freenet GROUP

mobilcom debitel

freenet

freeXmedia

TALKLINE

klarmobil.de

4PLAYERS.DE

Interim Report on the 1st quarter 2011

freenet AG • Hollerstraße 126 • 24782 Büdelsdorf

List of contents

Key financials 4

To our shareholders 6

Letter to shareholders 7
The freenet share 9

Interim group management report 12

Overview of the business and operating performance in the freenet Group 13
Assets, financial position and results 15
Significant events after the reporting date 19
Risk report 19
Opportunities and forecast 20
Transactions with related parties 21

Condensed interim consolidated financial statements 24

Overview 25
Consolidated income statement and consolidated statement of comprehensive income for the period from 1 January to 31 March 2011 26
Consolidated balance sheet as of 31 March 2011 28
Schedule of changes in equity for the period from 1 January to 31 March 2011 . . . 30
Consolidated statement of cash flows from 1 January to 31 March 2011 31
Selected explanatory notes in accordance with IAS 34 32

Further information 38

Financial calendar 39
Imprint, contact, publications 40

Key financials

Overview Group

Result in € million	Q1/2011	Q4/2010	Q1/2010 adjusted[1]
Third-party revenue	788.8	857.7	803.1
Gross profit	164.7	187.8	164.2
EBITDA	78.4	88.0	71.7
Recurring EBITDA	84.1	96.0	79.1
EBIT	32.6	40.7	24.4
EBT	23.3	30.9	10.9
Group result from continued operations	25.9	43.2	16.0
Group result from discontinued operations	0.1	–3.7	4.8
Group result	26.0	39.5	20.8
Earnings per share (€)	0.20	0.31	0.16

Balance sheet	Q1/2011	Q4/2010	Q1/2010
Balance sheet total in € million	2,537.2	2,542.4	2,575.3
Shareholders' equity in € million	1,160.6	1,134.5	1,068.5
Equity ratio in %	45.7	44.6	41.5

Finances and investments in € million	Q1/2011	Q4/2010	Q1/2010 adjusted[1]
Free cash flow[2, 3]	72.5	63.3	86.0
Depreciation and amortisation	45.8	47.3	47.3
Investments[3]	4.7	8.0	5.8
Net cash[3]	–558.6	–623.1	–700.7

Share	Q1/2011	Q4/2010	Q1/2010
Closing price XETRA (€)	8.07	7.90	9.15
Number of ordinary shares (in thousand)	128,061	128,061	128,061
Market capitalisation (in €'000s)	1,033,452	1,011,682	1,171,758

Employees	Q1/2011	Q4/2010	Q1/2010
Employess at the end of period	4,081	3,972	4,271

1 The comparison figures have been adjusted retrospectively due to IFRS 5 (presentation of Next ID as a discontinued operation).
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).

Overview Mobile Communications segment

Customer development in million	Q1/2011	Q4/2010	Q1/2010
Mobile Communications customers	15.64	15.65	17.15
Thereof contract customers	5.94	6.11	6.84
Thereof prepaid customers	7.65	7.58	8.50
Thereof no-frills customers	2.05	1.97	1.81
Gross new customers	1.17	1.34	1.01
Net change	–0.02	–0.19	–0.43

Result in € million	Q1/2011	Q4/2010	Q1/2010
Revenue	771.5	839.8	782.8
Gross profit	154.5	176.6	151.2
EBITDA	76.1	86.1	69.6
Non recurring items	–4.9	–5.2	–6.5
Recurring EBITDA	81.0	91.3	76.1
EBIT	31.5	42.0	25.0
Non recurring items	–4.9	–5.2	–6.5
Recurring EBIT	36.4	47.2	31.6

Monthly average revenue per user (ARPU) in €	Q1/2011	Q4/2010	Q1/2010
Contract customer	23.3	24.3	22.8
Prepaid customer	3.0	3.3	2.9
No-frills customer	4.5	4.6	4.5

To our shareholders

Letter to shareholders

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

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

freenet AG got off to a successful start in the financial year 2011: as Germany's biggest network-independent telecommunications provider, we achieved all the targets we set ourselves in the first three months, despite a competitive environment that continues very challenging. This once again confirms the validity of our strategic realignment, with its focus on the core business of mobile voice and data services and securing the company's long-term profitability.

Accordingly, all the key financials for the first three months of the current year are within our internal plan for the quarter:

- Monthly average revenue per contract customer (ARPU) improved year-on-year by 0.5 euro to 23.3 euros in the seasonally weak first quarter, thanks to our focus on valuable postpaid contract customers in new customer acquisition and existing customer management, and despite continuing strong price competition in the industry;
- The overall customer base has stabilised at 15.64 million at the end of March; the decline of around 174,000 postpaid customers, which corresponds to our quarterly planning, was offset by gains in the prepaid sector of around 74,000 and gains in the no-frills sector of around 82,000;
- Despite the systematic adjustment of our customer base, first-quarter revenues declined only slightly by 1.8 percent year-on-year, to just under 790 million euros;

- The Group's profitability continued to improve significantly: while gross profit was on par with Q1/ 2010 at 164.7 million euros, EBITDA increased by 9.3 percent to 78.4 million euros;
- The Group's pre-tax earnings more than doubled year-on-year to 23.3 million euros, and Group result from continued operations increased to 25.9 million euros.

At the same time we took significant steps in the operative business—above and beyond systematically augmenting and improving our range of products, tariffs and services—to ensure that we continue on our successful track in the coming quarters and years. First, in January a new agreement was signed with Media-Saturn Germany GmbH to continue our cooperation through the end of 2013.

The very important and complex project to unify the two remaining IT landscapes is on plan and swiftly moving to the next stage of implementation; for example, all products and services have been analysed and evaluated so that they can be merged into a single system; the first few logistics processes in Supply Chain Management have been switched, Customer Services staff has been trained to use the new systems, and the technical changeover in the sales channels has been completed. The preparatory work still ahead in other units will be undertaken during the current second quarter. As a result we are very well prepared for the imminent final migration.

Moreover, we have completely replaced our financing, dating back to private equity times, on 20 April 2011. The new financing is comprised of a 240 million euros syndicated bank loan to be repaid over a three-year period and a 400 million euros corporate bond maturing after five years. In addition, a revolving credit facility in an amount of 100 million euros was agreed with the banks. This means that the company is fully funded through 2016, which results in the following positive effects: in an environment of rising interest rates, we were able to keep our financing costs at the same level, while also diversifying the sources of our debt. Furthermore, we are less exposed to future interest rate risks which helps us increase freenet AG's planning certainty.

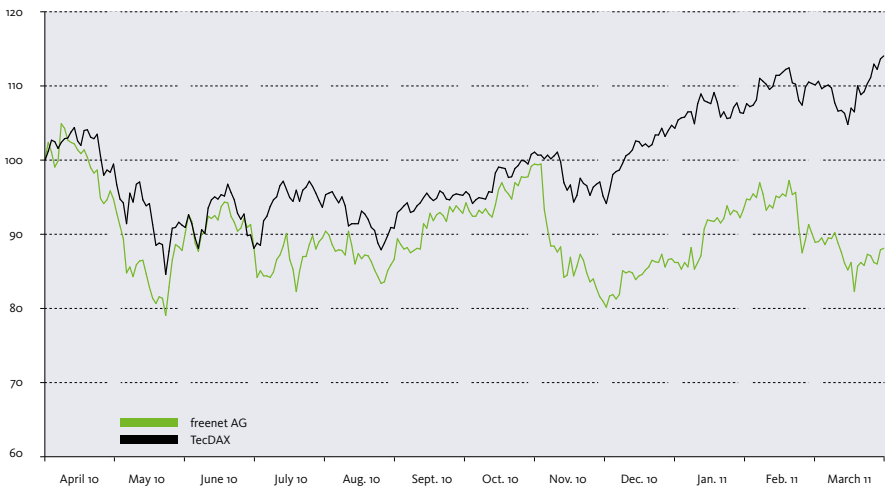
On this solid basis we continue to expect that we will meet the targets for 2011 we had published in February, and will systematically work towards this end in the months and quarters ahead.

Christoph Vilanek | Joachim Preisig | Stephan Esch

The freenet share

Performance of the freenet share over the past twelve months

(indexed; 100 = XETRA closing price on 31 March 2010)



German stock market

The German stock market began 2011 on a positive note. The DAX, the German benchmark index, continued its upward trend of the past year in the first quarter of 2011 despite numerous crises and closed on 31 March 2011 at 7,041 points, up 1.8 percent. The MDAX also added 1.8 percent during the quarter. The TecDAX, in which freenet AG is listed, gained 9.4 percent during the same period.

freenet share

On 3 January, the freenet share started the financial year 2011 at 7.90 euros. After rising to 8.90 euros (18 February 2011), the freenet share price fell to 7.54 euros (18 March 2011), but recovered to 8.07 euros by the end of the quarter, closing the first quarter with a 2.2-percent gain.

In all, 41.2 million freenet shares were traded via the XETRA system during the quarter, vs. 66.9 million in Q1/2010. Average daily trading volume during the quarter under review was 643.2 thousand shares as compared with 603.6 thousand shares in Q4/2010 and 1,061.8 thousand shares in Q1/2010.

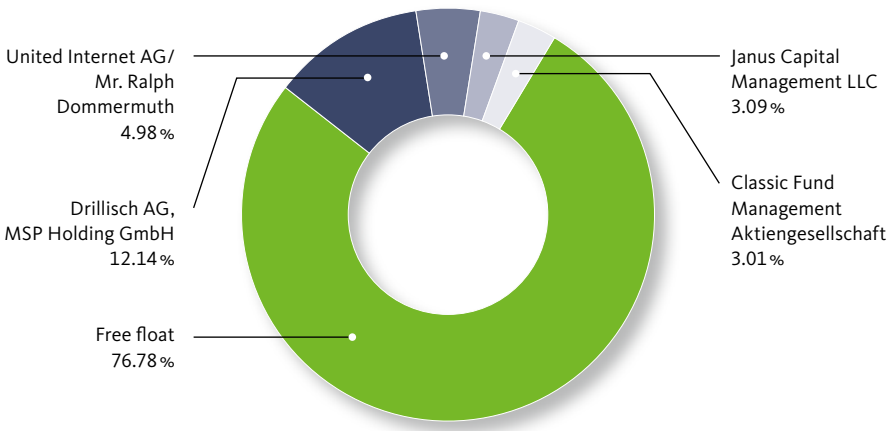
Shareholder structure

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.

According to the notification of voting rights received pursuant to section 21 WpHG (German Securities Trading Act), freenet AG's shareholder structure changed as follows during the quarter under review:

In January 2011, DWS Investment GmbH notified us that its voting rights in freenet AG had fallen below the 3-percent threshold, and at that time amounted to 2.97 percent.

Free float rose accordingly from 71.94 percent as of 31 December 2010 to 76.78 percent as of 31 March 2011, and is distributed among a broad base of private and institutional investors in Germany and abroad.



Source: freenet AG, 31 March 2011

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

Interim group management report

Overview of the business and operating performance in the freenet Group

- **Attractive new offers in mobile voice and data services**
- **klarmobil: Germany's Customer Champions 2011**
- **Top IVW ranking for freenet.de portal and freeXmedia**

In its core business of **mobile voice and data services**, freenet AG markets mobile communications services for Germany's four major network operators, under its own name and for its own account. In light of continued intense competition with high dynamics in the price structure, the company is focusing on valuable postpaid contract customers in its new customer acquisition and existing customer management with its mobilcom-debitel brand. In addition, freenet AG also does business very successfully with several discount brands in the so-called no-frills segment.

In January, mobilcom-debitel once more sent a signal in the contract customer segment with a 10-percent new customer discount on the latest smartphone tariffs of the two major network operators Telekom and Vodafone. In March, this was followed by a mobile internet flat rate of 19.95 euros per month for mobile surfers in the D-network and a 14.95 euros/month "quasi SMS flat rate" with 3,000 free text messages to all German mobile networks and the German landline. And at the end of the quarter the new "Flat 4 You" smartphone tariff was launched offering five different flat rates in total at 25 euros/month for mobile telephony, surfing, SMS and MMS.

At the same time the mobilcom-debitel "Deutschland wählt Freiheit" (Germany chooses freedom) marketing campaign, successfully launched in October 2010, was continued at the start of the second quarter. Under the slogan "freedom and independence", it underscores freenet AG's unique positioning as the biggest network-independent mobile communications provider. It thereby contributes to giving the brand a distinctive profile with the differentiation characteristic as "independent consultant" and increasing mobilcom-debitel's brand recognition. Recent surveys show that more than 80 percent of respondents over the age of 14 years now recognise our brand. In addition, about 44 percent of respondents with a specific intention to buy recognise our advertising, of which two-thirds even spontaneously recall specific product and brand messages.

In the **discount sector**, freenet AG is already very well represented with the "klarmobil", "freenetMobile" and "callmobile" product brands. The "klarmobil GmbH" subsidiary has just won a "Deutschlands Kundenchampions 2011" (Germany's Customer Champions 2011) award, which recognises outstanding customer relationship management and high degrees of emotional customer loyalty. This is already the third time klarmobil has won the award. In addition, the "debitel light" brand was revitalised in March. The promotional tariff of 8 cents per minute for calls and per text message is modelled on the company's existing no-frills rates and is available on the Telekom network.

With its expertise and many years of experience, freenet AG has also steadily expanded its offer in the **portal business** and commands an ideal competitive position for growing mobile internet usage with its mobile portal activities. Among other things, during the first quarter the online dating site "freenetSingles" was upgraded with new features and optimised in terms of user-friendliness. New apps for the iPhone, iPod Touch and iPad were also launched with "Pocket Auskunft" (Pocket directory) and "iHoroskop" (iHoroscope). In March, freenet's portal offer recorded a total of 44.1 million visits, which given around 4.4 million unique users means an average of ten visits

per month. As a result, freenet defended its Top 20 position in the March 2011 IVW ranking.

freeXmedia also has an excellent position in the IVW rankings. The online marketer of the freenet Group came in 9th in the IVW marketer ranking for March 2011. The incorporation of all Computec Media AG websites into the freeXmedia portfolio in January boosted reach considerably. With the new cooperation freeXmedia now reaches around 10.9 million unique users[1] in the Digital Entertainment marketing area alone and is becoming established as a leading provider in the IT and consumer electronics sector and the market leader in the area of computer and video game magazines, with a unique user market share of around 62 percent[1].

1 AGOF internet facts 2010-IV including Computec websites.

Assets, financial position and results

Customer and ARPU development

Customer development in million	Q1/2011	Q4/2010	Q1/2010
Mobile Communications customers	15.64	15.65	17.15
Thereof contract customers	5.94	6.11	6.84
Thereof prepaid customers	7.65	7.58	8.50
Thereof no-frills customers	2.05	1.97	1.81

Monthly average revenue per user (ARPU) in €	Q1/2011	Q4/2010	Q1/2010
Contract customer	23.3	24.3	22.8
Prepaid customer	3.0	3.3	2.9
No-frills-customer	4.5	4.6	4.5

In its core business of mobile voice and data services, freenet AG markets as a mobile service provider, under its own name and for its own account, mobile communications services for the four network operators in Germany. As competition continues to intensify and prices come under increasing pressure, freenet AG is focusing on valuable postpaid contract customers in its new customer acquisition and existing customer management.

In the first quarter of 2011, it maintained the total number of mobile communications customers of 15.64 million at the same level as at the end of the year 2010, with a slight decrease of 18,000; for the same quarter last year, this decrease was of 425,000. With that, the development of the total number of mobile communications customers is in line with our current year planning.

The same is also true for the total number of postpaid customers: at 5.94 million, down by 174,000 due to the continued qualitative adjustment implemented in the first quarter of 2011, the total number was in line with the internal quarterly projections. In the same period, both the discount and the prepaid segment recorded an increased number of customers—in fact an increase of 82,000 to 2.05 million in the no-frills segment and of 74,000 to 7.65 million in the prepaid segment.

The stabilisation of monthly average revenue per user (ARPU), which had already been achieved in the previous year, continued in the first quarter of 2011: in the seasonally rather weak first quarter, postpaid ARPU increased by 0.5 euro to 23.3 euros compared with the same quarter last year; in the no-frills segment, it stood at 4.5 euros and in the prepaid segment at 3.0 euros and thus more or less achieved the level of the previous year.

Revenue and results

In €'000s	Q1/2011	Q1/2010 adjusted	Change
Revenue	788,811	803,068	–14,257
Gross profit	164,709	164,192	517
EBITDA	78,441	71,743	6,698
EBIT	32,626	24,415	8,211
EBT	23,340	10,862	12,478
Group result from continued operations	25,904	16,000	9,904
Group result from discontinued operations	140	4,766	–4,626
Group result	**26,044**	**20,766**	**5,278**

Group revenue fell by only 1.8 percent to 788.8 million euros in the first quarter of 2011 compared with the first quarter of 2010, in spite of a reduced customer base. In the quarter just ended, freenet AG mainly took advantage of profitable opportunities in the hardware business.

The **gross profit margin** increased year-on-year by 0.5 percentage points to 20.9 percent and **gross profit** increased by 0.5 million euros to 164.7 million euros.

Personnel expenses in the Group decreased year-on-year by 10.4 percent from 42.0 million euros in the first quarter of 2010 to 37.6 million euros in the first quarter of 2011.

Also reduced was the balance of **other operating expenses, other operating income**, other own work capitalised and the share of results of associates, in total to a figure of –48.6 million euros, which represents an improvement of 1.8 million euros.

As a consequence, the Group result before interest, tax, depreciation and amortisation **(EBITDA)** from continued operations went up by 9.3 percent in the first quarter of 2011, as compared with the same quarter in 2010, from 71.7 million euros to 78.4 million euros. It was burdened by restructuring-related one-off items amounting to 5.7 million euros resulting from the upcoming IT migration; last year these stood at 7.3 million euros. **Recurring EBITDA**—adjusted for one-off items—increased year-on-year as well, by 5.0 million euros or 6.4 percent, to 84.1 million euros.

Depreciation and impairment write-downs decreased by 1.5 million euros to 45.8 million euros compared with the first quarter of 2010.

Net interest income, as a balance of interest income and interest expenses, improved by 31.5 percent to –9.3 million euros, primarily because of reduced annual average net financial debt as a result of redemptions as well as because of the expiry of the interest rate swaps on 31 July 2010.

As a result, **pre-tax Group earnings (EBT)** have more than doubled compared to the previous year—from 10.9 million euros to 23.3 million euros.

The **Group result from continued operations** rose against the same quarter of 2010 (16.0 million euros) by 61.9 percent to 25.9 million euros.

The **Group result from discontinued operations** includes in the first quarter of 2011 subsequent income from the sale of the Next ID Group in the amount of 0.1 million euros. In the same quarter of 2010, subsequent income of around 4.8 million euros from the DSL business as well as the STRATO Group was incorporated.

The **Group result** reported in the first quarter of 2011 from continued and discontinued operations totalled 26.0 million euros, compared with 20.8 million euros in the comparable quarter last year.

Assets and financial position

Assets in m€	31.3.2011
Non-current assets	1,875.6
Current assets	661.6
Balance sheet total	**2,537.2**

Shareholders' equity and liabilities in m€	31.3.2011
Shareholders' equity	1,160.6
Non-current and current liabilities	1,376.6
Balance sheet total	**2,537.2**

Assets in m€	31.12.2010
Non-current assets	1,848.3
Current assets	694.0
Balance sheet total	**2,542.4**

Shareholders' equity and liabilities in m€	31.12.2010
Shareholders' equity	1,134.5
Non-current and current liabilities	1,407.9
Balance sheet total	**2,542.4**

Total assets as of 31 March 2011 amount to 2,537.2 million euros which is almost consistent with the amount as of 31 December 2010.

The **assets** side is influenced firstly by the reduction of 58.9 million euros in trade accounts receivable compared with 31 December 2010; this is primarily due to seasonal factors with bonus payments received from network operators in the first quarter of 2011. Secondly, normal fluctuations in the hardware business on the balance sheet date led to an increase in inventory of 15.8 million euros.

On the **liabilities** side, the other payables rose by 37.8 million euros compared with 31 December 2010, mainly due to a new distribution right in the Media-Saturn trading markets of a nominal 50 million euros. In contrast, trade accounts payable were reduced by 17.6 million euros, primarily because of payments of a nominal 12.5 million euros to the Media-Saturn trading markets for the existing former distribution right.

Due to the Group net profit achieved, the **equity ratio** rose from 44.6 percent as of 31 December 2010 to 45.7 percent at the end of March 2011.

The **net financial debt** amounts to 558.6 million euros as of 31 March 2011.

Cash flow

In m€	Q1/2011	Q1/2010	Change
Cash flow from operating activities	76.3	91.4	–15.1
Cash flow from investing activities	–3.4	11.5	–14.9
Cash flow from financing activities	–43.3	–375.4	332.1
Change in cash and cash equivalents	**29.6**	**–272.5**	**302.1**
Free cash flow	**72.5**	**86.0**	**–13.5**

Compared with the same quarter last year, **cash flow from operating activities** decreased by 15.1 million euros to 76.3 million euros in the first quarter of 2011, mainly due to the current hardware inventory build up.

In the first quarter of 2011, the **cash flow from investing activities** was reduced by 14.9 million euros compared with the previous year. While cash inflow of 11.5 million euros was reported in the first quarter of 2010, cash outflow during the quarter just ended amounted to 3.4 million euros. It should be noted, however, that in the same quarter last year, cash was received from the sale of subsidiaries (DSL business), in the amount of 16.4 million euros. Adjusted for this amount, there are no significant changes in cash-effective investments compared with same period last year.

Cash flow from financing activities improved by 332.1 million euros from –375.4 million euros to –43.3 million euros in the first quarter of 2011 compared with the same period last year.

In the first quarter of 2010, as a direct consequence of the sale of the DSL business and the STRATO Group completed at the end of 2009, repayments on borrowings of 357.8 million euros were made. In contrast, in the period under review the repayments on borrowings amounted to 35.3 million euros, of which 33.3 million euros were accounted for by the semi-annual scheduled repayment of the two existing long-term bank loans.

On top of this, there were interest payments of 8.0 million euros in the first quarter of 2011, primarily for the loans taken out on the occasion of the debitel acquisition, which equates to a reduction of 9.6 million euros compared with the previous year, primarily resulting from the relatively lower average net financial debt of the Group.

As a result, a stable **free cash flow** of 72.5 million euros was achieved in the first quarter of 2011.

Employees

The number of employees at the end of the first quarter of 2011 decreased to 4,081 compared with 4,271 at the end of the first quarter of 2010.

Significant events after the reporting date

In April 2011, the freenet Group completely replaced its existing financing. The new financing is comprised of a 240 million euros new floating-rate syndicated bank loan to be repaid over a three year period, a 100 million euros revolving credit facility and a 400 million euros corporate bond maturing after five years. The corporate bond pays an interest of 7.125 percent per year. By significantly extending the maturity of its borrowings to 2016 and—in an environment of rising interest rates—being less exposed to future interest rate risks the Group was able to increase the company's planning certainty.

In May 2011, Drillisch AG, Maintal, Germany, announced that its share of voting rights in freenet AG had exceeded the 15-percent threshold and at that time amounted to 15.20 percent, 4.63 percent of which were owned via MSP Holding GmbH.

Risk report

During the first quarter of 2011, there were no major changes to the risks described in detail in the "Risk report" of the Annual Report 2010.

The Annual Report 2010 is available on the internet at *http://www.freenet-group.de/investor/publications/quarterly-annual-reports*.

Opportunities and forecast

Please refer to the Annual Report 2010 published at the end of March 2011 for details on the opportunities and forecast of the current financial year. No appreciable changes emerged during the first quarter of 2011.

Therefore, the company confirms the summary statement on the prospective development of the Group issued in the Annual Report 2010 and will continue to focus on mobile voice and data services.

Transactions with related parties

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

In €'000s	Q1/2011	Q1/2010
Revenue attributable to services		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	0	396
Joint ventures		
FunDorado GmbH, Hamburg	73	40
Companies with a major influence on freenet AG		
1&1 Internet AG, Montabaur	n/a	3,633
	73	**4,069**
Costs of purchased services		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	15	18
Joint ventures		
NetCon Media s. r. o., Hlucin, Czech Republic	1	1
FunDorado GmbH, Hamburg	0	1
siXXup new Media GmbH, Pulheim	18	18
	34	**38**
Interest expenses from vendor loan		
Companies with a major influence on freenet AG		
Telco (Netherlands) Holding B. V., Hoofddorp, the Netherlands	n/a	181

The following major receivables due from and liabilities due to related parties existed as of 31 March 2011:

In €'000s	31.3.2011	31.3.2010
Receivables from regular transactions		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	0	153
Joint ventures		
FunDorado GmbH, Hamburg	40	19
siXXup new Media GmbH, Pulheim	8	0
Companies with a major influence on freenet AG		
1&1 Internet AG, Montabaur	n/a	609
	48	**781**
Liabilities from regular transactions		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	0	4
Joint ventures		
FunDorado GmbH, Hamburg	0	3
	0	**7**

As far as companies and persons did not qualify as related parties according to IAS 24 in the period under review, no comparative information was given (n/a). 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 31 March 2011 26
Consolidated balance sheet as of 31 March 2011 28
Schedule of changes in equity for the period from 1 January to 31 March 2011 30
Consolidated statement of cash flows from 1 January to 31 March 2011 31
Selected explanatory notes in accordance with IAS 34 32

Consolidated income statement and consolidated statement of comprehensive income for the period from 1 January to 31 March 2011

In €'000s	Q1/2011 1.1.2011 —31.3.2011	Q1/2010 1.1.2010 —31.3.2010 adjusted
Revenue	788,811	803,068
Other operating income	23,456	22,465
Other own work capitalised	3,096	1,816
Cost of materials	–624,102	–638,876
Personnel expenses	–37,628	–41,979
Depreciation and impairment write-downs	–45,815	–47,328
Other operating expenses	–75,445	–75,143
Operating result	**32,373**	**24,023**
Share of results of associates	253	392
Interest receivable and similar income	1,308	6,573
Interest payable and similar expenses	–10,594	–20,126
Result before taxes on income	**23,340**	**10,862**
Taxes on income	2,564	5,138
Group result from continued operations	**25,904**	**16,000**
Group result from discontinued operations	**140**	**4,766**
Group result	**26,044**	**20,766**
Group result attributable to shareholders of freenet AG	25,966	20,769
Group result attributable to non-controlling interest	78	–3
Earnings per share (undiluted) in €	**0.20**	**0.16**
Earnings per share (diluted) in €	**0.20**	**0.16**
Earnings per share from continued operations (undiluted) in €	0.20	0.12
Earnings per share from continued operations (diluted) in €	0.20	0.12
Earnings per share from discontinued operations (undiluted) in €	0.00	0.04
Earnings per share from discontinued operations (diluted) in €	0.00	0.04
Weighted average of shares outstanding in thousand (undiluted)	128,061	128,061
Weighted average of shares outstanding in thousand (diluted)	128,061	128,061

In €'000s	Q1/2011 1.1.2011 —31.3.2011	Q1/2010 1.1.2010 —31.3.2010
Group result	**26,044**	**20,766**
Change in fair value of held-for-sale financial instruments	–76	13
Taxes on income recognised directly in equity	22	–4
Change in value recognised directly in equity	**–54**	**9**
Consolidated comprehensive income	**25,990**	**20,775**
Consolidated comprehensive income attributable to shareholders of freenet AG	25,912	20,778
Consolidated comprehensive income attributable to non-controlling interest	78	–3

Consolidated balance sheet as of 31 March 2011

Assets in €'000s	31.3.2011	31.12.2010	31.3.2010
Non-current assets			
Intangible assets	585,085	578,722	694,928
Goodwill	1,116,688	1,115,924	1,116,505
Property, plant and equipment	35,094	37,678	49,990
Investments in associates	3,656	3,403	4,037
Other investments	2,323	2,258	1,204
Deferred income tax assets	88,313	79,828	37,355
Trade accounts receivable	25,035	19,530	3,326
Other receivables and other assets	19,426	11,006	17,299
	1,875,620	**1,848,349**	**1,924,644**
Current assets			
Inventories	67,671	51,897	64,034
Current income tax assets	3,260	3,486	9,396
Trade accounts receivable	343,110	407,539	325,951
Other receivables and other assets	41,010	44,500	44,163
Cash and cash equivalents	206,531	174,334	207,083
Assets of disposal group classified as held-for-sale	0	12,283	0
	661,582	**694,039**	**650,627**
	2,537,202	**2,542,388**	**2,575,271**

Shareholders' equity and liabilities in €'000s	31.3.2011	31.12.2010	31.3.2010
Shareholders' equity			
Share capital	128,061	128,061	128,061
Capital reserves	737,536	737,536	737,536
Revaluation reserve	2	56	50
Retained earnings	294,777	268,811	202,749
Capital and reserves attributable to shareholders of freenet AG	**1,160,376**	**1,134,464**	**1,068,396**
Capital and reserves attributable to non-controlling interest	222	0	138
	1,160,598	**1,134,464**	**1,068,534**
Non-current liabilities			
Trade accounts payable	385	387	132
Other payables	64,385	11,796	51,642
Borrowings	551,731	584,583	718,324
Pension provisions	24,991	24,638	24,192
Provisions for other liabilities and charges	18,718	19,211	12,905
	660,210	**640,615**	**807,195**
Current liabilities			
Trade accounts payable	337,597	355,191	336,116
Other payables	117,270	132,082	126,096
Current income tax liabilities	28,329	27,339	6,486
Borrowings	213,440	215,435	189,419
Provisions for other liabilities and charges	19,758	26,929	27,306
Liabilities of disposal group classified as held-for-sale	0	10,333	14,119
	716,394	**767,309**	**699,542**
	2,537,202	**2,542,388**	**2,575,271**

Schedule of changes in equity for the period from 1 January to 31 March 2011

In €'000s	Share capital	Capital reserves	Revaluation reserve	Retaines earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1.1.2010	**128,061**	**737,536**	**41**	**181,980**	**1,047,618**	**141**	**1,047,759**
Consolidated comprehensive income	0	0	9	20,769	20,778	–3	20,775
As of 31.3.2010	**128,061**	**737,536**	**50**	**202,749**	**1,068,396**	**138**	**1,068,534**
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	144	144
Consolidated comprehensive income	0	0	–54	25,966	25,912	78	25,990
As of 31.3.2011	**128,061**	**737,536**	**2**	**294,777**	**1,160,376**	**222**	**1,160,598**

Consolidated statement of cash flows from 1 January to 31 March 2011

In €'000s	1.1.2011 —31.3.2011	1.1.2010 —31.3.2010
Earnings before interest and taxes (EBIT) from continued and discontinued operations	**32,785**	**29,089**
Adjustments		
Depreciation and impairment on items of fixed assets	45,815	47,570
Share of results of associates	–253	–392
Proceeds from the sale of subsidiaries	0	–4,398
Loss on disposals of fixed assets	117	128
Increase in net working capital not attributed to investing or financing activities	2,850	23,877
Other non-payment components	–111	995
Income taxes paid	–4,854	–5,454
Cash flow from operating activities	**76,349**	**91,415**
Investments in property, plant and equipment and intangible assets	–4,748	–5,845
Proceeds from the disposal of property, plant and equipment and intangible assets	884	414
Purchase of subsidiaries	–638	0
Proceeds from the sale of subsidiaries	0	16,409
Interest received	1,099	503
Cash flow from investing activities	**–3,403**	**11,481**
Cash repayments of borrowings	–35,286	–357,796
Interest paid	–8,051	–17,605
Cash flow from financing activities	**–43,337**	**–375,401**
Cash-effective change in cash and cash equivalents	**29,609**	**–272,505**
Cash and cash equivalents at 1.1.	**30,297**	**331,418**
Cash and cash equivalents at 31.3.	**59,906**	**58,913**

Derivation of cash and cash equivalents	**31.3.2011**	**31.3.2010**
Cash and cash equivalents of continued operations	206,531	207,083
Liabilities as part of current finance scheduling due to banks	–146,625	–148,170
	59,906	**58,913**

Cash flow from operating activities	76,349	91,415
Investments in property, plant and equipment and intangible assets	–4,748	–5,845
Proceeds from the disposal of property, plant and equipment and intangible assets	884	414
Free cash flow (FCF)	**72,485**	**85,984**

Selected explanatory notes in accordance with IAS 34

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 2011. The accounting standards to be applied for the first time have, however, no significant effect on the presentation of the Group's assets, financial position and results.
   In preparing the interim report as of 31 March 2011 and determining the comparable figures for the previous year, the same accounting and valuation methods as in the consolidated financial statements 2010 were used in principle—taking the circumstances outlined below into account. A detailed description of these methods may be found in the notes to the consolidated financial statements 2010 of freenet AG.
2. As described in the consolidated financial statements 2010, the operation "Next ID Group" was sold at the end of 2010, with effect from 1 January 2011. In the previous year comparable figures shown in the present condensed interim consolidated financial statements this operation is presented as a discontinued operation in accordance with IFRS 5. This represents a retrospective adjustment to the previous year comparable figures as published in the condensed interim consolidated financial statements as of 31 March 2010, in which Next ID Group was still reported as a continued operation.
   The Next ID Group was deconsolidated on 1 January 2011. The 140 thousand euros in profit reported from the discontinued operation Next ID Group for Q1/2011 results from a now final determination of the Next ID companies' profit transfer sum for 2010.
   In the comparable quarter of the previous year 2010, the result from discontinued operations contains subsequent earnings contributions from the "DSL business" and "STRATO Group"—which were sold at the end of 2009—in addition to the Next ID Group's earnings contribution.

3. The period result of discontinued operations is broken down as follows:

In €'000s	Q1/2011				Q1/2010 adjusted			
	Next ID	DSL business	STRATO	Total	Next ID	DSL business	STRATO	Total
Revenue	0	0	0	0	3,083	2,370	0	5,453
Other operating income	0	0	0	0	325	148	45	518
Profit from the disposal of discontinued operations	159	0	0	159	0	4,513	–115	4,398
Cost of materials	0	0	0	0	–1,396	318	0	–1,078
Personnel expenses	0	0	0	0	–1,414	–110	0	–1,524
Depreciation	0	0	0	0	–242	0	0	–242
Other operating expenses	0	0	0	0	–1,501	–1,350	0	–2,851
Interest receivable and similar income	0	0	0	0	177	0	0	177
Taxes on the profit from the disposal of discontinued operations	–19	0	0	–19	0	–85	0	–85
Result from discontinued operations	**140**	**0**	**0**	**140**	**–968**	**5,804**	**–70**	**4,766**

Intangible assets and property, plant and equipment attributable to the DSL business which were not sold in the course of the sale of freenet Breitband GmbH and freenet Customer Care GmbH in 2009 were shown as held-for-sale through 30 June 2010. For pending services in relation to these intangible assets and property, plant and equipment, a provision of 14,119 thousand euros had been created in the balance sheet as of 31 March 2010, shown under the position "liabilities of disposal group classified as held-for-sale". Since these assets have not yet been sold, nor are they likely to be sold in the near future any more, the above-described provision for pending services has been reallocated to the Group's continued operations and is shown under "provisions for other liabilities and charges" in the balance sheet as of 31 March 2011, in the amount of 11,784 thousand euros.

4. The figures in the cash flow statement were given for the overall Group (continued and discontinued operations) in each case.
During the first quarter of 2011 there was no cash flow related to discontinued operations.
Of the reported cash flow from operating activities, the discontinued operation DSL business accounted for a cash outflow of 1.1 million euros during the first three months of 2010; There was no cash flow from investing and financing activities for the DSL business.

There was no cash flow related to the STRATO Group in the first quarter of 2010. During the first quarter of 2010, the discontinued operation Next ID Group generated cash outflow of 1.1 million euros from operating activities and cash inflow of 0.1 million euros from investing activities. Cash flow from financing activities was of low amount.
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:

In €'000s	1.1.2011 —31.3.2011	1.1.2010 —31.3.2010
Earnings before taxes from continued operations	23,340	10,862
Interest payable and similar expenses from continued operations	10,594	20,126
Interest receivable and similar income from continued operations	–1,308	–6,573
Result from discontinued operations	140	4,766
Taxes on income from discontinued operations	19	85
Interest receivable and similar income from discontinued operations	0	–177
Earnings before interest and taxes (EBIT) from continued and discontinued operations	**32,785**	**29,089**

5. Of the payments of 35,286 thousand euros for the servicing of debt in the first quarter of 2011, 33,333 thousand euros are accounted for by the semi-annual scheduled servicing of debt for the two existing long-term bank loans.
6. Net interest income (balance of interest receivable and similar income and of interest payable and similar expenses) improved by 4.3 million euros year-on-year. It should be noted, however, that the Q1/2010 figure contained interest income of 5.5 million euros from the market valuation of interest swaps. Adjusted by this figure, net interest income improved by 9.8 million euros, due primarily to the significant drop in the average net financial debt.
7. In January 2011, the freenet Group and Media-Saturn Deutschland GmbH agreed that the cooperation between these two companies would be continued until the end of 2013. With the exception of products of Telefonica O_2 Germany, freenet AG will continue to offer the mobile communications products of the network operators Telekom, Vodafone and E-Plus as well as its own products in all Media Markt and Saturn stores in Germany.

The new distribution right did not lead to any cash outflow in the first quarter of 2011. As a non-cash-effective investment, the new distribution right had no effect on cash flow from investing activities in the first quarter of 2011. The new distribution right did give rise to liabilities in the balance sheet as of 31 March 2011 and therefore to a mathematical effect with regard to net working capital—however due to the lack of cash-effectiveness of the transaction, this effect was offset by a counter-entry in net working capital, so that the new distribution right also did not affect the net working capital and thus the cash flow from operating activities of Q1/2011. The resulting liability is the main explanation for the increase in non-current other payables compared to the balance sheet as of 31 December 2010.

8. As in the consolidated financial statements 2010, current and deferred income tax was calculated based on an average tax rate of 29.4 percent (previous year: 30.2 percent).
9. Segment report (on the following pages)

Segment report 1.1.2011—31.3.2011 In €'000s	Mobile Communi-cations	Other	Elimination of intersegment revenue and costs	Effects regarding IFRS 5	Total
Third-party revenue	**771,100**	**17,711**	**0**	**0**	**788,811**
Intersegment revenue	366	1,433	–1,799	0	0
Revenue, total	771,466	19,144	–1,799	0	788,811
Cost of materials, third parties	**–616,165**	**–7,937**	**0**	**0**	**–624,102**
Intersegment cost of materials	–786	–516	1,302	0	0
Cost of materials, total	–616,951	–8,453	1,302	0	–624,102
Segment gross profit	**154,515**	**10,691**	**–497**	**0**	**164,709**
Other operating income	18,913	5,650	–948	–159	23,456
Other own work capitalised	2,882	214	0	0	3,096
Personnel expenses	–30,587	–7,041	0	0	–37,628
Other operating expenses	–69,630	–7,260	1,445	0	–75,445
Share of results of associates	0	253	0	0	253
Segment EBITDA	**76,093**	**2,507**	**0**	**–159**	**78,441**
Depreciation and impairment write-downs	–44,562	–1,253	0	0	–45,815
Segment EBIT	**31,531**	**1,254**	**0**	**–159**	**32,626**
Group financial result					–9,286
Taxes on income					2,564
Group result from continued operations					25,904
Group result from discontinued operations					140
Group result					**26,044**
Group result attributable to shareholders of freenet AG					25,966
Group result attributable to non-controlling interest					78
Cash-effective investments in continued operations	**4,243**	**505**			**4,748**

Segment report 1. 1. 2010—31. 3. 2010 In €'000s	Mobile Communi-cations	Other	Elimination of intersegment revenue and costs	Effects regarding IFRS 5	Total
Third-party revenue	**781,389**	**27,084**	**0**	**–5,405**	**803,068**
Intersegment revenue	1,450	1,539	–2,989	0	0
Revenue, total	782,839	28,623	–2,989	–5,405	803,068
Cost of materials, third parties	**–630,998**	**–8,907**	**0**	**1,029**	**–638,876**
Intersegment cost of materials	–637	–1,668	2,305	0	0
Cost of materials, total	–631,635	–10,575	2,305	1,029	–638,876
Segment gross profit	**151,204**	**18,048**	**–684**	**–4,376**	**164,192**
Other operating income	21,144	6,555	–715	–4,519	22,465
Other own work capitalised	1,756	60	0	0	1,816
Personnel expenses	–33,554	–9,949	0	1,524	–41,979
Other operating expenses	–70,967	–8,030	1,399	2,455	–75,143
Share of results of associates	0	392	0	0	392
Segment EBITDA	**69,583**	**7,076**	**0**	**–4,916**	**71,743**
Depreciation and impairment write-downs	–44,550	–3,020	0	242	–47,328
Segment EBIT	**25,033**	**4,056**	**0**	**–4,916**	**24,415**
Group financial result					–13,553
Taxes on income					5,138
Group result from continued operations					16,000
Group result from discontinued operations					4,766
Group result					**20,766**
Group result attributable to shareholders of freenet AG					20,769
Group result attributable to non-controlling interest					–3
Cash-effective investments in continued operations	**3,515**	**2,247**			**5,762**

Further information

Financial calendar

11 May 2011
Publication of interim report I/2011

30 June 2011[1]
Annual General Meeting

10 August 2011[1]
Publication of interim report II/2011

10 November 2011[1]
Publication of interim report III/2011

1 Probable dates.

Imprint, contact, publications

freenet AG
Hollerstraße 126
24782 Büdelsdorf

Phone: +49 (0) 4331/69—1000
Internet: www.freenet-group.de

freenet AG
Investor Relations
Deelbögenkamp 4c
22297 Hamburg

Phone: +49 (0) 40/51306–778
Fax: +49 (0) 40/51306–970
E-mail: investor.relations@freenet.ag

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

The English version of the 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*.

freenet GROUP

freenet AG • Hollerstraße 126 • 24782 Büdelsdorf