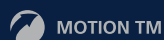


freenet **GROUP**



Interim report on the 3rd quarter 2013

freenet AG • Hollerstraße 126 • 24782 Büdelsdorf

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Key financials: overview Group

Result

Figures in € million	Q1–Q3/2013	Q1–Q3/2012	Q3/2013	Q2/2013	Q3/2012
Revenue	2,374.5	2,269.6	789.6	809.6	756.5
Gross profit	531.5	519.7	181.6	177.0	182.3
EBITDA	263.0	263.2	92.6	85.2	92.5
EBIT	221.3	152.1	78.6	71.7	55.5
EBT	191.4	122.0	68.8	61.5	45.8
Group result from continued operations	179.2	131.2	63.6	55.4	49.0
Group result from discontinued operations	0.0	0.0	0.0	0.0	0.0
Group result	179.2	131.2	63.6	55.4	49.0
Earnings per share (€) (diluted and undiluted)	1.40	1.02	0.50	0.43	0.38

Balance sheet

	30. 9. 2013	30. 9. 2012 adjusted ¹	30. 9. 2013	30. 6. 2013	30. 9. 2012 adjusted ¹
Balance sheet total in € million	2,476.4	2,274.1	2,476.4	2,389.7	2,274.1
Shareholders' equity in € million	1,179.2	1,144.2	1,179.2	1,115.7	1,144.2
Equity ratio in %	47.6	50.3	47.6	46.7	50.3

Finances and investments

Figures in € million	Q1–Q3/2013	Q1–Q3/2012	Q3/2013	Q2/2013	Q3/2012
Free cash flow ^{2,3}	201.6	195.9	74.9	70.4	71.9
Depreciation and amortisation	41.7	111.1	14.0	13.5	37.0
Net investments (Capex) ³	13.1	12.2	7.0	3.4	5.7
Net cash ^{3,4}	-471.9	-512.1	-471.9	-537.2	-512.1

Share

	30. 9. 2013	30. 9. 2012	30. 9. 2013	30. 6. 2013	30. 9. 2012
Closing price Xetra (€)	17.89	12.70	17.89	16.78	12.70
Number of ordinary shares (in thousand)	128,061	128,061	128,061	128,061	128,061
Market capitalisation (in €'000s) ⁴	2,291,012	1,626,375	2,291,012	2,148,864	1,626,375

Employees

	30. 9. 2013	30. 9. 2012	30. 9. 2013	30. 6. 2013	30. 9. 2012
Employees ⁴	4,593	3,927	4,593	4,516	3,927

Key financials: overview Mobile Communications sector

Customer development

Figures in million	Q1–Q3/2013	Q1–Q3/2012	Q3/2013	Q2/2013	Q3/2012
Mobile Communications customers ⁴	13.37	14.31	13.37	13.56	14.31
Thereof customer ownership	8.67	8.38	8.67	8.56	8.38
Thereof contract customers	5.82	5.72	5.82	5.81	5.72
Thereof no-frills customers	2.85	2.66	2.85	2.75	2.66
Thereof prepaid customers	4.70	5.93	4.70	5.00	5.93
Gross new customers	2.43	2.60	0.79	0.86	0.84
Net change	-0.71	-0.88	-0.19	-0.15	-0.15

Result

Figures in € million	Q1–Q3/2013	Q1–Q3/2012	Q3/2013	Q2/2013	Q3/2012
Revenue	2,350.7	2,223.9	781.6	801.6	741.1
Gross profit	516.2	494.2	176.9	171.5	173.3
EBITDA	263.8	262.2	95.1	85.6	92.9
EBIT	224.9	154.6	81.9	73.1	57.1

Monthly average revenue per user (ARPU)

Figures in €	Q1–Q3/2013	Q1–Q3/2012	Q3/2013	Q2/2013	Q3/2012
Contract customer	22.5	23.5	22.6	22.5	23.6
No-frills customer	3.5	3.9	3.5	3.6	3.9
Prepaid customer	3.0	3.0	3.2	3.0	3.1

1 The comparative figures in the key financials overview as well as in other tables in this report have been adjusted due to a change of an accounting method, see "Selected explanatory notes", item 2.

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

3 This information relates to the overall Group (including discontinued operations).

4 At the end of period.

To our shareholders



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

Letter to shareholders

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

In the months under review, the strong momentum that already existed in the German telecommunications market has accelerated further. The upcoming or recently completed consolidation among network operators have given the unrelenting competition in our industry a new form: first, it should become a little more transparent and predictable, and second, the prolonged price war in certain market segments should lessen somewhat—mobile communications analysts believe this as well.

As a result of this intense competition, average revenue per user (ARPU) has been on a downward trend for several years across the market, causing the service revenue of mobile communications companies in this area to decline. A substantial contributor to this is the increasing demand by customers for flat rates, with their cost certainty.

So for freenet AG the recent consolidations are very good news. Apart from easing price pressure arise, the impending changes offer us new opportunities to further strengthen our position as Germany's largest network-independent telecommunications provider—for example, by adding to our shop locations to ensure ideal customer proximity and approach.

At the same time we see this as further confirmation of our successful strategy: in our traditional business field with mobilcom-debitel as the main brand, we mainly address valuable contract customers who require a high degree of consultation and individual user profiles, while our no-frills brands serve price-conscious smartphone users in particular.

We are also increasingly tapping into the growing digital lifestyle market with attractive products and services—for example in the field of home automation, entertainment and data security. We do this from our established position as a reseller, which gives us additional revenue and profits without expensive development and infrastructure investments, and thereby guaranteeing our continued independence in advising customers. Against this background, at the beginning of the year we had taken over GRAVIS, Germany's leading provider of Apple products, and MOTION TM, a large online vendor in mobile communications and telecommunications.

The positive developments and figures in the third quarter once again show how well this strategy of prudently expanding both our core business and the innovative digital lifestyle business is going:

- Revenue increased 4.4 percent year-on-year to 789.6 million euros—largely as a consequence of the consolidation of GRAVIS and MOTION TM as well as an increased share of high-margin revenue. At the same time low-margin revenue from hardware business decreased. For the first three quarters of 2013, freenet AG revenue totalled 2.37 billion euros.
- At 181.6 million euros gross profit remained at about the same level as in the prior year; the gross profit margin was 23.0 percent.
- At 92.6 million euros, EBITDA was almost on par with Q3/2012.
- At 74.9 million euros, the free cash flow is in line with our guidance for the full year.
- Postpaid ARPU was comparatively stable in relation to the overall market, at 22.6 euros.
- Customer ownership, a key performance indicator for our company, continues to develop very encouragingly: the customer base in the postpaid and no-frills sector grew by another 107,000 in Q3/2013, to currently 8.67 million.

The cumulative figures for the first three quarters of 2013—EBITDA of 263.0 million euros and free cash flow of 201.6 million euros—confirm our guidance for the full year 2013. It remains unchanged at 355 million euros in Group EBITDA and free cash flow of 255 million euros.

We want to secure our strong competitive position and high level of profitability long term while also developing growth segments. To do this, in the third quarter we further expanded our range of mobile/digital lifestyle products and services and also made important strategic decisions in sales.

For instance, at the beginning of the quarter we augmented the flat-rates portfolio of our main mobilcom-debitel brand by adding the new Allnet suite of rates. From 9.90 euros per month, they offer service packages for all German mobile networks, tailored to meet individual customer needs, with flat rates for telephony, mobile internet and texts, with optional free roaming minutes and mobile phone options that let customers buy a late-model smartphone at a low price. Meanwhile, in the discount segment we ran specials on our www.crash-tarife.de online sales platform that allowed users to book the AllNet-Starter and AllNet-Spar-Flat tariffs at even better terms.

These measures are accompanied and supported by a further intensification of our marketing activities. They include our bus tour of German cities, which has proven to be a very effective promotional tool over the last three years—for instance, sales have doubled at the mobilcom-debitel shops at each location visited by the bus in the following four weeks. The tour launched in early September with two new visually and technically enhanced “smart trucks” and Sony Mobile as a partner. By the end of October, they had visited 41 cities throughout Germany.

Our no-frills subsidiary klarmobil.de also launched a new campaign in the summer. With the core message of “Günstig in Gut” (A good kind of inexpensive), it focuses on the high level of quality we offer our customers in the low-price segment—with a choice of low tariffs in all German mobile networks and with excellent service, as independent tests repeatedly confirm.

In the digital lifestyle area, we had already successfully launched a wide range of attractive products in the past few quarters, including mobile home-heating control as well as home monitoring via smartphone app; the new mobilcom-debitel Cloud for new and existing customers; and our GameFlat option for mobile use of many of the latest premium games on Gameloft.

In the third quarter, this was followed by another digital lifestyle offering: the new mobilcom-debitel MusicFlat. For 8.99 euros per month on top of their mobile phone tariff, it gives our customers access to over 20 million songs from pop, rock, jazz and classical music via their mobile device, which they can compile into favourites and playlists and listen to on Wi-Fi or offline. Alternatively, MusicFlat is also available for new customers as a complete package with an accompanying smartphone tariff for just 24.99 euros per month.

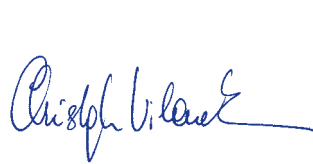
We also offer customers the most sought-after devices as soon as they come onto the market, always at very competitive prices and across the full range of segments. For example, in the months under review, they ranged from a low-cost Huawei Ascend P6, currently the fastest LTE mobile phone in the world, to the new Apple iPhone 5S, which regardless of the stronger competition from East Asia once again set new sales records in its first few days on sale. Our range also included the iPad 3 and iPad mini at discount prices; to promote these, we launched our first cross-brand campaign between the mobilcom-debitel shops and our GRAVIS subsidiary.

We are systematically developing the longstanding exclusive Apple dealer into a complete digital lifestyle provider. Timed to coincide with the IFA exhibition in Berlin, in early September the GRAVIS flagship store on Ernst-Reuter-Platz, Berlin unveiled two exclusive “shop-in-shop” concessions for the two premium manufacturers Samsung and Sony, featuring the South Korean company’s GALAXY Gear Smartwatch and GALAXY Note 3, and Sony’s Xperia Z1 smartphone.

We will steadily expand this offer in the months ahead—at other selected GRAVIS stores nationwide and with other choice manufacturers. The idea is to provide customers with integrated product lines including accessories, thereby generating lucrative additional revenue for us that will help cushion the price pressure in our core business of mobile communications.

There is also good news concerning our long-standing successful cooperation with Saturn and Media stores. With effect from 1 August 2013, we signed an early extension to our exclusive sales cooperation with Media-Saturn Deutschland GmbH for a minimum term of three years. As part of the exclusive, nationwide partnership, mobilcom-debitel continues to sell its own mobile communications products and services as well as the original tariffs of the mobile network operators T-Mobile, Vodafone and E-Plus in the electronics markets.

Based on the activities outlined above and our strengthened competitive positioning, we feel we are very well positioned for the upcoming year-end business. We are very optimistic about achieving our targets for 2013 and thus creating the basis for an equally successful year in 2014. We—management and employees of freenet AG—will continue to devote all of our expertise, strength and experience to this.



Christoph Vilanek



Joachim Preisig

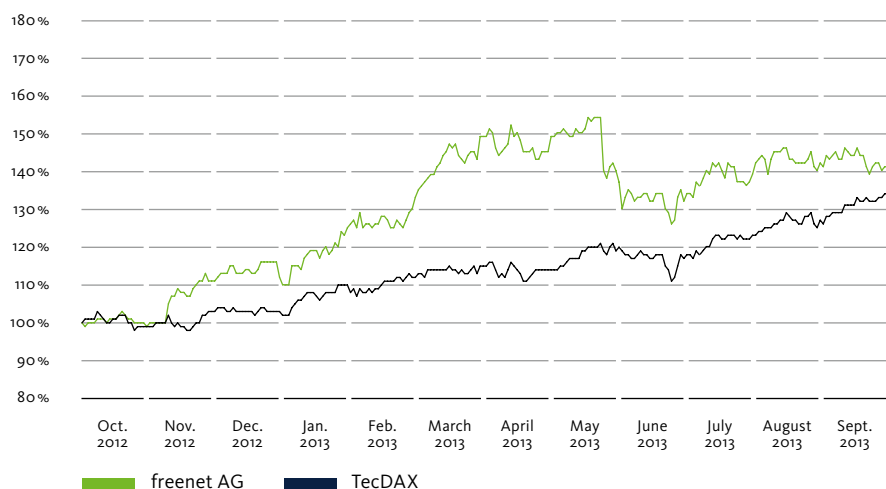


Stephan Esch

freenet AG on the capital market

Performance of the freenet share

Figure 1: Performance of the freenet share over the past twelve months (indexed; 100 = Xetra closing price on 28 September 2012)



German stock market

Despite the recent slowdown in Germany's economic recovery and macroeconomic conditions continuing uncertain in the euro zone, the German stock market developed positively in the third quarter of 2013. The DAX closed at 8,594 points on 30 September, thus achieving an increase of about eight percent during the quarter. The TecDAX also recorded a significant 13 percent increase during the reporting period to 1,084 points at the end of the quarter.

freenet share

The freenet share saw a generally erratic price development, and a price increase of about five percent during the reporting period. The share started the third quarter with a Xetra closing price of 17.03 euros, falling to a low of 16.95 euros during early July and peaking in mid-August at 18.60 euros. The quarter finally ended with a closing price of 17.89 euros. The average Xetra closing price during the reporting period was 17.95 euros.

In the past quarter a total 29.9 million freenet shares were traded on the Xetra trading platform, compared with 52.0 million in the second quarter of 2013 and 35.3 million in the first quarter of 2013. This puts the Xetra trading volume nearly on par with the previous year (30.1 million). At the same time, the third-quarter trading volume on alternative trading platforms ("dark-pools") was around 50 percent of the total trading volume, compared to about 48 percent in the second quarter of 2013. The average daily

Xetra trading volume amounted to 452,900 units. In the previous quarter an average of 826,000 freenet shares were traded on Xetra, compared to 546,800 units in the first quarter.

In the first nine months of the current financial year, the freenet share price increased by almost 28 percent, in line with its TecDAX benchmark index, which posted gains of nearly 31 percent over the same period.

Shareholder structure

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

During the reporting period, the company received six voting rights notifications pursuant to section 21 WpHG (German Securities Trading Act):

On 9 August 2013 Polaris Capital Management, LLC, Boston, MA, USA informed us pursuant to section 21 Paragraph 1 WpHG that on 9 August 2013 its share of voting rights in freenet AG, Büdelsdorf, Germany had exceeded the 3-percent reporting threshold and amounted to 3.06 percent on that day (3,921,847 voting rights). 3.06 percent of the voting rights (3,921,847 voting rights) are allocated to the company pursuant to section 22 Paragraph 1, sentence 1, No. 6 WpHG.

On 12 August 2013 Flossbach von Storch SICAV, Strassen, Luxembourg informed us pursuant to section 21 Paragraph 1 WpHG that on 8 August 2013 its share of voting rights in freenet AG, Büdelsdorf, Germany had fallen below the 3-percent reporting threshold and amounted to 2.86 percent on that day (corresponding to 3,668,301 voting rights).

On 15 August 2013 Flossbach von Storch AG, Cologne, Germany informed us pursuant to section 21 Paragraph 1 WpHG that on 9 August 2013 its share of voting rights in freenet AG, Büdelsdorf, Germany had fallen below the 3-percent reporting threshold and amounted to 2.9998 percent on that day (3,841,524 voting rights). 2.81 percent of the voting rights (3,595,124 voting rights) are allocated to the company pursuant to section 22 Paragraph 1, sentence 1, No. 6 WpHG in conjunction with section 22 Paragraph 1 sentence 2. 0.19 percent of the voting rights (246,400 voting rights) are allocated to the company pursuant to section 22 Paragraph 1, sentence 1 WpHG.

On 24 September 2013 Polaris Capital Management, LLC, Boston, MA, USA informed us pursuant to section 21 Paragraph 1 WpHG that on 23 September 2013 its share of voting rights in freenet AG, Büdelsdorf, Germany had fallen below the 3-percent reporting threshold and amounted to 2.96 percent on that day (3,793,247 voting rights). 2.96 percent of the voting rights (3,793,247 voting rights) are allocated to the company pursuant to section 22 Paragraph 1, sentence 1, No. 6 WpHG.

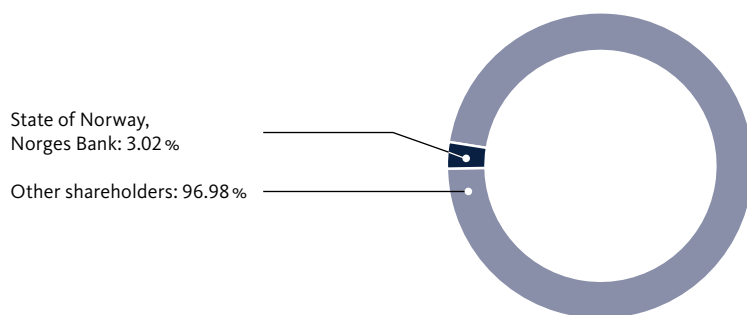
On 1 October 2013 Drillisch AG, Maintal, Germany informed us pursuant to section 21 Paragraph 1 WpHG that on 30 September 2013 its share of voting rights in freenet AG,

Büdelsdorf, Germany had fallen below the 3-percent reporting threshold and amounted to 0.39 percent on that day (500,000 voting rights). 0.39 percent of the voting rights (500,000 voting rights) are allocated to the company pursuant to section 22 Paragraph 1, sentence 1 WpHG.

On 1 October 2013 MSP Holding GmbH, Maintal, Germany informed us pursuant to section 21 Paragraph 1 WpHG that on 30 September 2013 its share of voting rights in freenet AG, Büdelsdorf, Germany had fallen below the 3-percent reporting threshold and amounted to 0.39 percent on that day (500,000 voting rights).

As a result, the shareholder structure for the quarter under review was as follows:

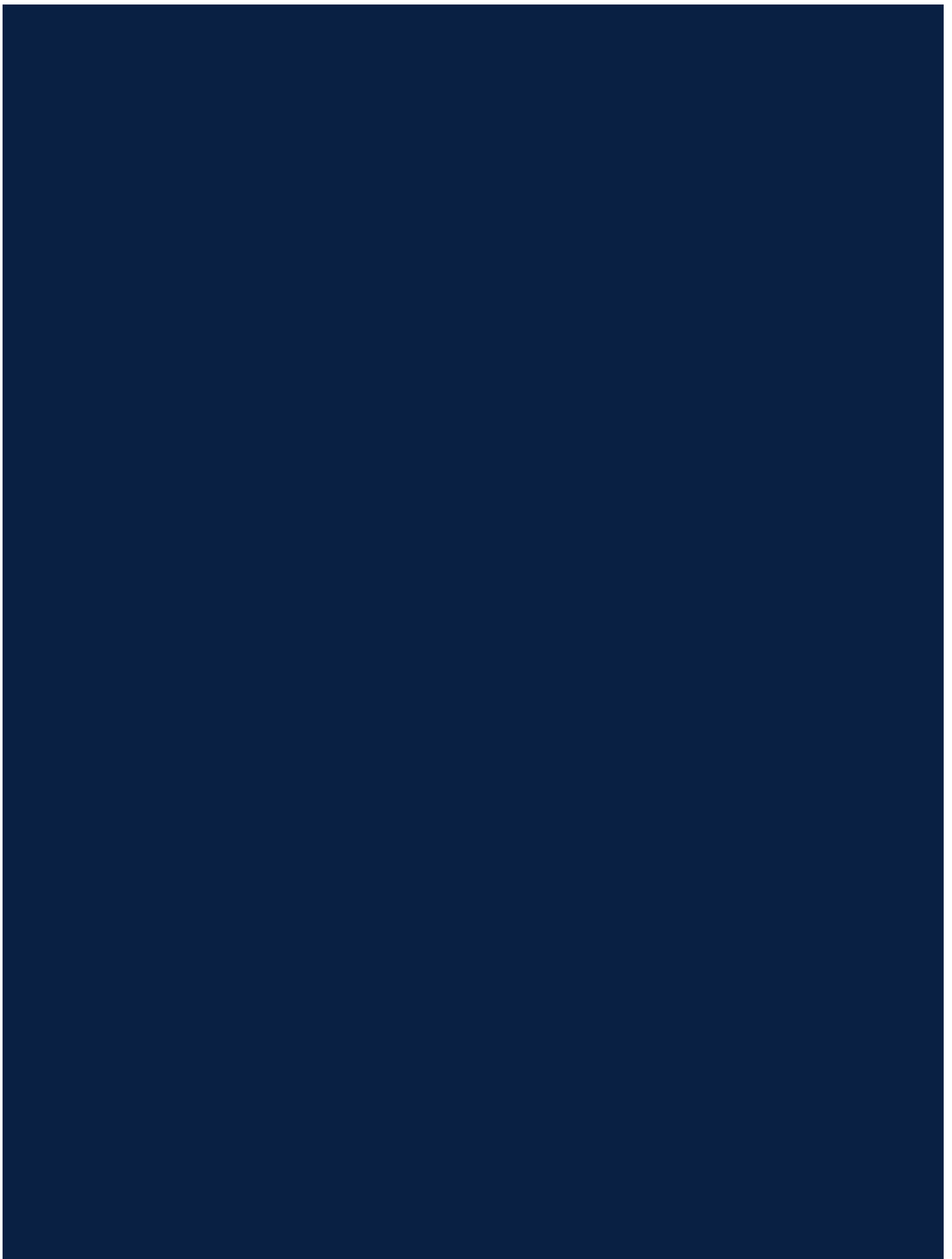
Figure 2: Shareholder structure of freenet AG on 30 September 2013



Source: freenet AG, 30 September 2013

Based on the voting rights notifications received during the quarter under review, free float according to the definition of Deutsche Börse AG has increased from 87.55 percent to 100 percent.

**Interim group
management report**



Overview of the freenet Group's business and operating performance

freenet AG is a service provider in the attractive and fast-growing digital lifestyle market. Key areas here include traditional mobile communications/mobile internet on the one hand—with its own tariffs, products and services and with corresponding offers of the network operators in Germany. In addition, the company offers innovative digital applications related to entertainment and infotainment, data security and home automation—including the latest smartphones, tablets and laptops as devices plus attractive accessories.

The company pursues a multi-brand strategy in addressing private customers as its key target group: given the tough competition in the industry, the main mobilcom-debitel brand is focusing on high-value contract relationships in its customer acquisition and customer base management. In addition, freenet's discount brands also very successfully cater for the no-frills sector.

In the third quarter of 2013, the company continued to expand its offerings in the mobile communications/mobile internet and digital lifestyle area while also launching new sales-, marketing- and customer service-related activities.

Attractive smartphone tariffs...

...from mobilcom-debitel...

As the features available on smartphones and tablets in the digital lifestyle sector become more and more complex, low-cost, transparent flat rates for using them are becoming more and more important for customers. With this in mind, mobilcom-debitel has offered its innovative Allnet suite of tariffs since July.

With the new classic Allnet, comfort Allnet and premium Allnet tariffs, it complements the existing real Allnet tariff and is tailored to the individual needs of users, who can choose between the low-cost E-Plus/O₂ networks or Vodafone and Deutsche Telekom's high-end networks (D-network)—the latter for an extra 10 euros per month.

Package prices range from 9.90 euros per month for classic Allnet, which includes unlimited free calls to all German networks; to comfort Allnet for 19.90 euros which additionally includes unlimited mobile internet; to premium Allnet for 39.90 euro, which includes the flat rate for calls and mobile internet as well as a flat rate for SMS texts as well as 100 roaming minutes within the EU. The "Handyoption 10" option can be booked with all three rates, giving the user the latest smartphone of his choice for an extra 10 euros per month. The contract period is 24 months for each tariff.

...and in the discount segment

Until the end of July, the klarmobil.de subsidiary offered the popular AllNet-Spar-Flat at a special introductory price of 19.85 euros per month. It includes a flat rate for calls to landlines and all mobile networks, and for mobile surfing up to 500 MB in D-network

quality. This was equivalent to a discount of 10 euros per month on the regular price. In mid-September the company's online sales platform www.crash-tarife.de then offered further limited-time special offers and reduced tariffs.

At the same time, to mark its eighth anniversary, klarmobil.de launched a temporary promotion through the end of October – also for the AllNet-Spar-Flat tariff. New customers with a contract period of 24 months were given either the new Nokia Lumia 520 smartphone free of charge, or a saving of around 80 euros calculated on the basis of four free months—i. e. users only pay 19.85 euros per month for the second, fourth, sixth and eighth month of their contract.

Another offer initially offered until the end of September involved the AllNet-Starter in the O₂ network for entry-level smartphone users. It doubled the benefits included in the base tariff price of 9.90 euros to 200 free minutes, 200 free text messages and 200 megabytes of high-speed internet. In addition, as part of a summer promotion, for online contracts before 31 July 2013, mobilcom-debitel offered a 50-euro credit on selected voice and data tariffs.

Other digital lifestyle products

mobilcom-debitel is steadily expanding its digital lifestyle portfolio. In recent months and quarters the company has focused on this growth area with a number of new applications and products—for example, a mobile app-based home heating control; an IP camera, also app-based; anti-virus programmes for mobile devices; the GameFlat smartphone option for using the latest Gameloft premium games; and most recently with the new mobilcom-debitel Cloud.

At the beginning of August, the new mobilcom-debitel MusicFlat was launched in cooperation with the cloud-based streaming provider JUKE. It is available in two versions: either as an optional add-in to an existing mobilcom-debitel contract for 8.99 euros per month, or as a complete package with a matching smartphone tariff for 24.99 euros per month.

The complete package includes 50 free minutes, at least 3,000 free texts messages, and 500 MB of volume at maximum bandwidth with a top speed of up to 7.2 Mbit/s. It is available on all networks. It lets customers access more than 20 million pop, rock, jazz and classical music tunes in the Dolby Pulse format, create favourites and playlists from them, use MusicFlat via Wi-Fi, and use the playlists in offline mode. Furthermore, customers can also try the MusicFlat as additional option one month for free.

The launch of the music-streaming offer was accompanied by a new TV commercial that ran on all high-reach commercial channels and was additionally supported by a variety of measures at POS. The 35-second spot picked up on the successful “Gemeinsam geht mehr!” (Getting more together!) umbrella campaign and focused on the many smartphone options for freenet's 14 million customers, who are turning the republic

into reggae, rock or rap-ublics. By mid-August, the commercial had been played over 500 times, generating about 120 million gross contacts.

In addition, the company scored successes with attractive digital lifestyle hardware offers in the third quarter. The first, at the beginning of the quarter, was for the new Huawei Ascend P6—currently the fastest LTE mobile phone in the world—for a one-off price of 29.95 euros in combination with a variety of mobilcom-debitel flat rates, each of them 29.90 euros per month and including a base minimum of a four-fold, all-inclusive mobile flat rate including 100 roaming minutes within the EU and a free choice of network.

At the end of July this was followed by the first cross-brand campaign by the freenet subsidiaries GRAVIS and mobilcom-debitel: the iPad mini with 16 gigabytes of memory for a discount price of 289 euros. The offer was available from GRAVIS online, GRAVIS stores and all mobilcom-debitel shops.

Finally, at the end of August the Apple iPad 3 was offered for the price of one euro, available exclusively online via www.crash-tarife.de in combination with mobilcom-debitel's Internet-Flat 3000 data tariff, which delivers 3 gigabytes and a maximum bandwidth of up to 7.2 Mbit/s at a monthly price of 19.95 euros in D-network quality.

Strengthened sales platforms

The months following the acquisition of GRAVIS at the turn of the year 2012/13, have been focused on developing of the long-standing exclusive Apple dealer into a more broadly based digital lifestyle provider. The key objective is to supplement the GRAVIS range with additional high-quality products from other hardware manufacturers.

As a first step at the beginning of September, the collaboration between GRAVIS, Samsung and Sony was launched. The two Asian premium vendors each opened exclusive 20 m² “shop-in-shop” concessions at the GRAVIS store on Ernst-Reuter-Platz in Berlin, to present and sell their range of products lines to digital lifestyle-savvy customers—including the very latest GALAXY Gear Smartwatch and GALAXY Note 3 that the South Korean manufacturer had just unveiled at the IFA exhibition, and the Japanese manufacturer's new top-of-the-line smartphone, the Xperia Z1.

The early extension of the successful sales cooperation with Media-Saturn Deutschland marked another important step in strengthening freenet's stationary sales platforms. Under the exclusive partnership, mobilcom-debitel will continue to sell its own tariffs, the original tariffs of the network operators T-Mobile, Vodafone and E-Plus, as well as its own mobile communications products and services at all Media Markt and Saturn stores. With effect from 1 August 2013, the new minimum term of the exclusive contract is three years.

New marketing activities

Since 2010, our bus tour through German cities has been an integral part of the mobilcom-debitel marketing mix. With sales doubling at mobilcom-debitel shops in the vicinity of each location visited by the bus for the following four weeks, it has proven a very effective and enduring marketing tool.

Against this background, the company launched its latest tour of Germany on 6 September—the SmartMobil-Tour with Sony Mobile as a tour partner—to coincide with IFA 2013 in Berlin. The tour now includes new hi-tech trucks featuring a wide range of digital presentation options, including a huge LED screen and trailers that can be transformed into a spacious stage with over 200 m² of show area. The thematic focus of the tour, which was reflected accordingly in the design and equipment of the trailer, were the SmartHome and the new mobilcom-debitel MusicFlat—products that highlight the fascinating facets of the digital lifestyle while also demonstrating the company's expertise as a digital lifestyle provider. The two trucks visited 41 cities throughout Germany by the end of October.

The freenet subsidiary klarmobil.de also launched a new campaign this summer, with the core message of “We are the best of the favorable discounters” precisely summed up by the slogan “Günstig in Gut” (A good kind of inexpensive).

This derives from the company's strategy—like that of the main mobilcom-debitel brand—to based its market positioning not solely on price, but also to offer very high mobile communications quality and very good service in the low-price segment. klarmobil.de lets customers choose from a variety of customised tariffs on all German mobile networks—including the high-end ones.

The new, low-cost customer hotline emphasises klarmobil.de's focus on combining high quality standards with the price advantages of a discounter. The latest entry-level All-Net-Starter tariff described above, which offers excellent D-network quality for just 9.90 euros per month, goes well with this and once more underlines the “Günstig in Gut” claim.

Assets, financial position and results

Customer development

Figures in million	30. 9. 2013	30. 6. 2013	31. 3. 2013	31. 12. 2012	30. 9. 2012
Mobile Communications customers	13.37	13.56	13.71	14.08	14.31
Thereof customer ownership	8.67	8.56	8.47	8.50	8.38
Thereof contract customers	5.82	5.81	5.80	5.79	5.72
Thereof no-frills customers	2.85	2.75	2.67	2.71	2.66
Thereof prepaid customers	4.70	5.00	5.24	5.58	5.93

Customer ownership base defined as the cumulative volume of postpaid and no-frills customers, again increased, rising by around 107,000 to the current figure of around 8.67 million customers at the end of the third quarter. Compared with the corresponding previous year date, this is equivalent to growth of around 287,000 customers. This means that the positive growth of this key performance indicator for the company again continued in the third quarter of the current financial year.

The increase in the customer ownership base was mainly attributable to no-frills customers, although there was a further increase in the number of postpaid customers in the reporting period. The number of no-frills customers increased strongly, increasing by around 94,000 customers compared with the end of the first half of the year and growth of around 184,000 customers compared with 30 September 2012. In addition, the number of postpaid customers increased in the third quarter 2013 by around 13,000, and by around 104,000 compared with 30 September 2012.

The number of prepaid customers again declined significantly, from 5.00 million at the end of the first half of 2013 to 4.70 million at the end of the third quarter of 2013 (-294,000 customers). Compared with the corresponding previous year reference date (5.93 million customers), the base of prepaid customers has thus declined by 1.23 million. This means that the trend seen in previous quarters has continued.

Compared with the previous quarter reference date, the total number of mobile communications customers declined by around 187,000 as of 30 September; the decline compared with the corresponding previous year reference date was around 937,000.

Monthly average revenue per user (ARPU)

Figures in €	Q3/2013	Q2/2013	Q1/2013	Q4/2012	Q3/2012
Contract customers	22.6	22.5	22.4	22.8	23.6
No-frills customers	3.5	3.6	3.5	3.5	3.9
Prepaid-Customers	3.2	3.0	2.8	2.9	3.1

The average monthly revenue per postpaid customer (postpaid ARPU) increased in the third quarter of 2013 by 0.1 euros to 22.6 euros compared to the second quarter of 2013. However, compared with the previous year quarter, postpaid ARPU declined by 1.0 euros. It has thus been relatively stable compared with the overall market. As far as no-frills numbers are concerned, the average monthly revenue per user is currently running at 3.5 euros. This is equivalent to a slight decline of 0.1 euros compared with the second quarter of 2013, and a decline of 0.4 euros compared with the third quarter of 2012. This development is mainly due to the continuing price pressure in the German mobile communications market.

At 3.2 euros, prepaid ARPU is 0.2 euros higher than the corresponding figure for the second quarter of 2013. Compared with the previous year quarter, this is equivalent to growth of 0.1 euros.

Revenue and results

Figures in €'000s	Q3/2013	Q3/2012	Change
Revenue	789,632	756,510	33,122
Gross profit	181,642	182,278	-636
Overhead expenses	-89,052	-89,775	723
EBITDA	92,590	92,503	87
EBIT	78,580	55,479	23,101
EBT	68,796	45,792	23,004
Group result	63,574	48,976	14,598

In the third quarter of 2013, **GROUP REVENUE** increased by 4.4 percent compared with the corresponding previous year quarter. The fact that GRAVIS and MOTION TM were included in the consolidation group for the first time and the increased share of high-margin revenue more than compensated for the decline in revenue resulting from the reduction in postpaid ARPU. At the same time low-margin revenue from hardware business decreased.

The **GROSS PROFIT MARGIN** decreased by 1.1 percentage points compared with Q3/2012, namely to 23.0 percent, primarily due to the fact that the newly consolidated companies GRAVIS and MOTION TM have business models with relatively lower gross profit

margins. The **GROSS PROFIT** of 181.6 million euros was roughly in line with the level reported for the previous year quarter.

OVERHEAD EXPENSES, which form the difference between gross profit and EBITDA, and which include the items **OTHER OPERATING INCOME**, **OTHER OWN WORK CAPITALISED**, **PERSONNEL EXPENSES**, **OTHER OPERATING EXPENSES**, and the **SHARE OF RESULTS IN ASSOCIATES**, declined by 0.7 million euros compared with Q3/2012. On the one hand, the above acquisitions resulted in higher overhead costs, particularly in the case of personnel expenses and the other operating expenses. On the other hand, there were cost reductions in marketing and also as a result of efficient overhead cost management.

Group earnings from continued operations before depreciation and amortisation, interest and taxes (**EBITDA**) are stated as 92.6 million euros in the third quarter of 2013, and were thus in line with the corresponding figure for the previous year comparison quarter.

DEPRECIATION AND AMORTISATION have declined by 23.0 million euros compared with Q3/2012, to 14.0 million euros. This is almost exclusively attributable to lower depreciation recognised in relation to intangible assets resulting from the purchase price allocation on the occasion of the debitel acquisition, after the depreciation for the main assets expired as of 31 December 2012 as a result of the expiry of the scheduled useful lives.

The **INTEREST RESULT**, defined as the balance of interest income and interest expenses, amounted to -9.8 million euros in the reporting quarter 2013, and was roughly in line with the figure for the previous year quarter (-9.7 million euros), corresponding to the approximately constant average level of net debt during each quarter compared with the corresponding previous year figure.

Due to the factors detailed above, **PRE-TAX GROUP EARNINGS (EBT)** increased by 23.0 million euros compared with the previous year, to the current figure of 68.8 million euros.

INCOME TAX EXPENSES of 5.2 million euros are reported for the current quarter; compared with income of 3.2 million euros from income taxes in the previous year quarter, this represents a decline of 8.4 million euros, which is mainly due to lower deferred tax income resulting from temporary differences caused by the lower depreciation on intangible assets from the debitel purchase price allocation.

As was the case in the corresponding period of the previous year, the **GROUP EARNINGS** reported in the third quarter of 2013 was exclusively attributable to continued operations, and amounted to a total of 63.6 million euros; compared with the figure of 49.0 million euros reported for the previous year comparison quarter, this represents an increase of 29.8 percent.

Assets and financial position

Assets

Figures in € million	30. 9. 2013
Non-current assets	1,835.8
Current assets	640.6
Balance sheet total	2,476.4
Figures in € million	30. 6. 2013
Non-current assets	1,767.5
Current assets	622.2
Balance sheet total	2,389.7

Shareholders' equity and liabilities

Figures in € million	30. 9. 2013
Shareholders' equity	1,179.3
Non-current and current liabilities	1,297.1
Balance sheet total	2,476.4
Figures in € million	30. 6. 2013
Shareholders' equity	1,115.7
Non-current and current liabilities	1,274.0
Balance sheet total	2,389.7

The **BALANCE SHEET TOTAL** as of 30 September 2013 amounted to 2,476.4 million euros, and thus increased by 86.6 million euros (+3.6 percent) compared with 30 June 2013 (2,389.7 million euros).

On the **ASSETS SIDE** of the balance sheet, non-current assets increased by 68.3 million euros. This is mainly due to an increase of 55.2 million euros in intangible assets, mostly caused by the extension of the distribution right granted by Media-Saturn Deutschland GmbH.

In current assets, firstly trade accounts receivable have increased by 35.8 million euros to 425.2 million euros. This is mainly attributable to receivables due from network operators arising from accrued annual bonuses. Secondly, liquid funds declined by 26.4 million euros to 100.7 million euros. It has to be borne in mind that, in the previous quarter, the revolving credit line had been utilised to the extent of 60.0 million euros as a result of the dividend payment, whereas the credit line had not been utilised as of 30 September 2013. Last quarter, a total of 40.1 million euros was repaid against the principal of financial debt arrangements. The resultant increase in liquid funds adjusted by the above two elements mainly related to cash flow from operating activities.

On the **LIABILITIES SIDE** of the balance sheet, gross financial debt declined by 91.6 million euros compared with 30 June 2013, namely to 572.7 million euros. As mentioned above, the extent to which the revolving credit line was utilised declined by 60.0 million euros; in addition, financial debt under the amortising loan declined as a result of a planned repayment of principal of 40.0 million euros. The figure shown in the balance sheet for a corporate bond increased by 7.6 million euros as a result of non-cash-effective interest accruals in the reporting quarter.

The increase of 57.6 million euros in non-current other liabilities is due to the extension of the distribution right granted by Media-Saturn Deutschland GmbH. The current assets trade accounts payable increased by 37.4 million euros to 412.8 million euros. This increase is due to various factors, including the increase in inventories.

The **EQUITY RATIO** increased from 46.7 percent at the end of June 2013 to 47.6 percent at the end of September 2013, mainly as a result of the consolidated net income generated in the reporting quarter. **NET FINANCIAL DEBT** amounted to 471.9 million euros as of 30 September 2013 (30 June 2013: 537.2 million euros). The reduction of 65.2 million euros within the reporting quarter 2013 is mainly attributable to the free cash flow of 74.9 million euros.

Cash flow

Figures in € million	Q3/2013	Q3/2012	Change
Cash flow from operating activities	81.9	77.6	4.3
Cash flow from investing activities	-7.6	-5.0	-2.6
Cash flow from financing activities	-40.7	-41.5	0.8
Change in cash and cash equivalents	33.6	31.1	2.5
Free cash flow	74.9	71.9	3.0

In the third quarter of 2013, the **CASH FLOW FROM OPERATING ACTIVITIES** is reported as 81.9 million euros, equivalent to an increase of 4.3 million euros compared with the previous year quarter. With EBITDA virtually constant, this increase is mainly due to the reduced increase in net working capital (down by 10.4 million euros to 2.0 million euros). On the other hand, tax payments increased by 5.0 million euros in the reporting quarter compared with Q3/2012.

CASH FLOW FROM INVESTING ACTIVITIES amounted to -7.6 million euros in Q3/2013, compared with -5.0 million euros in the third quarter of 2012. In the reporting quarter, the main investment related to in-house software development in connection with numerous strategic projects as well as IT developments.

In the reporting quarter, **CASH FLOW FROM FINANCING ACTIVITIES** improved to -40.7 million euros compared with -41.5 million euros in the comparison period 2012. In the reporting quarter, as was the case in the previous year, the main item in this respect was the scheduled repayment of 40.0 million euros in relation to the amortising loans.

In the third quarter of 2013, the factors detailed above meant that **FREE CASH FLOW** amounted to 74.9 million euros, representing an increase of 3.0 million euros compared with the corresponding previous year quarter.

Key figures of financial strategy

The following overview shows the key indicators of our financial strategy with their current figures compared with the previous year quarter. For all periodic figures such as EBITDA and net interest income, the relevant period is the previous 12 months (i. e. October 2012 to September 2013 and October 2011 to September 2012).

At the end of February 2013, the Executive Board revised its targets when the provisional figures for the financial year 2012 were published: The range of the debt factor was extended from the previous factor of 1.5–2.5 to the current figure of 1.0–2.5, whereas the key performance indicators, interest cover and equity ratio, were not changed.

	Target 2013/14	Q3/2013	Q3/2012
Debt factor ¹	1.0–2.5	1.3	1.4
Interest cover	> 5	8.5	8.6
Equity ratio	> 50 %	47.6 %	50.3 %

¹ calculated as the ratio of net debt to EBITDA

The debt factor is currently running at 1.3, which is still within our target range.

Interest cover of 8.5 is still considerably higher than the target level. There has been a minor change compared with the previous year figure, as EBITDA and also average net financial debt (and consequently also net interest income) are running at a comparable level.

As of 30 September 2013, the equity ratio was just below the target of 50 percent. The slight decline with the corresponding 2012 reference date is mainly due to the dividend payment of 172.8 million euros in Q2/2013. We are assuming that this figure will increase slightly in the following two quarters until the next dividend payment.

Employees

The number of employees increased slightly to 4,593 at the end of the third quarter of 2013, compared with 4,516 at the end of the second quarter of 2013. At the end of September 2012, the total number of employees was stated as 3,927. The strong increase compared with the previous year is due to the fact that the employees of GRAVIS and MOTION TM have been included since the first quarter of 2013.

Opportunities and risk report

In the third quarter of 2013, there were no significant changes compared to the opportunities and risks described in detail under “Opportunities and Risk Report” in the interim report for the second quarter of 2013. The interim report for the second quarter of 2013 is available online at www.freenet-group.de/investor/publications/quarterly-annual-reports.

The Executive Board confirms its guidance for the current financial year as included in the Group Management Report for the financial year 2012. There were no significant changes in the third quarter of 2013.

Accordingly, for the financial years 2013 and 2014 the Executive Board continues to expect a slight increase in customer ownership (postpaid and no-frills customer base), which we have defined as a key performance indicator for the company, with postpaid ARPU expected to stabilise in the region of 23 euros. For the financial year 2013, a rise in Group revenue is expected, with further slight growth in the financial year 2014.

For the financial years 2013 and 2014, the company aims to achieve Group EBITDA of 355 million euros and of 360 million euros respectively, and free cash flow of 255 million euros and of 260 million euros respectively.

Significant events after the reporting date

There were no significant events after the reporting date.

Forecast

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

Transactions with related parties

The following major receivables due from and liabilities due to related parties existed as of 30 September 2013:

Figures in €'000s	1. 1. 2013 –30. 9. 2013	1. 1. 2012 –30. 9. 2012
Sales and income attributable to services		
Joint ventures		
FunDorado GmbH, Hamburg	171	209
Companies with a major influence on freenet AG¹		
b2c.de GmbH, Munich (Drillisch AG Group)	286	920
	457	1,129
Purchased services and onward charging		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	n/a	27
Joint ventures		
Fundorado GmbH, Hamburg	8	0
siXXup new Media GmbH, Pulheim	0	98
NetCon Media s.r.o., Hlucin, Czech Republic	0	2
Companies with a major influence on freenet AG¹		
Drillisch AG, Maintal	0	13
eteleon e-solutions AG, Munich (Drillisch AG Group)	24	0
b2c.de GmbH, Munich (Drillisch AG Group)	3,029	13,795
	3,061	13,935

All transaction prices were negotiated under commercial terms.

If the parties were not classified as related parties under IAS 24, no details were provided (n/a).

Figures in €'000s	30.9.2013	30.9.2012
Receivables from regular transactions		
Joint ventures		
FunDorado GmbH, Hamburg	57	23
siXXup new Media GmbH, Pulheim	0	2
Companies with a major influence on freenet AG¹		
b2c.de GmbH, Munich (Drillisch AG Group)	n/a	176
	57	201
Liabilities from regular transactions		
Companies with a major influence on freenet AG¹		
b2c.de GmbH, Munich (Drillisch AG Group)	n/a	469
	0	469

¹ According to a voting rights notification dated 25 March 2013, the voting rights of Drillisch AG, including the shares held by MSP Holding GmbH, totalled 10.43 percent at 20 March 2013. So, because Drillisch AG has not been able to exercise any controlling influence on the freenet Group since 20 March 2013, Drillisch AG and its affiliated companies are no longer classified as related parties. Transactions with companies in the Drillisch group during 2013 were therefore only reported as transactions with related parties if they occurred before 20 March 2013. According to the latest voting rights notification received by freenet from Drillisch AG, dated 1 October 2013, the voting rights of Drillisch AG, including the voting rights of MSP Holding GmbH allocated to it, amounted to 0.39 percent on 30 September 2013.

**Condensed interim
consolidated financial
statements**



Overview

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Consolidated income statement and consolidated statement of comprehensive income

for the period from 1 January to 30 September 2013

Figures in €'000s	Q1–Q3/2013 1. 1. 2013 –30. 9. 2013	Q1–Q3/2012 1. 1. 2012 –30. 9. 2012	Q3/2013 1. 7. 2013 –30. 9. 2013	Q3/2012 1. 7. 2012 –30. 9. 2012
Revenue	2,374,517	2,269,566	789,632	756,510
Other operating income	48,893	45,629	16,353	11,402
Other own work capitalised	6,887	4,816	4,024	1,621
Cost of materials	-1,843,032	-1,749,885	-607,990	- 574,232
Personnel expenses	-126,336	-117,719	-44,744	-39,363
Depreciation and impairment write-downs	-41,718	-111,100	-14,010	-37,024
Other operating expenses	-198,115	-190,174	-64,775	-63,728
Operating result	221,096	151,133	78,490	55,186
Share of results of associates	215	1,002	90	293
Interest receivable and similar income	1,161	2,179	374	696
Interest payable and similar expenses	-31,071	-32,279	-10,158	-10,383
Result before taxes on income	191,401	122,035	68,796	45,792
Taxes on income	-12,237	9,157	-5,222	3,184
Group result from continued operations	179,164	131,192	63,574	48,976
Group result from discontinued operations	0	0	0	0
Group result	179,164	131,192	63,574	48,976
Group result attributable to shareholders of freenet AG	179,028	131,113	63,674	48,939
Group result attributable to non-controlling interest	136	79	-100	37
Earnings per share in € (undiluted)	1.40	1.02	0.50	0.38
Earnings per share in € (diluted)	1.40	1.02	0.50	0.38
Earnings per share from continued operations in € (undiluted)	1.40	1.02	0.50	0.38
Earnings per share from continued operations in € (diluted)	1.40	1.02	0.50	0.38
Earnings per share from discontinued operations in € (undiluted)	0.00	0.00	0.00	0.00
Earnings per share from discontinued operations in € (diluted)	0.00	0.00	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)	128,061	128,061	128,061	128,061
Weighted average of shares outstanding in thousand (diluted)	128,061	128,061	128,061	128,061

Figures in €'000s	Q1–Q3/2013 1. 1. 2013 –30. 9. 2013	Q1–Q3/2012 1. 1. 2012 –30. 9. 2012	Q3/2013 1. 7. 2013 –30. 9. 2013	Q3/2012 1. 7. 2012 –30. 9. 2012
Group result	179,164	131,192	63,574	48,976
Change in fair value of held-for-sale financial instruments	-75	-39	-10	-4
Taxes on income recognised directly in equity	22	11	3	1
Other comprehensive income (not recognised in profit or loss)/ to be reclassified to the income statement in the following periods	-53	-28	-7	-3
Other comprehensive income (not recognised in profit or loss)	-53	-28	-7	-3
Consolidated comprehensive income	179,111	131,164	63,567	48,973
Consolidated comprehensive income attributable to shareholders of freenet AG	178,975	131,085	63,667	48,936
Consolidated comprehensive income attributable to non-controlling interest	136	79	-100	37

Consolidated balance sheet

as of 30 September 2013

Assets

Figures in €'000s	30.9.2013	30.6.2013	31.12.2012 adjusted
Non-current assets			
Intangible assets	404,060	348,814	356,533
Goodwill	1,122,112	1,122,112	1,116,680
Property, plant and equipment	32,227	32,729	28,316
Investments in associates	1,390	1,300	1,425
Other investments	1,503	1,512	1,530
Deferred income tax assets	183,136	180,604	175,490
Trade accounts receivable	73,775	71,579	67,822
Other receivables and other assets	17,600	8,878	8,192
	1,835,803	1,767,528	1,755,988
Current assets			
Inventories	75,654	63,606	56,586
Current income tax assets	4,057	2,555	2,470
Trade accounts receivable	425,228	389,422	424,537
Other receivables and other assets	34,896	39,526	27,140
Cash and cash equivalents	100,718	127,076	204,621
Assets of disposal group classified as held-for-sale	0	0	7,350
	640,553	622,185	722,704
	2,476,356	2,389,713	2,478,692

Shareholders' equity and liabilities

Figures in €'000s	30.9.2013	30.6.2013	31.12.2012 adjusted
Shareholders' equity			
Share capital	128,061	128,061	128,061
Capital reserve	737,536	737,536	737,536
Cumulative other comprehensive income	-13,350	-13,343	-13,297
Retained earnings	323,861	260,187	324,883
Capital and reserves attributable to shareholders of freenet AG	1,176,108	1,112,441	1,177,183
Capital and reserves attributable to non-controlling interest	3,134	3,234	370
	1,179,242	1,115,675	1,177,553
Non-current liabilities			
Trade accounts payable	272	272	272
Other payables	65,271	7,650	49
Borrowings	517,363	517,117	556,105
Pension provisions	45,633	45,300	44,986
Other provisions	8,581	8,670	9,872
	637,120	579,009	611,284
Current liabilities			
Trade accounts payable	412,813	375,409	412,652
Other payables	135,207	116,436	117,714
Current income tax liabilities	37,248	35,379	29,257
Borrowings	55,298	147,135	100,449
Other provisions	19,428	20,670	22,458
Liabilities of disposal group classified as held-for-sale	0	0	7,325
	659,994	695,029	689,855
	2,476,356	2,389,713	2,478,692

Schedule of changes in equity

for the period from 1 January to 30 September 2013

Figures in €'000s adjusted	Cumulative other comprehensive income				Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
	Share capital	Capital reserve	Revaluation reserve	Actuarial val- uation reserve in accordance with IAS 19				
As of 1. 1. 2012	128,061	737,536	19	-4,573	305,398	1,166,441	279	1,166,720
Dividend payment	0	0	0	0	-153,613	-153,613	0	-153,613
Group result	0	0	0	0	131,113	131,113	79	131,192
Change in fair value of held- for-sale financial instruments	0	0	-28	0	0	-28	0	-28
Sub-total: Consolidated comprehensive income	0	0	-28	0	131,113	131,085	79	131,164
As of 30. 9. 2012	128,061	737,536	-9	-4,573	282,898	1,143,913	358	1,144,271

Figures in €'000s	Cumulative other comprehensive income				Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
	Share capital	Capital reserve	Revaluation reserve	Actuarial val- uation reserve in accordance with IAS 19				
As of 1. 1. 2013	128,061	737,536	-13	-13,284	324,883	1,177,183	370	1,177,553
Initial consolidation of subsidiaries	0	0	0	0	0	0	2,994	2,994
Dividend payment	0	0	0	0	-172,815	-172,815	0	-172,815
Acquisition of additional shares in subsidiaries	0	0	0	0	366	366	-366	0
Recognition of stock option liabilities connected to company acquisitions	0	0	0	0	-7,601	-7,601	0	-7,601
Group result	0	0	0	0	179,028	179,028	136	179,164
Change in fair value of held- for-sale financial instruments	0	0	-53	0	0	-53	0	-53
Sub-total: Consolidated comprehensive income	0	0	-53	0	179,028	178,975	136	179,111
As of 30. 9. 2013	128,061	737,536	-66	-13,284	323,861	1,176,108	3,134	1,179,242

Consolidated statement of cash flows

for the period from 1 January to 30 September 2013

Figures in €'000s	1. 1. 2013 –30. 9. 2013	1. 1. 2012 –30. 9. 2012
Result from continued and discontinued operations before interest and taxes (EBIT)	221,311	152,135
Adjustments		
Depreciation and impairment on items of fixed assets	41,718	111,100
Share of results of associates	-215	-1,002
Income from the sale of subsidiaries	-4,009	0
Profit/Loss on disposals of fixed assets	-1,119	308
Increase in net working capital not attributed to investing or financing activities	-26,420	-41,091
Other non-cash components	-197	-28
Income taxes paid	-16,380	-13,355
Cash flow from operating activities	214,689	208,067
Investments in property, plant and equipment and intangible assets	-13,129	-12,824
Proceeds from the disposal of property, plant and equipment and intangible assets	54	619
Purchase of subsidiaries	-13,176	0
Proceeds from the sale of subsidiaries	500	0
Outflow of funds from deconsolidation	-2,734	0
Return of capital from associates	250	1,156
Outflow of funds from other investments	0	152
Interest received	823	1,718
Cash flow from investing activities	-27,412	-9,179
Dividend payment	-172,815	-153,613
Payments for the acquisition of minority interests	-5,000	0
Cash repayments of borrowings	-84,961	-80,183
Interest paid	-31,136	-33,227
Cash flow from financing activities	-293,912	-267,023
Cash-effective change in cash and cash equivalents	-106,635	-68,135
Cash and cash equivalents 1. 1.	207,956	85,673
Cash and cash equivalents 30. 9.	101,321	17,538
Composition of cash and cash equivalents		
Figures in €'000s	30. 9. 2013	30. 9. 2012
Cash and cash equivalents of continued operations	101,321	52,538
Non-cash outflow of funds from changes from proportionate consolidation to at-equity accounting	-603	0
Liabilities as part of current finance scheduling due to banks	0	-35,000
	100,718	17,538
Composition of free cash flow		
Figures in €'000s	30. 9. 2013	30. 9. 2012
Cash flow from operating activities	214,689	208,067
Investments in property, plant and equipment and intangible assets	-13,129	-12,824
Proceeds from the disposal of property, plant and equipment and intangible assets	54	619
Free cash flow (FCF)	201,614	195,862

Selected explanatory notes in accordance with IAS 34

Major accounting, valuation and consolidation principles

1. In accordance with the European Parliament and Council Directive 1606/2002, these condensed consolidated interim financial statements have been prepared in line with the international accounting standards adopted by the European Union (the International Financial Reporting Standards; IFRS) in accordance with IAS 34. The Group has taken account of all IFRS which have been adopted by the EU and which are the subject of mandatory adoption. An audit review has not been carried out for these condensed consolidated interim financial statements.

The Group has implemented all accounting standards which have been the subject of mandatory adoption starting in the financial year 2013. Of the accounting standards which are the subject of first-time adoption, the following have not had any significant impact on the presentation of the net assets, financial position and results of operations of the Group: Amendment to IAS 12 (Deferred Taxes: Realisation of Underlying Assets), the amendments to IFRS 1 (first-time adoption of the IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters), IFRS 13 (Fair Value Measurement), IFRIC 20 (Stripping Costs in the Production Phase of a Surface Mine), the amendment to IFRS 7 (Financial Instruments Disclosures: Offsetting Financial Assets and Financial Liabilities), the amendment to IFRS 1 (Government Loans) as well as the various amendments as a result of the Annual Improvement Projects 2009-2011 (Improvements to the IFRS).

With regard to the impact of the amended standards IAS 19 (Employee Benefits) and IAS 1 (Presentation of Results—Presentation of the Individual Items of other Comprehensive Income) which are applicable starting in the financial year 2013 as well as the IFRS 11 (Joint Arrangements) which is the subject of voluntary early adoption, please refer to points 2 to 4 in these notes.

For the process of preparing the interim report as of 30 September 2013 and the process of establishing the comparison figures for the previous year, the accounting policies which were used were—with the above mentioned exemptions—the same as those used in the consolidated financial statements 2012. A detailed description of the accounting and valuation policies of the Group is set out in the notes to the consolidated financial statements 2012 of freenet AG.

2. IAS 19 (Employee Benefits) which is applicable for the first time has resulted in more extensive disclosure obligations in the notes with regard to employee benefits and also in particular the changes described in the following. Previously there has been an option with regard to how unexpected fluctuations in the pension obligations, the so-called actuarial profits and losses, were able to be presented in the financial statements. It was possible for such fluctuations to be recognised either (a) in the income statement, (b) in other comprehensive income or (c) after a delay using the so-called corridor method. freenet AG had used the corridor method. The new version of IAS 19 has abolished this option, which means that such fluctuations can now only be directly and fully recognised in other comprehensive income. In addition, past service cost now has to be recognised directly in profit or loss in the year

under review in which such cost was incurred. In addition, in the past, the expected income generated by plan assets was calculated at the beginning of the accounting period on the basis of the expectations of management regarding the development in the value of the investment portfolio. Following the application of the amended IAS 19, it is now only possible for a typified return on plan assets based on the discount rate of the pension obligations at the beginning of the period to be recognised. In addition, the income generated by the plan assets and the costs arising from the pension obligation now have to be shown as a net amount on the basis of the typified return.

The adjustment entry to be carried out as of 1 January 2013 has been reflected in the consolidated financial statements of freenet AG in the form of an increase in the pension provisions resulting from the entire disclosure of the cumulative actuarial losses of 18,789 thousand euros, an increase of 5,505 thousand euros in deferred tax assets and also in a reduction of 13,284 thousand euros in equity (cumulative other comprehensive income). In these condensed consolidated interim financial statements, corresponding retrospective adjustments in relation to the period from 1 January to 30 September 2012 have been recognised for the presentation of the balance sheet comparison list as of 31 December 2012 and the comparison list of changes in equity from 1 January to 30 September 2013.

3. As a result of the amendment to IAS 1 (Presentation of Financial Statements), the main change for freenet AG relates to the presentation of that part of the consolidated income statement which reconciles the consolidated result with the consolidated comprehensive income. The change means that the other comprehensive income now has to be broken down to indicate whether the changes in value recognised in other comprehensive income might have to be subsequently reclassified to the income statement (so-called recycling). No change has been made to the option of presenting the items of other comprehensive income on a pre-tax basis or on a post-tax basis. freenet has decided to present this item on a pre-tax basis. The taxes have to be distinguished in order to indicate whether they relate to items which will or will not be reclassified to the income statement in future.
4. Since 1 January 2013, the Group has voluntarily exercised the option of early adoption of IFRS 11 (Joint Arrangements). In this connection, the Group has also exercised the option of early adoption for the following standards: IAS 27 (Separate Financial Statements; no impact on the Group), IAS 28 (Investments in Associates and Joint Ventures; no material impact on the Group), IFRS 10 (Consolidated Financial Statements; no impact so far; the effects depend on the nature and extent of future transactions) as well as IFRS 12 (Disclosure of Interests in Other Entities; impact: further notes). FunDorado GmbH, as a joint venture which previously had been included in the consolidated financial statements using the pro-rata consolidation method, is now measured using the equity method. Accordingly, the interests of the Group in the assets, liabilities, income and expenses of FunDorado GmbH are no longer disclosed in the corresponding items in the consolidated financial statements. Instead, the interest of the Group in this joint venture as of 30 September 2013 is recognised in an amount of 1,390 thousand euros in the balance sheet

item “Investments in associates”. In accordance with the principle of retrospective application, a comparison figure of 1,425 thousand euros is shown as of 31 December 2012. The comparison previous year figures in the income statement have not been retrospectively adjusted for the first nine months of 2012, because they are not of a material nature. In the first nine months of 2012, FunDorado GmbH contributed 3.5 million euros to the consolidated revenue and 0.4 million euros to consolidated net income.

Significant events and transactions

5. On 18 December 2012, the Group concluded a purchase agreement for acquiring all shares and voting rights in Gravis—Computervertriebsgesellschaft mbH (“GRAVIS”). Following cartel law approval, the takeover was completed as of 31 January 2013, which enabled the Group to acquire control over this subsidiary. GRAVIS is the only Apple dealer with nationwide coverage in the German Apple retail market. GRAVIS also operates significant online business.

A figure of 12,250 thousand euros was agreed as the cash purchase price. The cash purchase price is subject to adjustments, depending on the net current assets as well as the cash and financial liabilities of the acquired company. The purchase price adjustments which are relevant in this respect have now been defined in a binding manner, resulting in a final cash purchase price after purchase price adjustments of 10,078 thousand euros; this was paid in the first two quarters of 2013.

In addition, there may also be earn-outs in a range of between 0 euros and 6.25 million euros; the exact amount of these earn-outs is based on EBITDA calculated under commercial law for the calendar year 2013 of GRAVIS and, under certain circumstances, may also depend on the commercial law EBITDA of the acquired company achieved for the calendar year 2012.

The purchase price allocation carried out with regard to the acquisition of GRAVIS in accordance with IFRS 3 is final.

The following overview provides information concerning the assets and liabilities of GRAVIS acquired at fair values at the time of initial consolidation:

Assets and liabilities of GRAVIS at fair values as of 31 January 2013

Assets

Figures in €'000s	31.1.2013
Non-current assets	
Intangible assets	7,662
Goodwill	3,594
Property, plant and equipment	5,682
	16,938
Current assets	
Inventories	18,842
Trade accounts receivable	3,791
Other receivables and other assets	1,479
Cash and cash equivalents	2,044
	26,156
	43,094

Liabilities

Figures in €'000s	31.1.2013
Non-current liabilities	
Deferred income tax liabilities	1,933
	1,933
Current liabilities	
Trade accounts payable	15,328
Other liabilities and accruals	4,435
Current income tax liabilities	173
Borrowings	5,409
Other provisions	574
	25,919
	27,852

The anticipated total purchase price (final cash purchase price of 10,078 thousand euros plus the anticipated earn-outs of 5,164 thousand euros) represent the difference between the assets and liabilities of 15,242 thousand euros. The purchase price allocation has resulted in goodwill of 3,594 thousand euros, which is mainly attributable to the competence of GRAVIS to continue to acquire new customers in future, the distribution organisation of GRAVIS and also the workforce of GRAVIS which cannot be recognised separately in the balance sheet. The goodwill was attributed to the cash-generating unit "Mobile communications". The acquired intangible assets mainly comprise customer relations of 4,334 thousand euros as well as trademark rights of 2,262 thousand euros which were recognised as a result of the purchase price allocation. As a result of subsequent depreciation of the intangible assets recognised in the course of purchase price allocation, depreciation of 474 thousand euros has to be recognised in each quarter of the following financial years. No contingent liabilities have been recognised in the purchase price allocation. The fair value of the acquired receivables is stated as 5,270 thousand euros; this figure had been received almost in full as of 30 September 2013. Impairments of 73 thousand euros had been created in relation to gross receivables of 3,864 thousand euros as of the date of acquisition. The Company has not identified any transactions which have to be disclosed separately from the acquisition of the assets and transfer of liabilities.

The aim of the acquisition of GRAVIS is to extend our range of high-quality Apple Lifestyle products in connection with mobile communications and mobile internet; this is consistent with the corporate strategy of our Group of becoming a genuine

digital lifestyle provider. At the same time, we are planning to gradually introduce our existing digital lifestyle products in the field of energy, mobile communications services and service products into the GRAVIS distribution system. The planned expansion of mobile communications business in the GRAVIS stores is intended to be achieved by a direct transfer of know how of mobilcom-debitel Shop GmbH.

In segment reporting of the freenet AG Group, GRAVIS is allocated to the segment "Mobile Communications".

6. On 20 February 2013, the Group concluded a purchase and assignment agreement regarding the acquisition of 51 percent of the shares in MOTION TM Vertriebs GmbH, Troisdorf ("MOTION TM"). After approval was obtained from the cartel authorities, the transaction was completed on 20 March 2013; the Group has accordingly acquired control over this subsidiary.

With this acquisition, freenet AG has strengthened its distribution force particularly in the field of online operations. With its distribution platform "moon", MOTION TM also provides the necessary system competence for providing sales support to approved dealers.

A figure of 4.0 million euros was agreed as the cash purchase price. The cash purchase price is subject to adjustments, depending on the net current assets as well as the cash and financial liabilities of the acquired company. The purchase price adjustments which are relevant in this respect have now been defined in a binding manner, resulting in a final cash purchase price after purchase price adjustments of 5,065 thousand euros. Of this figure, 4,000 thousand euros were reported as an outflow in the Group in the first quarter of 2013; the remaining figure of 1,065 thousand euros was paid in the third quarter of 2013.

The purchase price allocation carried out with regard to the acquisition of MOTION TM accordance with IFRS 3 is final.

The following overview provides information concerning the assets and liabilities of MOTION TM acquired at fair values at the time of initial consolidation:

Assets and liabilities of MOTION TM at fair values as of 20 March 2013

Assets

Figures in €'000s	20.3.2013
Non-current assets	
Intangible assets	4,342
Goodwill	1,948
Property, plant and equipment	682
	6,972
Current assets	
Inventories	3,373
Trade accounts receivable	9,055
Other receivables and other assets	839
Cash and cash equivalents	582
	13,849
	20,821

Liabilities

Figures in €'000s	20.3.2013
Non-controlling interests in shareholders' equity	2,994
Non-current liabilities	
Borrowings	337
Deferred income tax liabilities	1,259
Other provisions	55
	1,651
Current liabilities	
Trade accounts payables	6,430
Other liabilities and accruals	3,765
Current income tax liabilities	878
Borrowings	38
	11,111
	15,756

The purchase price is the difference between the assets and liabilities of 5,065 thousand euros. Goodwill of 1,948 thousand euros has been calculated using the proportionate holding method. The goodwill is essentially attributable to future earnings opportunities in connection with strengthening our sales capability particularly with regard to online activities. The goodwill was attributed to the cash-generating unit "Mobile communications". The acquired intangible assets mainly comprise customer relations of 3,193 thousand euros as well as trademark rights of 1,105 thousand euros which were recognised as a result of the purchase price allocation. As a result of subsequent depreciation of the intangible assets recognised in the course of purchase price allocation, depreciation of 288 thousand euros has to be recognised in each quarter of the following financial years. No contingent liabilities have been recognised in the purchase price allocation. The fair value of the acquired receivables amounts to 9,894 thousand euros. Impairments of 15 thousand euros had been created in relation to trade accounts receivable with a gross value of 9,070 thousand euros as of the date of the acquisition.

In segment reporting of the freenet AG Group, MOTION TM is allocated to the segment "Mobile Communications".

In connection with the acquisition of MOTION TM, various options have been agreed with regard to a future acquisition of the remaining 49 percent of shares. Among other things, the minority shareholders own options for serving the

remaining shares which exist at the time of exercising. A long-term other liability of 7,668 thousand euros was recognised for these options as of 30 September 2013. This liability was recognised for the first time in the second quarter of 2013 against the consolidated cumulative profit of 7,601 thousand euros.

7. With effect from 30 April 2013, the Group acquired the remaining 49 percent of shares in MFE Energie GmbH by exercising an existing option for serving the shares, for a purchase price of 5,000 thousand euros. This figure was paid in the second quarter of 2013. This acquisition of remaining shares had an impact on the consolidated balance sheet by way of reclassification within equity—the consolidated result has thus not been affected.
8. The cash flow statement for the first nine months of 2013 shows outflows of 13,176 thousand euros for the acquisition of subsidiaries under cash flow from investing activities. In addition to the cash purchase prices totalling 15,143 thousand euros which were paid for the acquisitions of GRAVIS as well as MOTION TM, the Group received cash and cash equivalents totalling 1,967 thousand euros in the cash flow statement as a result of the initial consolidation of the acquired companies (cash and cash equivalents less liabilities due to banks within the framework of short-term finance scheduling). The figure of 5,000 thousand euros paid in the second quarter of 2013 for the acquisition of the remaining shares in MFE Energie GmbH reduced the cash flow from financing activities.
9. After the times of their initial consolidation, the two acquired companies GRAVIS and MOTION TM contributed a total of 157.8 million euros to external Group revenue during the first nine months of 2013. If both transactions had taken place as of 1 January 2013, the contribution made by these two companies to the consolidated revenue in the first nine months of 2013 would have been 198.6 million euros. The contribution to the result of the Group was of minor significance. This is also applicable if both transactions had taken place as of 1 January 2013.
10. The starting point for the cash flow statement is the result of the continued and discontinued operations before interest and taxes (EBIT). The way in which this result is derived from the consolidated income statement is shown in the following:

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

Figures in €'000s	1. 1. 2013 –30. 9. 2013	1. 1. 2012 –30. 9. 2012
Result before taxes on income of continued operations	191,401	122,035
Interest and similar expenses of continued operations	31,071	32,279
Interest and similar income of continued operations	-1,161	-2,179
Result of continued and discontinued operations before interest and taxes (EBIT)	221,311	152,135

11. The depreciation and impairments have declined by 69.4 million euros compared with the first nine months of 2012, namely to 41.7 million euros. This is almost exclusively attributable to lower depreciation recognised in relation to intangible assets resulting from the purchase price allocation on the occasion of the debitel acquisition, after the depreciation for the main assets expired as of 31 December 2012 as a result of the expiry of the scheduled useful lives. The lower depreciation also resulted in lower deferred tax assets, and was thus one of the major factors behind the decline of 21.4 million euros in the result of taxes on income.
12. In the reporting period 2013, profits of 4.0 million euros from the deconsolidation of freeXmedia GmbH, which was sold with effect from 1 January 2013, were shown within the other operating income. With regard to the disclosures in the notes relating to the sale of freeXmedia GmbH, please refer to our annual report 2012, notes, item 25. In the comparison period of the previous year, income of the same order of magnitude attributable to other periods was generated as a result of settlements which had been agreed.

Other disclosures

13. We wish to provide the following information with regard to fair values:

Financial instruments according to classes as of 30 September 2013

Figures in €'000s	Valuation category according to IAS 39	Carrying amount 30.9.2013	Approach				Fair value 30.9.2013
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	100,718	100,718				100,718
Total cash and cash equivalents		100,718	100,718				100,718
Other financial assets (measured at cost of purchase)	HFS	503		503			-
Other financial assets (measured at fair value)	HFS	1,000				1,000	1,000
Total other financial assets		1,503					
Trade accounts receivable	LR	499,003	499,003				499,077
Other non-derivative financial assets	LR	27,626	27,626				27,626
Held-for-sale other assets	HFS	2,900				2,900	2,900
Derivative financial assets	FIPL	0			0		0
Non-financial assets		21,269					
Sum of receivables and other assets		51,795					

Figures in €'000s	Valuation category according to IAS 39	Carrying amount 30.9.2013	Approach				Fair value 30.9.2013
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Liabilities							
Trade accounts payable	FLAC	413,085	413,085				413,085
Financial debt (liabilities due to banks and shareholders)	FLAC	572,192	572,192				618,954
Derivative financial liabilities	FIPL	0			0		0
Sum of financial liabilities within the scope of IFRS 7		572,192					618,954
Other non-derivative financial liabilities	FLAC	110,247	110,247				110,247
Non-financial liabilities		93,346					
Sum of liabilities and deferrals		203,593					
Financial instruments not covered by the scope of IFRS 7							
Present values of liabilities from finance lease according to IAS 17		469					469
Pension provisions according to IAS 19		45,633					45,633
Provisions for employee participation programmes according to IFRS 2		3,544					3,544
Sum of financial instruments not covered by the scope of IFRS 7		49,646					
Thereof aggregated by valuation categories according to IAS 39:							
Held-for-sale financial instruments	HFS	4,403		503		3,900	3,900
Loans and receivables	LR	627,347	627,347				627,421
Financial instruments measured at fair value through profit or loss	FIPL	0			0		0
Financial liabilities measured at amortised cost of purchase	FLAC	-1,095,524	-1,095,524				-1,142,286

Fair value hierarchy as of 30 September 2013

Figures in €'000s				
	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	2,900	2,900	0	0
Other financial assets	1,000	1,000	0	0
Derivative financial receivables	0	0	0	0
Total	3,900	3,900	0	0

There have not been any shifts with regard to the levels.

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

14. Compared with the consolidated financial statements for the period ending 31 December 2012, the consolidation group was unchanged with the exception of the above-mentioned company acquisitions, with the exception of the deconsolidations of freeXmedia GmbH and four minor group companies without any operations and also with due consideration being given to the amended consolidation method for FunDorado GmbH, as explained in item 4 of these notes.
15. As was the case in the consolidated financial statements 2012, an average tax rate of 29.3 percent (previous year comparison period: 29.4 percent) was used as the basis for calculating the current and deferred taxes on income.
16. During the first nine months of 2013, the net financial debt increased by 20.0 million euros, from 451.9 million euros to 471.9 million euros. This is mainly due to the dividend of 172.8 million euros which was paid out in May 2013, as well as the payments for interest and acquisitions, whereas the free cash flow of 201.6 million euros generated in the reporting period had a positive impact on financial debt.
17. On 6 August 2013, freenet AG renewed the existing cooperation agreement governing the exclusive sales partnership between its wholly owned subsidiary mobilcom-debitel GmbH with Media-Saturn Deutschland GmbH ahead of schedule for a period of at least another three years. Under the sales cooperation, mobilcom-debitel GmbH sells own tariffs and the original tariffs of the mobile network operators T-Mobile, Vodafone and E-Plus as well as its own mobile communications products and services in all Media Markt and Saturn stores across Germany. The products of Telefonica Deutschland AG (formerly Telefonica O₂ Germany) continue to remain exempt from this cooperation. The last renewal of the cooperation until end of 2013 was agreed by freenet AG and Media-Saturn Deutschland GmbH in January 2011.

As of 30 September 2013, compared with the corresponding previous quarter reference date, there were significant increases in intangible assets, the current trade accounts payable and the non-current other liabilities, mainly as a result of a new distribution right granted on the occasion of the extension of the cooperation with Media-Saturn Deutschland GmbH. In the balance sheet as of 30 September 2013, the sales rights are recognised under intangible assets with a residual carrying amount of 67.1 million euros (30 June 2013: 11.4 million euros), and the liabilities arising from distribution rights (with the current element shown in trade accounts payable and the non-current element shown in the other liabilities incl. VAT were shown with a total of 87.2 million euros (30 June 2013: 29.4 million euros).

18. There were no further significant events after the reference date.
19. Segment reporting (see next double page)

Segment report from 1 January to 30 September 2013

Figures in €'000s	Mobile Communications	Other/Holding	Elimination of intersegment revenue and cost	Total
Third-party revenue	2,346,432	28,085	0	2,374,517
Intersegment revenue	4,305	7,389	-11,694	0
Revenue, total	2,350,737	35,474	-11,694	2,374,517
Cost of materials, third parties	-1,830,961	-12,071	0	-1,843,032
Intersegment cost of materials	-3,619	-4,217	7,836	0
Cost of materials, total	-1,834,580	-16,288	7,836	-1,843,032
Segment Gross profit	516,157	19,186	-3,858	531,485
Other operating income	43,220	8,482	-2,809	48,893
Other own work capitalised	6,470	417	0	6,887
Personnel expenses	-109,134	-17,202	0	-126,336
Other operating expenses	-192,944	-11,838	6,667	-198,115
Share of results of associates	0	215	0	215
Segment EBITDA	263,769	-740	0	263,029
Depreciation and impairment write-downs	-38,909	-2,809	0	-41,718
Segment EBIT	224,860	-3,549	0	221,311
Group financial result				-29,910
Taxes on income				-12,237
Group result from continued operations				179,164
Group result from discontinued operations				0
Group result				179,164
Group result attributable to shareholders of freenet AG				179,028
Group result attributable to non-controlling interest				136
Investments in continued operations	11,913	1,216		13,129

Segment report from 1 January to 30 September 2012

Figures in €'000s

	Mobile Communications	Other/Holding	Elimination of intersegment revenue and cost	Total
Third-party revenue	2,220,282	49,284	0	2,269,566
Intersegment revenue	3,587	7,050	-10,637	0
Revenue, total	2,223,869	56,334	-10,637	2,269,566
Cost of materials, third parties	-1,726,198	-23,687	0	-1,749,885
Intersegment cost of materials	-3,491	-3,504	6,995	0
Cost of materials, total	-1,729,689	-27,191	6,995	-1,749,885
Segment Gross profit	494,180	29,143	-3,642	519,681
Other operating income	40,454	8,444	-3,296	45,629
Other own work capitalised	4,244	623	-51	4,816
Personnel expenses	-97,080	-20,639	0	-117,719
Other operating expenses	-179,585	-17,551	6,962	-190,174
Share of results of associates	0	1,002	0	1,002
Segment EBITDA	262,213	1,022	0	263,235
Depreciation and impairment write-downs	-107,599	-3,501	0	-111,100
Segment EBIT	154,614	-2,479	0	152,135
Group financial result				-30,100
Taxes on income				9,157
Group result from continued operations				131,192
Group result from discontinued operations				0
Group result				131,192
Group result attributable to shareholders of freenet AG				131,113
Group result attributable to non-controlling interest				79
Investments in continued operations	9,825	2,999		12,824

Further information



Financial calendar

26 March 2014¹

Publication of the consolidated financial statements/Annual Report 2013

8 May 2014¹

Publication of interim report for the first quarter of 2014

13 May 2014¹

Annual General Meeting

7 August 2014¹

Publication of interim report for the second quarter of 2014

7 November 2014¹

Publication of interim report for the third quarter of 2014

¹ Probable dates.

Imprint, contact, publications

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The annual report and our interim reports are also available on at:
www.freenet-group.de/investor/publications/quarterly-annual-reports/index.html

The English version of the Interim Report is a translation of the German version of the Interim Report. The German version of this Interim Report is legally binding.

Current information concerning freenet AG and the freenet share is available on our website at www.freenet-group.de.



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