Interim Report on the 2nd quarter 2011

freenet AG • Hollerstraße 126 • 24782 Büdelsdorf

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Key financials

Overview Group

Result in € million	1st half 2011	1st half 2010 adjusted[1]	Q2/2011	Q1/2011	Q2/2010 adjusted[1]
Revenue	1,546.3	1,638.4	757.5	788.8	835.3
Gross profit	335.7	357.8	171.0	164.7	193.6
EBITDA	162.3	160.8	83.9	78.4	89.1
Recurring EBITDA	173.9	174.3	89.7	84.1	95.3
EBIT	70.8	64.7	38.2	32.6	40.3
EBT	42.8	40.6	19.4	23.3	29.7
Group result from continued operations	46.7	45.9	20.8	25.9	29.9
Group result from discontinued operations	0.1	–1.5	0.0	0.1	–6.3
Group result	46.9	44.4	20.8	26.0	23.6
Earnings per share (€)	0.37	0.35	0.17	0.20	0.19

Balance sheet	30.6.2011	30.6.2010	30.6.2011	31.3.2011	30.6.2010
Balance sheet total in € million	2,548.1	2,539.6	2,548.1	2,537.2	2,539.6
Shareholders' equity in € million	1,181.3	1,092.2	1,181.3	1,160.6	1,092.2
Equity ratio in %	46.4	43.0	46.4	45.7	43.0

Finances and investments in € million	1st half 2011	1st half 2010 adjusted[1]	Q2/2011	Q1/2011	Q2/2010 adjusted[1]
Free cash flow[2, 3]	124.2	92.5	51.7	72.5	6.5
Depreciation and amortisation	91.5	96.1	45.7	45.8	48.7
Investments[3]	10.6	12.6	5.9	4.7	6.8
Net cash[3, 4]	–522.8	–696.1	–522.8	–558.6	–696.1

Share	30.6.2011	30.6.2010	30.6.2011	31.3.2011	30.6.2010
Closing price XETRA (€)	9.55	8.36	9.55	8.07	8.36
Number of ordinary shares (in thousand)	128,061	128,061	128,061	128,061	128,061
Market capitalisation (in €'000s)	1,222,983	1,070,590	1,222,983	1,033,452	1,070,590

Employees	30.6.2011	30.6.2010	30.6.2011	31.3.2011	30.6.2010
Employees	4,069	4,152	4,069	4,081	4,152

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).
4 At the end of period.

Overview Mobile Communications segment

Customer development in million	1st half 2011	1st half 2010	Q2/2011	Q1/2011	Q2/2010
Mobile Communications customers[1]	15.20	16.53	15.20	15.64	16.53
Thereof contract customers	5.84	6.60	5.84	5.94	6.60
Thereof prepaid customers	7.32	8.08	7.32	7.65	8.08
Thereof no-frills customers	2.05	1.85	2.05	2.05	1.85
Gross new customers	2.04	1.92	0.87	1.17	0.91
Net change	−0.45	−1.05	−0.44	−0.02	−0.62

Result in € million	1st half 2011	1st half 2010	Q2/2011	Q1/2011	Q2/2010
Revenue	1,512.3	1,598.7	740.8	771.5	815.9
Gross profit	316.0	333.3	161.5	154.5	182.1
EBITDA	157.4	155.5	81.3	76.1	85.9
Non recurring items	−12.0	−12.7	−7.1	−4.9	−6.2
Recurring EBITDA	169.4	168.2	88.4	81.0	92.1
EBIT	68.4	65.2	36.9	31.5	40.2
Non recurring items	−12.0	−12.7	−7.1	−4.9	−6.2
Recurring EBIT	80.4	77.9	44.0	36.4	46.3

Monthly average revenue per user (ARPU) in €	1st half 2011	1st half 2010	Q2/2011	Q1/2011	Q2/2010
Contract customer	23.5	23.5	23.7	23.3	24.2
Prepaid customer	3.1	3.0	3.1	3.0	3.1
No-frills customer	4.6	4.8	4.7	4.5	5.1

1 At the end of period.

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 started the financial year 2011 with the goal of further securing the company's long-term profitability despite a continuing tough competitive environment.

The present figures for the first six months of the current financial year allow a positive stocktaking for the first half of the year: We have achieved this goal and are very well on our way to achieving or exceeding the full-year targets. At the same time, we see this as confirmation of our long-term strategy, with the

- concentration on mobile voice and data services,
- focus on valuable postpaid contract customer relationships, and the
- systematic expansion of our product offering, our service expertise and distribution power as Germany's biggest network-independent telecommunications provider.

For instance, despite the continuing price battles in the industry, first-half EBITDA increased year-on-year and now stands at 162.3 million euros. The positive trend in the year to date is especially gratifying—gross profit has increased from 164.7 million euros in Q1/2011 to 171.0 million euros in Q2/2011, and EBITDA is up from 78.4 million euros to 83.9 million euros. This is all the more remarkable against the backdrop of declining customer revenue across the industry, which also impacted freenet AG—especially as we had already factored in customer losses and corresponding declines in revenue as part of our strategic realignment. At the same time we also managed to increase the Group result to a high level—from 44.4 million euros in the first half of 2010 to 46.9 million euros currently. And free cash flow is up about 34 percent year-on-year to 124.2 million euros for the first half of 2011.

Further to these positive developments, declines in our postpaid customer base have slowed as expected. As a consequence of our continued qualitative alignment in this segment, we had expected less than 500,000 customer losses for the full financial year 2011. After losing about 170,000 customers in Q1/2011, this number fell to 97,000 in Q2/2011. We are confident that this decreasing trend will solidify in the second half of the year and that our customer base will develop better than expected in the financial year 2011, with a decline of less than 450,000 customers.

Incidentally we have completed an essential prerequisite for this by successfully migrating the Group's three existing IT systems into a single system. The data migration took place in May 2011, concluding one of Europe's largest IT migration projects; essentially it merged three service providers into one, as a consequence of the acquisitions of recent years.

Since its launch in 2008, the migration project had tied up considerable resources in the Group: around 500 employees were involved with a total of 65,000 man-days, and on the data side more than 450 processes and interfaces with over 12 million customer relationships were covered. Although we still have some optimisation and software updates to complete over the next few months, the much-simplified and synchronised access to customer data is already having positive effects on our customer analysis and retention.

Attractive supplements to our product range in recent months are also an important contributor to this. In particular, the "Flat Smart" and "Flat 4 You" tariffs, which offer flat rate options for 25 euros per month, including internet usage, SMS, on-net/specific-net calls and free minutes, have been very well received by the market and now account for a significant proportion of our revenue.

Furthermore, mobilcom-debitel again underscored its unique competitive positioning as a service provider with a promotion giving new customers a 10-percent discount on the smartphone tariffs of the network operators. Customers save up to 200 euros over the contract period, with identical tariffs and a wide selection of attractive smartphones. mobilcom-debitel was also voted "Mobile Communications Provider/Distributor of the Year" for the third consecutive year by readers of "connect", Europe's largest telecommunications magazine.

To further enhance this strong approval among customers and continue improving its service to them, freenet AG opened "Campus Erfurt" in early July—one of the most innovative and efficient training centres in the telecommunications industry in Germany. With the support of major hardware manufacturers, the new 600 m² training centre combines state-of-the-art infrastructure and presentation areas, thereby ensuring the systematic further development of our consulting and sales quality.

We are also testing format extensions in our shop chain. This applies in particular to our range of accessories and shop-window displays focused on accessories. This has proven very promising in three test stores, multiplying their sales of the featured items in each case. We also continued our successful promotion bus tour of German city centres featuring the mobilcom-debitel Statue of Liberty, which served to increase footfall to the local shops.

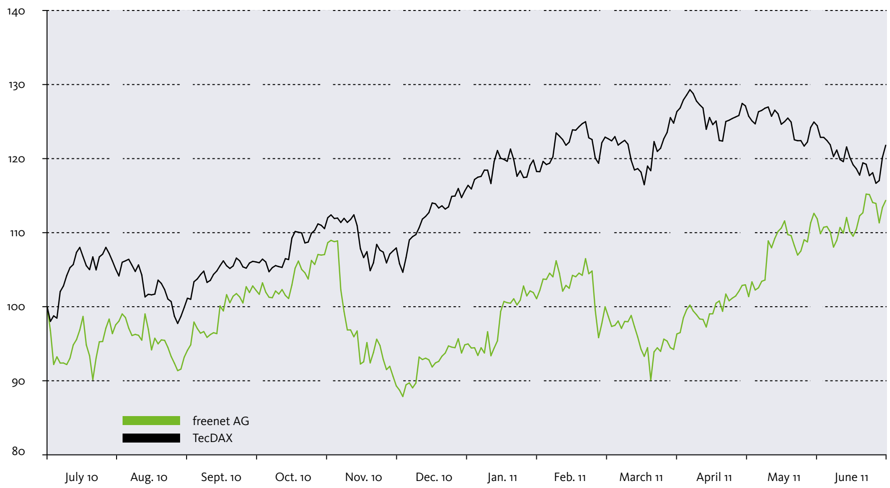
Based on the positive earnings performance to date, the successful IT synchronisation and the again intensified product, service and sales activities, we are full of optimism about the second half of 2011. After the first six months went so well, we are confident that we will be able to exceed the targets for 2011 announced at the beginning of the year. We now expect—provided that stable framework conditions continue—recurring Group EBITDA to reach 350 million euros (previously: 325 million euros), and free cash flow to exceed 220 million euros (previously: over 200 million euros) for the full year. As always, we will rigorously continue to work hard to achieve these goals.

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 30 June 2010)



German stock market

Despite the continued tension in the financial markets, German share indices recorded a mostly positive performance during Q2/2011, and closed the first half of 2011 with gains in the medium single-digit range.

For instance, the DAX was at 7,376 points on 30 June 2011, up 6.7 percent from 31 December 2010. The MDAX grew by 7.9 percent in the first half of 2011, while the TecDAX, in which freenet AG is listed, gained 5.1 percent during the same period.

freenet share

At the end of the quarter on 30 June 2011, the freenet share was listed at 9.55 euros, up 18.3 percent over the closing date of the previous quarter, and up 20.9 percent over year-end 2010. During the quarter, the freenet share reached its lowest closing price on 12 April 2011 at 8.13 euros; the highest closing price was 9.63 euros on 22 June 2011.

In all, 39.3 million freenet shares were traded via the XETRA system during the quarter, vs. 58.0 million in Q2/2010. Average daily trading volume during the quarter under review was 623.5 thousand shares as compared with 643.2 thousand shares in Q1/2011 and 921.0 thousand shares in Q2/2010.

Dividend

On 30 June 2011, the freenet AG Annual General Meeting approved the payment of a dividend for the financial year 2010 in the amount of 80 cents per share. The dividend was paid out on 1 July 2011.

Shareholder structure

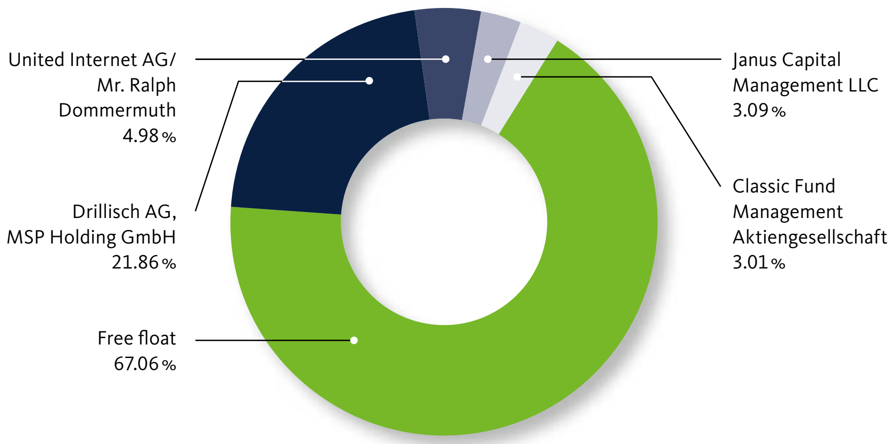
freenet AG's share capital totals 128,061,016 euros and is divided into 128,061,016 registered shares. Each share represents 1.00 euro of the share capital.

According to the notifications 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 May 2011, Drillisch AG 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. Further to this notification of voting rights, Drillisch AG also notified us of the objectives pursued with this acquisition and the origin of the funds used for the acquisition in a so-called investor's statement in accordance with section 27a WpHG; the statement is available on the internet at *http://www.freenet-group.de/investor/share/voting-rights-notifications*.

In June 2011, we received another notification of voting rights from Drillisch AG, stating that its share of voting rights had reached 21.86 percent (exceeding the threshold), 11.29 percent of which were owned via MSP Holding GmbH. Drillisch AG also notified us that the share of voting rights in our company held by its subsidiary MSP Holding GmbH had exceeded the 5-percent and 10-percent thresholds and at that time had reached 11.29 percent. Drillisch AG also issued an investor's statement in this connection, which can likewise be found at the internet address specified above.

Free float decreased accordingly from 76.78 percent as of 31 March 2011 to 67.06 percent as of 30 June 2011, and is distributed among a broad base of private and institutional investors in Germany and abroad.



Source: freenet AG, 30 June 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

As the biggest network-independent telecommunications provider in Germany, 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. The branded shops, a large presence in electronics retail and superstores, as well as the online and direct-to-customer sales make the Group the largest network-independent sales and distribution platform for mobile communications products in Germany.

In a market environment that continues to be fraught with intense competition and high dynamics in the price structure, the company is focusing on network-independent, demand-oriented customer consultation with its main **mobilcom-debitel** brand. The company focuses on valuable postpaid contract customers, both in its new customer acquisition and existing customer management.

Following the successful data migration in May 2011, the company's two remaining IT landscapes were unified into a single system. The migration was completed on schedule and without significant complications. Nevertheless, from an IT perspective the third quarter of 2011 will be characterised by stabilising the new processes. The unified system environment has significantly strengthened freenet AG's innovation and flexibility on the market, and the company is already able to benefit from the harmonised processes in various areas.

With regard to its tariff offers, mobilcom-debitel has an attractive product portfolio, especially in the high-quality smartphone segment:

- The "Flat 4 You" tariff gives customers a total of five flat rates for 25 euros per month: unlimited calls on their own mobile phone network (on-net calls), online access, SMS, on-net MMS, as well as calls to a mobile network of their choice. In addition, customers increasingly avail themselves of the option of choosing a modern smartphone from a wide range for 10 euros per month.
- The new "Flat Smart" smartphone tariff offers customers a total of three flat rates for 25 euros per month for unlimited mobile surfing, on-net calls and texting plus 100 free minutes per month to all German networks. Together with this tariff, customers also increasingly use the option of choosing a smartphone from a wide range for 10 euros per month.
- The 10-percent discount promotion for new customers on network operator smartphone tariffs, including iPhone tariffs, has been extended.

Readers of "connect", Europe's biggest magazine for telecommunications, have also attested to the attractiveness of mobilcom-debitel products by voting mobilcom-debitel "Mobile Communications Provider/Distributor of the Year" for the third consecutive year.

To ensure a systematic further development of consulting and sales quality, especially in marketing in the high-quality smartphone segment, the company opened its new training centre in Erfurt in early July in corporation with the sales and customer service and with the support of all the relevant hardware manufacturers. The new 600 m² training centre combines state-of-the-art presentation areas with a highly efficient infrastructure. There are different CAMPS (training units) that, depending on the topic, are aimed at all shop employees, or at different target groups such as sales staff from the various distribution lines, call-centre agents or trainees. A total of 170 one- to four-day workshops cover subjects such as products, sales methods, as well as personnel management and leadership.

In the **no-frills segment**, where freenet AG is represented with the “klarmobil”, ”callmobile”, ”freenetMobile” and ”debitel light” brands, the company further expanded its attractive product range in the second quarter of 2011. For instance, the “AllNet Flat” tariff was introduced in May under the “debitel light” brand. For 19.95 euros a month, the tariff includes 100 free minutes to all German networks as well as an SMS and data flat rate. In addition, “klarmobil” expanded its product range to include an SMS flat rate for 9.95 euros per month, that can be added as an option to the “Handy-Spar” and “Community” tariffs.

In its **portal business**, freenet AG has further expanded its offering and commands an ideal competitive position especially with its mobile portal activities. This also benefits its in-house online marketing agency freeXmedia, which came eighth in the IVW marketer rankings for June. For instance, in the run-up to the Women’s World Cup freenet.de offered iPhone users a free “Pocket WM 2011” app, which temporarily made the Top 25 of overall app store rankings in Germany during the World Cup.

Assets, financial position and results

Customer and ARPU development

Customer development in million	30.6.2011	31.3.2011	30.6.2010
Mobile Communications customers	15.20	15.64	16.53
Thereof contract customers	5.84	5.94	6.60
Thereof prepaid customers	7.32	7.65	8.08
Thereof no-frills customers	2.05	2.05	1.85

Monthly average revenue per user (ARPU) in €	Q2/2011	Q1/2011	Q2/2010
Contract customer	23.7	23.3	24.2
Prepaid customer	3.1	3.0	3.1
No-frills customer	4.7	4.5	5.1

At the end of the second quarter of 2011, the total number of customers in the important postpaid contract segment amounted to 5.84 million. As a result of the continued qualitative alignment of the customer base, the number of subscribers decreased by 97,000 quarter-on-quarter, thus declining at a markedly slower pace than was the case in previous quarters. With 2.05 million subscribers, the no-frills segment remained stable compared with the previous quarter. However, the number of customers in this segment still increased by approximately 200,000 year-on-year. The number of subscribers in the prepaid segment amounted to 7.32 million at the end of the second quarter of 2011. The decline compared to the previous quarter was primarily due to the deactivation of inactive SIM cards by network operators which resulted in about 330,000, yet earnings neutral, customer losses. By reaching 15.20 million at the end of the second quarter of 2011, the total subscriber base continued to develop in line with our current year planning.

Compared with the previous quarter, the monthly average revenue per user (ARPU) in the second quarter of 2011 increased across all business segments. Cumulative postpaid ARPU for the first half year stabilised at 23.5 euros, exactly the same as in the comparable period last year. In the first half of 2011, the cumulative ARPU in the no-frills and prepaid segments was 4.6 euros and 3.1 euros, compared to 4.8 euros and 3.0 euros respectively in the first half of 2010.

Revenue and results

In €'000s	Q2/2011	Q1/2011	Q2/2010 adjusted
Revenue	757,450	788,811	835,333
Gross profit	171,009	164,709	193,572
EBITDA	83,887	78,441	89,061
EBIT	38,223	32,626	40,318
EBT	19,426	23,340	29,708
Group result from continued operations	20,819	25,904	29,921
Group result from discontinued operations	0	140	–6,298
Group result	**20,819**	**26,044**	**23,623**

Group revenue in the second quarter of 2011 decreased by 4.0 percent compared to the previous quarter, which was mainly due to a lower hardware business.

Despite the revenue decline, the **gross profit margin** improved by 1.7 percentage points to 22.6 percent quarter-on-quarter, which equates to an increase in gross profit of 6.3 million euros to 171.0 million euros. Compared to the second quarter of 2010, the gross profit margin decreased slightly by 0.6 percentage points, and gross profit declined year-on-year by 22.6 million euros, which was primarily due to the decrease in the number of customers.

Overhead expenses—calculated as the difference between gross profit and EBITDA—decreased significantly year-on-year by 17.4 million euros to 87.1 million euros. Most of this was due to efficiency improvements and restructuring of the operational business. As a consequence, the Group result before interest, tax, depreciation and amortisation **(EBITDA)** from continued operations rose by 5.4 million euros or 6.9 percent to 83.9 million euros in the second quarter of 2011 compared to Q1/2011. When compared to the high levels recorded in the second quarter of 2010, this represents a decline by 5.2 million euros or 5.8 percent. The result was burdened by restructuring-related one-off items of 5.9 million euros arising from the now successfully implemented IT migration; In the same period in the previous year, these items stood at 6.2 million euros and in the first quarter of 2011 they amounted to 5.7 million euros. **Recurring EBITDA**—adjusted for one-off items—amounted to 89.7 million euros—compared with 84.1 million euros in the previous quarter and 95.3 million euros in the second quarter of 2010.

While **depreciation and impairment write-downs** decreased by 3.1 million euros to 45.7 million euros year-on-year, it remained stable quarter-on-quarter.

Net interest income, calculated as a balance of interest income and interest expenses, amounted to –18.8 million euros in the second quarter of 2011. This represents a significant deterioration compared with the previous quarter (–9.3 million euros) and the same period in the previous year (–10.6 million euros). Two major extraordinary effects should be noted though: Firstly, the Q2/2010 figure contained interest income from the market valuation of interest rate swaps amounting to 6.0 million euros. And secondly, when the old financing was replaced, one-off non-cash-effective interest expenses under the effective interest method were incurred in the amount of 6.9 million euros in Q2/2011. Excluding these extraordinary effects, net interest income would have improved significantly year-on-year, due to the reduction in average net financial debt.

As a result, **pre-tax Group earnings (EBT)** decreased by 10.3 million euros year-on-year to 19.4 million euros and by 3.9 million euros compared with the previous quarter (23.3 million euros). However, in the first half of 2011, EBT increased by 2.2 million euros to 42.8 million euros year-on-year.

The **Group result from continued operations** fell compared to the same quarter in 2010 (29.9 million euros) by 9.1 million euros to 20.8 million euros and compared to the first quarter of 2011 (25.9 million euros) by 5.1 million euros.

A **Group result from discontinued operations** was not recorded in the quarter under review. In the first quarter of 2011, this item included subsequent income from the sale of the Next ID Group amounting to 0.1 million euros. In the second quarter of 2010, this item included losses of around 6.3 million euros mainly due to subsequent expenses relating to the DSL business.

In total, the **Group result** from continued and discontinued operations reported in the second quarter of 2011 amounted to 20.8 million euros, compared with 23.6 million euros during the same period in the previous year. In the first half of 2011, freenet AG increased its Group result from continued and discontinued operations by 2.5 million euros year-on-year to 46.9 million euros.

Assets and financial position

Assets in m€	**30.6.2011**
Non-current assets	1,841.5
Current assets	706.7
Balance sheet total	**2,548.1**

Shareholders' equity and liabilities in m€	**30.6.2011**
Shareholders' equity	1,181.3
Non-current and current liabilities	1,366.8
Balance sheet total	**2,548.1**

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**

The **balance sheet total** on 30 June 2011 amounted to 2,548.1 million euros and thus increased slightly compared to 31 March 2011 (2,537.2 million euros).

The **assets** side of the balance sheet was influenced firstly by a decrease in intangible assets of 38.3 million euros compared to 31 March 2011. This was mainly attributable to the scheduled amortisation of customer relationships and trademarks arising from the debitel purchase price allocation as well as the amortisation of distribution rights. It was also characterised by trade accounts receivable increasing by 44.9 million euros compared to the end of the previous quarter. This was mainly due to seasonal factors and was largely attributable to bonus claims against network operators.

On the **liabilities** side, the company reduced its gross financial debt compared to 31 March 2011, primarily by refinancing the old debt on 20 April 2011, by 25.5 million euros to 739.7 million euros.

Due to the Group net profit achieved, the **equity ratio** increased from 45.7 percent as of 31 March 2011 to 46.4 percent as of 30 June 2011.

Net financial debt amounted to 522.8 million euros as of 30 June 2011 (31 December 2010: 623.1 million euros).

Cash flow

In m€	Q2/2011	Q1/2011	Q2/2010
Cash flow from operating activities	57.4	76.3	12.6
Cash flow from investing activities	–2.6	–3.4	–1.9
Cash flow from financing activities	2.2	–43.3	–74.1
Change in cash and cash equivalents	**57.0**	**29.6**	**–63.4**
Free cash flow	**51.7**	**72.5**	**6.5**

Compared with the previous quarter, **cash flow from operating activities** decreased by 18.9 million euros to 57.4 million euros in the second quarter of 2011. In this context, it should however be noted that, with respect to the operating activities, the second quarter is traditionally weaker than the first quarter. This is due to seasonal factors, such as the build-up of trade accounts receivable arising from annual bonuses payable by network operators in the second quarter, while during the first quarter the payments of these bonuses are regularly received. However, we managed to increase cash flow from operating activities by 44.8 million euros year-on-year, mainly as a result of improvements in the management of hardware stocks and the associated trade accounts receivable and payable.

In the second quarter of 2011, **cash flow from investing activities** amounted to –2.6 million euros compared to –3.4 million euros in the first quarter of 2011 and –1.9 million euros in the second quarter of 2010, and thus remained stable.

In Q2/2011, **cash flow from financing activities** improved to 2.2 million euros compared with –74.1 million euros for the same period in the previous year. This also represents a significant improvement over the previous quarter (–43.3 million euros). This development is partly related to the refinancing: the replacement of the old financing on 20 April 2011 resulted in a net increase in financial resources of 6.3 million euros, while the company had repaid borrowings in the amount of 35.3 million euros in the first quarter of 2011. Furthermore, the improvement is a result of lower interest payments (4.1 million euros in Q2/2011 vs. 8.1 million euros in Q1/2011), mainly due to the reduction of net financial debt, but also because of a change in the payment rate as the interest on the corporate bond is paid annually in arrears.

The resulting **free cash flow** in the second quarter of 2011 amounted to 51.7 million euros compared to 72.5 million euros in the first quarter of 2011 and 6.5 million euros in the second quarter of 2010.

Employees

The number of employees at the end of the second quarter of 2011 decreased to 4,069 compared with 4,081 at the end of the first quarter of 2011 and 4,152 at the end of the second quarter of 2010.

Significant events after the reporting date

In July 2011, Janus Capital Management LLC, Denver, Colorado, announced that its share of voting rights in freenet AG had fallen below the 3-percent threshold and at that time amounted to 2.99 percent.

In August 2011, we received an announcement stating that Classic Fund Management Aktiengesellschaft, Triesen, Liechtenstein, held 2.89 percent of the voting rights (falling below the threshold).

In August 2011, IPConcept Fund Management S. A., Luxemburg-Strassen, Luxemburg, announced that its share of voting rights in freenet AG had exceeded the 3-percent threshold and at that time amounted to 3.02 percent, 2.72 percent of which were owned indirectly according to section 22 (1) sentence 1 no. 6 WpHG.

Risk report

Risk management

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

To this end, the freenet AG Executive Board has set up an effective early risk detection, monitoring and management system within the Group, which complies with all statutory requirements for a risk management system.

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

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

Beyond this, the management has set up a comprehensive monthly reporting system to manage and monitor ongoing business operations that extends to both the financial and the non-financial performance indicators in the Group. The Executive Board is kept informed about operational developments in a timely manner at regular "jourfixe" meetings, which are held for all relevant operations. Recent developments and future measures are also discussed at these jourfixe 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.

The Group's risk management methods and systems are continually reviewed, evolved and adjusted. As part of the audit of the annual financial statements for the financial year 2010, the auditor also reviewed freenet AG's risk management system.

Major risks

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

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 ever-higher costs on new customer acquisition, while revenue continues to fall and customers are very ready to switch. Should this trend continue or even grow stronger, this will have a negative impact on the company's assets, financial position and results. freenet 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 marketing their products themselves and to forcing mobile service providers out of the market. Moreover, due to their business structure, mobile network operators are in part able to offer better rates than mobile service providers. This can lead to a loss of sales channels and customers.

A further reduction of the so-called 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 impact negatively on freenet AG's margins.

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

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

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

There are price risks attendant on expanding the business with mobile communication devices. A reduction of network operator subsidies for mobile communication devices will also likely result in a higher capital commitment and marketing risk. The customers' clear preference for new devices, combined with economies of scale when purchasing from manufacturers and network operators, and the high number of points of sales translate to considerable opportunities.

On 4 August 2009, the law to counteract unauthorised telemarketing and to improve consumer protection from special forms of marketing went into effect. This means that 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 impact the management of existing customers considerably, as many existing customers did not explicitly give their agreement. It is since then no longer possible to phone these customers for purely promotional purposes.

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

Should the macroeconomic conditions undergo a negative development again, 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 accordance with a BGH (Federal Court of Justice) ruling announced at the beginning of 2011, freenet AG may in future only block the SIM cards of defaulting customers once the outstanding balance has grown to 75 euros and the debtor has been additionally warned that his card may be blocked. This could have a negative 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 arrears payments or changes to loss carryforwards, if the fiscal authorities come to different interpretations of tax regulations or to different assessments of any underlying fact during their tax audit. The same is true for types of taxes that may not 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 (Corporation Tax Act) (old version), if applicable in conjunction with section 10a sentence 9 GewStG (Trade Tax Act), and section 12 (3), sentence 2 UmwStG (Reorganisation Tax Act) (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 sentence 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 under a single shareholder or several shareholders with parallel interests through other measures. The above-described legal consequences apply accordingly.

Financial risks

The liabilities to banks shown under borrowings stem partly from a variable-interest loan, and partly from a fixed-coupon corporate bond. The Group's liabilities from these two loans total approximately 639.5 million euros on 30 June 2011. 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 30 June 2011 by using an interest cap.

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

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

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

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

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

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

Some individual shareholders are of the view that the capital increase through contribution 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 Télécom running into billions and further that the shares issued to France Télécom would have had no voting rights.

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

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.

In view of a successful first half of 2011, freenet AG is confident—provided that stable framework conditions continue—that it will be able to exceed its targets for 2011 announced at the beginning of the year. The company is now expecting recurring Group EBITDA to reach 350 million euros (previously: 325 million euros), and free cash flow[1] to exceed 220 million euros (previously: over 200 million euros) for the full year. Furthermore, the company expects an improved development of the postpaid customer base and anticipates to lose less than 450,000 (previously: less than 500,000) customers in the financial year 2011.

The company will continue to focus on mobile voice and data services. The primary goals of this business approach are to secure and enhance its long-term profitability and strong cash flow, and to continue paying down its debt. In addition, the company will systematically continue to pursue tapping into potential new areas of growth.

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

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

Transactions with related parties

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

In €'000s	1st half 2011	1st half 2010
Revenue attributable to services		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	0	761
Joint ventures		
FunDorado GmbH, Hamburg	135	69
Companies with a major influence on freenet AG		
1&1 Internet AG, Montabaur	n/a	6,303
	135	**7,133**
Costs of purchased services		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	29	29
Joint ventures		
NetCon Media s. r. o., Hlucin, Czech Republic	2	2
FunDorado GmbH, Hamburg	0	6
siXXup new Media GmbH, Pulheim	36	73
	67	**110**
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 30 June 2011:

In €'000s	30.6.2011	30.6.2010
Receivables from regular transactions		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	0	145
Joint ventures		
FunDorado GmbH, Hamburg	27	22
Companies with a major influence on freenet AG		
1&1 Internet AG, Montabaur	n/a	358
	27	**525**
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 30 June 2011

In €'000s	1st half 2011 1.1.2011 —30.6.2011	1st half 2010 1.1.2010 —30.6.2010 adjusted	Q2/2011 1.4.2011 —30.6.2011	Q2/2010 1.4.2010 —30.6.2010 adjusted
Revenue	1,546,261	1,638,401	757,450	835,333
Other operating income	50,345	44,810	26,889	22,345
Other own work capitalised	6,656	4,708	3,560	2,892
Cost of materials	–1,210,543	–1,280,637	–586,441	–641,761
Personnel expenses	–78,419	–78,174	–40,791	–36,195
Depreciation and impairment write-downs	–91,479	–96,071	–45,664	–48,743
Other operating expenses	–152,402	–169,053	–76,957	–93,910
Operating result	**70,419**	**63,984**	**38,046**	**39,961**
Share of results of associates	430	749	177	357
Interest receivable and similar income	2,915	13,599	1,607	7,026
Interest payable and similar expenses	–30,998	–37,762	–20,404	–17,636
Result before taxes on income	**42,766**	**40,570**	**19,426**	**29,708**
Taxes on income	3,957	5,351	1,393	213
Group result from continued operations	**46,723**	**45,921**	**20,819**	**29,921**
Group result from discontinued operations	**140**	**–1,532**	**0**	**–6,298**
Group result	**46,863**	**44,389**	**20,819**	**23,623**
Group result attributable to shareholders of freenet AG	46,744	44,395	20,778	23,626
Group result attributable to non-controlling interest	119	–6	41	–3
Earnings per share (undiluted) in €	**0.37**	**0.35**	**0.17**	**0.19**
Earnings per share (diluted) in €	**0.37**	**0.35**	**0.17**	**0.19**
Earnings per share from continued operations (undiluted) in €	0.37	0.36	0.17	0.24
Earnings per share from continued operations (diluted) in €	0.37	0.36	0.17	0.24
Earnings per share from discontinued operations (undiluted) in €	0.00	–0.01	0.00	–0.05
Earnings per share from discontinued operations (diluted) in €	0.00	–0.01	0.00	–0.05
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

In €'000s	1st half 2011 1.1.2011 —30.6.2011	1st half 2010 1.1.2010 —30.6.2010 adjusted	Q2/2011 1.4.2011 —30.6.2011	Q2/2010 1.4.2010 —30.6.2010 adjusted
Group result	**46,863**	**44,389**	**20,819**	**23,623**
Change in fair value of held-for-sale financial instruments	−67	13	9	0
Taxes on income recognised directly in equity	20	−4	−2	0
Change in value recognised directly in equity	**−47**	**9**	**7**	**0**
Consolidated comprehensive income	**46,816**	**44,398**	**20,826**	**23,623**
Consolidated comprehensive income attributable to shareholders of freenet AG	46,697	44,404	20,785	23,626
Consolidated comprehensive income attributable to non-controlling interest	119	−6	41	−3

Consolidated balance sheet as of 30 June 2011

Assets in €'000s	30.6.2011	31.12.2010	30.6.2010
Non-current assets			
Intangible assets	546,745	578,722	654,703
Goodwill	1,116,921	1,115,924	1,116,504
Property, plant and equipment	33,075	37,678	45,182
Investments in associates	2,403	3,403	2,821
Other investments	2,322	2,258	2,266
Deferred income tax assets	95,049	79,828	47,135
Trade accounts receivable	25,642	19,530	2,878
Other receivables and other assets	19,307	11,006	18,491
	1,841,464	**1,848,349**	**1,889,980**
Current assets			
Inventories	63,364	51,897	74,788
Current income tax assets	3,232	3,486	8,135
Trade accounts receivable	387,412	407,539	384,847
Other receivables and other assets	35,741	44,500	38,339
Cash and cash equivalents	216,933	174,334	143,484
Assets of disposal group classified as held-for-sale	0	12,283	0
	706,682	**694,039**	**649,593**
	2,548,146	**2,542,388**	**2,539,573**

Shareholders' equity and liabilities in €'000s	30.6.2011	31.12.2010	30.6.2010
Shareholders' equity			
Share capital	128,061	128,061	128,061
Capital reserves	737,536	737,536	737,536
Revaluation reserve	9	56	50
Retained earnings	315,555	268,811	226,375
Capital and reserves attributable to shareholders of freenet AG	**1,181,161**	**1,134,464**	**1,092,022**
Capital and reserves attributable to non-controlling interest	174	0	135
	1,181,335	**1,134,464**	**1,092,157**
Non-current liabilities			
Trade accounts payable	429	387	179
Other payables	50,161	11,796	50,513
Borrowings	552,248	584,583	656,424
Pension provisions	25,364	24,638	24,359
Provisions for other liabilities and charges	10,781	19,211	13,035
	638,983	**640,615**	**744,510**
Current liabilities			
Trade accounts payable	369,554	355,191	352,811
Other payables	124,333	132,082	118,292
Current income tax liabilities	27,087	27,339	11,431
Borrowings	187,445	215,435	183,172
Provisions for other liabilities and charges	19,409	26,929	21,799
Liabilities of disposal group classified as held-for-sale	0	10,333	15,401
	727,828	**767,309**	**702,906**
	2,548,146	**2,542,388**	**2,539,573**

Schedule of changes in equity for the period from 1 January to 30 June 2011

In €'000s	Share capital	Capital reserves	Revaluation reserve	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1.1.2010	**128,061**	**737,536**	**41**	**181,980**	**1,047,618**	**141**	**1,047,759**
Consolidated comprehensive income	0	0	9	44,395	44,404	–6	44,398
As of 30.6.2010	**128,061**	**737,536**	**50**	**226,375**	**1,092,022**	**135**	**1,092,157**
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
Consolidated comprehensive income	0	0	–47	46,744	46,697	119	46,816
As of 30.6.2011	**128,061**	**737,536**	**9**	**315,555**	**1,181,161**	**174**	**1,181,335**

Consolidated statement of cash flows from 1 January to 30 June 2011

In €'000s	1. 1. 2011 —30. 6. 2011	1. 1. 2010 —30. 6. 2010
Earnings before interest and taxes (EBIT) from continued and discontinued operations	**71,008**	**63,087**
Adjustments		
Depreciation and impairment on items of fixed assets	91,479	96,498
Share of results of associates	–430	–749
Proceeds from the sale of subsidiaries	0	–4,398
Loss on disposals of fixed assets	522	2,329
Increase in net working capital not attributed to investing or financing activities	–17,283	–43,858
Other non-payment components	–102	–67
Income taxes paid	–11,411	–8,815
Cash flow from operating activities	**133,783**	**104,027**
Investments in property, plant and equipment and intangible assets	–10,623	–12,617
Proceeds from the disposal of property, plant and equipment and intangible assets	1,049	1,092
Purchase of subsidiaries	–763	0
Proceeds from the sale of subsidiaries	0	17,028
Return of capital from associates	1,430	1,573
Interest received	2,882	2,551
Cash flow from investing activities	**–6,025**	**9,627**
Proceeds from new borrowings	631,644	0
Cash repayments of borrowings	–660,575	–420,714
Interest paid	–12,191	–28,797
Cash flow from financing activities	**–41,122**	**–449,511**
Cash-effective change in cash and cash equivalents	**86,636**	**–335,857**
Cash and cash equivalents at 1. 1.	**30,297**	**331,418**
Cash and cash equivalents at 30. 6.	**116,933**	**–4,439**

Derivation of cash and cash equivalents	**30. 6. 2011**	**30. 6. 2010**
Cash and cash equivalents of continued operations	216,933	143,484
Liabilities as part of current finance scheduling due to banks	–100,000	–147,923
	116,933	**–4,439**

Cash flow from operating activities	133,783	104,027
Investments in property, plant and equipment and intangible assets	–10,623	–12,617
Proceeds from the disposal of property, plant and equipment and intangible assets	1,049	1,092
Free cash flow (FCF)	**124,209**	**92,502**

Changes have been made to the way the consolidated statement of cash flows was structured in the published Interim Report on the 2nd quarter 2010. These changes were explained in detail in the Annual Report 2010.

Selected explanatory notes in accordance with IAS 34

Significant accounting, valuation and consolidation policies

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 reviewed by an auditor, and a corresponding review report has been issued and published with the condensed interim consolidated financial statements.
   The Group has applied all accounting standards that became mandatory as of the financial year 2011, including the revised IAS 34. 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 30 June 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.

Major events and transactions

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 30 June 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 the first half of 2011 results from the final deconsolidation of the Next ID companies.
   In the comparable period 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	1st half 2011				1st half 2010 adjusted			
	Next ID	DSL business	STRATO	Total	Next ID	DSL business	STRATO	Total
Revenue	0	0	0	0	5,947	2,383	0	8,330
Other operating income	0	0	0	0	597	144	45	786
Profit from the disposal of discontinued operations	159	0	0	159	0	4,513	–115	4,398
Cost of materials	0	0	0	0	–2,298	513	0	–1,785
Personnel expenses	0	0	0	0	–2,836	–2,962	0	–5,798
Depreciation	0	0	0	0	–427	0	0	–427
Other operating expenses	0	0	0	0	–3,130	–4,020	0	–7,150
Interest receivable and similar income	0	0	0	0	199	0	0	199
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**	**–1,948**	**486**	**–70**	**–1,532**

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 15,401 thousand euros had been created in the balance sheet as of 30 June 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 30 June 2011, in the amount of 7,359 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 half 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 3.6 million euros during the first six 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 half of 2010. During the first half of 2010, the discontinued operation Next ID Group generated cash outflow of 1.7 million euros from operating activities and cash outflow of 0.2 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 —30.6.2011**	**1.1.2010 —30.6.2010**
Earnings before taxes from continued operations	42,766	40,570
Interest payable and similar expenses from continued operations	30,998	37,762
Interest receivable and similar income from continued operations	–2,915	–13,599
Result from discontinued operations	140	–1,532
Taxes on income from discontinued operations	19	85
Interest receivable and similar income from discontinued operations	0	–199
Earnings before interest and taxes (EBIT) from continued and discontinued operations	**71,008**	**63,087**

5. Of the 660.6 million euros paid out for servicing debts in the first half of 2011, 35.3 million euros were incurred as part of the old financing. On 20 April 2011, cash and cash equivalents of 625.3 million euros were repaid to the banks when the Group refinanced its debt.
At the same time, on 20 April 2011 the Group received a cash inflow of 631.6 million euros from its new financing. This sum is composed of nominal amounts totalling 640.0 million euros (of which 400.0 million euros from the corporate bond and 240.0 million euros from the amortisable loan), minus 8.4 million euros in one-off costs for arranging the refinancing.
While the Group had a revolving credit line totalling 150.0 million euros under the old financing, of which 146.6 million euros had been drawn down at 31 March 2011, under the new financing there is a revolving credit line amounting to 100.0 million euros which is fully utilised as of 30 June 2011. In economic terms this means that another 46.6 million euros of debt has been redeemed, resulting in a corresponding reduction in both borrowings and cash and cash equivalents in the same amount. In the nomenclature of the consolidated statement of cash flows the repayment of these funds from the revolving credit line is not shown as repayment, but represents a movement within the cash and cash equivalents.
Until now, significant assets of the guarantee-giving freenet companies were pledged to the creditors to secure their claims under the credit agreements. As part of the refinancing, this collateral has been released by the creditors. The new financing involves no collateral security, but a so-called negative declaration whereby

freenet AG provides no collateral to the creditors while also committing itself to not pledge any significant assets to third parties.

6. Net interest income (balance of interest receivable and similar income and of interest payable and similar expenses) decreased year-on-year by 3.9 million euros. It should be noted, however, that, first, the figure for the first half of 2010 contained interest income of 11.5 million euros from the market valuation of interest swaps; and second, when the old financing was replaced, one-off non-cash-effective interest expenses under the effective interest method were incurred in the amount of 6.9 million euros in the first half of 2011. Adjusted by this figure, net interest income improved by 14.5 million euros, due primarily to the significant drop in the average net financial debt.
7. In May 2011 the data migration to unify the existing IT systems was successfully implemented, resulting in negative one-off effects on profits in the first half of 2011. On the other hand, the result of the first half of 2011 contains out-of-period income from a change in estimates in a one-digit million euro amount, which resulted in a non-cash-effective reduction of other provisions.
8. 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 half of 2011. As a non-cash-effective investment, the new distribution right had no effect on cash flow from investing activities in the first half of 2011. The new distribution right did give rise to liabilities in the balance sheet as of 30 June 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 the first half of 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.
9. In accordance with the resolution passed by the ordinary Annual General Meeting of freenet AG on 30 June 2011, dividends totalling 102.4 million euros were paid out to the shareholders on 1 July 2011, corresponding to 80 cents per dividend-entitled share.

Other notes

10. 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).
11. Segment report (on the following pages)

Segment report 1.1.2011—30.6.2011 In €'000s	**Mobile Communications**	**Other**	**Elimination of intersegment revenue and costs**	**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
Cash-effective investments in continued operations	**9,235**	**1,388**			**10,623**

Segment report 1. 1. 2010—30. 6. 2010 **In €'000s**	**Mobile Communi-cations**	**Other**	**Elimination of intersegment revenue and costs**	**Effects regarding IFRS 5**	**Total**
Third-party revenue	**1,596,063**	**50,586**	**0**	**–8,248**	**1,638,401**
Intersegment revenue	2,636	2,891	–5,527	0	0
Revenue, total	1,598,699	53,477	–5,527	–8,248	1,638,401
Cost of materials, third parties	**–1,264,345**	**–17,994**	**0**	**1,702**	**–1,280,637**
Intersegment cost of materials	–1,006	–3,193	4,199	0	0
Cost of materials, total	–1,265,351	–21,187	4,199	1,702	–1,280,637
Segment gross profit	**333,348**	**32,290**	**–1,328**	**–6,546**	**357,764**
Other operating income	42,022	8,551	–1,527	–4,236	44,810
Other own work capitalised	4,412	296	0	0	4,708
Personnel expenses	–63,638	–20,334	0	5,798	–78,174
Other operating expenses	–160,645	–17,466	2,855	6,203	–169,053
Share of results of associates	0	749	0	0	749
Segment EBITDA	**155,499**	**4,086**	**0**	**1,219**	**160,804**
Depreciation and impairment write-downs	–90,308	–6,190	0	427	–96,071
Segment EBIT	**65,191**	**–2,104**	**0**	**1,646**	**64,733**
Group financial result					–24,163
Taxes on income					5,351
Group result from continued operations					45,921
Group result from discontinued operations					–1,532
Group result					**44,389**
Group result attributable to shareholders of freenet AG					44,395
Group result attributable to non-controlling interest					–6
Cash-effective investments in continued operations	**9,319**	**3,298**			**12,617**

Review report

To freenet AG

We have reviewed the condensed consolidated interim financial statements—comprising the condensed income statement and statement of comprehensive income, condensed statement of financial position, condensed statement of changes in equity, condensed statement of cash flows and selected explanatory notes—and the interim group management report of freenet AG, Büdelsdorf, for the period from 1 January 2011 to 30 June 2011 which are part of the half-year financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Hamburg, 10 August 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Niklas Wilke
Wirtschaftsprüfer (German Public Auditor)

ppa. Marko Schipper
Wirtschaftsprüfer (German Public Auditor)

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, 10 August 2011

freenet AG
The Executive Board

Christoph Vilanek   Joachim Preisig   Stephan Esch

Further information

Financial calendar

10 August 2011
Publication of interim report II/2011

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

March 2012[1]
Publication of Consolidated Financial Statements/Annual Report 2011

May 2012[1]
Annual General Meeting

May 2012[1]
Publication of interim report I/2012

August 2012[1]
Publication of interim report II/2012

1 Probable dates.

Imprint, contact, publications

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

The English version of the 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

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