordance with IFRS (gearing) is a relevant parameter of capital risk management. Gearing was 0.75 as of the closing date (previous year: 1.65).

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.

Market risk

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

i. Interest rate risk

The Group is exposed to interest rate risks because the Group companies take on debt with fixed and variable interest rates. The most significant interest rate risk is attributable to the long-term financial liabilities. For these long-term financial liabilities for which interest is applied at a variable rate, the risk of rising interest costs has been considerably reduced by way of taking out interest swaps. These interest swaps, which cover 70 percent of the two long-term bank loans with the original nominal amount of 1,125 million euros (as at 31 December 2009: appr. 962 million euros), essentially convert floating-rate liabilities into fixed-rate liabilities. When the interest swaps were taken out, the Group agreed that the difference between the contractually agreed interest and the prevailing variable rates in relation to the nominal amount would be swapped with third parties at defined intervals.

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

The short-term and long-term bank loans raised as of the balance sheet date are all subject to floating interest rates and were taken out subject to the terms specified in the loan agreement on the occasion of the financing of the debitel acquisition (fixed margins based on EURIBOR or LIBOR).

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

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

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

In the balance sheet, bank borrowings and borrowings from shareholders (excluding the derivative financial liabilities) of 1,255.1 million euros are shown under short-term and long-term debt as of 31 December 2009. Interest in a range of 3.2 to 5.0 percent was charged on these bank borrowings as of the reference date.

Of the bank borrowings and borrowings from shareholders, 551,874 thousand euros are shown under short-term liabilities. At the point at which these financial statements were prepared, there is a mandatory redemption payment of approx. 405 million euros for 2010.

On the basis of an interest rate expected in accordance with market estimates, which lies within a range of between 3.4 and 5.6 percent for the individual loans, outflows of 43,116 thousand euros would be incurred for interest in relation to the above-mentioned bank borrowings in 2010. Based on the net position of variable rate assets and liabilities, taking account of the hedging instruments which have been taken out, a parallel upward shift of 50 basis points in the interest curve would have an impact of 240 thousand euros on results after tax (previous year: 5,491 thousand euros), and a downward shift of 50 basis points in the rate curve would have an impact of −245 thousand euros on the result after tax (previous year: −5,561 thousand euros).

Money market funds are subject to marginal interest rate fluctuations so that there is always a possibility of price losses. However, the risk is not significant as the moneys have been invested in funds on a very short-term basis (held for trading). There are no contractually defined maturity dates or interest adjustment dates; a return results from the change in the price of the instrument and any dividend payments. Based on the financial investments in money market funds and equity-linked bonds shown in the balance sheet under the other receivables and other assets as well as under the other financial investments, a 5 percent increase in the price of the acquired shares would have an impact of 216 thousand euros on shareholders' equity (previous year: 188 thousand euros), and a 5 percent decline in the price would have an impact of −216 thousand euros on shareholders' equity (previous year: −188 thousand euros).

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

ii. Foreign currency risk

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

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

Liquidity risk

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

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

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

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

As of the closing date, the Group had drawn down 146.6 million euros out of the revolving credit line of 150.0 million euros. Under certain conditions, freenet AG is able to additionally use up to half of the amount of the revolving credit line under the syndicate loan agreement.

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

In the Group, there are contingencies arising from warranties for liabilities of a subsidiary provided to business customers; these amounted to 0.0 million euros as of the balance sheet date (previous year: 12.3 million euros).

Major assets of the Group have also been provided as security for the debt raised as part of the debitel acquisition. freenet AG as well as major Group companies are borrowers with regard to this loan agreement, or act as guarantors for the loan agreement. These companies have mainly assigned their receivables due from banks which exist in the form of cash and cash equivalents, considerable amounts of their receivables and other assets as well as certain intangible assets to the lenders in the form of security.

The following tables show the contractually agreed undiscounted interest and redemption payments of the original financial liabilities of the Group at the end of the financial years 2009 and 2008:

Financial liabilities (€'000s)	**Carrying amount 31. 12. 2009**	**Cashflows 2010**			**Cashflows 2011**			**Cashflows 2012 and later**		
		Interest (fix)	**Interest (variable)**	**Repayment**	**Interest (fix)**	**Interest (variable)**	**Repayment**	**Interest (fix)**	**Interest (variable)**	**Repayment**
Trade accounts payable	390,292			390,292						
Debt (liabilities due to banks and shareholders)	1,256,621		43,116	538,414		42,464	66,667		114,598	651,540
Financial debt (derivative financial liabilities)	13,460	13,505								
Other non-derivative financial liabilities	118,383			64,245			40,092			14,046

Financial liabilities (€'000s)	**Carrying amount 31. 12. 2008**	**Cashflows 2009**			**Cashflows 2010**			**Cashflows 2011 and later**		
		Interest (fix)	**Interest (variable)**	**Repayment**	**Interest (fix)**	**Interest (variable)**	**Repayment**	**Interest (fix)**	**Interest (variable)**	**Repayment**
Trade accounts payable	425,444			425,093			351			
Debt (liabilities due to banks and shareholders)	1,414,091		65,207	152,418		69,255	66,667		244,434	1,195,006
Financial debt (derivative financial liabilities)	21,569	13,866			8,238					
Liabilities from finance leases	614	33		109	26		115	36		390
Other non-derivative financial liabilities	92,729			87,524			5,205			

Risk of default

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

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

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

An ongoing dunning and debt collection process is also operated with regard to accounts due from dealers and franchise partners. Credit limits are also defined and monitored. Where appropriate, a delivery restriction is imposed if the limit is reached.

Major credit risks are also covered by way of commercial credit insurance. In order to minimise the credit risk, the Group has insured a certain percentage of revenue with key accounts (dealers and distributors in Mobile Communications) with a certain rating. Every month, the Group Treasury department notifies the insurer of the current revenue of each key account. The insurer uses this notification to calculate the sales volume to be insured. The risks attributable to key accounts who are not insured are limited by means of an internal limit system – in general, key accounts with a poor rating have to pay in advance, or the transaction is not carried out.

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

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

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

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

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

32. Transactions with related parties

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

€'000s	**2009**	**2008**
Sales and income attributable to services		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	1,640	1,538
Joint ventures		
FunDorado GmbH, Hamburg	175	157
Companies with a major influence on freenet AG		
1&1 Internet AG, Montabaur	5,340	n/a
	7,155	**1,695**
Purchased services and onward charging		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	447	608
Joint ventures		
siXXup new Media GmbH, Pulheim	0	50
NetCon Media s. r. o., Hlucin, Czech Republic	73	21
FunDorado GmbH, Hamburg	13	21
	533	**700**
Interest expenses from vendor loan		
Companies with a major influence on freenet AG		
Telco (Netherlands) Holding B. V., Hoofddorp, the Netherlands	7,425	5,698

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

€'000s	31.12.2009	31.12.2008
Receivables from regular transactions		
Asscociated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	164	168
Joint ventures		
FunDorado GmbH, Hamburg	20	24
Companies with a major influence on freenet AG		
1&1 Internet AG, Montabaur	4,422	n/a
	4,606	**192**
Liabilities from regular transactions		
Asscociated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	43	52
Joint ventures		
FunDorado GmbH, Hamburg	4	4
NetCon Media s.r.o., Hlucin, Czech Republic	0	2
	47	**58**
Debt from vendor loans		
Companies with a major influence on freenet AG		
Telco (Netherlands) Holding B.V., Hoofddorp, the Netherlands	145,623	138,198

In addition, the sale of freenet Breitband GmbH to 1&1 Internet AG was the sale of a fully consolidated Group company to a related entity. This sale generated a profit of 16,948 thousand euros.

In addition to the figures set out above, freenet AG is enforcing claims against 1&1 Internet AG in connection with the sale of freenet Breitband GmbH. These receivables are still uncertain because the purchase price has not yet been finally determined in a binding manner. Reductions may be applicable in this respect.

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

Compensation for the Executive Board

The compensation for the members of the Executive Board of the company is broken down as follows:

Compensation for the financial year 2009 (€'000s)	**Fixed compensation**	**Variable compensation from stock appreciation rights[1]**	**Other variable compensation**	**Total compensation**
Christoph Vilanek[2]	410	424	267	1,101
Axel Krieger	503	367	212	1,082
Stephan Esch	327	216	137	680
Joachim Preisig	422	331	400	1,153
Eric Berger[3]	205	142	62	409
Eckhard Spoerr[4]	53	1,110	29	1,192
	1,920	**2,590**	**1,107**	**5,617**

1 Incl. non-cash compensation valued in accordance with IFRS 2.
2 Compensation after being appointed to the Executive Board of freenet AG, i.e. for the period 1 May to 31 December 2009.
3 Fixed compensation and other variable compensation until the termination of the employment agreement, i.e. for the period 1 January to 30 September 2009; variable compensation from the stock appreciation programme for the full year 2009.
4 Fixed compensation and other variable compensation until the termination of the employment agreement, i.e. for the period 1 January to 23 January 2009; variable compensation from the stock appreciation programme for the full year 2009.

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

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

In the financial year 2009, 400,000 stock appreciation rights were issued to Mr. Vilanek, who commenced his activity as Chairman of the Executive Board of freenet AG on 1 May 2009. The stock appreciation rights issued to Mr. Vilanek in 2009 had a total value of 509 thousand euros (fair value in accordance with IFRS2) at the point at which they were granted on 1 May 2009. In the financial year 2009, no new stock appreciation rights or stock options were issued to the other members of the Executive Board of the company.

Negative figures are shown for the Executive Board compensation for Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger; this is due to the decline in the provision for stock appreciation rights mainly attributable to reporting date factors. Disregarding the non-cash-effective compensation components from stock appreciation rights, Mr. Spoerr would have received compensation of 1,051 thousand euros in the financial year 2008; Mr. Krieger would have received 516 thousand euros, Mr. Esch would have received 314 thousand euros, Mr. Berger would have received 313 thousand euros and Mr. Preisig would have received 205 thousand euros.

In addition to the figures shown in the above table, a payment of 508 thousand euros was made to Mr. Berger in the financial year 2009 in order to cover contractual claims arising from his employment agreement as his employment agreement was prematurely cancelled as of 30 September 2009.

Overall, Executive Board compensation of 4,044 thousand euros was reported in 2009 in accordance with Section 314 (1) No. 6a HGB (cash-effective compensation including the payment to Mr. Berger in settlement of his contractual claims plus the new stock appreciation rights issued, shown at their total value upon granting in the financial year). In the previous year 2008, the Executive Board's compensation in accordance with section 314 (1) No. 6a HGB amounted to 5,790 thousand euros, including the payments of 2,000 thousand euros to Mr. Spoerr in order to cover contractual claims, plus the stock appreciation rights issued to Mr. Preisig with their total value of 1,391 thousand euros (fair value in accordance with IFRS2) when they were granted in 2008.

As of 31 December 2009, the provision for stock appreciation rights for Mr. Vilanek was stated as 424 thousand euros (previous year: 0); for Mr. Krieger, the provision was stated as 719 thousand euros (previous year: 352 thousand euros); for Mr. Esch, it was stated as 392 thousand euros (previous year: 176 thousand euros); for Mr. Preisig, it was stated as 386 thousand euros (previous year: 55 thousand euros); for Mr. Berger, it was stated as 248 thousand euros (previous year: 106 thousand euros), and for Mr. Spoerr it was stated as 1,673 thousand euros (previous year: 563 thousand euros).

As in the previous year, no cash-effective compensation was paid from stock options and stock appreciation rights in the financial year 2009.

In November 2004, an indirect pension commitment was granted to Mr. Spoerr, Mr. Krieger, Mr. Esch and Mr. Berger. 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 2009, the Defined Benefit Obligations (DBO) were as follows: for Mr. Vilanek 115 thousand euros (previous year: 0), for Mr. Krieger 1,128 thousand euros (previous year: 473 thousand euros), for Mr. Esch 386 thousand euros (previous year: 164 thousand euros), for Mr. Berger 385 thousand euros (previous year: 163 thousand euros) and for Mr. Spoerr 1,442 thousand euros (previous year: 894 thousand euros). As of 1 September 2008, freenet AG took over the pension commitment granted to Mr. Preisig by debitel AG. As of 31 December 2009, the DBO for Mr. Preisig was 244 thousand euros (previous year: 137 thousand euros).

Current and past service time expenses of 820 thousand euros (previous year: 222 thousand euros) are shown in personnel expenses for the members of the Executive Board as a result of the pension commitments.

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 for the Supervisory Board

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

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

The basic compensation was modified with a resolution of the Annual General Meeting of 7 July 2009. Starting with financial year 2009, 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 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) of the German Codetermination Act – receive in addition an attendance fee of 1,000 euros for each meeting of the committee. The committee chairperson receives double this amount.

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

For their activity during the financial year 2009, the members of the Supervisory Board of the Company received fixed compensation of 405.8 thousand euros and as well as attendance fees of 260 thousand euros. Performance-based compensation of 67.6 thousand euros was also recognised as an expense. Whether this performance-linked compensation will indeed be paid out depends on the profit appropriation resolution by the Annual General Meeting for the financial year 2009. The total compensation paid for Supervisory Board activities was thus 733.3 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 2009 (€'000s)	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Thorsten Kraemer[1]	44.5	32.0	7.4	84.0
Franziska Oelte[3]	45.0	16.0	7.5	68.5
Dr. Christof Aha	14.6	6.0	2.4	23.0
Claudia Anderleit[3]	30.0	25.0	5.0	60.0
Dr. Arnold Bahlmann	14.6	4.0	2.4	21.0
Joachim Halefeld[3]	30.0	25.0	5.0	60.0
Maarten Henderson	14.6	14.0	2.4	31.0
Hans-Jürgen Klempau[3]	30.0	11.0	5.0	46.0
Matthias Schneider[3]	30.0	25.0	5.0	60.0
Prof. Dr. Helmut Thoma[2]	45.6	42.0	7.6	95.2
Steffen Vodel[3]	30.0	14.0	5.0	49.0
Achim Weiss	14.6	5.0	2.4	22.0
	343.5	**219.0**	**57.3**	**619.7**
Former members				
Dr. Dieter Leuering	15.6	8.0	2.6	26.2
Prof. Dr. Hans-Joachim Priester	15.6	12.0	2.6	30.2
Lars P. Reichelt	15.6	1.0	2.6	19.2
Richard Roy	15.6	20.0	2.6	38.2
	62.3	**41.0**	**10.3**	**113.6**
	405.8	**260.0**	**67.6**	**733.3**

1 Chairman of the Supervisory Board since 7 July 2009.
2 Chairman of the Supervisory Board until 7 July 2009.
3 Employee representatives in accordance with section 7 (1) sent. 1 no. 1 MitbestG of 4 May 1976.

Compensation for the financial year 2008 (€'000s)	Basic compensation	Attendance fees	Performance-based compensation[2]	Total
Active members				
Prof. Dr. Helmut Thoma	24.0	39.0	24.0	87.0
Franziska Oelte[1]	14.7	16.0	14.7	45.4
Claudia Anderleit[1]	5.8	11.0	5.8	22.6
Joachim Halefeld[1]	5.8	11.0	5.8	22.6
Hans-Jürgen Klempau[1]	5.8	6.0	5.8	17.6
Thorsten Kraemer	12.0	12.0	12.0	36.0
Dr. Dieter Leuering	12.0	14.0	12.0	38.0
Prof. Dr. Hans-Joachim Priester	12.0	16.0	12.0	40.0
Lars P. Reichelt	4.8	4.0	4.8	13.5
Richard Roy	12.0	21.0	12.0	45.0
Matthias Schneider[1]	5.8	11.0	5.8	22.6
Steffen Vodel[1]	5.8	8.0	5.8	19.6
	120.5	**169.0**	**120.5**	**410.1**
Former members				
Oliver Brexl	7.3	11.0	7.3	25.6
Birgit Geffke[1]	9.3	9.0	9.3	27.6
Sascha Lucht[1]	6.2	9.0	6.2	21.4
Andreas Neumann[1]	6.2	6.0	6.2	18.4
Kai Petersen[1]	6.2	5.0	6.2	17.4
Ulrike Scharlach[1]	6.2	5.0	6.2	17.4
	41.4	**45.0**	**41.4**	**127.7**
	161.9	**214.0**	**161.9**	**537.8**

1 Employee representatives in accordance with section 7 (1) sent. 1 no. 1 MitbestG of 4 May 1976.
2 Variable compensation in accordance with section 11 (5) of the articles of association was not paid because no dividend for 2008 was adopted by the Annual General Meeting. The provision which had been created was reversed in the financial year 2009.

The provision for performance-based compensation set aside for the previous financial year was not paid out because the Annual General Meeting did not adopt a resolution for a dividend to be paid. A provision which had been created for this purpose was therefore reversed. The Supervisory Board compensation paid for the previous year totalled 375.9 thousand euros.

33. Disclosures in accordance with section 315a HGB

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

The average number of employees in the Group (section 314 (1) no. 4 HGB) has been shown in item 4 “Personnel expenses”.

With regard to the disclosures concerning compensation of the executive bodies of the Company (section 314 (1) no. 6 HGB), please refer to item 32 “Transactions with related parties”.

In accordance with section 314 (1) no. 8 HGB, we hereby declare that the declaration of conformity in accordance with section 161 AktG was submitted by the Executive Board and Supervisory Board of the Company in December 2009. It has been made permanently available to shareholders in the Internet at the following address:

http://www.freenet.ag/media/Entsprechenserklaerung_freenet_AG_2009.pdf

A total of 3,109 thousand euros in fees was paid to the auditor in accordance with section 314 (1) no. 9 HGB during the financial year. Of this figure, 1,173 thousand euros was paid for the audit of the annual accounts and consolidated financial statements, 919 thousand euros for other certification or assessment services, 31 thousand euros for tax accountant services and 986 thousand euros for other services.

34. Major events after the balance sheet date

The Executive Board has decided to propose to the Supervisory Board a dividend payout in the amount of 0.20 euro per share from freenet AG’s retained earnings – this decision was published on 9 February 2010 in connection with the announcement of the preliminary figures.

In January 2010, Telco (Netherlands) Holding B.V. announced a decline in its share of voting rights in freenet AG from 10.07 percent to 0.00 percent.

The vendor note of approx. 146 million euros included under short-term financial debt in the consolidated balance sheet at 31 December 2009 was completely repaid at the beginning of February 2010.

Büdelsdorf, 2 March 2010
freenet AG

The Executive Board

Christoph Vilanek Stephan Esch

Christoph Vilanek

Stephan Esch

Axel Krieger Joachim Preisig

Axel Krieger

Joachim Preisig

3.8 Auditor's Report

We have audited the consolidated financial statements prepared by freenet AG, comprising the balance sheet, the income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2009 to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, 3 March 2010
PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Niklas Wilke
Wirtschaftsprüfer (German Public Auditor)

ppa. Marko Schipper
Wirtschaftsprüfer (German Public Auditor)

3.9 Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Büdelsdorf, 2 March 2010

Christoph Vilanek

Stephan Esch

Axel Krieger

Joachim Preisig

4. Further information

The Hamburg site of freenet AG.

4. Further information

4.1 Historical time series of quarterly figures Q1/2008 to Q3/2009 according to IFRS (retrospective adjustment) as well as Q4/2009

Since our last published time series of retrospectively adjusted figures (we refer to our interim report of 11 November 2009, item 4.1) another retrospective adjustment has been made to the quarters Q1/2009 to Q3/2009: the DSL distribution unit has been included in the discontinued operation "DSL Business".

To increase transparency, the company is making a historical time series available in the following table, with retrospectively adjusted quarterly figures Q1/2008 to Q3/2009 as well as Q4/2009.

Results in €'000s	Q1/2008[1]	Q2/2008[1]	Q3/2008[1]	Q4/2008[2]	Q1/2009[3]	Q2/2009[4]	Q3/2009[5]	Q4/2009
Third-party revenue	351,705	341,385	1,017,629	1,065,759	887,985	891,773	929,781	941,131
Gross profit	79,263	75,105	207,415	201,770	185,967	188,064	191,723	208,835
EBITDA	42,919	24,106	98,195	6,857	75,360	70,435	80,759	100,589
EBIT	35,997	17,391	49,613	–44,067	23,513	19,486	32,280	48,059
EBT	34,335	16,853	12,494	–92,492	–6,445	–29	14,538	27,500
Group result from continued operations	21,328	19,322	160,439	–73,575	7,091	8,862	–11,283	11,882
Group result from discontinued operations	–6,747	–9,914	–20,214	20,959	–6,475	491	13,353	232,569
Group result	14,581	9,408	140,225	–52,616	616	9,353	2,070	244,451

1 These are retrospectively adjusted figures. For one, the costs of customer acquisition and customer retention and the accrual on the liabilities side of revenue components related to such costs were no longer capitalised in 2008. Secondly, the discontinued operations STRATO Group and debitel Netherlands are shown retroactively in accordance with IFRS 5. Furthermore retrospective reclassifications were made within the income statement items relating to continued operations because the contract between freenet AG and 1&1 Internet AG regarding the sale of the DSL business has now been signed.

2 Retrospective adjustments were made with regard to showing the STRATO Group as a discontinued operation in accordance with IFRS 5. Income statement items relating to continued operations were retrospectively reclassified because the contract between freenet AG and 1&1 Internet AG regarding the sale of the DSL business has now been signed.

3 Retrospective adjustments were made with regard to showing the STRATO Group as a discontinued operation in accordance with IFRS 5. Income statement items relating to continued operations were retrospectively reclassified because the contract between freenet AG and 1&1 Internet AG regarding the sale of the DSL business has now been signed. In addition, another retrospective adjustment was made with regard to including the DSL distribution unit in the discontinued operation "DSL Business".

4 Retrospective adjustments were made with regard to showing the STRATO Group as a discontinued operation in accordance with IFRS 5 and with regard to including the DSL distribution unit in the discontinued operation "DSL Business".

5 Retrospective adjustments were made with regard to including the DSL distribution unit in the discontinued operation "DSL Business".

4.2 Mobile Communications segment: Historical time series of pro-forma quarterly figures Q1/2008 to Q3/2008 as well as Q4/2008 to Q4/2009

Due to the debitel acquisition, an assessment of the operating performance of the Mobile Communications segment is only possible to a limited degree. To increase the comparability and visibility of the segment figures, a historical "pro-forma time series" is shown in the following table. It shows the development over time of the key figures as if "freenet-mobilcom" and "debitel" (including "talkline" and "_dug") had been consolidated from Q1/2008. In addition, one-off expenses and income are excluded and accounted for separately.[1]

Mobile Communications segment	Q1/2008 pro-forma	Q2/2008 pro-forma	Q3/2008 pro-forma	Q4/2008	Q1/2009	Q2/2009	Q3/2009	Q4/2009
Total customer development in thousand								
Mobile Communications customers (incl. Netherlands up to Q3/2008)	19,647	19,861	19,968	19,119	18,533	17,952	17,621	17,579
Thereof Credit (incl. no-frills)	8,608	8,704	8,670	8,829	8,614	8,518	8,463	8,426
Thereof no-frills	881	962	1,062	1,212	1,181	1,254	1,345	1,450
Thereof Debit	10,234	10,436	10,607	10,291	9,919	9,434	9,158	9,153
Thereof Netherlands	806	721	691	–	–	–	–	–
Gross-additions	1,207	1,312	1,230	1,418	988	928	1,087	1,273
Net-additions	123	271	107	–849	–587	–581	–331	–42
Business performance in € million								
Total revenue	1,028.0	1,064.1	1,056.5	1,058.2	847.3	857.0	897.3	907.2
Thereof Netherlands	49.8	49.8	46.4	37.3	–	–	–	–
Total gross profit	168.5	176.5	194.3	185.5	169.4	171.5	175.8	191.6
EBITDA	50.9	72.2	79.0	26.7	67.2	70.3	87.2	97.9
Non recurring items	–19.4	–11.7	–9.4	–73.5	–4.7	–21.3	–14.0	–15.1
EBITDA-adjusted/recurring	70.3	83.9	88.5	100.2	71.9	91.6	101.2	113.0
Thereof Netherlands	–1.4	3.3	–5.3	–2.5	–	–	–	–
EBIT	24.5	44.0	32.9	7.8	19.7	23.6	42.9	50.2
Non recurring items	–19.5	–11.7	–9.4	–73.5	–4.7	–21.3	–14.0	–15.1
EBIT-adjusted/recurring	44.0	55.7	42.4	81.3	24.4	44.9	56.9	65.3
ARPU Germany in €								
ARPU Credit	26.0	26.3	26.5	25.2	23.9	24.3	24.8	24.1
ARPU no-frills	6.0	6.5	6.4	5.5	5.3	5.9	6.0	5.3
ARPU Debit	3.4	3.3	3.3	3.0	2.8	3.1	3.2	3.1
ARPU Netherlands in €	27.9	29.4	29.1	26.6	–	–	–	–
Recurring Capex in € million	–3.4	–5.2	–15.3	–3.9	–5.4	–6.0	–10.1	–6.3

1 The management feels that a historical "pro-forma time series" enables a better understanding of the key financials. However, readers of the Annual Report should form their own opinion of whether the "pro-forma time series" is suitable for increasing the visibility and transparency of the figures.

4.3 Glossary

AGOF	German: Arbeitsgemeinschaft Online Forschung; Working group for online research.
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).
Broadband	Digital data transmission with a speed of more than 128 kbps.
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.
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.
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.
debitel Netherlands	debitel Nederland B.V..
Dialog Consult	Dialog Consult GmbH; Management consultancy company with international project experience in the areas of corporate, competitive and market entry strategy; Industry focus on telecommunication among others.
Diluted earnings per share	Diluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation increased by potentially diluting shares. The number of potentially diluting shares is calculated as the difference between the potential ordinary shares attributable to employee stock option programmes valued at the subscription price and the ordinary shares issuable at fair value.
Directory services	This facility is an information service with nationwide availability at all times without the need for any prefix; it is used for providing information concerning the number, name and address and additional details of telecommunication users. Such services are reached via a number 118xy.

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). This is a major increase in speed compared with modem or ISDN connections of up to 128 kbps.

DTAG Deutsche Telekom AG.

EBIT Earnings before interest and taxes.

EBITDA Earnings before interest, taxes, depreciation and amortisation.

EBT Earnings before taxes.

EPS Earnings per share; this ratio specifies the portion of consolidated net profit or loss which is attributable to an individual share. It is calculated by dividing the consolidated net profit/net loss by the weighted average number of issued shares.

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.

Fixed network In general language, this concept is used to describe a telecommunications network which is used for providing line-borne services.

FLAC Financial liabilities measured at amortised cost.

GewStG German: Gewerbesteuergesetz; English: German Trade Tax Act.

Gross profit Revenue minus cost of materials.

HFS Held-for-sale financial instruments.

HGB German: Handelsgesetzbuch; English: German Commercial Code.

HSDPA High Speed Downlink Packet Access; Packet-based protocol that enhances data rates in UMTS networks and lifts transmission speeds into the megabit range.

HSUPA High Speed Uplink Packet Access; HSUPA accelerates data upstreaming from mobile devices into the network and significantly reduces transfer durations (ping time). Together, HSDPA and HSUPA ensure that users can surf the internet or work in the intranet while on the go, experiencing a similar level of user comfort as with fixed-network DSL.

IFRS	International Financial Reporting Standards; A collection of standards for the external reporting of companies.
Internet dongle	An internet dongle is a UMTS radio modem for fast mobile internet access with a notebook. The internet dongle is comparable in size with a USB memory stick and is also plugged in to the USB port of a notebook or netbook. It enables users to have fast access to the world wide web on the go. Most internet dongles support the UMTS extension standard HSDPA with a download speed of up to 7.2 megabits per second.
IPO	Initial Public Offering; “Going Public”. An initial public stock offering (IPO) referred to simply as an “offering” or “flotation” is when a company (called the issuer) issues common stock or shares to the public for the first time.
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: Corporation Tax Act.
LR	Loans and receivables.
M&A	Mergers & Acquisitions.
Mbit/sec	Megabit per second.
MitbestG	German: Mitbestimmungsgesetz; English: Codetermination Act.
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.
Narrowband	Analogue or digital data transmission with a speed of up to 128 kbps.
Paid services	Paid services describes the offering and provisioning of digital services in digital media subject to a charge.
Penetration (mobile communications market)	Total number of issued SIM cards expressed as a percentage of the total number of inhabitants.
Portal	Central web site which generally comprises a comprehensive range of navigation functions, aggregated content and additional services, such as e-mail.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft	Auditing and consulting services organisation in Germany.
SAC	Subscriber acquisition cost; the average cost of signing up a new customer.
SAR	Stock appreciation rights.
SIM card	Subscriber Identity Module; chip card with a processor and memory of GSM telephones, storing various information, including the user number allocated by the network operator, and which identifies the user in the mobile network.
SMS	Short message service.
SOHO	Small-Office/Home-Office; describes a customer group in IT between private customers and large companies.
Surfstick	Compare “Internet dongle”.
UMTS	Universal mobile telecommunications system; UMTS is a new high-performance standard which permits all types of communication and multi-media applications via mobile telephones; also known generally as 3G mobile phones.
UmwStG	German: Umwandlungssteuergesetz; English: Reorganisation Tax Act.
Undiluted earnings per share	Undiluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation during the financial year.
Unterwegs	English: on the go; “Unterwegs” is a travel channel featuring up-to-date information and services for those planning to travel.
Value added service	A value added service is an independent range of services within a telecommunications service, which is characterised by special connection treatment, virtual connections, independent charging or content services.
VATM	German: Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e.V.; English: The association of telecommunications and value added service providers.
Voice over IP	Telephony via a computer network (e.g. the Internet) based on the Internet Protocol (IP).
VorstAG	German: Gesetz zur Angemessenheit der Vorstandsvergütung; English: Act on the Appropriateness of the compensation for the Executive Board.
VPN	Virtual Private Network.

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.
ZAW	German: Zentralverband der Deutschen Werbewirtschaft; English: Central Association of the German Advertising Industry.

4.4 Financial Calender

16 March 2010
Publication of Consolidated Financial Statements/Annual Report 2009

11 May 2010[1]
Publication of interim report I/2010

July 2010[1]
Annual General Meeting

11 August 2010[1]
Publication of interim report II/2010

11 November 2010[1]
Publication of interim report III/2010

1 Probable dates.

4.5 Imprint, contact, publications

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The Annual Report and our interim reports are also available at www.freenet.ag, heading: Investor Relations

Current information concerning freenet AG and the freenet share is available on our website.

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.

freenet GROUP

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