freenet GROUP

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MFE Energie

Interim Report on the 1st quarter 2012

freenet AG • Hollerstraße 126 • 24782 Büdelsdorf

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Key financials: overview Group

Result

Figures in € million	Q1/2012	Q4/2011	Q1/2011
Revenue	744.2	842.6	788.8
Gross profit	166.9	202.1	164.7
EBITDA	85.1	90.9[1]	78.4[2]
EBIT	48.0	57.5	32.6
EBT	37.6	46.5	23.3
Group result from continued operations	40.6	66.2	25.9
Group result from discontinued operations	0.0	0.0	0.1
Group result	40.6	66.2	26.0
Earnings per share (€)	0.32	0.51	0.20

Balance sheet

	31.3.2012	31.12.2011	31.3.2011
Balance sheet total in € million	2,364.1	2,528.4	2,537.2
Shareholders' equity in € million	1,211.9	1,171.3	1,160.6
Equity ratio in %	51.3	46.3	45.7

Finances and investments

Figures in € million	Q1/2012	Q4/2011	Q1/2011
Free cash flow[3,4]	72.4	56.7	72.5
Depreciation and amortisation	37.1	33.4	45.8
Investments[4]	2.6	7.2	4.7
Net cash[4,5]	–466.2	–529.4	–558.6

Share

	31.3.2012	31.12.2011	31.3.2011
Closing price XETRA (€)	12.13	10.00	8.07
Number of ordinary shares (in thousand)	128,061	128,061	128,061
Market capitalisation (in €'000s)	1,553,380	1,280,610	1,033,452

Employees

	31.3.2012	31.12.2011	31.3.2011
Employees	4,004	4,057	4,081

1 Recurring EBITDA: Q4/2011: 96.4 € million.
2 Recurring EBITDA: Q1/2011: 84.1 € million.
3 Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.
4 This information relates to the overall Group (including discontinued operations).
5 At the end of period.

Key financials: overview
Mobile Communications segment

Customer development

Figures in million	Q1/2012	Q4/2011	Q1/2011
Mobile Communications customers[1]	14.74	15.19	15.64
Thereof contract customers	5.69	5.75	5.94
Thereof prepaid customers	6.58	7.07	7.65
Thereof no-frills customers	2.46	2.37	2.05
Gross new customers	0.93	1.23	1.17
Net change	–0.45	0.03	–0.02

Result

Figures in € million	Q1/2012	Q4/2011	Q1/2011
Revenue	729.2	825.0	771.5
Gross profit	158.3	192.4	154.5
EBITDA	82.2	95.6[2]	76.1[3]
EBIT	46,2	65.4	31.5

Monthly average revenue per user (ARPU)

Figures in €	Q1/2012	Q4/2011	Q1/2011
Contract customer	23.4	23.7	23.3
Prepaid customer	2.8	3.0	3.0
No-frills customer	3.9	4.2	4.5

1 At the end of period.
2 Recurring EBITDA: Q4/2011: 98.8 € million.
3 Recurring EBITDA: Q1/2011: 81.0 € million.

To our shareholders

Letter to shareholders

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

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

freenet AG began the current year with clear goals, as well as new products and partnerships. At the same time, the key strategic elements that the company has implemented with continuity and consistency for the past three years have remained unchanged:

- focus on valuable contract customers in the area of mobile voice and data services and
- safeguard the high profitability of the company in the long term—with stable ARPUs in the high-quality customer segment and positive development of the no-frills sector.

We also want to help shape society's development towards a smartphone-based digital lifestyle with customer-oriented solutions.

The fact that we are on track for a successful financial year 2012 is clearly evident from the solid figures for the first quarter:

- in the context of our strategic focus on valuable contract customers, in the first three months we achieved sales revenues of 744.2 million euros as expected;
- gross profit has improved year-on-year from 164.7 million euros in Q1/2011 to 166.9 million euros, and the gross profit margin grew to 22.4 percent;
- EBITDA increased year-on-year by 8.5 percent to 85.1 million euros;
- ARPU in the important contract customer segment stabilised compared to the previous year at 23.40 euros and

- customer numbers developed according to our expectations and now stand at 5.69 million in the postpaid segment and 2.46 million in the no-frills sector. Our important “customer ownership” base rose slightly to 8.15 million compared to 8.12 million at the end of December 2011.

At the same time the freenet share continued its very positive development, which secured it the top spot in the TecDax in 2011. It was once again one of the top performers in the technology segment in the past few months.

Thanks to the good results we can confirm our guidance for 2012 issued at the beginning of the year: group EBITDA of 340 million euros and free cash flow of 240 million euros.

freenet AG made important strategic decisions in its operating business during the first quarter to further accelerate these positive developments, including new smartphone tariffs, product launches and collaborations. For instance, the “Flat Clever” and “Flat Allstar” flat rates launched in February for the O_2 and Deutsche Telekom networks respectively complement our attractive portfolio of smartphone rates—and highlight our special competitive position with first-class offers for all four mobile phone networks.

In addition, at the end of March freenet AG’s main brand mobilcom-debitel extended its 10-percent new customer discount on the network operators’ latest smartphone rates; this also includes the highly sought after iPhone. And just in time for the official launch in mid-March, the equally popular new iPad from Apple was available in all the mobilcom-debitel shops that have already been redesigned under the collaboration agreed with GRAVIS last autumn.

freenet AG has also signed another collaboration, with Unitymedia. Since February, mobilcom-debitel shops have offered the broadband and TV offerings of the second-largest cable operator in North Rhine-Westphalia and Hesse in its distribution area. This was preceded by several weeks of testing at about 15 shops from September last year. This gives us a foothold in the interesting market of high-speed internet connections via cable—which, according to VATM experts, is growing especially rapidly—as we take yet another step towards a digital lifestyle.

Smartphones are the key catalyst in this process, as was impressively demonstrated at the world’s largest wireless trade show in Barcelona in late February. They are practically taking over from computers, and will increasingly manage our lives in future. With the appropriate apps, they monitor our health, lead us to restaurants and places of interest, guide us through traffic, and explain foreign cultures and the just shot architectural highlights to us. They pick up shopping from virtual store shelves and buy birthday presents for friends via their Facebook wish lists. They let us pay at the checkout via wireless chips and even help us find the right partner if so desired.

Experts also believe smartphones will increasingly manage the "smart home", for example by allowing us to control the heating, air conditioning, appliances, lighting and security systems at the touch of a button. freenet AG launched an initial test run in this area with its SmartHome Box offer at the end of March. At ten selected mobilcom-debitel shops we are piloting an innovative, low-cost starter kit that makes mobile energy management of the home possible via a special app. It even lets radiators be individually remotely controlled; initial results show that this can save up to 30 percent in energy costs.

The SmartHome Box is a good example of how we want to help shape the digital lifestyle with our core competence: not as the developer of these highly complex technologies, but as a true service provider with a customer base of around 5.7 million subscribers, who brings these solutions to the customer as functioning, user-friendly solutions. Since the successful completion of our migration project last year, we possess a very powerful, modern IT architecture that flexibly and reliably supports such services. And our well-trained shop staff also ensures that we have the necessary expertise and experience to professionally advise and support customers regarding new products.

As always, we—the employees and management of freenet AG—will continue to work hard to implement the targets for the financial year.

Christoph Vilanek | Joachim Preisig | Stephan Esch

freenet AG on the capital market

Performance of the freenet share over the past twelve months

(indexed; 100 = XETRA closing price on 31 March 2011)

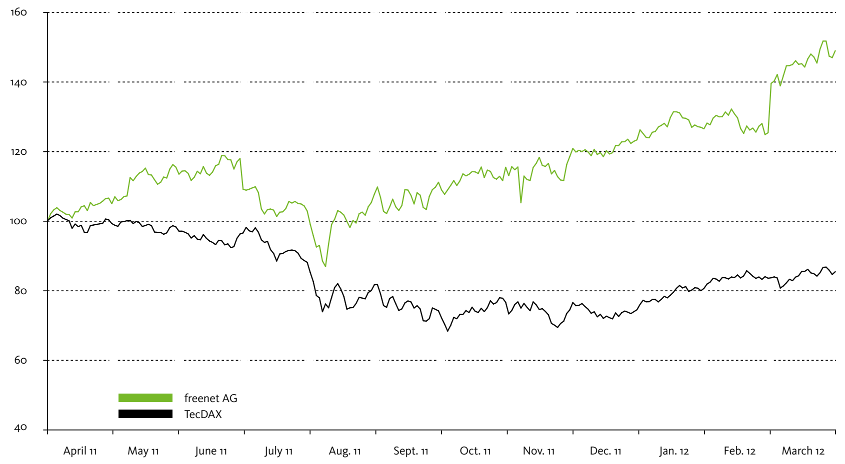


Figure: Performance of the freenet share over the past twelve months

German stock market

The German stock market had one of the worst years in its history last year. However, there was a significant recovery during the first quarter of 2012. The DAX rose by 17.8 percent to 6,947 points, while the TecDAX rose by 15.3 percent to 790 points.

Despite this recovery, during the year under review the DAX lost 1.3 percent and the TecDAX was down 15.1 percent.

freenet share

The freenet share also saw a sharp increase during the first quarter of 2012, rising from 10.00 euros at year-end 2011 to 12.13 euros at 31 March 2012, a 21.3 percent gain. During the quarter, the freenet share dropped to its lowest closing price at 10.05 euros on 5 January 2012; its highest closing price was 12.36 euros on 26 March 2012.

In a 12-month comparison, the freenet share significantly outperformed its benchmark index. While the freenet share increased its share price by 50.3 percent in the last 12 months, the TecDAX lost 15.3 percent over the same period.

In all, 40.2 million freenet shares were traded via the XETRA system during the quarter, vs. 41.2 million during the same period last year. The average daily trading volume amounted to 618.0 thousand units during the quarter, compared with 524.9 thousand units in Q4/2011 and 643.2 thousand units in Q1/2011.

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.

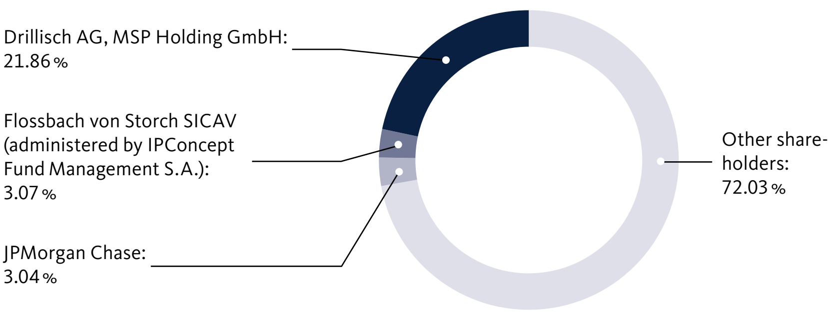
According to the notifications of voting rights received pursuant to section 21 WpHG (German Securities Trading Act), freenet AG's shareholder structure changed as follows during the quarter under review:

In January 2012, Flossbach von Storch SICAV, Luxemburg-Strassen, Luxemburg, notified us that its voting rights in freenet AG had exceeded the 3-percent disclosure threshold and at that time amounted to 3.07 percent. Flossbach von Storch SICAV is an externally managed SICAV and is managed by IPConcept Fund Management S. A.

In February, the Norges Bank (Central Bank of Norway), Oslo, Norway, reported that its voting rights in freenet AG had dropped below the 3-percent threshold, and at that time amounted to 2.82 percent.

On 20 March 2012, JPMorgan Chase reported that its voting rights in freenet AG had exceeded the 3-percent disclosure threshold. The following day, they told us that they had dropped below the 3-percent disclosure threshold again. On 28 March, we once again received a voting rights notification from JPMorgan Chase to the effect that its voting rights were now 3.04 percent (exceeding the 3-percent disclosure threshold).

Free float has changed only slightly to 72.03 percent as of 31 March 2012, as compared to 31 March 2011 when it was 71.94 percent. It is distributed among a broad base of private and institutional investors in Germany and abroad.



Source: freenet AG, 22 March 2012

Interim group management report

Overview of the business and operating performance in the freenet Group

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

Given the continued intense competition and rapid changes in pricing, the company is focusing its main brand, mobilcom-debitel, on high-quality contract relationships in its customer acquisition and customer base management. However, freenet AG is also very successful with four discount brands in the "no-frills" segment.

Attractive flat-rate tariffs for smartphones are a key element in focusing on valuable contract customers and opening up new growth areas. freenet AG already launched several such offers in the prior financial year, and during the second half of 2011, one in every two new customers at point of sale bought the new flat rates.

freenet AG added another two smartphone flat rates for its main brand mobilcom-debitel to this tariff portfolio during Q1/2012:

- The "Flat Clever" gives new customers unlimited mobile internet access, an SMS-Allnet flat rate for texting, free calls to German landlines, free calls within the O_2 network, and 100 free minutes per month to all German mobile networks. In addition, there is also the option of leasing a smartphone of your choice for 5, 10 or 20 euros per month, or booking up to one gigabyte of extra data volume for 9.99 euros per month.
- For 49.90 euros per month, the "Flat All-Star" tariff for the Deutsche Telekom D1 network offers unlimited calls to all German mobile networks and landlines, unlimited mobile internet flat rate, free surfing at Deutsche Telekom HotSpots, and 150 free texts to all national networks. In addition, customers can combine this with a mobile phone option for 10 or 20 euros a month.

These two new tariffs underscore freenet AG's special competitive positioning as the biggest network-independent telecommunications company with attractive products on all four mobile networks in Germany.

In March the company also extended its 10-percent tariff discount, launched last year, on the network operators' original smartphone tariffs. The offer includes Deutsche Telekom, Vodafone and O_2's new portfolios of tariffs, and saves the customer up to 200 euros over the contract period of 24 months when compared with the competitors' tariffs.

Also since March, the new iPad has been available in all mobilcom-debitel shops that have already put into action the cooperation agreed last autumn with GRAVIS Computervertriebsgesellschaft. As part of the agreement with Apple's largest retail chain in Germany, freenet AG has already equipped 49 of its mobilcom-debitel shops with shop-in-shop systems for mobile devices like the iPhone, iPad, and MacBook, including accessories and services. GRAVIS, meanwhile, is selling mobilcom-debitel products at its branches, with specially trained sales staff on hand to advise customers.

Another new partnership is designed to gain freenet AG entry into the dynamically growing cable business. This February an agreement was signed with Unitymedia, the second-largest cable network in the distribution territory of North Rhine-Westphalia and Hesse, whose broadband and cable services are now available in more than 150 mobilcom-debitel shops in that area. According to the VATM (Association for Telecommunications and Value-Added Services), in the past year cable networks saw stronger growth in phone and internet subscribers than telecommunications providers. In light of this development, freenet AG is currently reviewing collaborations with other cable networks, so that it will eventually be able to offer such products nationwide.

freenet AG is also evaluating the modern digital lifestyle options being opened up by ever more powerful smartphones and the apps for them. At the end of the first quarter, a SmartHome pilot was launched at ten selected mobilcom-debitel test shops. They offer a SmartHome Box with two radiator thermostats and three adapters that can be individually remotely controlled via a smartphone using a mobile app. The thermostats are remotely controlled via a base station, which forwards the information from the app to the individual components. In this way, people can heat their dwellings to a pleasant temperature before coming home, and when leaving the house press an Eco button to simultaneously turn down all connected heaters. Initial estimates and experience indicate that the low-cost starter kit saves up to 30 percent in energy costs. If the pilot yields positive results in the long term, freenet AG will consider a nationwide rollout of the SmartHome Box late this summer.

The online marketer freeXmedia also plays a role in freenet AG's mobile activities—albeit only to a lesser extent. The subsidiary's portfolio has five main marketing focuses: automotive, digital entertainment, sport, active living as well as freenet.de & social media. Figures published in March show that freeXmedia doubled the reach of its mobile portfolio in 2011, to 91 million page impressions per month.

Assets, financial position and results

Customer development

Figures in million	Q1/2012	Q4/2011	Q1/2011
Mobile Communications customers[1]	14.74	15.19	15.64
Thereof customer ownership	8.15	8.12	7.99
Thereof contract customers	5.69	5.75	5.94
Thereof no-frills customers	2.46	2.37	2.05
Thereof prepaid customers	6.58	7.07	7.65

1 At the end of period.

The customer base in the important postpaid contract customer segment amounted at the end of the first quarter 2012 to 5.69 million, compared with 5.75 million at the end of the previous quarter. During the first quarter 2012, the portfolio therefore developed in accordance with our expectations. In the first quarter 2011, the losses had still amounted to 174,000. In the no-frills segment, however, the number of subscribers increased in the first quarter 2012 from 2.37 million to 2.46 million. Consequently, the number of customers for which we have customer ownership was increased in Q1 from 8.12 million to 8.15 million. The customer ownership number is one of the key control parameters of our business.

The number of subscribers in the prepaid segment amounted to 6.58 million at the end of the first quarter 2012. The decrease, compared to the previous quarter, is due to the adjustment postings of inactive SIM cards by the network operators, which, however, mostly led to customer losses of approximately 490,000 that did not affect net income.

In total, the number of subscribers at the end of the first quarter 2012 amounted to 14.74 million customers, which is on target.

ARPU

Figures in €	Q1/2012	Q4/2011	Q1/2011
Contract customers	23.4	23.7	23.3
No-frills customers	3.9	4.2	4.5
Prepaid customers	2.8	3.0	3.0

In the traditionally somewhat weak first quarter the postpaid ARPU stabilized at 23.4 euros, which is slightly higher than in the prior-year quarter (23.3 euros). In the no-frills segment, the previous year's trend has continued. With an ARPU of 3.9 euros, the no-frills ARPU is below the prior-year quarter (4.5 euros). The prepaid ARPU for the first quarter 2012 was largely stable at 2.8 euros, compared with 3.0 euros in the first quarter 2011.

Revenue and results

Figures in € thousands	Q1/2012	Q1/2011	Change
Revenue	744,193	788,811	–44,618
Gross profit	166,852	164,709	2,143
Overhead expenses	–81,760	–86,268	4,508
EBITDA	85,092	78,441[1]	6,651
EBIT	48,022	32,626	15,396
EBT	37,566	23,340	14,226
Group result from continued operations	40,635	25,904	14,731
Group result from discontinued operations	0	140	–140
Group result	40,635	26,044	14,591

1 Recurring EBITDA Q1/2011: 84.1 million euros.

The **group revenue** decreased in the first quarter 2012 compared to Q1/2011, by 5.7 percent to 744.2 million euros. The **gross profit margin** increased compared to the prior year quarter by 1.5 percentage points to 22.4 percent, which is equivalent to an increase of gross profits by 2.1 million euros to 166.9 million euros. One of the main reasons for this development is our Smartphone and data products.

The **overhead expenses**, which form the difference between gross profits and EBITDA, and which include the items **other operating income, other own work capitalized, personnel expenses, other operating expenses** as well as the **share of results of associates**, decreased compared to Q1/2011 to 81.8 million euros. This is mainly related to the fact that, in contrast with the quarter under review, the result for the prior-year quarter had included restructuring-related one-off items in the amount of 5.7 million euros relating to the then ongoing, but now successfully completed IT integration, which had negatively impacted the result. This improved result is also, however, the result of efficiency increases in the overhead cost management, which we implemented after the completion of the IT integration.

Consequently, the group result from continued operations before depreciation and amortization, interest, and taxes **(EBITDA)** improved in the first quarter 2012 compared to Q1/2011 by 6.7 million euros or 8.5 percent respectively to 85.1 million euros.

As already announced in the Annual Report 2011, we will, beginning with this quarterly report, no longer report the **recurring EBITDA**, since starting from the financial year 2012 no noteworthy one-off items occurred, and consequently the recurring EBITDA will correspond to the EBITDA. In Q1/2011, the recurring EBITDA had amounted to 84.1 million euros.

The **depreciation and amortization** decreased by 8.7 million euros to 37.1 million euros, compared to Q1/2011. One reason for this decrease is the lower impairments of intangible assets such as customer relationships and trademarks for the purchase price allocation in connection with the acquisition of debitel. In addition, due to last year's successful completion of the IT integration and the respective decision about which IT systems the group will be using in the future, the depreciation for some equipment ended. Since new investments were comparably low, this is another reason for the decrease of this position.

The **interest result**, which is the total of all interest income and expenses, during the first quarter 2012 (at –10.5 million euros) remained at a level that is comparable with the prior-year quarter (–9.3 million euros).

As a result, the **pre-tax group earnings (EBT)** could be increased by 14.2 million euros, compared to the previous year to now 37.6 million euros.

Mainly within the context of the existing tax loss carry-forwards, just as in the prior-year quarter, income from **taxes on income** will be reported in the amount of 3.1 million euros compared to 2.6 million euros in Q1/2011.

The **group result from continued operations** increased, compared to the prior-year quarter 2011 (25.9 million euros), by 14.7 million euros to 40.6 million euros.

There was no **group result from discontinued operations** in the past quarter. In the first quarter 2011, 0.1 million euros in subsequent income from the sale of the Next ID Group had been reported.

The **group earnings** reported in the first quarter 2012 from continued and discontinued operations adds up to 40.6 million euros, which, compared with the 26.0 million euros from the prior-year quarter represents an increase of 56.0 percent.

Assets and financial position

Assets

Figures in € million	31. 3. 2012
Non-current assets	1,801.7
Current assets	562.5
Balance sheet total	**2,364.1**

Figures in € million	31. 12. 2011
Non-current assets	1,822.9
Current assets	705.6
Balance sheet total	**2,528.4**

Shareholders' equity and liabilities

Figures in € million	31. 3. 2012
Shareholders' equity	1,211.9
Non-current and current liabilities	1,152.2
Balance sheet total	**2,364.1**

Figures in € million	31. 12. 2011
Shareholders' equity	1,171.3
Non-current and current liabilities	1,357.1
Balance sheet total	**2,528.4**

The **balance sheet total** as per 31 March 2012 amounted to 2,364.1 million euros and therefore decreased compared to 31 December 2011 (2,528.4 million euros) by 164.3 million euros or 6.5 percent respectively.

The **assets side** is, first of all, characterized by the decrease of intangible assets compared to 31 December 2011 by 33.0 million euros, which is mainly attributable to the scheduled amortization of customer relationships and trademarks arising from the debitel purchase price allocation as well as the amortization of distribution rights. Secondly, the trade accounts receivable have decreased compared to the balance sheet date of the previous quarter by 59.3 million euros. This was due to the bonus payments of network operators that were received during the first quarter 2012. Finally, the decrease in liquid assets by 69.1 million euros must be mentioned. This decrease is mainly due to the fact that the revolving credit line, which had been fully used at 100.0 million euros is not being used as per 31 March 2012.

On the **liabilities side**, the gross financial debt decreased compared to 31 December 2011 by 132.3 million euros to 582.8 million euros, mostly due to the mentioned repayment of the funds from the revolving 100.0 million euros credit line, as well as due to a scheduled repayment of the bank loan in the amount of 40.0 million euros. The trade accounts payable decreased compared to the previous quarter balance sheet date by 72.7 million euros to 327.1 million euros, due to seasonal effects for distribution partners because of the payment of commissions under annual agreements as well as payments of a nominal 12.5 million euros to a large distribution partner for our distribution rights.

Due to the achieved group net profit, the **equity ratio** increased from 46.3 percent as per 31 December 2011 to 51.3 percent at the end of March 2012.

The **net financial debt** amounts to 466.2 million euros as per 31 March 2012 and was decreased over the course of the first quarter 2012 by 63.2 million euros.

Cash flow

Figures in € million	Q1/2012	Q1/2011	Change
Cash flow from operating activities	74.7	76.3	–1.7
Cash flow from investing activities	–1.6	–3.4	1.8
Cash flow from financing activities	–42.1	–43.3	1.2
Change in cash and cash equivalents	**30.9**	**29.6**	**1.3**
Free cash flow	**72.4**	**72.5**	**–0.1**

The **cash flow from operating activities** for the first quarter 2012 is reported at 74.7 million euros, and is therefore on the same level of the prior-year quarter with 76.3 million euros. The slight decrease by 1.7 million euros, with an increased EBITDA, is mainly a result of changes in the net current assets.

The **cash flow from investing activities** amounted in Q1/2012 to –1.6 million euros and therefore decreased compared to the –3.4 million euros in the first quarter 2011 mainly as the result of lower payments for investments in capital assets.

The **cash flow from financing activities** increased slightly by 1.2 million euros in the quarter under review, compared to the same period in the previous year, from –43.3 million euros to –42.1 million euros. Due to the refinancing, amortization payments increased, but, due to the retroactive nature of the interest payments to be made for the corporate bond, the interest paid was decreased.

As a result, a **free cash flow** in the amount of 72.4 million euros was achieved in the first quarter 2012, which is stable compared to the prior-year quarter.

Key financials of the financial strategy

The following overview provides the key financials of our financial strategy with their current development compared to the prior-year quarter. For period-related figures such as the recurring EBITDA and the net interest result, the last 12 months (i. e April 2011 to March 2012 or for the prior year April 2010 to March 2011) were taken into account.

	Target	Actual Q1/2012	Actual Q1/2011
Debt factor	1.5 – 2.5	1.3[1]	1.5
Interest cover	>5	6.9	9.6
Equity ratio	>50 %	51.3 %[1]	46.3 %

1 Before the dividend payout scheduled for the second quarter 2012.

It becomes clear that as per 31 March 2012 none of the listed key financials have missed their mark, or, with regard to a target corridor, exceeds its negative limit.

The debt factor even exceeds the positive limit of 1.5. It must be taken into consideration in this regard, however, that this key financial will most likely worsen due to the scheduled dividend payout in the second quarter 2012, and that it will therefore most likely return to the target range.

The decrease of the interest cover compared to the previous year, from 9.6 to 6.9, is due to two special effects: The income from the market valuation of interest swaps between April 2010 and March 2011 in the amount of 8.0 million euros had been reported, and between April 2011 and March 2012 one-off interest expenses not affecting net income in the amount of 6.9 million euros were incurred due to the refinancing.

The equity ratio exceeds the target threshold of 50 percent as per 31 March 2012, but this development must be viewed in consideration of the equity-decreasing effect of the dividend payout scheduled for the coming quarter.

Employees

The number of employees decreased to 4,004 at the end of the first quarter of 2012, compared with 4,081 at the end of Q1/2011 and 4,057 at the end of Q4/2011.

Opportunity and risk report

In the first quarter of 2012, there were no significant changes to the detailed opportunities and risks described in the Annual Report 2011 under “Opportunity and risk report”. The Annual Report 2011 is available online at *http://www.freenet-group.de/investor/publications/quarterly-annual-reports/index.html*.

Forecast

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

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

Transactions with related parties

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

Figures in € thousands	Q1/2012	Q1/2011
Sales and income attributable to services		
Joint ventures		
FunDorado GmbH, Hamburg	50	73
Companies with a major influence on freenet AG		
b2c.de GmbH, Munich (Drillisch AG group of companies)	260	72
	310	**145**
Purchased services and onward charging		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	7	15
Joint ventures		
NetCon Media s. r. o., Hlucin, Czech Republic	0	1
siXXup new Media GmbH, Pulheim	33	18
Companies with a major influence on freenet AG		
Drillisch AG, Maintal	6	0
b2c.de GmbH, Munich (Drillisch AG group of companies)	4.643	0
	4.689	**34**

The following major receivables due from and liabilities due to related parties existed as of 31 March 2012:

Figures in € thousands	31.3.2012	31.3.2011
Receivables from regular transactions		
Joint ventures		
FunDorado GmbH, Hamburg	5	40
siXXup new Media GmbH, Pulheim	0	8
Companies with a major influence on freenet AG		
b2c.de GmbH, Munich (Drillisch AG group of companies)	172	0
	177	**48**
Liabilities from regular transactions		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	2	0
Companies with a major influence on freenet AG		
b2c.de GmbH, Munich (Drillisch AG group of companies)	186	0
	188	**0**

All transaction prices were negotiated under commercial terms.

Condensed interim consolidated financial statements

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Consolidated income statement and consolidated statement of comprehensive income for the period from 1 January to 31 March 2012

Figures in € thousands	Q1/2012 1.1.2012 — 31.3.2012	Q1/2011 1.1.2011 — 31.3.2011
Revenue	744,193	788,811
Other operating income	17,613	23,456
Other own work capitalised	1,509	3,096
Cost of materials	–577,341	–624,102
Personnel expenses	–38,713	–37,628
Depreciation and impairment write-downs	–37,070	–45,815
Other operating expenses	–62,604	–75,445
Operating result	**47,587**	**32,373**
Share of results of associates	435	253
Interest receivable and similar income	785	1,308
Interest payable and similar expenses	–11,241	–10,594
Result before taxes on income	**37,566**	**23,340**
Taxes on income	3,069	2,564
Group result from continued operations	**40,635**	**25,904**
Group result from discontinued operations	**0**	**140**
Group result	**40,635**	**26,044**
Group result attributable to shareholders of freenet AG	40,604	25,966
Group result attributable to non-controlling interest	31	78
Earnings per share (undiluted) in €	**0.32**	**0.20**
Earnings per share (diluted) in €	**0.32**	**0.20**
Earnings per share from continued operations (undiluted) in €	0.32	0.20
Earnings per share from continued operations (diluted) in €	0.32	0.20
Earnings per share from discontinued operations (undiluted) in €	0.00	0.00
Earnings per share from discontinued operations (diluted) in €	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)	128,061	128,061
Weighted average of shares outstanding in thousand (diluted)	128,061	128,061

Figures in € thousands	Q1/2012 1. 1. 2012 — 31. 3. 2012	Q1/2011 1. 1. 2011 — 31. 3. 2011
Group result	**40,635**	**26,044**
Change in fair value of held-for-sale financial instruments	–38	–76
Taxes on income recognised directly in equity	11	22
Change in value recognised directly in equity	–27	–54
Consolidated comprehensive income	**40,608**	**25,990**
Consolidated comprehensive income attributable to shareholders of freenet AG	40,577	25,912
Consolidated comprehensive income attributable to non-controlling interest	31	78

Consolidated balance sheet as of 31 March 2012

Assets

Figures in € thousands	31.3.2012	31.12.2011	31.3.2011
Non-current assets			
Intangible assets	452,301	485,325	585,085
Goodwill	1,116,868	1,116,868	1,116,688
Property, plant and equipment	27,324	29,280	35,094
Investments in associates	3,495	3,060	3,656
Other investments	1,925	1,915	2,323
Deferred income tax assets	141,936	130,900	88,313
Trade accounts receivable	45,617	43,039	25,035
Other receivables and other assets	12,191	12,482	19,426
	1,801,657	**1,822,869**	**1,875,620**
Current assets			
Inventories	51,294	51,537	67,671
Current income tax assets	2,866	3,278	3,260
Trade accounts receivable	366,635	428,471	343,110
Other receivables and other assets	25,095	36,601	41,010
Cash and cash equivalents	116,569	185,673	206,531
	562,459	**705,560**	**661,582**
	2,364,116	**2,528,429**	**2,537,202**

Shareholders' equity and liabilities

Figures in € thousands	31.3.2012	31.12.2011	31.3.2011
Shareholders' equity			
Share capital	128,061	128,061	128,061
Capital reserve	737,536	737,536	737,536
Revaluation reserve	–8	19	2
Retained earnings	346,002	305,398	294,777
Capital and reserves attributable to shareholders of freenet AG	**1,211,591**	**1,171,014**	**1,160,376**
Capital and reserves attributable to non-controlling interest	310	279	222
	1,211,901	**1,171,293**	**1,160,598**
Non-current liabilities			
Trade accounts payable	407	407	385
Other payables	30,313	36,608	64,385
Borrowings	475,503	514,777	551,731
Pension provisions	25,597	25,428	24,991
Provisions for other liabilities and charges	11,268	11,173	18,718
	543,088	**588,393**	**660,210**
Current liabilities			
Trade accounts payable	326,649	399,370	337,597
Other payables	129,192	124,775	117,270
Current income tax liabilities	24,401	22,108	28,329
Borrowings	107,253	200,302	213,440
Provisions for other liabilities and charges	21,632	22,188	19,758
	609,127	**768,743**	**716,394**
	2,364,116	**2,528,429**	**2,537,202**

Schedule of changes in equity for the period from 1 January to 31 March 2012

Figures in € thousands	Share capital	Capital reserve	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 1.1.2011	**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
Group result	0	0	0	25,966	25,966	78	26,044
Change in fair value of held-for-sale financial instruments	0	0	–54	0	–54	0	–54
As of 31.3.2011	**128,061**	**737,536**	**2**	**294,777**	**1,160,376**	**222**	**1,160,598**
As of 1.1.2012	**128,061**	**737,536**	**19**	**305,398**	**1,171,014**	**279**	**1,171,293**
Group result	0	0	0	40,604	40,604	31	40,635
Change in fair value of held-for-sale financial instruments	0	0	–27	0	–27	0	–27
As of 31.3.2012	**128,061**	**737,536**	**–8**	**346,002**	**1,211,591**	**310**	**1,211,901**

Consolidated statement of cash flows from 1 January to 31 March 2012

Figures in € thousands	1.1.2012 — 31.3.2012	1.1.2011 — 31.3.2011
Result from continued and discountinued operations before interest and taxes (EBIT)	**48,022**	**32,785**
Adjustments		
Depreciation and impairment on items of fixed assets	37,070	45,815
Share of results of associates	–435	–253
Loss on disposals of fixed assets	159	117
Increase (decrease) in net working capital not attributed to investing or financing activities	–4,862	2,850
Other non-payment components	–37	–111
Income taxes paid	–5,262	–4,854
Cashflow from operating activities	**74,655**	**76,349**
Investments in property, plant and equipment and intangible assets	–2,641	–4,748
Proceeds from the disposal of property, plant and equipment and intangible assets	392	884
Purchase of subsidiaries	0	–638
Interest received	629	1,099
Cashflow from investing activities	**–1,620**	**–3,403**
Cash repayments of borrowings	–40,072	–35,286
Interest paid	–2,067	–8,051
Cashflow from financing activities	**–42,139**	**–43,337**
Cash-effective change in cash and cash equivalents	**30,896**	**29,609**
Cash and cash equivalents at beginning of period	**85,673**	**30,297**
Cash and cash equivalents at end of period	**116,569**	**59,906**

Derivation of cash and cash equivalents Figures in € thousands	31.3.2012	31.3.2011
Cash and cash equivalents of continued operations	116,569	206,531
Cash and cash equivalents of discontinued operations	0	0
Liabilities as part of current finance scheduling due to banks	0	–146,625
	116,569	**59,906**
Cash flow from operating activities	74,655	76,349
Investments in property, plant and equipment and intangible assets	–2,641	–4,748
Proceeds from the disposal of property, plant and equipment and intangible assets	392	884
Free cash flow (FCF)	**72,406**	**72,485**

Selected explanatory notes in accordance with IAS 34

Key accounting and valuation methods and consolidation principles

1. In accordance with Regulation 1606/2002 of the European Parliament and Council, based on the International Financial Reporting Standards (IFRS) as adopted by the European Union, the present condensed interim consolidated financial statements were prepared in accordance with IAS 34. The Group took into account all IFRS adopted and mandated by the EU. The present condensed interim consolidated financial statements were not subjected to review by an auditor.
   The Group has applied all accounting standards that are mandatory as of the financial year 2012. However, the accounting standards to be applied for the first time have, such as the amendment to IFRS 7 (financial instruments, data) with a review of data on the transfer of financial assets, have no appreciable effect on the presentation of the Group's assets, financial position and results.
   Essentially, in preparing the interim report as of 31 March 2012, and determining the comparable figures for the prior year, the same accounting and valuation methods were used as in the consolidated financial statements 2011, with the exception of the mandatory new standards. A detailed description of these methods may be found in the notes to the consolidated financial statements 2011 of freenet AG.

Major events and transactions

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

Figures in € thousands	1.1.2012 — 31.3.2012	1.1.2011 — 31.3.2011
Earnings before taxes from continued operations	37,566	23,340
Interest payable and similar expenses from continued operations	11,241	10,594
Interest receivable and similar income from continued operations	–785	–1,308
Result from discontinued operations	0	140
Taxes on income from discontinued operations	0	19
Interest receivable and similar income from discontinued operations	0	0
Earnings before interest and taxes (EBIT) from continued and discontinued operations	**48,022**	**32,785**

4. Depreciation and impairment fell by 8.7 million euros compared to Q1/2011 to 37.1 million euros. One reason for this is the reduced impairment of intangible assets such as customer relationships and trademarks from the purchase price allocation on the acquisition of debitel. In addition, because of last year's successful completion of the IT integration and the associated assessment of which IT systems are to be used by the Group in the future, impairment for a series of investments expired and combined with a comparatively low level of new investment, this represents another reason for the decline of this position.
5. Gross financial debt was reduced by 132.3 million euros to 582.8 million euros during the first quarter of 2012, mainly thanks to a repayment of funds under the existing revolving credit line of 100 million euros, and a scheduled repayment of the bank loan totalling 40.0 million euros.

Other notes

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

Segment report 1.1.2012—31.3.2012

Figures in € thousands	Mobile Communi-cations	Other	Elimination of intersegment revenue and cost	Effects regarding IFRS 5	Total
Third-party revenue	**727,873**	**16,320**	**0**	**0**	**744,193**
Intersegment revenue	1,318	1,952	–3,270	0	0
Revenue, total	729,191	18,272	–3,270	0	744,193
Cost of materials, third parties	**–569,630**	**–7,711**	**0**	**0**	**–577,341**
Intersegment cost of materials	–1,234	–1,375	2,609	0	0
Cost of materials, total	–570,864	–9,086	2,609	0	–577,341
Segment gross profit	**158,327**	**9,186**	**–661**	**0**	**166,852**
Other operating income	13,067	5,797	–1,251	0	17,613
Other own work capitalised	1,434	75	0	0	1,509
Personnel expenses	–31,585	–7,128	0	0	–38,713
Other operating expenses	–59,073	–5,443	1,912	0	–62,604
Share of results of associates	0	435	0	0	435
Segment EBITDA	**82,170**	**2,922**	**0**	**0**	**85,092**
Depreciation and impairment write-downs	–35,989	–1,081	0	0	–37,070
Segment EBIT	**46,181**	**1,841**	**0**	**0**	**48,022**
Group financial result					–10,456
Taxes on income					3,069
Group result from continued operations					**40,635**
Group result from discontinued operations					**0**
Group result					**40,635**
Group result attributable to shareholders of freenet AG					40,604
Group result attributable to non-controlling interest					31
Investments in continued operations	**2,315**	**326**			**2,641**

Segment report 1.1.2011—31.3.2011

Figures in € thousands	Mobile Communi-cations	Other	Elimination of intersegment revenue and cost	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
Investments in continued operations	**4,243**	**505**			**4,748**

Further information

Financial calendar

11 May 2012
Publication of interim report I/2012

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

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

1 Probable dates.

Imprint, contact, publications

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

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

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

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

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