Interim Report on the 2nd quarter 2012

freenet AG ▪ Hollerstraße 126 ▪ 24782 Büdelsdorf

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Key financials: overview Group

Result

Figures in € million	1st half 2012	1st half 2011	Q2/2012	Q1/2012	Q2/2011
Revenue	1,486.4	1,546.3	742.2	744.2	757.5
Gross profit	337.4	335.7	170.6	166.9	171.0
EBITDA	170.7	162.3[1]	85.6	85.1	83.9[2]
EBIT	96.7	70.8	48.6	48.0	38.2
EBT	76.2	42.8	38.7	37.6	19.4
Group result from continued operations	82.2	46.7	41.6	40.6	20.8
Group result from discontinued operations	0.0	0.1	0.0	0.0	0.0
Group result	82.2	46.9	41.6	40.6	20.8
Earnings per share (€)	0.64	0.37	0.32	0.32	0.17

Balance sheet

	30.6.2012	30.6.2011	30.6.2012	31.3.2012	30.6.2011
Balance sheet total in € million	2,324.6	2,548.1	2,324.6	2,364.1	2,548.1
Shareholders' equity in € million	1,099.9	1,181.3	1,099.9	1,211.9	1,181.3
Equity ratio in %	47.3	46.4	47.3	51.3	46.4

Finances and investments

Figures in € million	1st half 2012	1st half 2011	Q2/2012	Q1/2012	Q2/2011
Free cash flow[3,4]	124.0	124.2	51.6	72.4	51.7
Depreciation and amortisation	74.1	91.5	37.0	37.1	45.7
Investments[4]	7.2	10.6	4.5	2.6	5.9
Net cash[4,5]	–575.7	–522.8	–575.7	–466.2	–522.8

Share

	30.6.2012	30.6.2011	30.6.2012	31.3.2012	30.6.2011
Closing price XETRA (€)	11.47	9.55	11.47	12.13	9.55
Number of ordinary shares (in thousand)	128,061	128,061	128,061	128,061	128,061
Market capitalisation (in €'000s)	1,468,860	1,222,983	1,468,860	1,533,380	1,222,983

Employees

	30.6.2012	30.6.2011	30.6.2012	31.3.2012	30.6.2011
Employees	3,905	4,069	3,905	4,004	4,069

Key financials: overview Mobile Communications segment

Customer development

Figures in million	1st half 2012	1st half 2011	Q2/2012	Q1/2012	Q2/2011
Mobile Communications customers[5]	14.46	15.20	14.46	14.74	15.20
Thereof customer ownership	8.23	7.89	8.23	8.15	7.89
Thereof contract customers	5.69	5.84	5.69	5.69	5.84
Thereof no-frills customers	2.54	2.05	2.54	2.46	2.05
Thereof prepaid customers	6.23	7.32	6.23	6.58	7.32
Gross new customers	1.76	2.04	0.83	0.93	0.87
Net change	–0.73	–0.45	–0.28	–0.45	–0.44

Result

Figures in € million	1st half 2012	1st half 2011	Q2/2012	Q1/2012	Q2/2011
Revenue	1,456.1	1,512.3	726.9	729.2	740.8
Gross profit	320.9	316.0	162.5	158.3	161.5
EBITDA	169.3	157.4[6]	87.2	82.2	81.3[7]
EBIT	97.5	68.4	51.3	46.2	36.9

Monthly average revenue per user (ARPU)

Figures in €	1st half 2012	1st half 2011	Q2/2012	Q1/2012	Q2/2011
Contract customer	23.5	23.5	23.5	23.4	23.7
Prepaid customer	2.9	3.1	2.9	2.8	3.1
No-frills customer	4.0	4.6	4.0	3.9	4.7

1 Recurring EBITDA: 1st half 2011: 173.9 million euros.
2 Recurring EBITDA: Q2/2011: 89.7 million euros.
3 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.
4 This information relates to the overall Group (including discontinued operations).
5 At the end of period.
6 Recurring EBITDA: 1st half 2011: 169.4 million euros.
7 Recurring EBITDA: Q2/2011: 88.4 million euros.

To our shareholders

Letter to shareholders

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

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

In the second quarter of 2012, freenet AG seamlessly continued its positive performance of the first quarter, and released new products related to mobile voice and data services as it resolutely pressed on with the company's focus on valuable customer relationships. The aim of this strategy, which has been pursued for the last three years, is to secure long-term high profitability with stable ARPUs, especially in the key segment of the company's own contract customers.

The strong figures for the second quarter demonstrate that we have again succeeded at this:

- In a competitive environment that continues difficult and with prices that continue to fall, revenues stabilised at 742.2 million euros in the second quarter after 744.2 million euros in the first quarter 2012; the first half of the year with 1.49 billion euros roughly remains on the same level of the first six months of 2011 (1st half 2011: 1.55 billion euros).
- As a consequence, second-quarter gross profit also stabilised at 170.6 million euros, after 166.9 million euros in Q1/2012 and 171.0 million euros in Q2/2011. In the first half of 2012, 337.4 million euros in gross profit were generated compared with 335.7 million euros in the same period last year.
- EBITDA slightly increased year-on-year to 85.6 million euros and totalled 170.7 million euros for the first half of 2012, compared with 162.3 million euros in the first six months of 2011.
- The Group result of 82.2 million euros for the first half of 2012 showed a very positive year-on-year development (1st half 2011: 46.9 million euros).

- At 124.0 million euros, free cash flow in the half year was almost exactly the same as a year earlier (124.2 million euros).
- In the important contract customer segment, second-quarter and first half 2012 ARPU are on the same level as first half of 2011: at 23.50 euros.
- The number of customers is also developing according to our annual plan—particularly in our important customer ownership base, which increased from 7.89 million in Q2/2011 and 8.15 million in the previous quarter to currently 8.23 million. Of these, 5.69 million are contract customers (Q1/2012: 5.69 million) and 2.54 million are in the no-frills sector (Q1/2012: 2.46 million). The total number of customers at the end of June 2012 was around 14.46 million.

Competition intensified further over the course of the second quarter, especially in the SIM-only market—with further price reductions, especially on combo products for mobile communications and mobile internet, designed to generate increases in market share. Against this background, freenet AG has tackled the competition with attractive new tariffs and services, while also launching a large-scale marketing campaign to accompany this product drive.

One tariff highlight here is our klarmobil.de AllNet-Spar-Flat in the no-frills segment, which since May has offered an all-inclusive package on the O_2 network with flat rates for the internet, to landlines and all German mobile networks, for 19.85 euros/month. Another highlight is the freeFLAT launched in June. For 29.95 euros a month, it offers unlimited calls to all German mobile networks and landlines as well as an internet flat rate for mobile browsing, on top T-Mobile network quality. The tariff is available with a fixed contract period of 24 months and thus it clearly has the characteristics of a contract tariff. This makes klarmobil.de the only mobile communications discounter to offer an AllNet flat rate on two networks: O_2 and T-Mobile.

Our new marketing campaign, launched in mid-April under the slogan “Gemeinsam geht mehr” (Getting more together), highlights our prominent market position with over 14 million customers and the resulting customer benefit: our comprehensive portfolio of tariffs, devices and services on all mobile networks sets us apart from the competition, and at the same time our customers benefit from our respective purchasing power vis-à-vis network operators and device manufacturers, in the form of better terms.

In the past few months, we have heavily communicated the benefits of our market position on all relevant marketing channels. Regarding the campaign’s success, we can already note that towards the end of the second quarter the recognition value and prompted advertising recall for our main brand mobilcom-debitel is as high as with previous, very long-running marketing campaigns.

We have also continued to pursue our activities to play a part in shaping the digital lifestyle in recent weeks. For instance, in June we successfully completed the pilot sales of our innovative SmartHome-Box, which we had launched in the beginning of the quarter. The Starter Kit is designed to play a role in “smart homes” of the future, as it allows for efficient energy management in homes via a special app. As part of the pilot, we conducted 1,000 documented sales talks, and as planned gained 150 test customers—with corresponding installations and evaluations of the box.

We are also paying close attention to the Mobile Payment sector as another interesting example of the digital lifestyle. As soon as fully developed solutions become relevant for the mass market in this area, we will resolutely seize the associated growth opportunities: not through the exceedingly costly development of such highly complex technologies, but rather with our core competence as a service provider—with our high-performance IT, large sales force, and especially our proximity to customers, which is guaranteed in an exemplary manner by our thousands of well-trained staff in the shops and customer service department.

Given these developments, we consistently enter the second half of the year and are confident that we will achieve the planned targets for the financial year 2012.

Christoph Vilanek	Joachim Preisig	Stephan Esch

freenet AG on the capital market

Performance of the freenet share over the past twelve months

(indexed; 100 = XETRA closing price on 30 June 2011)

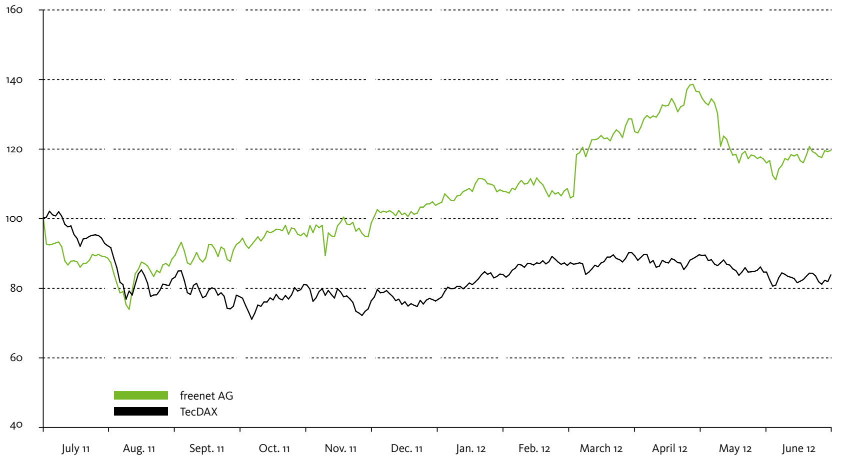


Figure: Performance of the freenet share over the past twelve months.

German stock market

The ongoing euro crisis has led to uncertainties on the German stock markets and consequently to an overall increase in volatility.

On 29 June 2012 the DAX was at 6,416.28 points, up 5.61 percent from its level on 30 December 2011. The TecDAX has also increased, namely by 8.57 percent since the end of 2011, closing at 743.74 points.

In the past 12-month period, the DAX has declined by 13.0 percent and the TecDAX by 16.8 percent.

freenet share

At the end of the quarter on 29 June 2012, the freenet share listed at 11.47 euros, equivalent to an increase of 14.65 percent over the closing price of 10.00 euros on 30 December 2011. The lowest closing price for the freenet share in the second quarter was on 5 June 2012 at 10.64 euros, the highest was 13.34 euros on 26 April 2012.

In a 12-month comparison the freenet share outperformed its benchmark index: while the freenet share increased by 20.0 percent over the past 12 months, the TecDAX lost 16.8 percent during the same period.

Overall, 38.5 million freenet shares were traded via the XETRA system during the quarter, compared with 39.3 million during the same period last year. The average daily trading volume during the quarter amounted to 620.7 thousand units compared with 618.0 thousand units in Q1/2012 and 623.5 thousand units in Q2/2011.

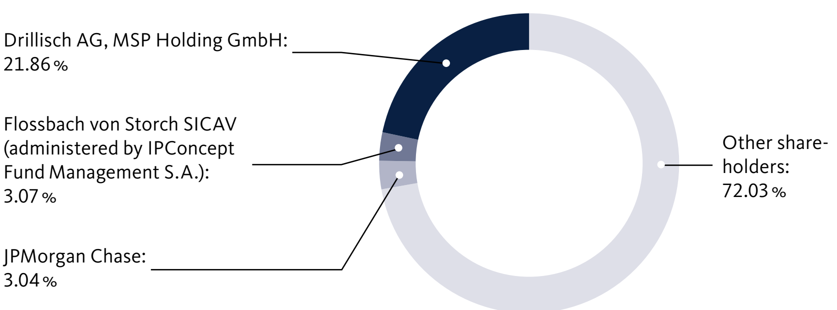
Dividend

On 9 May 2012, the freenet Annual General Meeting approved the payment of a dividend for the financial year 2011 in the amount of 1.20 euros per share. The dividend was paid out on 10 May 2012.

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.

The shareholder structure has not changed since the beginning of the quarter, and was as follows on the reporting date (30 June 2012):



Source: freenet AG, 30 June 2012

Consequently, the Free float of 72.03 percent remains unchanged and it is distributed among a broad base of private and institutional investors in Germany and abroad.

Interim group management report

Overview of the business and operating performance in the freenet Group

In its core business of mobile communications/mobile internet, freenet AG markets mobile communications services for Germany's four major network operators on its own account, as well as its own products and services. Private customers (B2C) are its primary target group.

Given the continued tough competitive environment in the industry, with rapidly changing prices, the company is focusing its main brand, mobilcom-debitel, on high-value contractual relationships in its customer acquisition and customer base management. freenet AG is also very successful with its discount brands in the no-frills segment.

Attractive flat rate tariffs for smartphones play an essential role in focusing on valuable contract customers and tapping new growth areas. Since the beginning of the prior financial year, freenet AG has operated on the market with respective offers, and by year-end 2011 around half of all new customers were already choosing the new flat rates at the point of sale.

In Q2/2012, freenet AG further expanded its portfolio of tariffs, services and products. At the same time it launched a new, large-scale marketing campaign that adequately reflects both the company's strong market position and its extensive range of services.

New tariffs

The latest smartphone tariffs of the main brand mobilcom-debitel—Flat Smart, Flat Clever and Flat 4 You—are currently among the most popular rates among customers and cover the networks of Deutsche Telekom, O_2 and Vodafone. For currently 29.90 euros/month, customers get a mobile phone internet flat rate, SMS Allnet, an on-net flat rate and—depending on the tariff—120 free minutes to all national networks, a landline flat rate, or a flat rate on an additional mobile network.

Since April, the tariffs have also been available with the iPhone 4S and since then, subscribers can get a corresponding second contract for only 19.90 euros per month—hence they can call for free with the on-net flat rate to the second contract. They can also save up to 20 percent on the monthly price of the Internet-Flat 500, Internet-Flat 1000, and Internet-Flat 5000 Spezial with another second contract offer.

In June, mobilcom-debitel went on to launch Flat Select, a quadruple flat rate on the O_2 network, for an introductory offer of 19.90 euros. It includes a mobile phone internet flat rate, an SMS Allnet flat rate, an on-net flat rate, and a flat rate on another network of the user's choice. This flexibility in the choice of tariffs and networks for customers once again underlines freenet AG's special competitive positioning as the largest network-independent telecommunications company.

In the no-frills segment, the new AllNet-Spar-Flat from klarmobil.de also set a new benchmark in May. For 19.85 euros per month, it offers an all-inclusive package with flat rates for the internet, landlines and all German mobile phone networks. At the same time, as the only full-service provider in this segment the freenet subsidiary gave its complex product portfolio a “back to the roots” realignment: now with only three basic rates in the categories of pure voice telephony, data services and smartphones, as well as related options, klarmobil.de continues to offer its customers a full range, but with a simpler, more transparent tariff structure. Simultaneously, the company’s website has been given a clearer look with a fresh design focused on individual customer needs.

In June klarmobil launched another flat rate highlight under the freenet-Mobile brand on the top-quality Deutsche Telekom network: for 29.95 euros per month, the freeFLAT tariff offers unlimited calls to all German mobile networks and landlines as well as an internet flat rate for mobile surfing up to a data volume of 500MB/month—for a contract term of 24 months. An SMS flat rate option for 4.95 euros per month is also available.

New marketing campaign

In mid-April freenet AG launched an extensive new marketing campaign under the slogan “Gemeinsam geht mehr” (Getting more together), designed to highlight the company’s unique market position with over 14 million customers, the comprehensive portfolio of tariffs/mobile phones on all networks, and the customer benefits that arise from this: on the one hand, the free choice between networks that differentiates freenet from network operators, and on the other hand freenet’s purchasing power with the network operators and device manufacturers. These are advantages for the customer and accordingly they were actively communicated in the first three months of the campaign period—on TV, in out-of-home, print and digital media, and at point of sale.

New apps and promotions

To coincide with the European Championships in Poland and Ukraine, freenet.de GmbH continued its series of successful football applications. The free “Pocket EM 2012” app for iPhone, Android and Windows Phone gave users news about the teams, games, groups, tables and a live ticker during the tournament. In addition, during the European Championships football fans could put their expertise to the test with a free predictions game on freenet.de.

New services

As smartphones develop into complex mini-computers, users also need increasing support. Against this backdrop, since the beginning of April mobilcom-debitel has offered the instant “LogMeIn Rescue” service. Specially trained employees from the service centre in Erfurt provide help with things like configuring the smartphone/netbook or setting up email accounts, apps and internet access, via a remote access activated by one-off PIN codes.

In addition, mobilcom-debitel has successfully installed a new “Instore TV” system. The project involved 350 shops receiving high-quality flat screen displays to provide targeted and regionalised information for local customers as well as to complement and improve the quality of advice in the shops.

New award

In May, the readers of connect, Europe’s biggest telecommunications magazine, voted mobilcom-debitel “Mobile Phone Provider/Dealer of the Year” for the fourth consecutive year. They thereby once again expressed their appreciation for the company’s range of attractive tariffs and products, the appealing price-performance ratio and the independent, expert advice provided in its many shops and outlets nationwide.

Assets, financial position and results

Customer development

Figures in million	30.6.2012	31.3.2012	30.6.2011
Mobile Communications customers	14.46	14.74	15.20
Thereof customer ownership	8.23	8.15	7.89
Thereof contract customers	5.69	5.69	5.84
Thereof no-frills customers	2.54	2.46	2.05
Thereof prepaid customers	6.23	6.58	7.32

At the end of the second quarter 2012, the customer base in the important postpaid contract segment was stable at 5.69 million, with no change from the previous quarter (Q1/2012: 5.69 million). At the end of the second quarter 2012 the postpaid customer base was therefore as expected, after a decline in the number of customers by about 100,000 in the second quarter 2011.

The customer base in the no-frills segment continued to rise to currently 2.54 million, compared to 2.46 million in the previous quarter and 2.05 million at the end of the second quarter 2011.

Consequently the customer base in which we have customer ownership increased from 8.15 million in the previous quarter to currently 8.23 million. The increase during the first six months was 76,000. Customer ownership is one of the key control parameters of our business.

The prepaid customer base showed a further decline and was at 6.23 million by the end of the second quarter 2012. The decrease from the previous quarter is primarily due to the network operators writing off inactive SIM cards, resulting in approximately 350,000 customer losses, which however mostly did not affect net income.

Overall the number of subscribers of 14.46 million at the end of the second quarter 2012 continued to develop along the plan sketched out earlier in the year.

ARPU

Figures in €	Q2/2012	Q1/2012	Q2/2011
Contract customers	23.5	23.4	23.7
No-frills customers	4.0	3.9	4.7
Prepaid customers	2.9	2.8	3.1

Compared to the previous quarter, in the second quarter 2012 we were able to increase the monthly average revenue per user (ARPU) in all business segments. In particular the postpaid ARPU stabilized at the cumulative semi-annual comparison figure of 23.5 euros, which is on the level of the previous year and therefore in line with our expectations.

The cumulative ARPU in the no-frills-segment in the first half of 2012 was at 4.0 euros and in the prepaid segment at 3.0 euros, compared to 4.6 euros and 3.1 euros in the first half of 2011.

Revenue and results

Figures in € thousands	Q2/2012	Q2/2011	Change
Revenue	742,196	757,450	–15,254
Gross profit	170,551	171,009	–458
Overhead expenses	–84,911	–87,122	2,211
EBITDA	85,640	83,887[1]	1,753
EBIT	48,634	38,223	10,411
EBT	38,677	19,426	19,251
Group result	**41,581**	**20,819**	**20,762**

1 Recurring EBITDA: Q2/2011: 89,7 million euros.

Group revenue declined in the second quarter 2012 from the same quarter last year by 2.0 percent but is stable in relation to the previous quarter.

The **gross profit margin** rose by 0.4 percent to 23.0 percent compared to Q2/2011, equivalent to a gross profit in the amount of 170.6 million, equal to the level registered in the same quarter last year.

The **overhead expenses**, which form the difference between gross profit and EBITDA, and which include the items **other operating income, other own work capitalized, personnel expenses, other operating expenses** as well as the **share of results of associates**, declined by 2.2 million euros from Q2/2011. In this context it should be noted that, in contrast to the quarter under review, the result for the previous-year quarter had included restructuring-related one-off items that were caused by the then ongoing, now successfully completed IT integration.

Moreover, the marketing offensive, which was started in the second quarter 2012, resulted in increased costs.

Consequently, group results from continued operations before depreciation and amortization, interest and taxes **(EBITDA)** in the second quarter 2012 improved over Q2/2011 by 1.8 million euros to 85.6 million euros.

Depreciation and amortization decreased by 8.7 million euros to 37.0 million euros compared to Q2/2011. One reason for this drop is the lower impairments of intangible assets such as customer relations and trademarks, resulting from the purchase price allocation in connection with the acquisition of debitel. In addition, due to last year's successful completion of the IT-Integration and the respective decision about which IT systems the group would be using in the future, the depreciation for some assets expired. This, together with a comparably low number of new investments, is another reason for the decrease of this position.

The **interest result** of –10.0 million euros, equivalent to the amount remaining after offsetting interest income and interest expenses, improved by 8.8 million euros in the second quarter 2012 compared to the same quarter last year (–18.8 million euros). Nevertheless, in Q2/2011 an important special effect due to the substitution of the previous financing had to be considered, as non-cash effective one-off interest expenses subject to the effective interest method in the amount of 6.9 million euros arose. Adjusted for this special effect, the interest result improved by 1.9 million euros from the same quarter last year—essentially due to the lower average net debt.

Consequently, **pre-tax group earnings (EBT)** just about doubled compared to last year, as it increased by 19.3 million euros to currently 38.7 million euros.

Mainly within the context of the existing tax loss carry-forwards, just as in the previous-year quarter, income from **taxes on income** will be reported in the amount of 2.9 million euros compared to 1.4 million euros in Q2/2011.

Group earnings reported in the second quarter 2012 are the exclusive result from continued operations, as was the case also for the same period last year, adding up to 41.6 million euros or nearly double the 20.8 million euros registered in the same quarter last year.

Assets and financial position

Assets

Figures in € million	30.6.2012
Non-current assets	1,776.6
Current assets	547.9
Balance sheet total	**2,324.6**

Figures in € million	31.3.2012
Non-current assets	1,801.7
Current assets	562.5
Balance sheet total	**2,364.1**

Shareholders' equity and liabilities

Figures in € million	30.6.2012
Shareholders' equity	1,099.9
Non-current and current liabilities	1,224.7
Balance sheet total	**2,324.6**

Figures in € million	31.3.2012
Shareholders' equity	1,211.9
Non-current and current liabilities	1,152.2
Balance sheet total	**2,364.1**

The **balance sheet total** as per 30 June 2012 amounted to 2,324.6 million euros and thus decreased by 39.5 million euros or 1.7 percent since 31 March 2012 (2,364.1 million euros).

The **assets side** is characterized first of all by a 31.3 million euro decline in intangible assets to 421.0 million euros since 31 March 2012, mainly a consequence of the scheduled amortization of customer relationships and trademarks arising from the debitel purchase price allocation, as well as the amortization of distribution rights. Secondly, trade accounts receivable increased by 14.6 million euros when compared to the balance sheet date of the previous quarter; this is mainly a seasonal phenomenon due to the deferral of bonus claims against network operators. Thirdly and finally a decrease in liquid assets by 30.1 million euros to 86.4 million euros must be mentioned. This is mainly due to the payout of dividends in the amount of 153.6 million euros following the Annual General Meeting—in this context the revolving line of credit, which had not been utilized by the closing date of the previous quarter, was utilized in the full amount of 100.0 million euros as per 30 June 2012.

On the **liabilities side** the gross financial debt increased by 79.3 million euros to 662.1 million euros when compared to 31 March 2012, primarily due to the mentioned utilization of the revolving line of credit in the amount of 100.0 million euros. Trade accounts payable rose by 33.1 million euros to 360.1 million euro in relation to the balance sheet date of the previous quarter, in particular in the form of seasonal payments to distributors due to the deferral of commissions due under the annual contracts. Concerning the liabilities to a large distributor for our distribution right it should be noted that the short-term part is shown under trade accounts payable and the long-term part is shown under other payables.

The entire nominal liability under this distribution right has not changed from 31 March 2012, however an installment (nominally 12.5 million euros) is shown per 30 June 2012 because of another maturity among the trade accounts payable, which is a further reason for the increase of this position and at the same time the reason for the reduction of other payables, which dropped by 39.8 million euros to 119.7 million euros from the previous quarter. The remaining decrease in other payables is above all due to reasons related to the balance sheet date such as the reduction of value-added tax liabilities as well as debtors' accounts with credit balances.

The **equity ratio** dropped from 51.3 percent at the end of March 2012 to 47.3 percent at the end of June 2012—the group result of 41.6 million euros earned in the second quarter 2012 must be compared to the mentioned dividend distribution in the amount of 153.6 million euros.

This is also the background for the greater net debt, which amounted to 575.7 million euros per 30 June 2012, signaling an increase of 109.5 million euros over the amount of 466.2 million euros shown per 31 March 2012.

Cash flow

Figures in € million	Q2/2012	Q2/2011	Change
Cash flow from operating activities	55.8	57.4	–1.6
Cash flow from investing activities	–2.6	–2.6	0.0
Cash flow from financing activities	–183.4	2.2	–185.6
Change in cash and cash equivalents	**–130.1**	**57.0**	**–187.1**
Free cash flow	**51.6**	**51.7**	**–0.1**

The **cash flow from operating activities** in the second quarter 2012 is reported at 55.8 million euros, which is more or less on par with the amount of 57.4 million euros shown for the same quarter last year. There were no noticeable differences compared with Q2/2011 in terms of the important drivers of the cash flow from operating activities, EBITDA, the change in net working capital or tax payments.

The **cash flow from investment activities** for the reporting quarter 2012 amounted to –2.6 million euros, the same as for the comparison quarter 2011.

The **cash flow from financing activities** in the reporting quarter developed from 2.2 million euros from the same quarter last year to –183.4 million euros. Dividend payments in the amount of 153.6 million euros weighed on Q2/2012, while the dividend distribution of the previous year affected the cash flow in Q3/2011. Finally, there was a significant increase in interest payments by 25.6 million euros to 29.8 million euros—a result of the refinancing taken out in Q2/2011 as the interest on the corporate bond for the previous twelve months fell due in April 2012.

The second quarter 2012 saw an almost constant **free cash flow** in the amount of 51.6 million euros compared to the same quarter last year.

Key financials of the financial strategy

The following overview provides the key financials of our financial strategy with their current development compared to the previous-year quarter. The last 12 months (thus July 2011 to June 2012 and for the prior year July 2010 to June 2011) were used for all time-related numbers such as the (recurring) EBITDA and the net interest results.

	Debt	Actual Q2/2012	Actual Q2/2011
Debt factor	1.5—2.5	1.6	1.4
Interest cover	>5	8.2	7.8
Equity ratio	>50 %	47.3 %	46.4 %

As projected in the interim report to the first quarter 2012, the equity ratio returned again to the target range because of the dividend distribution that arose from the Annual General Meeting of the company held in May 2012. When comparing this to the same period last year, it should be noted that last year the dividend was not paid out until the third quarter.

The interest cover increased from 7.8 to 8.2 when compared to the same period last year. This positive development shows up somewhat more clearly after adjusting the interest effects resulting from interest swaps and interest caps, namely 7.5 (Q2/2011) compared to 8.4 (Q2/2012).

After the declaration of the dividend the equity ratio per 30 June 2012 fell under the 50 percent mark, which had been exceeded per 31 March 2012. As is the case with the equity ratio, when comparing this figure with last year's figure it should be noted that the dividend was not distributed until the third quarter.

Employees

The number of employees decreased to 3,905 at the end of the second quarter of 2012, compared with 4,004 at the end of Q1/2012 and 4,069 at the end of Q2/2011.

Opportunities and risk report

Opportunities

In the first half of 2012 freenet AG systematically continued its focus on mobile voice and data services. In the marketing of smartphones and flat rate tariffs, the main focus was to ensure customer quality and to stabilise the contract customer base. In addition, the harmonisation of IT systems was successfully completed. The company sees opportunities in the following market developments in particular:

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

Further opportunities for the company could arise from:

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

Risk report

Risk management

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

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

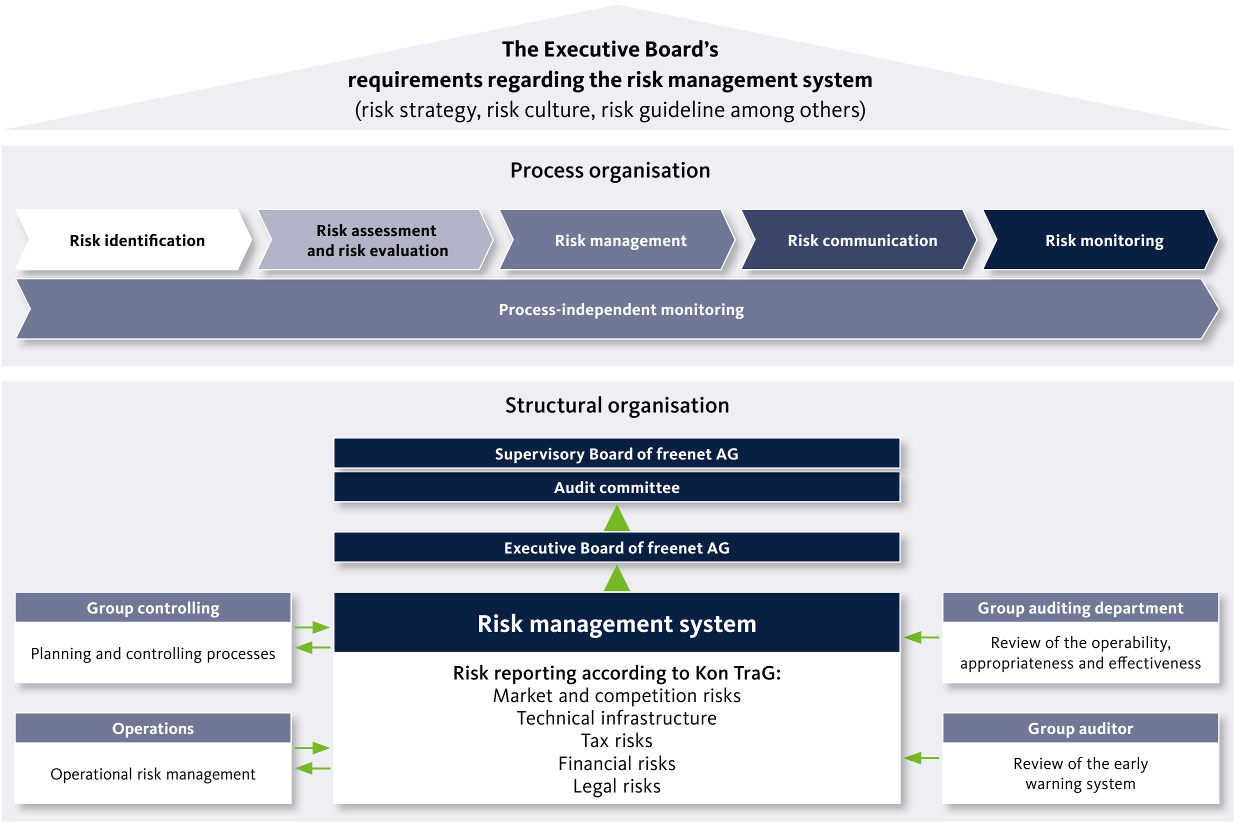


Figure : Process and structural organisation of the risk management system of freenet AG

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

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

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

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

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

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

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

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

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

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

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

Structure of the Group accounting process

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

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

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

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

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

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

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

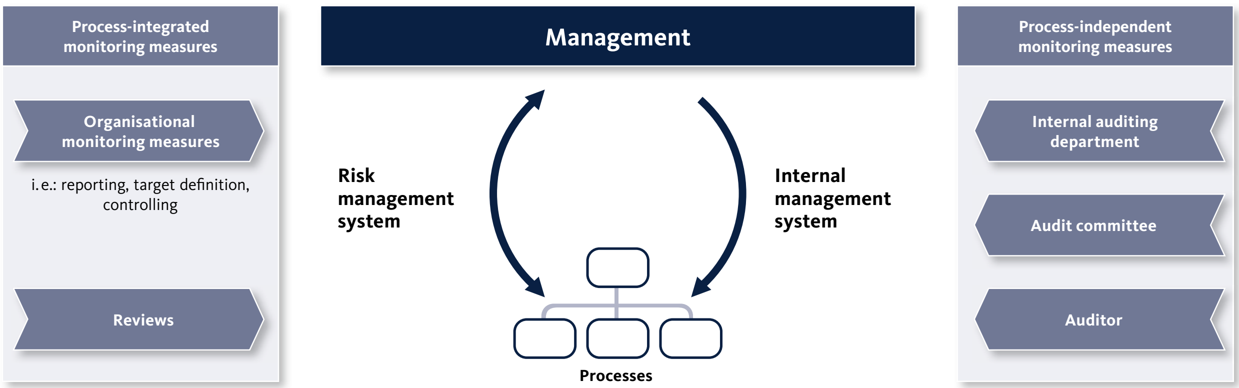


Figure: freenet AG's internal control system

Major risks

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

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

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

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

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

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

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

The pressure on prices and margins in the German B2C market for mobile communication services is exacerbated by the steadily growing discount market. freenet AG also does business in this segment with the "klarmobil", "freenet-Mobile", "callmobile" and "debitel-light" brands, in order to participate in this growth market.

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

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

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

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

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

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

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

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

Technical infrastructure

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

Tax risks

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

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

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

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

Financial risks

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

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

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

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

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

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

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

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

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

Legal risks

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

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

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

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

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

It is the company's understanding that the capital increase through contribution in kind was performed in a valid manner. The company therefore likewise assumes that this will neither have any impact on the share evaluation review proceedings.

Forecast

Please refer to the detailed information published in the Annual Report 2011 at the end of March 2012 regarding the forecast for the current financial year. There were no significant changes in the second quarter of 2012.

Accordingly, the Executive Board continues to expect a positive overall development of the company and will continue to focus on valuable customer relationships. The key elements of this business strategy include protecting and expanding the company's long-term profitability and strong cash flow, and further reducing its debt. Beyond this, the company is resolutely pursuing the development of potential additional areas of growth as well as investigating options for non-organic growth.

Transactions with related parties

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

Figures in € thousands	1st half 2012	1st half 2011
Sales and income attributable to services		
Joint ventures		
FunDorado GmbH, Hamburg	106	135
Companies with a major influence on freenet AG		
b2c.de GmbH, Munich (Drillisch AG group of companies)	560	247
	666	**382**
Purchased services and onward charging		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	10	29
Joint ventures		
NetCon Media s. r. o., Hlucin, Czech Republic	1	2
siXXup new Media GmbH, Pulheim	33	36
Companies with a major influence on freenet AG		
Drillisch AG, Maintal	8	0
b2c.de GmbH, Munich (Drillisch AG group of companies)	10,092	1,733
	10,144	**1,800**

The following major receivables due from and liabilities due to related parties existed as of 30 June 2012:

Figures in € thousands	30.6.2012	30.6.2011
Receivables from regular transactions		
Joint ventures		
FunDorado GmbH, Hamburg	24	27
siXXup new Media GmbH, Pulheim	2	0
Companies with a major influence on freenet AG		
b2c.de GmbH, Munich (Drillisch AG group of companies)	214	0
	240	**27**
Liabilities from regular transactions		
Companies with a major influence on freenet AG		
b2c.de GmbH, Munich (Drillisch AG group of companies)	748	0
	748	**0**

All transaction prices were negotiated under commercial terms.

Condensed interim consolidated financial statements

Overview

Consolidated income statement and consolidated statement of comprehensive income for the period from 1 January to 30 June 2012

Figures in € thousands	1st half 2012 1.1.2012 —30.6.2012	1st half 2011 1.1.2011 —30.6.2011	Q2/2012 1.4.2012 —30.6.2012	Q2/2011 1.4.2011 —30.6.2011
Revenue	1,486,389	1,546,261	742,196	757,450
Other operating income	34,227	50,345	16,614	26,889
Other own work capitalised	3,195	6,656	1,686	3,560
Cost of materials	–1,148,986	–1,210,543	–571,645	–586,441
Personnel expenses	–78,356	–78,419	–39,643	–40,791
Depreciation and impairment write-downs	–74,076	–91,479	–37,006	–45,664
Other operating expenses	–126,446	–152,402	–63,842	–76,957
Operating result	**95,947**	**70,419**	**48,360**	**38,046**
Share of results of associates	709	430	274	177
Interest receivable and similar income	1,483	2,915	698	1,607
Interest payable and similar expenses	–21,896	–30,998	–10,655	–20,404
Result before taxes on income	**76,243**	**42,766**	**38,677**	**19,426**
Taxes on income	5,973	3,957	2,904	1,393
Group result from continued operations	**82,216**	**46,723**	**41,581**	**20,819**
Group result from discontinued operations	**0**	**140**	**0**	**0**
Group result	**82,216**	**46,863**	**41,581**	**20,819**
Group result attributable to shareholders of freenet AG	82,174	46,744	41,570	20,778
Group result attributable to non-controlling interest	42	119	11	41
Earnings per share (undiluted) in €	**0.64**	**0.37**	**0.32**	**0.17**
Earnings per share (diluted) in €	**0.64**	**0.37**	**0.32**	**0.17**
Earnings per share from continued operations (undiluted) in €	0.64	0.37	0.32	0.17
Earnings per share from continued operations (diluted) in €	0.64	0.37	0.32	0.17
Earnings per share from discontinued operations (undiluted) in €	0.00	0.00	0.00	0.00
Earnings per share from discontinued operations (diluted) in €	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 € thousands	1st half 2012 1.1.2012 —30.6.2012	1st half 2011 1.1.2011 —30.6.2011	Q2/2012 1.4.2012 —30.6.2012	Q2/2011 1.4.2011 —30.6.2011
Group result	**82,216**	**46,863**	**41,581**	**20,819**
Change in fair value of held-for-sale financial instruments	–35	–67	3	9
Taxes on income recognised directly in equity	10	20	–1	–2
Change in value recognised directly in equity	–25	–47	2	7
Consolidated comprehensive income	**82,191**	**46,816**	**41,583**	**20,826**
Consolidated comprehensive income attributable to shareholders of freenet AG	82,149	46,697	41,572	20,785
Consolidated comprehensive income attributable to non-controlling interest	42	119	11	41

Consolidated balance sheet as of 30 June 2012

Assets

Figures in € thousands	30.6.2012	31.3.2012	31.12.2011
Non-current assets			
Intangible assets	421,030	452,301	485,325
Goodwill	1,116,868	1,116,868	1,116,868
Property, plant and equipment	25,806	27,324	29,280
Investments in associates	2,613	3,495	3,060
Other investments	1,924	1,925	1,915
Deferred income tax assets	152,279	141,936	130,900
Trade accounts receivable	45,886	45,617	43,039
Other receivables and other assets	10,228	12,191	12,482
	1,776,634	**1,801,657**	**1,822,869**
Current assets			
Inventories	45,880	51,294	51,537
Current income tax assets	2,860	2,866	3,278
Trade accounts receivable	380,919	366,635	428,471
Other receivables and other assets	31,863	25,095	36,601
Cash and cash equivalents	86,422	116,569	185,673
	547,944	**562,459**	**705,560**
	2,324,578	**2,364,116**	**2,528,429**

Shareholders' equity and liabilities

Figures in € thousands	30.6.2012	31.3.2012	31.12.2011
Shareholders' equity			
Share capital	128,061	128,061	128,061
Capital reserve	737,536	737,536	737,536
Revaluation reserve	–6	–8	19
Retained earnings	233,959	346,002	305,398
Capital and reserves attributable to shareholders of freenet AG	**1,099,550**	**1,211,591**	**1,171,014**
Capital and reserves attributable to non-controlling interest	321	310	279
	1,099,871	**1,211,901**	**1,171,293**
Non-current liabilities			
Trade accounts payable	381	407	407
Other payables	14,761	30,313	36,608
Borrowings	476,030	475,503	514,777
Pension provisions	25,945	25,597	25,428
Provisions for other liabilities and charges	10,931	11,268	11,173
	528,048	**543,088**	**588,393**
Current liabilities			
Trade accounts payable	359,765	326,649	399,370
Other payables	104,933	129,192	124,775
Current income tax liabilities	26,122	24,401	22,108
Borrowings	186,065	107,253	200,302
Provisions for other liabilities and charges	19,774	21,632	22,188
	696,659	**609,127**	**768,743**
	2,324,578	**2,364,116**	**2,528,429**

Schedule of changes in equity for the period from 1 January to 30 June 2012

Figures in € thousands	Share capital	Capital reserve	Revaluation reserve	Retained earnings	Capital and reserves attributable to share-holders of freenet AG	Capital and reserves attributable to non-controlling interest	Share-holders' equity
As of 1.1.2011	**128,061**	**737,536**	**56**	**268,811**	**1,134,464**	**0**	**1,134,464**
First-time consolidation of subsidiaries	0	0	0	0	0	55	55
Group result	0	0	0	46,744	46,744	119	46,863
Change in fair value of held-for-sale financial instruments	0	0	–47	0	–47	0	–47
As of 30.6.2011	**128,061**	**737,536**	**9**	**315,555**	**1,181,161**	**174**	**1,181,335**
As of 1.1.2012	**128,061**	**737,536**	**19**	**305,398**	**1,171,014**	**279**	**1,171,293**
Dividend payment	0	0	0	–153,613	–153,613	0	–153,613
Group result	0	0	0	82,174	82,174	42	82,216
Change in fair value of held-for-sale financial instruments	0	0	–25	0	–25	0	–25
As of 30.6.2012	**128,061**	**737,536**	**–6**	**233,959**	**1,099,550**	**321**	**1,099,871**

Consolidated statement of cash flows from 1 January to 30 June 2012

Figures in € thousands	1. 1. 2012 —30. 6. 2012	1. 1. 2011 —30. 6. 2011
Result from continued and discountinued operations before interest and taxes (EBIT)	**96,656**	**71,008**
Adjustments		
Depreciation and impairment on items of fixed assets	74,076	91,479
Share of results of associates	–709	–430
Loss on disposals of fixed assets	209	522
Increase (decrease) in net working capital not attributed to investing or financing activities	–28,722	–17,283
Other non-payment components	–34	–102
Income taxes paid	–10,974	–11,411
Cashflow from operating activities	**130,502**	**133,783**
Investments in property, plant and equipment and intangible assets	–7,188	–10,623
Proceeds from the disposal of property, plant and equipment and intangible assets	672	1,049
Purchase of subsidiaries	0	–763
Return of capital from associates	1,156	1,430
Interest received	1,173	2,882
Cashflow from investing activities	**–4,187**	**–6,025**
Dividend payment	–153,613	0
Proceeds from new borrowings	0	631,644
Cash repayments of borrowings	–40,127	–660,575
Interest paid	–31,826	–12,191
Cashflow from financing activities	**–225,566**	**–41,122**
Cash-effective change in cash and cash equivalents	**–99,251**	**86,636**
Cash and cash equivalents at beginning of period	**85,673**	**30,297**
Cash and cash equivalents at end of period	**–13,578**	**116,933**

Derivation of cash and cash equivalents Figures in € thousands	30. 6. 2012	30. 6. 2011
Cash and cash equivalents of continued operations	86,422	216,933
Liabilities as part of current finance scheduling due to banks	–100,000	–100,000
	–13,578	**116,933**
Cash flow from operating activities	130,502	133,783
Investments in property, plant and equipment and intangible assets	–7,188	–10,623
Proceeds from the disposal of property, plant and equipment and intangible assets	672	1,049
Free cash flow (FCF)	**123,986**	**124,209**

Selected explanatory notes in accordance with IAS 34

Key accounting and valuation methods and consolidation principles

1. In accordance with Regulation 1606/2002 of the European Parliament and Council, based on the International Financial Reporting Standards (IFRS) as adopted by the European Union, the present condensed interim consolidated financial statements were prepared in accordance with IAS 34. The Group took into account all IFRS adopted and mandated by the EU. The present condensed interim consolidated financial statements were not subjected to review by an auditor.
   The Group has applied all accounting standards that are mandatory as of the financial year 2012. However, the accounting standards to be applied for the first time have, such as the amendment to IFRS 7 (financial instruments, data) with a review of data on the transfer of financial assets, have no appreciable effect on the presentation of the Group's assets, financial position and results.
   Essentially, in preparing the interim report as of 30 June 2012, and determining the comparable figures for the previous year, the same accounting and valuation methods were used as in the consolidated financial statements 2011, with the exception of the mandatory new standards. A detailed description of these methods may be found in the notes to the consolidated financial statements 2011 of freenet AG.

Major events and transactions

2. There was no Group result from discontinued operations in the first half of 2012. In the same period of the previous year, 140 thousand euros were shown under "result from discontinued operations", of which 159 thousand euros were attributable to follow-up profits from the sale of the Next ID Group, and –19 thousand euros was tax relating to this capital gain. All items in the cash flow statement are given for the Group as a whole (continuing and discontinued operations). There were no cash flows from discontinued operations for the second quarter of 2012, nor for the comparable period of the previous year.
3. The starting point for determining the cash flow statement is the earnings before interest and taxes (EBIT) from continued and discontinued operations. The following sets out the process of calculating this result from the consolidated income statement and also from the breakdown of the result from discontinued operations for the period:

Figures in € thousands	**1.1.2012 —30.6.2012**	**1.1.2011 —30.6.2011**
Earnings before taxes from continued operations	76,243	42,766
Interest payable and similar expenses from continued operations	21,896	30,998
Interest receivable and similar income from continued operations	–1,483	–2,915
Result from discontinued operations	0	140
Taxes on income from discontinued operations	0	19
Interest receivable and similar income from discontinued operations	0	0
Earnings before interest and taxes (EBIT) from continued and discontinued operations	**96,656**	**71,008**

4. Depreciation and impairment fell by 17.4 million euros compared to the first half of 2011 to 74.1 million euros. One reason for this is the reduced impairment of intangible assets such as customer relationships and trademarks from the purchase price allocation on the acquisition of debitel. In addition, because of last year's successful completion of the IT integration and the associated assessment of which IT systems are to be used by the Group in the future, impairment for a series of investments expired and combined with a comparatively low level of new investment, this represents another reason for the decline of this position.
5. Gross financial debt decreased by 53.0 million euros during the first half of 2012, to 662.1 million euros, due to the scheduled repayment of a bank loan of 40.0 million euros and payment of deferred annual interest on the corporate bond.
   By contrast, in the same period net financial debt increased by 46.3 million euros to 575.7 million euros. This is mainly a consequence of the 153.6 million-euro dividend payment in May 2012, while the 124 million euros in free cash flow generated during the first half of 2012 had a positive impact on net financial debt.

Other notes

6. The group of consolidated companies has not changed since the consolidated financial statements at 31 December 2011.
7. As in the consolidated financial statements 2011, current and deferred income tax was calculated based on an average tax rate of 29.4 percent (previous year: 29.4 percent).
8. No events of material significance occurred after the reporting date.
9. Segment report (on the following pages)

Segment report 1.1.2012—30.6.2012

Figures in € thousands	Mobile Communi-cations	Other	Elimination of intersegment revenue and cost	Effects regarding IFRS 5	Total
Third-party revenue	**1,453,561**	**32,828**	**0**	**0**	**1,486,389**
Intersegment revenue	2,514	3,710	–6,224	0	0
Revenue, total	1,456,075	36,538	–6,224	0	1,486,389
Cost of materials, third parties	**–1,132,996**	**–15,990**	**0**	**0**	**–1,148,986**
Intersegment cost of materials	–2,221	–2,484	4,705	0	0
Cost of materials, total	–1,135,217	–18,474	4,705	0	–1,148,986
Segment gross profit	**320,858**	**18,064**	**–1,519**	**0**	**337,403**
Other operating income	29,334	7,154	–2,261	0	34,227
Other own work capitalised	2,804	391	0	0	3,195
Personnel expenses	–64,224	–14,132	0	0	–78,356
Other operating expenses	–119,439	–10,787	3,780	0	–126,446
Share of results of associates	0	709	0	0	709
Segment EBITDA	**169,333**	**1,399**	**0**	**0**	**170,732**
Depreciation and impairment write-downs	–71,876	–2,200	0	0	–74,076
Segment EBIT	**97,457**	**–801**	**0**	**0**	**96,656**
Group financial result					–20,413
Taxes on income					5,973
Group result from continued operations					**82,216**
Group result from discontinued operations					**0**
Group result					**82,216**
Group result attributable to shareholders of freenet AG					82,174
Group result attributable to non-controlling interest					42
Investments in continued operations	**5,503**	**1,685**			**7,188**

Segment report 1.1.2011—30.6.2011

Figures in € thousands

	Mobile Communi-cations	Other	Elimination of intersegment revenue and cost	Effects regarding IFRS 5	Total
Third-party revenue	**1,511,272**	**34,989**	**0**	**0**	**1,546,261**
Intersegment revenue	985	2,655	–3,640	0	0
Revenue, total	1,512,257	37,644	–3,640	0	1,546,261
Cost of materials, third parties	**–1,194,677**	**–15,866**	**0**	**0**	**–1,210,543**
Intersegment cost of materials	–1,534	–1,278	2,812	0	0
Cost of materials, total	–1,196,211	–17,144	2,812	0	–1,210,543
Segment gross profit	**316,046**	**20,500**	**–828**	**0**	**335,718**
Other operating income	40,333	12,150	–1,979	–159	50,345
Other own work capitalised	6,273	383	0	0	6,656
Personnel expenses	–64,096	–14,323	0	0	–78,419
Other operating expenses	–141,149	–14,060	2,807	0	–152,402
Share of results of associates	0	430	0	0	430
Segment EBITDA	**157,407**	**5,080**	**0**	**–159**	**162,328**
Depreciation and impairment write-downs	–88,975	–2,504	0	0	–91,479
Segment EBIT	**68,432**	**2,576**	**0**	**–159**	**70,849**
Group financial result					–28,083
Taxes on income					3,957
Group result from continued operations					**46,723**
Group result from discontinued operations					**140**
Group result					**46,863**
Group result attributable to shareholders of freenet AG					46,744
Group result attributable to non-controlling interest					119
Investments in continued operations	**9,235**	**1,388**			**10,623**

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the condensed interim consolidated financial statements give a true and fair view of the assets, financial position and results of the Group, and the interim 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 for the remaining months of the financial year.

Büdelsdorf, 8 August 2012

freenet AG
The Executive Board

Christoph Vilanek | Joachim Preisig | Stephan Esch

Further information

Financial calendar

8 August 2012
Publication of interim report II/2012

7 November 2012[1]
Publication of interim report III/2012

March 2013[1]
Publication of Consolidated Financial Statements/Annual Report 2012

May 2013[1]
Annual General Meeting

May 2013[1]
Publication of interim report I/2013

August 2013[1]
Publication of interim report II/2013

1 Probable dates.

Imprint, contact, publications

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The Annual Report and our interim reports are also available at:
www.freenet-group.de/investor/publications/quarterly-annual-reports

The English version of the 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/en*.

If your mobile phone has QR-Code recognition software, you will be directed to the freenet Group website by scanning the code.

freenet GROUP

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