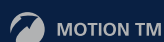


freenet **GROUP**



Interim report on the 2nd quarter 2013

freenet AG • Hollerstraße 126 • 24782 Büdelsdorf

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Key financials: overview Group

Result

Figures in € million	1st half 2013	1st half 2012 adjusted ¹	Q2/2013	Q1/2013	Q2/2012 adjusted ¹
Revenue	1,584.9	1,513.1	809.6	775.2	755.9
Gross profit	349.8	337.4	177.0	172.8	170.6
EBITDA	170.4	170.7	85.2	85.3	85.6
EBIT	142.7	96.7	71.7	71.1	48.6
EBT	122.6	76.2	61.5	61.1	38.7
Group result from continued operations	115.6	82.2	55.4	60.2	41.6
Group result from discontinued operations	0.0	0.0	0.0	0.0	0.0
Group result	115.6	82.2	55.4	60.2	41.6
Earnings per share (€) (diluted and undiluted)	0.90	0.64	0.43	0.47	0.32

Balance sheet

	30. 6. 2013	30. 6. 2012 adjusted ²	30. 6. 2013	31. 3. 2013	30. 6. 2012 adjusted ²
Balance sheet total in € million	2,389.7	2,326.5	2,389.7	2,518.7	2,326.5
Shareholders' equity in € million	1,115.7	1,095.3	1,115.7	1,239.2	1,095.3
Equity ratio in %	46.7	47.1	46.7	49.2	47.1

Finances and investments

Figures in € million	1st half 2013	1st half 2012	Q2/2013	Q1/2013	Q2/2012
Free cash flow ^{3,4}	126.8	124.0	70.4	56.4	51.6
Depreciation and amortisation	27.7	74.1	13.5	14.2	37.0
Net investments ⁴ (Capex)	6.0	6.5	3.4	2.6	4.3
Net cash ^{4,5}	-537.2	-575.7	-537.2	-421.4	-575.7

Share

	30. 6. 2013	30. 6. 2012	30. 6. 2013	31. 3. 2013	30. 6. 2012
Closing price Xetra (€)	16.78	11.47	16.78	18.96	11.47
Number of ordinary shares (in thousand)	128,061	128,061	128,061	128,061	128,061
Market capitalisation (in €'000s) ⁵	2,148,864	1,468,860	2,148,864	2,428,037	1,468,860

Employees

	30. 6. 2013	30. 6. 2012	30. 6. 2013	31. 3. 2013	30. 6. 2012
Employees ⁵	4,516	3,905	4,516	4,557	3,905

Key financials: overview Mobile Communications sector

Customer development

Figures in million	1st half 2013	1st half 2012	Q2/2013	Q1/2013	Q2/2012
Mobile Communications customers ⁵	13.56	14.46	13.56	13.71	14.46
Thereof customer ownership	8.56	8.23	8.56	8.47	8.23
Thereof contract customers	5.81	5.69	5.81	5.80	5.69
Thereof no-frills customers	2.75	2.54	2.75	2.67	2.54
Thereof prepaid customers	5.00	6.23	5.00	5.24	6.23
Gross new customers	1.63	1.76	0.86	0.78	0.83
Net change	-0.52	-0.73	-0.15	-0.37	-0.28

Result

Figures in € million	1st half 2013	1st half 2012 adjusted ¹	Q2/2013	Q1/2013	Q2/2012 adjusted ¹
Revenue	1,569.1	1,482.7	801.6	767.5	740.5
Gross profit	339.3	320.9	171.5	167.8	162.5
EBITDA	168.7	169.3	85.6	83.0	87.2
EBIT	142.9	97.5	73.1	69.9	51.3

Monthly average revenue per user (ARPU)

Figures in €	1st half 2013	1st half 2012	Q2/2013	Q1/2013	Q2/2012
Contract customer	22.4	23.5	22.5	22.4	23.5
No-frills customer	3.5	4.0	3.6	3.5	4.0
Prepaid customer	2.9	2.9	3.0	2.8	2.9

1 The comparative figures in the key financials overview as well as in other tables in this report have been adjusted due to a change of an accounting method, see "Selected explanatory notes", item 5.

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

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.

To our shareholders



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

Letter to shareholders

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

If one were to sum up, as concisely as possible, the development and traits of the German telecommunications market in the two decades since its liberalisation, one word is practically a perfect fit: dynamic. The term also very aptly describes the current situation in our industry.

This is true for the continual acquisition-related activities, which are currently gaining momentum again. Technology is also progressing at an enormously dynamic pace, and is currently opening up new dimensions of entertainment, convenience, progress and security via modern smartphones and tablets under the keyword digital lifestyle. The competition that continues to characterise our industry this year is also particularly dynamic and intense.

For instance, monthly average revenue per user (ARPU) in our traditional core business of mobile communications has trended downwards across the market for the past two years, and the company's service revenue (ARPU × number of customers) has also fallen as a result. The background to this is mainly the ever-cheaper flat rates that give customers more cost certainty and transparency when using smartphones. At the same time, the share of rational customers who are taking advantage of this intense competition in the industry to optimise their tariffs and are increasingly choosing discount tariffs without a handset is growing.

freenet AG has largely adjusted to this dynamic—and continues to do so in the current financial year. Our low-cost discount brands successfully cater to budget-conscious smartphone users, while our main mobilcom-debitel brand focuses on valuable contract customers with a high need for consultation and individual user profiles.

We are also increasingly serving the growing digital lifestyle market with attractive products and services, from our tried and tested position as resellers. This saves us the high costs of investing in development and infrastructure, and ensures our independence when advising customers. It also broadens our base for achieving solid revenue and sustained profit in a difficult competitive environment.

Given these parameters, and to maximise our efficiency in addressing customers, we further expanded our sales platforms in recent months. Besides our organic growth, major steps here included the acquisitions of GRAVIS, the largest independent retailer of Apple products in Germany, and of MOTION TM, a large online retailer in the mobile communications and telecommunications sector.

The positive developments and figures seen in the second quarter show that we are on the right track with our strategy of prudently expanding our core business, digital lifestyle range, and sales platforms:

- Revenue increased by 7.1 percent year-on-year to 809.6 million euros. The aforementioned consolidations of GRAVIS and MOTION TM contributed to this. In the first half of the year freenet AG's revenue totalled 1.58 billion euros.
- Gross profit at 177.0 million euros is now slightly higher compared with the previous quarter—with a gross profit margin of 21.9 percent.
- EBITDA at 85.2 million euros was almost on par with the figure in Q2/2012.
- At 70.4 million euros, the free cash flow is in line with our expectations for the full year.
- In relation to the overall market, postpaid ARPU remains very stable at 22.5 euros.
- The customer ownership base, a key performance indicator for our company, is developing very well: the number of customers in the postpaid and no-frills areas rose by around 88,000 to 8.56 million within the second quarter 2013.

The cumulative figures for the first half of 2013—EBITDA of 170.4 million euros and free cash flow of EUR 126.8 million euros—confirm our guidance for the full year: consolidated EBITDA of 355 million euros and free cash flow of 255 million euros.

In addition, the sustained positive development of our earnings and cash inflows has confirmed our dividend policy, whereby we want to give our shareholders a suitable share in the profitable business performance. Against this backdrop, at our Annual General Meeting at the end of May we paid out a dividend of 1.35 euros per dividend-entitled share for the 2012 financial year. This puts us in the corridor we had set—50 to 75 percent of free cash flow—and underlines our position as one of the highest dividend payers on the German stock market.

At the same time, we made important strategic adjustments with a number of initiatives in the past quarter to take advantage of the growth opportunities in our industry and safeguard freenet's long-term profitability. This refers to the expansion of our portfolio of flat rates and digital lifestyle products, to further optimised customer service in our shops, and to new marketing activities.

For example, our "Internet Flat 1.000" and "surf flat 5.000" data tariffs offer improved performance and/or more favourable fees. For customers requiring larger data volumes, the "T@ke-away Flat Upgrade" has been available since the end of April. Also in April, we launched the "Mini Flat O₂" for newcomers to mobile surfing, and since June we have offered our popular "real Allnet" on the Deutsche Telekom network as well. This is a response to a trend among customers, who are increasingly choosing a maximum network quality when they sign a contract.

How well our flat rate tariffs are received in the market is shown by the numerous top rankings that we once again achieved in independent tests by the business and trade press during the second quarter. They indicate, for example, that with a combination of a tariff and new smartphone, mobilcom-debitel customers can save more than 10 percent compared to a network provider over a contract period of two years.

Nowadays, about 60 percent of our new customers opt for flat rate; if you include those who also want a new smartphone, this rate actually amounts up to 100 percent. A large part of the customers additionally choose a contract with a mobile-device option. Our most recent award from the trade magazine “connect” shows how well we take care of these customers during their contract periods: its 60,000 readers have now voted us Mobile Phone Provider/Retailer of the Year for the fifth consecutive year.

We also served up new highlights in the digital lifestyle area during the second quarter by introducing a number of new products and services. One of them is the “mobilcom-debitel cloud”: since the beginning of April new and existing customers have been able to use two versions of it on all internet-enabled devices for low monthly fees, allowing them to secure all their data and access it at any time. This service is hosted and operated in Germany.

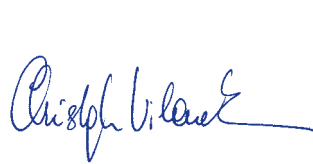
After introducing the SmartHome box, which enables remote control of your home’s heating via smartphone, since June mobilcom-debitel shops have offered a second home automation product—again in two versions and at low monthly purchase instalments: an app-controlled IP camera from the manufacturer D-Link, which allows you to constantly monitor your home and property from a distance. As with the SmartHome box, the launch was preceded by an extensive trial phase at selected shops.

To improve the consultation provided at our shops, we are also testing a tablet app that analyses the customer’s current usage patterns, creates offers for the customer based on this, then sends them to the customer’s email address or prints them out. This makes the advice more accurate, efficient and understandable for sellers as well as customers. Since the end of April, we have begun adding “life” to the displays of the devices offered in shops, using the “mini InstoreTV” multimedia info app, which vividly presents the special features of smartphones and tablets.

Our bus tour through German cities, a very successful marketing measure that we have organised for several years now, brings even more life to our shops. At each location we visit, the mobilcom-debitel shops in the vicinity experience a significant increase in customer footfall and sales figures. In early April we began a new three-month tour to about 70 medium-sized cities. Like our other promotional activities this year, it especially showcased our digital lifestyle products.

In parallel to these activities, we revamped our “performance partner” programme to support our retail partners at the beginning of the quarter. It rewards their marketing and advertising efforts relating to branding and external branding of mobilcom-debitel, and the quality of customer consultation at the respective shop—among other things in the form of higher marketing subsidies or revenue shares for the retailer.

On this basis, we go into the second half of the year full of energy and confidence. We do this in the conviction that we can seize the new opportunities in the market and achieve our very ambitious targets for 2013: with freenet AG’s strong positioning as the largest network-independent provider in the competitive landscape, with a coherent strategy, and the right strategic adjustments. Last but not least, we do this with a highly motivated team of employees and managers, who will continue to work hard for the success of your company.



Christoph Vilanek



Joachim Preisig

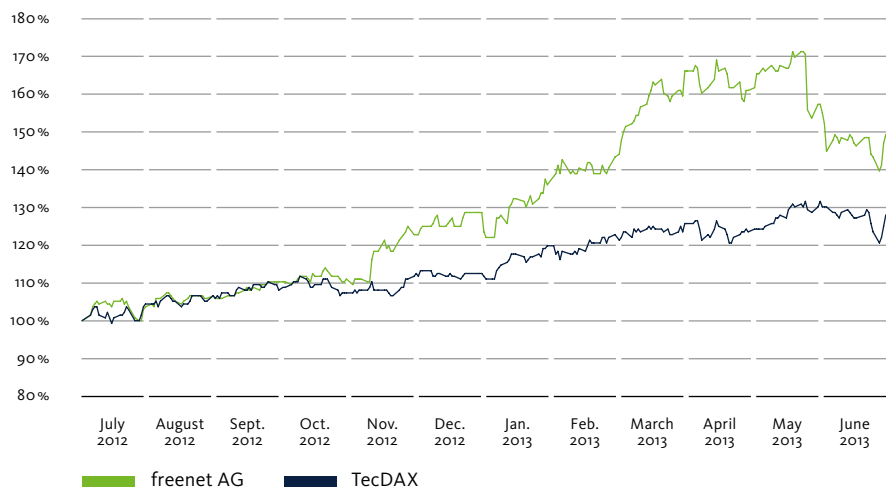


Stephan Esch

freenet AG on the capital market

Performance of the freenet share

Figure 1: Performance of the freenet share over the past 12 months
(Indexed; 100 = Xetra closing price on 29 June 2012)



The German stock market

In the first quarter 2013, the mood in the capital market had brightened slightly based on significant intervention by the central bank, but in the second quarter 2013 there were concerns about the formation of a bubble in the international bond markets. The uncertainty among market participants regarding a quick termination of the exceptionally expansionary monetary policy increased once again.

The European Central Bank (ECB) key interest rate cut by another 0.25 percent to 0.5 percent at the beginning of May led to significant yield increases in government bond markets in May. However, the impact of this interest rate move on Europe's real economy was evaluated as being very limited.

At the end of the quarter the Bull/Bear Index indicated that the market sentiment of institutional investors in Germany had improved noticeably again. But the reason for this was probably less an improvement in the fundamentals of the euro zone's real economy than the preceding significant drop in the DAX to below the psychologically important 8,000 mark. At the same time, German stocks generally laboured under the influence of unfavourable exchange rate movements from Asia, especially Japan and China.

Market participants will continue to focus on interest rate moves respectively comments by the US and European central banks, and will derive their expectations for the development of the stock and bond markets from these. So economic policies regarding the existing risks in the euro zone will be decisive for economic development.

Against this background, the German stock market showed an inconsistent development in the second quarter of 2013. The DAX increased by about 2 percent, closing at 7,959 points on 28 June. The TecDAX moved up slightly by about 1.5 percent during the reporting period, to 946 points.

freenet share

The freenet share was also affected by the past quarter's market environment of increased uncertainty, starting into the second quarter with an Xetra closing price of 18.96 euros and developing erratically until the AGM on 23 May. After the dividend payout of 1.35 euros per share, the price fluctuated in the 16.00 to 18.00-euro range with comparatively high order book volume before finally closing at 16.78 euros at the end of the quarter. The average Xetra closing price during the reporting period was 18.10 euros.

In the second quarter, a total of 52.0 million freenet shares were traded on the Xetra trading platform, compared with 35.3 million in the first quarter of 2013 and 39.6 million in Q4/2012. The average daily trading volume on alternative trading platforms ("dark-pools") in the second quarter was at about 48 percent of the total trading volume, whereas it had still accounted for about a third in previous quarters. The average daily Xetra trading volume amounted to 826,000 units. In the previous quarter an average 563,200 freenet shares were traded per day on Xetra. In the fourth quarter of 2012, the average daily trading volume was 461,300 shares.

Dividend

Following the Annual General Meeting of 23 May, the agreed dividend of 1.35 euros per dividend-entitled share was paid out. This represents a payout ratio of around 66 percent of free cash flow.

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.

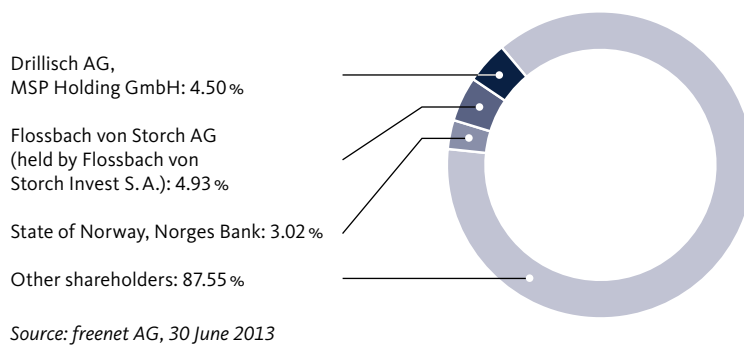
According to the notifications of voting rights received pursuant to section 21 WpHG (German Securities Trading Act), freenet AG's shareholder structure changed as follows:

- Drillisch AG, Maintal, informed us that on 7 May 2013 its share of voting rights in freenet AG had fallen below the 10-percent reporting threshold and amounted to 9.99 percent on that day (12,791,658 voting rights).
- The Norwegian Ministry of Finance informed us in the name of and on behalf of the State of Norway that on 8 May 2013 its share of voting rights in freenet AG had fallen below the 3-percent reporting threshold and amounted to 2.37 percent on that day (3,033,294 voting rights).

- The Norwegian Ministry of Finance informed us in the name and on behalf of the State of Norway that on 11 June 2013 its share of voting rights in freenet AG had exceeded the 3-percent reporting threshold and amounted to 3.02 percent on that day (3,863,574 voting rights).
- Drillisch AG, Maintal, informed us that on 24 June 2013 its share of voting rights in freenet AG had fallen below the 5-percent reporting threshold and amounted to 4.50 percent on that day (5,766,540 voting rights).

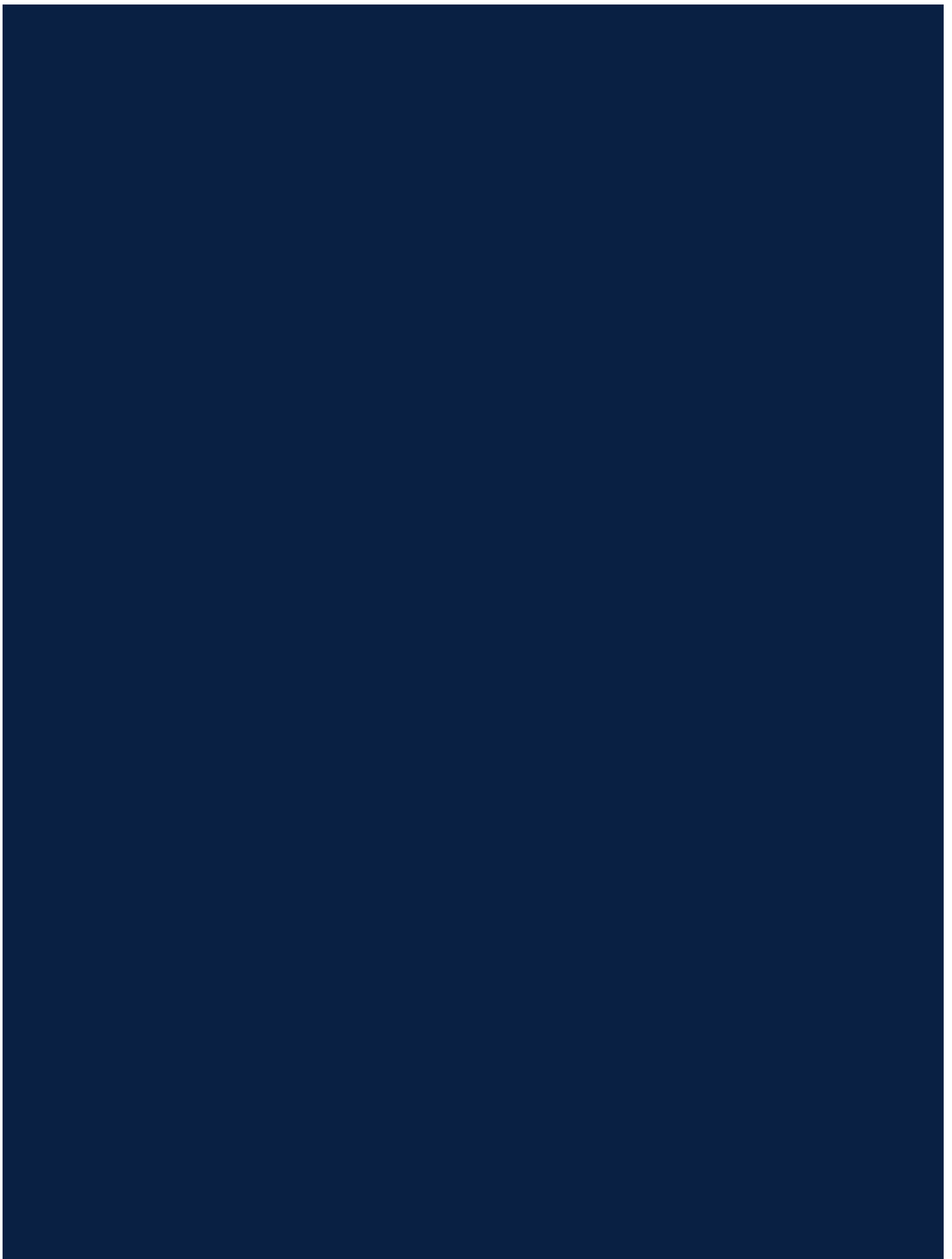
Consequently, the shareholder structure on 30 June 2013 was as follows:

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



Based on the voting rights notifications received during the quarter under review, free float has increased from 75.07 percent to 87.55 percent compared with the end of 2012.

**Interim group
management report**



Overview of the freenet Group's business and operating performance

As a service provider, freenet AG markets mobile communications services for Germany's four major mobile communications networks on its own account. It also markets its own mobile communications products and services, as its traditional core business. The company also has its own range of products to cater for the growing digital lifestyle market, which is increasingly being opened up with innovative applications and services for mobile devices.

In all of these businesses, private customers (B2C) are still the main target group. The company successfully addresses them with a multi-brand strategy. Given the tough competitive environment and fast-changing prices in the industry, the company is focusing with its main brand, mobilcom-debitel, on high-quality contract relationships in customer acquisition and customer management. In addition, freenet's discount brands also very successfully cater for the no-frills sector.

In the second quarter of 2013, the company continued to expand its range of products, tariffs, apps and services in the mobile communications, mobile internet and digital lifestyle sectors, and launched new marketing, sales and customer service activities.

Expanded smartphone tariffs

Modern smartphones and tablets not only enable mobile surfing, emails and calls, but are also essential features of the digital lifestyle—as multi-purpose work and entertainment devices, means of payment, or remote controls. During the second quarter, freenet further expanded and improved its range of flat rates for their transparent and cost-effective use.

In April, mobilcom-debitel's "Internet Flat 1.000" tariff doubled mobile surfing speeds to 7.2 Mbit/s, while the monthly fee was reduced by 5 euros to 9.95 euros. The redesigned flat rate in the high-performance Vodafone network is thus an ideal entry tariff, especially for the use of tablets like the iPad or the Galaxy Tab.

The "Flat Mini O₂", also launched in April, represents an affordable entry-level rate on the O₂ network for customers whose mobile internet usage is still low: 14.95 euros per month gives them 100 free minutes of calls and 100 SMS texts to all German networks, as well as 50 MB per month of flat rate mobile surfing. There is a one-off 29.90-euro activation fee.

Since the end of April, customers who hit the available data capacity limits of their chosen tariff have been able to book mobilcom-debitel's "T@ke-away Flat Upgrade". For 9.95 euros a month, it gives new and existing customers an extra 1 GB of data capacity, both for tariffs with already-included data capacity and for the classic data-only rate "T@ke-away Flat".

Since early June, mobilcom-debitel has also offered its popular "real Allnet" on the Deutsche Telekom network. The 19.80 euro monthly fee without a smartphone includes unlimited calls and texts to all German networks, and 300 MB for mobile internet

browsing. Customers who additionally want a new smartphone pay 34.90 euros a month on the Deutsche Telekom network and can choose between the Nokia Lumia 620 and Sony Xperia P.

Other digital lifestyle offers

For an attractive digital lifestyle it is crucial that users can reliably access their personal data and applications at any time—even and especially when they switch between devices, telecoms providers or networks. Against this backdrop, in early April the company launched the new “mobilcom-debitel cloud” service. There are two versions: “Cloud Basic” gives each user 25 GB of storage for 1.99 euros per month, while the “Cloud Pro” version offers 50 GB for 3.99 euros per month. The service can be booked as an option by all new and existing customers on every mobilcom-debitel tariff and works with all Internet-enabled devices, both web-based and via an app that is available from Google Play and the iTunes Store. Because it is hosted and operated in Germany, the service offers the highest level of data security and privacy, whether for emails, contacts, appointments, photos, videos or music.

With the free “Single.de Flirt, Dating & Chat” app, available from the iTunes Store and Google Play since the end of April, freenet has supplemented its range of attractive apps for Apple and Android users. Featuring searches for potential dates in the region, visitors to your profile, official contact requests, and free messaging, this mobile companion almost qualifies as a free dating site.

In May, mobilcom-debitel expanded its digital lifestyle portfolio with the “GameFlat” option at a regular price of 3.99 euros per month. The optional service at m.md.de/games lets games-loving new and existing customers download and use a large selection of current Gameloft premium games without having to worry about hidden subsequent charges or “in-game purchases”. The games include top titles such as “Iron Man 3”, “Asphalt 7”, “Shark Dash” and “Real Football 2013”. After the 12- and 24-month contracts expire, the users can keep them.

After last year's introduction of the SmartHome box for remote-controlling home heating via smartphone, the company is once again setting new standards in home automation with an app-controlled IP camera. Since June, models from the manufacturer D-Link that let users monitor their homes and outdoor areas have been on offer in mobilcom-debitel shops in two versions: with 5.49-euro instalments over 24 months for the entry-level model, or 8.99 euros for the upscale version.

The cameras' features include infrared night vision, very high resolution, and built-in microphones to record sound. The more expensive camera can be remote-controlled and rotated 340° from anywhere in the world using a free app, allowing users to monitor their home and property while on holiday, for example. Both cameras can also be used as a baby monitor—for example, when you visit the neighbours.

Improved in-store customer consultation

The digital lifestyle is also increasingly gaining a foothold in customer service. Since May, selected mobilcom-debitel stores have been testing a company-programmed sales advice app on tablets. Key elements are the analysis of the customer's current usage patterns, key conclusions based on this, and the resulting offer for the customer, who can choose to receive the consultation documents by email at home or in printed form. The sales advisor can in turn save the offer and refer to it whenever they need, making the sales talk more accurate, tangible and efficient for both sides. An expansion of this service to all mobilcom-debitel shops in Germany—following any necessary fine-tuning—is planned for the second half of 2013.

Since the end of April, the displays of the smartphones and tablets on sale in the shops have also become more illustrative. The "mini InstoreTV" multimedia info app uses them to give a uniform, attractive and eye-catching presentation of each device's features. Customers can try out the actual devices with their technical details and accessories, while consultants can use the display screen for the sales pitch. Beyond this, the company can centrally evaluate the use of the devices later to gain useful data about the interests of customers. The service will be successively extended to all major manufacturers in the months ahead.

New marketing activities

mobilcom-debitel's revised "performance partner programme" has provided better support for our specialist retail partners since the beginning of April, with its three levels LPP, LPP Plus and LPP Business. The system is based on points issued to retailers for their marketing and advertising efforts relating to the mobilcom-debitel brand; the ratings the on-site consultation services receive in mobilcom-debitel's ongoing mystery shopping programme; and the weighting of digital lifestyle products in the respective shop. High scores secure retailers higher subsidies for marketing costs, a higher revenue share, and professional support from a full-service agency.

mobilcom-debitel also launched another bus tour of Germany in April. In recent years this has proven to be a powerful way to increase traffic to shops in the cities visited. For instance, on last autumn's tour their respective sales figures increased by between 70 and 100 percent. Under the slogan "Gemeinsam mehr wissen!" (Knowing more together!) the spring roadshow staff presented spectacular 3D holograms containing useful information about mobile communications, digital lifestyle, smartphones, tariffs, services and the mobile internet. As part of a quiz, visitors to the buses were able to win an LG Optimus G each day. Overall, the tour travelled to 74 cities by the end of June.

Assets, financial position and results

Customer development

Figures in million	30. 6. 2013	31. 3. 2013	31. 12. 2012	30. 9. 2012	30. 6. 2012
Mobile Communications customers	13.56	13.71	14.08	14.31	14.46
Thereof customer ownership	8.56	8.47	8.50	8.38	8.23
Thereof postpaid customers	5.81	5.80	5.79	5.72	5.69
Thereof no-frills customers	2.75	2.67	2.71	2.66	2.54
Thereof prepaid customers	5.00	5.24	5.58	5.93	6.23

At 30 June 2013, the customer ownership base, defined as the cumulative volume of contract and no-frills customers, increased by about 88,000 to 8.56 million compared to 31 March 2013. This represents an increase of around 1 percent. Compared to the same date the previous year, the customer ownership base has grown about 4 percent (+330,000 customers). Thus, this key performance indicator for the company also exceeds the level achieved at the end of 2012 (8.50 million customers).

The increase in the customer ownership base is mainly due to the 78,000 no-frills customers added since the previous quarter. In the first quarter, there was still a decline of around 42,000 customers as inactive SIM cards without a contract continued to be eliminated. The year-on-year increase for the second quarter came to 8 percent or 208,000 customers.

freenet AG also again added customers in the contract customer business. Here, the number of customers rose by around 10,000 in comparison to 31 March 2013 and by about 122,000 over Q2/2012. The positive development of the postpaid customer base in recent quarters has thus continued as planned.

Meanwhile, the number of prepaid customers has decreased again due to the ongoing writing-off of inactive SIM cards by the network operators. Compared to 31 March 2013, it has decreased by around 240,000 or 4.6 percent, to 5.00 million. Compared to 30 June 2012, this represents a decrease of nearly 20 percent (-1.20 million customers). As a result, the total number of customers at 30 June 2013 fell to 13.56 million, a decline compared both to the previous year and to 31 March 2013.

Monthly average revenue per user (ARPU)

Figures in €	Q2/2013	Q1/2013	Q4/2012	Q3/2012	Q2/2012
Contract customer	22.5	22.4	22.8	23.6	23.5
No-frills customer	3.6	3.5	3.5	3.9	4.0
Prepaid customer	3.0	2.8	2.9	3.1	2.9

The average monthly revenue per user (ARPU) for contract, no-frills and prepaid customers in the second quarter of 2013 showed a slight seasonal increase compared to the previous quarter.

Compared to the second quarter of 2012, monthly average revenue per contract customer (postpaid ARPU) is reported 1.0 euro lower showing that freenet—in direct comparison to its competitors—was able to partially escape the downward trend in the overall market. The no-frills ARPU declined by 0.4 euros year-on-year. This development is mainly due to continued price competition in the German mobile market, which freenet AG countered with increased promotional activities, especially in the no-frills segment. At 3.0 euros, prepaid ARPU was on par with the previous year (2.9 euros).

Revenue and results

Figures in €'000s	Q2/2013	Q2/2012 adjusted	Change
Revenue	809,636	755,857	53,779
Gross profit	177,019	170,551	6,468
Overhead expenses	-91,857	-84,911	-6,946
EBITDA	85,162	85,640	-478
EBIT	71,667	48,634	23,033
EBT	61,481	38,677	22,804
Group result	55,395	41,581	13,814

Second-quarter Group revenue increased year-on-year by 7.1 percent. The decrease in revenue resulting from the reduction of postpaid ARPU was more than offset mostly because of the first-time consolidation of the companies GRAVIS and MOTION TM as compared to last year.

The **GROSS PROFIT MARGIN** decreased year-on-year by 0.7 percentage points to 21.9 percent, primarily due to the fact that the newly consolidated companies GRAVIS and MOTION TM have business models with relatively lower gross profit margins. Gross profit increased compared to the previous quarter by 3.8 percent to 177.0 million euros.

OVERHEAD EXPENSES, which form the difference between gross profit and EBITDA, and which include the items **OTHER OPERATING INCOME**, **OTHER OWN WORK CAPITALISED**, **PERSONNEL EXPENSES**, **OTHER OPERATING EXPENSES**, and the **SHARE OF RESULTS OF ASSOCIATES**, increased year-on-year by 6.9 million euros, mainly due to the aforementioned acquisitions, which also led in particular to an increase in other operating expenses. Adjusted for the inclusion of GRAVIS and MOTION TM overhead expenses were reduced by 1.2 million euros compared to Q2/2012.

Group earnings from continued operations before depreciation and amortisation, interest and taxes (**EBITDA**) in the second quarter of 2013 came to 85.2 million euros, which puts them almost on par with Q2/2012.

DEPRECIATION AND AMORTISATION declined by 23.5 million euros year-on-year to 13.5 million euros. This is almost entirely due to the lower depreciation of intangible assets from the purchase price allocation of the debitel acquisition, after depreciations of the material assets were discontinued at 31 December 2012 due to the scheduled expiry of their useful life.

The **INTEREST RESULT**, or difference between interest income and interest expenditure, was -10.2 million euros during the reporting quarter of 2013, which is of a comparable magnitude to the same quarter during the prior year (-10.0 million euros). This reflects the near-constant average level of net debt during each of these quarters.

Due to the reasons mentioned above, **PRE-TAX GROUP EARNINGS** (EBT) rose year-on-year by 22.8 million euros to 61.5 million euros.

During the quarter, **INCOME TAX EXPENSES** totalled 6.1 million euros, which means a 9.0 million euro drop in income from taxes compared to the 2.9 million euros in income from taxes on income reported for Q2/2012. This is primarily due to lower deferred tax income owing to temporary differences, due to the above-mentioned lower depreciation of intangible assets from the debitel purchase price allocation.

As during the comparison period of 2012, **GROUP EARNINGS** reported in the second quarter of 2013 are exclusively the result of continued operations, and amounts to 55.4 million euros, a 33.2 percent increase compared to the 41.6 million euros reported for the same quarter last year.

Assets and financial position

Assets

Figures in € million	30. 6. 2013
Non-current assets	1,767.5
Current assets	622.2
Total assets	2,389.7

Figures in € million	31. 3. 2013
Non-current assets	1,775.6
Current assets	743.2
Total assets	2,518.7

Shareholders' equity and liabilities

Figures in € million	30. 6. 2013
Shareholders' equity	1,115.7
Non-current and current liabilities	1,274.0
Total equity and liabilities	2,389.7

Figures in € million	31. 3. 2013
Shareholders' equity	1,239.2
Non-current and current liabilities	1,279.5
Total equity and liabilities	2,518.7

The **BALANCE SHEET TOTAL** as per 30 June 2013 is 2,389.7 million euros and has thus decreased by 129.0 million euros or 5.1 percent compared to 31 March 2013 (2,518.7 million euros).

On the **ASSETS SIDE**, non-current assets saw a slight decline by 8.0 million euros. This is mainly due to a 5.2 million euro decrease in intangible assets due to ongoing depreciation with lower levels of new investment. In current assets there is a decrease in trade accounts receivable of 42.9 million euros to 389.4 million euros. While end user receivables are shown as more or less stable in comparison to 31 March 2013, the aforementioned decline is due to reporting-date-related developments in claims against network operators and hardware distributors. Meanwhile, cash and cash equivalents decreased by 76.7 million euros to 127.1 million euros. It should be noted that dividends totalling 172.8 million euros were paid out during the quarter under review, whereupon the revolving credit line, which had not been utilised by the closing date of the previous quarter, was utilised to the sum of 60 million euros at 30 June 2013. The increase in liquid funds that results after adjusting for these two processes mainly came from cash flow from operating activities.

On the **LIABILITIES SIDE**, gross financial debt increased by 39.0 million euros compared to 31 March 2013, to 664.3 million euros. While as mentioned, the use of the revolving credit line was 60.0 million euros higher, financial debt from the corporate bond decreased due to the annual interest payment on this bond in April.

Trade accounts payable fell by 34.7 million euros to 375.7 million euros primarily due to balance sheet date-related lower liabilities in connection with the purchase of hardware.

Other payables decreased by 10.8 million euros compared to the end of the previous quarter, to 124.1 million euros, mainly due to lower VAT-related liabilities and lower bonus-related obligations to employees.

The **EQUITY RATIO** fell from 49.2 percent at the end of March 2013 to 46.7 percent at the end of June 2013, mainly due to the dividend payout during the second quarter of 2013. The dividend payout is also the reason behind the increase in net debt, which at 30 June 2013 amounted to 537.2 million euros, representing an increase of 115.8 million euros compared to the previous quarter's reporting date.

Cash flow

Figures in € million	Q2/2013	Q2/2012	Change
Cash flow from operating activities	73.8	55.8	17.9
Cash flow from investing activities	-2.8	-2.6	-0.2
Cash flow from financing activities	-207.7	-183.4	-24.3
Change in cash and cash equivalents	-136.7	-130.1	-6.6
Free cash flow¹	70.4	51.6	18.8

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.

CASH FLOW FROM OPERATING ACTIVITIES is reported at 73.8 million euros in the second quarter of 2013, which translates to a year-on-year increase of 17.9 million euros. With EBITDA nearly constant, this increase is primarily a result of the 17.9 million euro reduced increase in net working capital, to 6.0 million euros, which is largely related to the reporting date. The bonus entitlements due from one network operator during the first quarter of 2013 were only partially paid by 31 March 2013—the rest was received in the second quarter of 2013. In the previous year, these payments were fully received during the first quarter, which explains an effect of about 19 million euros.

The **CASH FLOW FROM INVESTING ACTIVITIES** amounted to -2.8 million euros in Q2/2013 compared to -2.6 million euros in the second quarter of 2012.

The **CASH FLOW FROM FINANCING ACTIVITIES** during the quarter under review developed from -183.4 million euros in Q2/2012 to currently -207.7 million euros. The dividend payment increased by 19.2 million euros from 153.6 million euros in the second quarter of 2012 to 172.8 million euros explaining the change to a large extent. In addition, interest of 29.9 million euros (Q2/2012: 29.8 million euros) has been paid in the quarter under review mainly attributable to the corporate bond. Finally, the Group experienced an outflow of 5.0 million euros for the acquisition of the remaining shares in MFE Energie GmbH in the second quarter of 2013.

As a result of the aforementioned effects, free cash flow in the second quarter of 2013 was up by 18.8 million euros year-on-year, to 70.4 million euros.

Key figures of financial strategy

The following overview shows the current values of the key indicators of our financial strategy, compared with those of the same quarter in 2012. For all periodic figures such as the EBITDA and the net interest results, the last 12 months were used in each case (thus July 2012 to June 2013 and for the prior year July 2011 to June 2012).

The Executive Board adjusted the targets at end of February 2013 with the publication of the preliminary figures for the financial year 2012. The range for the debt factor was increased from 1.5–2.5 to 1.0–2.5, while the targets for the key performance indicators, interest cover and equity ratio, remained unchanged.

	Target 2013/14	Q2/2013	Q2/2012 adjusted
Debt factor	1.0–2.5	1.5	1.7
Interest cover	> 5	8.6	8.0
Equity ratio	> 50%	46.7%	47.1%

The debt factor of currently 1.5 is still within the target range.

The interest cover increased from 8.0 to 8.6 year-on-year due to the positive earnings situation and the further reduction of debt, and is still well above the target level.

The equity ratio at 30 June 2013 is slightly below the target of 50 percent. No significant change is recorded compared to the previous year. It should be noted that the equity ratio is usually at its lowest level after the dividend distribution in the second quarter, so we assume this figure will increase in the following quarters until the next dividend payment.

Key figures of dividend policy

The dividend policy adopted by the Executive Board and agreed with the Supervisory Board at the beginning of 2013 provides for future payouts of 50 to 75 percent of free cash flow as dividends. By increasing this range from the financial year 2012, the Executive Board takes into account the value-oriented shareholders' interest in participating to a reasonable extent in the company's free cash flow, while an optimised capital structure ensures the long-term safeguarding of the company's value.

	2010	2011	2012	Target 2013	Target 2014
Payout ratio (as a percentage of FCF)	48%	64%	66%	50–75%	50–75%
Dividends paid (in euros per share)	0.80	1.20	1.35	n/a	n/a
Dividend yield (on day of payment)	10.0%	10.6%	6.9%	n/a	n/a

Employees

The number of employees decreased slightly at the end of Q2/2013 to 4,516 vs. 4,557 at the end of Q1/2013. At the end of June 2012, the total number of employees was 3,905. The significant year-on-year increase is due to the inclusion of employees from GRAVIS and MOTION TM since the first quarter of 2013.

Opportunities and risk report

Opportunities

In the first half of 2013, freenet AG systematically continued its focus on mobile voice and data services. In the marketing of smartphones, flat rate tariffs and digital lifestyle products, the main focus was on ensuring customer quality as well as expanding the contract customer base.

The company sees opportunities in the following market developments in particular:

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

Further opportunities for the company could arise from:

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

Risk report

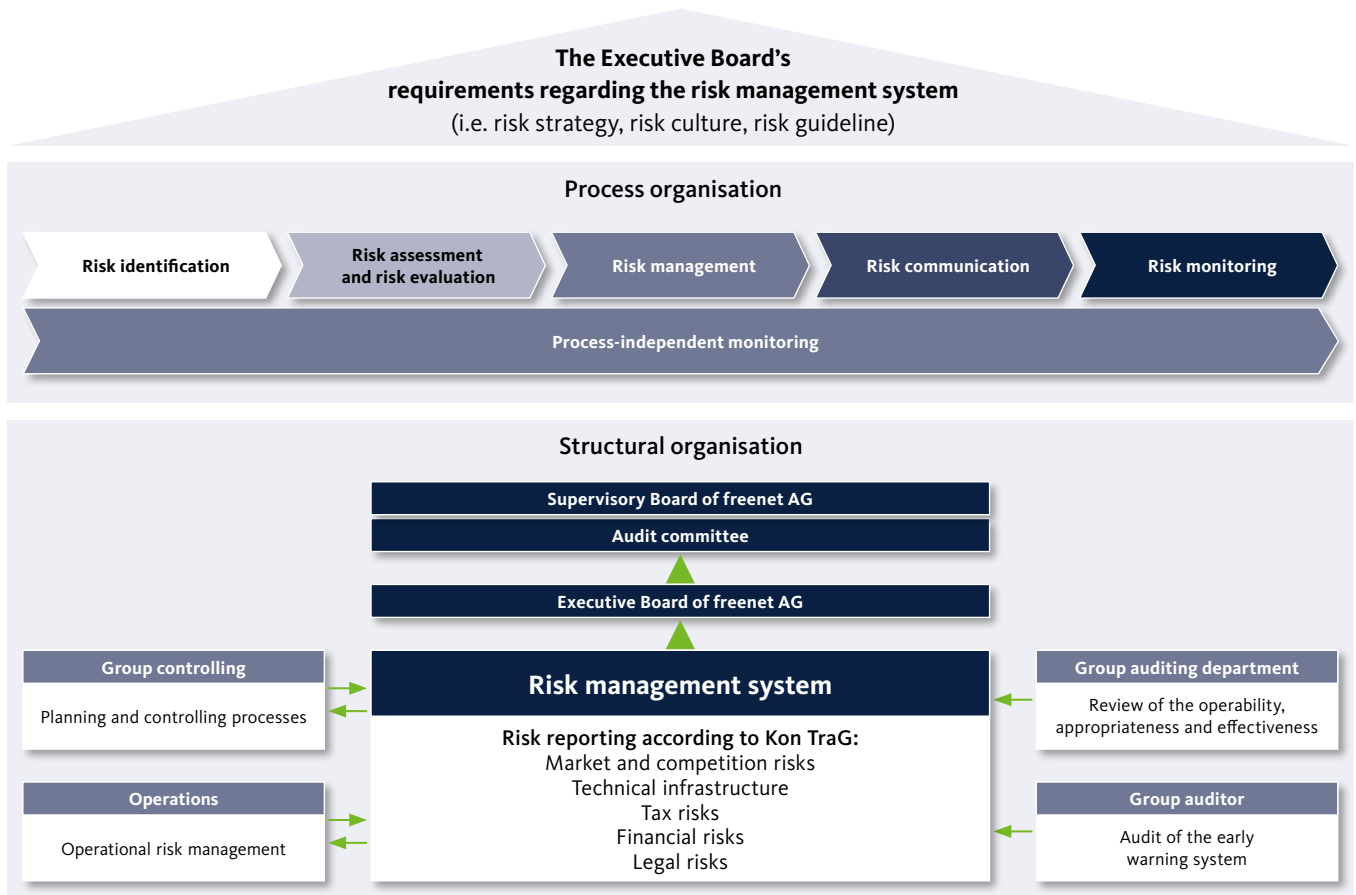
Risk management

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

To this end, the freenet AG Executive Board has set up an efficient early-warning, monitoring and management system within the Group, which complies with all statutory requirements for a risk management system. The systems and methods of risk

management systems are an integrative part of the overall organisation of freenet’s structure and processes.

Figure 3: Structural and process organisation of the risk management system of freenet AG



On a quarterly basis, freenet’s individual departments and subsidiaries identify or update existing and new risks in a formalised risk reporting. Also between the regular reporting dates risks are detected and controlled right after their identification and—if substantial enough—are directly reported to the Executive Board. The risk reports describe specific risks and investigate the probability of their occurrence, and their implications for the company should they occur. The individual risk reports are combined into a risk report for the whole Group, which is submitted to the Executive Board.

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

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

The risk management methods and systems are constantly reviewed, developed and adapted. The freenet AG internal audit department plays a supporting role here, with the regular review of the risk reporting forming the main focus.

Beyond the risk management system, the management has set up a comprehensive monthly reporting system to manage and monitor on-going 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 "jour-fixe" meetings, which are held for all relevant operations. Recent developments and future measures are also discussed at these jour-fixe meetings. The heads of the various corporate divisions are also in constant communication with the Executive Board, ensuring timely notification of risks to the appropriate decision maker at all times.

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

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

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

The Executive Board of freenet AG has entrusted all of the Group's departments with the responsibility for managing their own control processes, according to common principles.

The departments permanently analyse their processes, including with regard to new legal requirements and other standards to be followed, derive internal guidelines, and train the employees in charge.

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

Structure of the Group accounting process

Accounting processes for the company financial statements of freenet AG's subsidiaries are essentially recorded using the local accounting system by SAP. freenet AG uses SAP's "EC-CS" module as its consolidation system at the top Group level. When preparing the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the equity, debt as well as expense and income consolidations etc., the data reported by the subsidiaries is entered into the consolidating system automatically via the SAP module "FI". The individual notes are taken from the standardised reporting packages, which are managed in MS Excel. Also the consolidation of the notes to the consolidated financial statements is carried out in MS Excel.

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

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

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

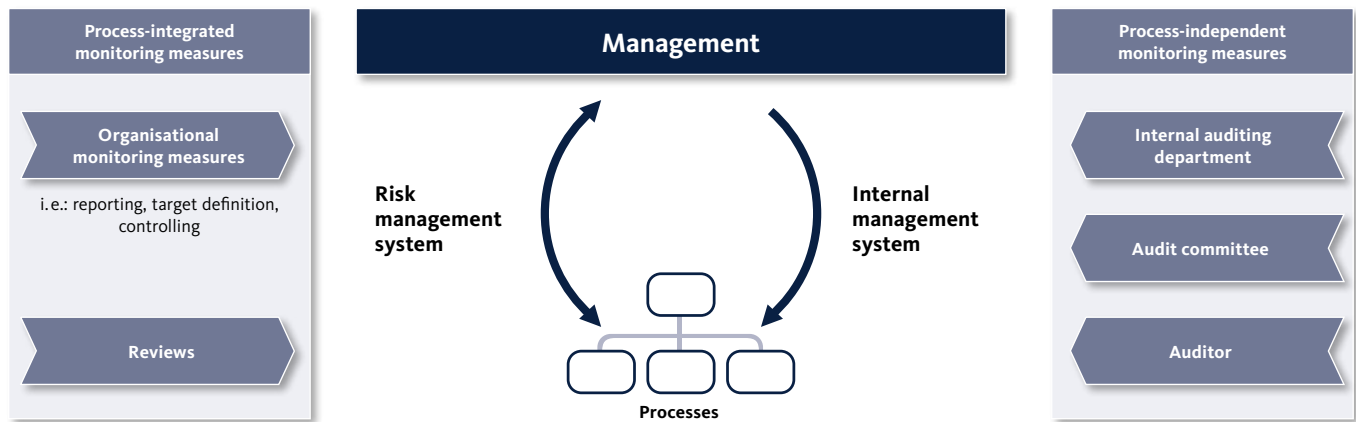
The regular elements in the Group's internal control system are aimed at an extensive automation of the formation and crosschecking of all relevant data, ranging from invoicing-relevant raw data via the invoicing of customers to value adjustments, accruals and depreciation. These automated controls are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

The Group audit department's annual review of the internal control system in 2012 yielded a picture of a comprehensive, constantly evolving internal control system wherein all the employees involved are very aware of the need and purpose of controls.

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

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

Figure 4: freenet AG's internal control system



Major risks

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

Market and competition risks

Mobile communications is by far the most important sector for the freenet Group in terms of both revenue and earnings. Accordingly, the most significant market and competitive risks arise from this sector. The telecommunications markets continue to be fraught with intensive competition and the customers' high willingness to switch. This can lead to shortfalls in revenue, to loss of market share and to pressure on margins in any given operation and/or can make it more difficult to gain market share.

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

Margins in the mobile service provider business are largely dependent on how the network operators structure their tariffs. 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 partly able to offer better rates than mobile service providers. This can lead to a loss of sales channels and customers.

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

As a result of the persistent competitive pressure it cannot be ruled out that there will be 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 also does business in this market 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 do not 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 premiums in this area will also likely result in a higher capital commitment and marketing risk.

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 considerably impacts the management of existing customers, 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 that would have to be implemented at higher terms or could possibly not be renewed.

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

On the basis of the Act to amend Telecommunications Legislation dated 3 May 2012, waiting times for the customer service hotline will be free of charge from June 2013. This could have a negative impact on the company’s results.

According to a Kiel district court ruling, which has since been confirmed by the Higher District Court of Schleswig, freenet AG cannot charge a fee to customers after termination and the end of the lease term if they did not send their SIM card back to freenet AG

in time. Upon confirmation of the judgment in possible appeal proceedings, this could have an adverse impact on the company's assets, financial position and results.

The Bundesnetzagentur (Federal Network Agency) is currently reviewing Deutsche Telekom's obligation to offer call-by-call and preselection services for its lines. If there is no such obligation, this could have negative implications for the company's net 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 the types of taxes that may not yet have even been audited, in particular because they usually are not subject to external tax audits.

The risk of divergent interpretations and valuations applies in particular to any restructuring of corporate legal status. Therefore it cannot be totally ruled out that the corporation and trade tax loss carryforwards declared by the companies in the freenet Group, and also so far assessed by the fiscal authorities, could wholly or partially be inapplicable through contributions, other transactions involving changes of corporate form, capital inflows and changes in the composition of shareholders.

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

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

measures under a single shareholder or several shareholders with parallel interests. The above-described legal consequences apply accordingly.

Financial risks

We use a variety of financing instruments to reduce the liquidity risk. The liabilities to banks shown under borrowings stem first from a variable-interest syndicated loan (shown on the books as at 30 June 2013: 80.0 million euros), and from a fixed-coupon corporate bond (shown on the books as at 30 June 2013: 402.5 million euros), which were implemented as part of the refinancing in April 2011. As of 30 June 2013, the Group's liabilities to banks resulting from the promissory note signed in December 2012 were shown on the books as totalling 120.7 million euros—a 55.9 million euro variable-interest tranche and 64.8 million euros distributed to two separate fixed-interest tranches. In addition, the Group has a revolving credit line totalling 100 million euros, of which 60.0 million euros had been drawn down by the end of the first half of the year. 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.

With regard to variable-interest financial debt, our company is subject to interest rate risks largely in relation to the EURIBOR. The company counters these risks by having a mix of fixed- and variable-interest financial debt. Risks arising from changes in interest rates for the variable amortising loan are secured with an interest cap that runs through 31 July 2013. From that date on, the interest rate risks are no longer explicitly secured; however the cash holdings (which are mainly invested at variable interest rates based on EONIA or EURIBOR) serve as a natural hedge and accordingly mitigate the interest rate risks arising from the variable-interest financial debt.

Funds are usually invested as call money or time deposits at commercial banks with high credit ratings.

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.

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

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

Legal risks

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

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

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

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

Some individual shareholders hold the view that the capital increase through contribution in kind of mobilcom AG, the company's legal predecessor, in November 2000 was flawed and/or that the contribution in kind rendered was not of any value, with the consequence that on the one hand the company would still be entitled to compensation claims against France Telecom running into billions and further that the shares issued to France Telecom would have had no voting rights. It is the company's understanding that the capital increase through contribution in kind was performed in a valid manner. The company therefore likewise assumes that this will also have no impact on the share evaluation review proceedings.

Forecast

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

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

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

Significant events after the reporting date

On 6 August 2013 freenet AG renewed the existing cooperation agreement governing the exclusive sales partnership between its wholly owned subsidiary mobilcom-debitel GmbH and Media-Saturn Deutschland GmbH by a minimum of another three years. Under the sales cooperation, mobilcom-debitel GmbH sells own tariffs and the original tariffs of the mobile network operators T-Mobile, Vodafone and E-Plus as well as its own mobile communications products and services in all Media Markt and Saturn stores across Germany. The products of Telefonica Germany AG (formerly Telefonica O₂ Germany) continue to remain exempt from this cooperation. The last renewal of the cooperation until end of 2013 was agreed by freenet AG and Media-Saturn Deutschland GmbH in January 2011.

There were no further significant events after the reporting date.

Transactions with related parties

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

Figures in €'000s	1. 1. 2013 –30. 6. 2013	1. 1. 2012 –30. 6. 2012
Sales and income attributable to services		
Joint ventures		
FunDorado GmbH, Hamburg	102	106
Companies with a major influence on freenet AG¹		
b2c.de GmbH, Munich (Drillisch AG Group)	286	560
	388	666
Purchased services and onward charging		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	n/a	10
Joint ventures		
siXXup new Media GmbH, Pulheim	0	33
Companies with a major influence on freenet AG¹		
Drillisch AG, Maintal	0	8
eteleon e-solutions AG, Munich (Drillisch AG Group)	24	0
b2c.de GmbH, Munich (Drillisch AG Group)	3,029	10,092
	3,053	10,143

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

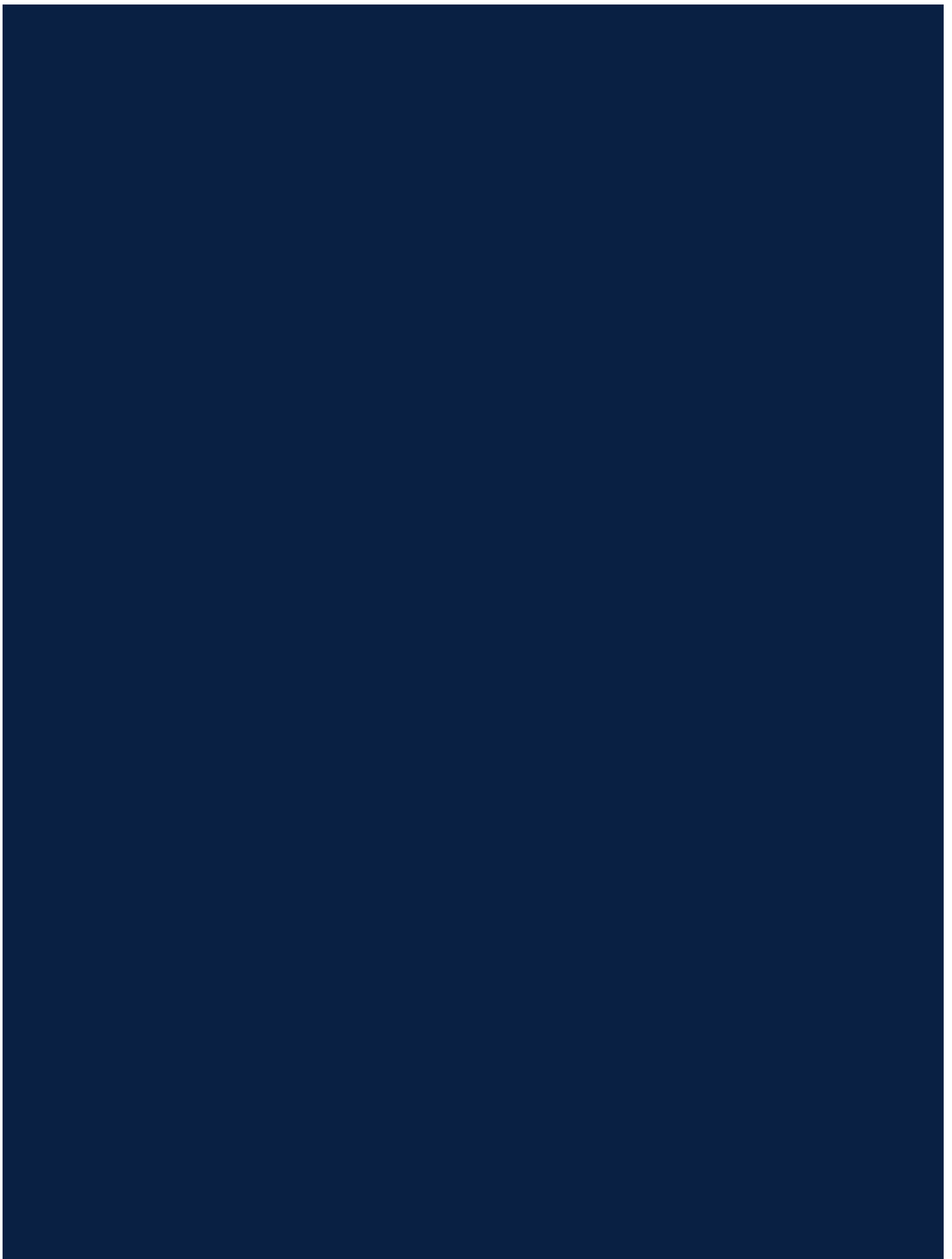
Figures in €'000s	30.6.2013	30.6.2012
Receivables from regular transactions		
Joint ventures		
FunDorado GmbH, Hamburg	29	24
siXXup new Media GmbH, Pulheim	0	2
Companies with a major influence on freenet AG¹		
b2c.de GmbH, Munich (Drillisch AG Group)	n/a	214
	29	240
Liabilities from regular transactions		
Companies with a major influence on freenet AG¹		
b2c.de GmbH, Munich (Drillisch AG Group)	n/a	748
	0	748

All transactions were at market rates.

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

¹ According to a voting rights notification dated 25 March 2013, the voting rights of Drillisch AG, including the shares held by MSP Holding GmbH, totalled 10.43 percent at 20 March 2013. So, because Drillisch AG has not been able to exercise any controlling influence on the freenet Group since 20 March 2013, Drillisch AG and its affiliated companies have not been classified as related parties. Transactions with companies in the Drillisch group during the first quarter of 2013 were therefore only reported as transactions with related parties if they occurred before 20 March 2013. According to the latest voting rights notification from Drillisch AG received by freenet the voting rights of Drillisch AG amounted to 4.50 percent on 24 June 2013 including the voting rights of MSP Holding GmbH.

**Condensed interim
consolidated financial
statements**



Overview

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Consolidated income statement and consolidated statement of comprehensive income

for the period from 1 January to 30 June 2013

Figures in €'000s	1st half 2013 1. 1. 2013 –30. 6. 2013	1st half 2012 1. 1. 2012 –30. 6. 2012 adjusted	Q2/2013 1. 4. 2013 –30. 6. 2013	Q2/2012 1. 4. 2012 –30. 6. 2012 adjusted
Revenue	1,584,885	1,513,056	809,636	755,857
Other operating income	32,540	34,227	14,995	16,614
Other own work capitalised	2,863	3,195	1,385	1,686
Cost of materials	-1,235,042	-1,175,653	-632,617	-585,306
Personnel expenses	-81,592	-78,356	-40,614	-39,643
Depreciation and impairment write-downs	-27,708	-74,076	-13,495	-37,006
Other operating expenses	-133,340	-126,446	-67,699	-63,842
Operating result	142,606	95,947	71,591	48,360
Share of results of associates	125	709	76	274
Interest receivable and similar income	787	1,483	314	698
Interest payable and similar expenses	-20,913	-21,896	-10,500	-10,655
Result before taxes on income	122,605	76,243	61,481	38,677
Taxes on income	-7,015	5,973	-6,086	2,904
Group result from continued operations	115,590	82,216	55,395	41,581
Group result from discontinued operations	0	0	0	0
Group result	115,590	82,216	55,395	41,581
Group result attributable to shareholders of freenet AG	115,354	82,174	55,139	41,570
Group result attributable to non-controlling interest	236	42	256	11
Earnings per share in € (undiluted)	0.90	0.64	0.43	0.32
Earnings per share in € (diluted)	0.90	0.64	0.43	0.32
Earnings per share from continued operations in € (undiluted)	0.90	0.64	0.43	0.32
Earnings per share from continued operations in € (diluted)	0.90	0.64	0.43	0.32
Earnings per share from discontinued operations in € (undiluted)	0.00	0.00	0.00	0.00
Earnings per share from discontinued operations in € (diluted)	0.00	0.00	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)	128,061	128,061	128,061	128,061
Weighted average of shares outstanding in thousand (diluted)	128,061	128,061	128,061	128,061

Consolidated income statement and consolidated statement of comprehensive income for the period from 1 January to 30 June 2013

Figures in €'000s	1st half 2013 1. 1. 2013 –30. 6. 2013	1st half 2012 1. 1. 2012 –30. 6. 2012 adjusted	Q2/2013 1. 4. 2013 –30. 6. 2013	Q2/2012 1. 4. 2012 –30. 6. 2012 adjusted
Group result	115,590	82,216	55,395	41,581
Change in fair value of held-for-sale financial instruments	-65	-35	-16	3
Taxes on income recognised directly in equity	19	10	5	-1
Other comprehensive income (not recognised in profit or loss)/ to be reclassified to the income statement in the following periods	-46	-25	-11	2
Other comprehensive income (not recognised in profit or loss)	-46	-25	-11	2
Consolidated comprehensive income	115,544	82,191	55,384	41,583
Consolidated comprehensive income attributable to shareholders of freenet AG	115,308	82,149	55,128	41,572
Consolidated comprehensive income attributable to non-controlling interest	236	42	256	11

Consolidated balance sheet

as of 30 June 2013

Assets

Figures in €'000s	30.6.2013	31.3.2013	31.12.2012 adjusted
Non-current assets			
Intangible assets	348,814	354,022	356,533
Goodwill	1,122,112	1,123,525	1,116,680
Property, plant and equipment	32,729	33,319	28,316
Investments in associates	1,300	1,474	1,425
Other investments	1,512	1,521	1,530
Deferred income tax assets	180,604	180,677	175,490
Trade accounts receivable	71,579	71,371	67,822
Other receivables and other assets	8,878	9,641	8,192
	1,767,528	1,775,550	1,755,988
Current assets			
Inventories	63,606	71,666	56,586
Current income tax assets	2,555	2,515	2,470
Trade accounts receivable	389,422	432,310	424,537
Other receivables and other assets	39,526	32,867	27,140
Cash and cash equivalents	127,076	203,820	204,621
Assets of disposal group classified as held-for-sale	0	0	7,350
	622,185	743,178	722,704
	2,389,713	2,518,728	2,478,692

Shareholders' equity and liabilities

Figures in €'000s	30. 6. 2013	31. 3. 2013	31. 12. 2012 adjusted
Shareholders' equity			
Share capital	128,061	128,061	128,061
Capital reserve	737,536	737,536	737,536
Cumulative other comprehensive income	-13,343	-13,332	-13,297
Retained earnings	260,187	385,098	324,883
Capital and reserves attributable to shareholders of freenet AG	1,112,441	1,237,363	1,177,183
Capital and reserves attributable to non-controlling interest	3,234	1,855	370
	1,115,675	1,239,218	1,177,553
Non-current liabilities			
Trade accounts payable	272	272	272
Other payables	7,650	5,264	49
Borrowings	517,117	516,831	556,105
Pension provisions	45,300	44,966	44,986
Other provisions	8,670	10,090	9,872
	579,009	577,423	611,284
Current liabilities			
Trade accounts payable	375,409	410,116	412,652
Other payables	116,436	129,602	117,714
Current income tax liabilities	35,379	32,735	29,257
Borrowings	147,135	108,432	100,449
Other provisions	20,670	21,202	22,458
Liabilities of disposal group classified as held-for-sale	0	0	7,325
	695,029	702,087	689,855
	2,389,713	2,518,728	2,478,692

Schedule of changes in equity

for the period from 1 January to 30 June 2013

Figures in €'000s adjusted	Cumulative other comprehensive income				Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
	Share capital	Capital reserve	Revaluation reserve	Actuarial val- uation reserve in accordance with IAS 19				
As of 1. 1. 2012	128,061	737,536	19	-4,573	305,398	1,166,441	279	1,166,720
Dividend payment	0	0	0	0	-153,613	-153,613	0	-153,613
Group result	0	0	0	0	82,174	82,174	42	82,216
Change in fair value of held-for- sale financial instruments	0	0	-25	0	0	-25	0	-25
Sub-total: Consolidated comprehensive income	0	0	-25	0	82,174	82,149	42	82,191
As of 30. 6. 2012	128,061	737,536	-6	-4,573	233,959	1,094,977	321	1,095,298

Figures in €'000s	Cumulative other comprehensive income				Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
	Share capital	Capital reserve	Revaluation reserve	Actuarial val- uation reserve in accordance with IAS 19				
As of 1. 1. 2013	128,061	737,536	-13	-13,284	324,883	1,177,183	370	1,177,553
Initial consolidation of subsidiaries	0	0	0	0	0	0	2,994	2,994
Dividend payment	0	0	0	0	-172,815	-172,815	0	-172,815
Acquisition of additional shares in subsidiaries	0	0	0	0	366	366	-366	0
Recognition of stock option liabilities connected to company acquisitions	0	0	0	0	-7,601	-7,601	0	-7,601
Group result	0	0	0	0	115,354	115,354	236	115,590
Change in fair value of held-for- sale financial instruments	0	0	-46	0	0	-46	0	-46
Sub-total: Consolidated comprehensive income	0	0	-46	0	115,354	115,308	236	115,544
As of 30. 6. 2013	128,061	737,536	-59	-13,284	260,187	1,112,441	3,234	1,115,675

Consolidated statement of cash flows

for the period from 1 January to 30 June 2013

Figures in €'000s	1. 1. 2013 –30. 6. 2013	1. 1. 2012 –30. 6. 2012
Result from continued and discontinued operations before interest and taxes (EBIT)	142,731	96,656
Adjustments		
Depreciation and impairment on items of fixed assets	27,708	74,076
Share of results of associates	-125	-709
Income from the sale of subsidiaries	-4,009	0
Loss on disposals of fixed assets	28	209
Increase in net working capital not attributed to investing or financing activities	-24,396	-28,722
Other non-cash components	-151	-34
Income taxes paid	-8,993	-10,974
Cash flow from operating activities	132,793	130,502
Investments in property, plant and equipment and intangible assets	-6,090	-7,188
Proceeds from the disposal of property, plant and equipment and intangible assets	48	672
Purchase of subsidiaries	-12,111	0
Proceeds from the sale of subsidiaries	500	0
Outflow of funds from deconsolidation	-2,734	0
Return of capital from associates	0	1,156
Interest received	530	1,173
Cash flow from investing activities	-19,857	-4,187
Dividend payment	-172,815	-153,613
Payments for the acquisition of minority interests	-5,000	0
Cash repayments of borrowings	-44,865	-40,127
Interest paid	-30,533	-31,826
Cash flow from financing activities	-253,213	-225,566
Cash-effective change in cash and cash equivalents	-140,277	-99,251
Cash and cash equivalents 1. 1.	207,956	85,673
Cash and cash equivalents 30. 6.	67,679	-13,578
Composition of cash and cash equivalents Figures in €'000s	30. 6. 2013	30. 6. 2012
Cash and cash equivalents of continued operations	127,679	86,422
Non-cash outflow of funds from changes from proportionate consolidation to at-equity accounting	-603	0
Liabilities as part of current finance scheduling due to banks	-60,000	-100,000
	67,076	-13,578
Composition of free cash flow Figures in €'000s	30. 6. 2013	30. 6. 2012
Cash flow from operating activities	132,793	130,502
Investments in property, plant and equipment and intangible assets	-6,090	-7,188
Proceeds from the disposal of property, plant and equipment and intangible assets	48	672
Free cash flow (FCF)	126,751	123,986

Selected explanatory notes in accordance with IAS 34

Major accounting, valuation and consolidation principles

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

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

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

For the process of preparing the interim report as of 30 June 2013 and the process of establishing the comparison figures for the previous year, the accounting policies which were used were the same as those used in the consolidated financial statements 2012, with the exception of the new standards which are the subject of mandatory adoption and also with the exception of the modified accounting method described under item 5 of these notes with regard to agreements for the sale of mobile devices. A detailed description of the accounting and valuation policies of the Group is set out in the notes to the consolidated financial statements 2012 of freenet AG.

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

version of IAS 19 has abolished this option, which means that such fluctuations can now only be directly and fully recognised in other comprehensive income. In addition, past service cost now has to be recognised directly in profit or loss in the year under review in which such cost was incurred. In addition, in the past, the expected income generated by plan assets was calculated at the beginning of the accounting period on the basis of the expectations of management regarding the development in the value of the investment portfolio. Following the application of the amended IAS 19, it is now only possible for a typified return on plan assets based on the discount rate of the pension obligations at the beginning of the period to be recognised. In addition, the income generated by the plan assets and the costs arising from the pension obligation now have to be shown as a net amount on the basis of the typical return.

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

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

are no longer disclosed in the corresponding items in the consolidated financial statements. Instead, the interest of the Group in this joint venture as of 30 June 2013 is recognised in an amount of 1,300 thousand euros in the balance sheet item "Companies included using the equity method". In accordance with the principle of retrospective application, a comparison figure of 1,425 thousand euros is shown as of 31 December 2012. The comparison previous year figures in the income statement have not been retrospectively adjusted for the first half of 2012, because they are not of a material nature. In the first half of 2012, FunDorado GmbH contributed 2.3 million euros to the consolidated revenue and 0.3 million euros to consolidated net income.

5. The Group used an amended accounting method for agreements regarding the sale of mobile devices for the first time in the interim report for the third quarter of 2012; this was applied retrospectively with effect from 1 January 2012. With regard to the change in this accounting method, please also refer to our disclosures in the annual report 2012 of freenet AG (item 2 Accounting policies, in the notes to the consolidated financial statements). This amended accounting method had not been applied in the published condensed consolidated interim financial statements for the period ending 30 June 2012. Accordingly, with regard to the income statement in these condensed consolidated interim financial statements, the corresponding figures for the first half of the previous year 2012 had to be adjusted retrospectively. As a result of retrospective adjustment, revenue and cost of materials in the first half of 2012 have each been increased by 26,667 thousand euros compared with the figures disclosed in the published consolidated interim financial statements for the period ending 30 June 2012. This is merely a change in disclosure within gross profit—the change in method accordingly has not had any impact on the net assets and financial situation or the results of the Group.

Significant events and transactions

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

A figure of 12,250 thousand euros was agreed as the cash purchase price. The cash purchase price is subject to adjustments, depending on the net current assets as well as the cash and financial liabilities of the acquired company. The purchase price adjustments which are relevant in this respect have now been defined in a binding manner, resulting in a final cash purchase price after purchase price adjustments of 10,078 thousand euros. Of this figure, 10,000 thousand euros were reported as an outflow in the Group in the first quarter of 2013; the remaining figure of 78 thousand euros was paid in the second quarter of 2013.

In addition, there may also be earn-outs in a range of between 0 euros and 6.25 million euros; the exact amount of these earn-outs is based on EBITDA calculated under commercial law for the calendar year 2013 of GRAVIS and, under certain circumstances, may also depend on the commercial law EBITDA of the acquired company reported for the calendar year 2012. As of 30 June 2013, the Group has recognised a purchase price liability of 5,294 thousand euros for the earn-out. Various scenarios of the entire range were measured with their probabilities of occurrence for this purpose.

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

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

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

Assets

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

Liabilities

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

The anticipated total purchase price (final cash purchase price of 10,078 thousand euros plus the anticipated earn-outs of 5,164 thousand euros) represent the difference between the assets and liabilities of 15,242 thousand euros. The purchase price allocation has resulted in goodwill of 3,594 thousand euros, which is mainly attributable to the competence of GRAVIS to continue to acquire new customers in future, the distribution organisation of GRAVIS and also the workforce of GRAVIS which cannot be recognised separately in the balance sheet. The goodwill was attributed to the cash-generating unit "Mobile Communications". It is not allowable for tax

purposes. The acquired intangible assets mainly comprise customer relations of 4,334 thousand euros as well as trademark rights of 2,262 thousand euros which were recognised as a result of the purchase price allocation. As a result of subsequent depreciation of the intangible assets recognised in the course of purchase price allocation, depreciation of 474 thousand euros has to be recognised in each quarter of the following financial years. No contingent liabilities have been recognised in the purchase price allocation. The fair value of the acquired receivables is stated as 5,270 thousand euros; this figure had been received almost in full as of 30 June 2013. Impairments of 73 thousand euros had been created in relation to gross receivables of 3,864 thousand euros as of the date of acquisition. The Company has not identified any transactions which have to be disclosed separately from the acquisition of the assets and transfer of liabilities.

The aim of the acquisition of GRAVIS is to extend our range of high-quality Apple Lifestyle products in connection with mobile communications and mobile internet; this is consistent with our Group's corporate strategy of becoming a genuine digital lifestyle provider. At the same time, we are planning to gradually introduce our existing digital lifestyle products in the field of energy, mobile communications services and service products into the GRAVIS distribution system. The planned expansion of mobile communications business in the GRAVIS branches is intended to be achieved by a direct transfer of know how of mobilcom-debitel Shop GmbH.

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

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

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

A figure of 4.0 million euros was agreed as the cash purchase price. The cash purchase price is subject to adjustments, depending on the net current assets as well as the cash and financial liabilities of the acquired company. These purchase price adjustments will be finalised after 30 June 2013, but before these condensed consolidated interim financial statements are prepared; this results in a final cash purchase price after purchase price adjustments of 5,065 thousand euros. Of this figure, 4,000 thousand euros were reported as an outflow in the Group in the first quarter of 2013; the remaining figure of 1,065 thousand euros were paid after 30 June 2013.

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

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

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

Assets

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

Liabilities

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

The purchase price is the difference between the assets and liabilities of 5,065 thousand euros. Goodwill of 1,948 thousand euros has been calculated using the proportionate holding method. The goodwill is essentially attributable to future earnings opportunities in connection with strengthening our sales capability particularly with regard to online activities. The goodwill was attributed to the cash-generating unit "Mobile Communications"; it is not allowable for tax purposes. The acquired intangible assets mainly comprise customer relations of 3,193 thousand euros as well as trademark rights of 1,105 thousand euros which were recognised as a result of the purchase price allocation. As a result of subsequent depreciation of the intangible assets recognised in the course of purchase price allocation, depreciation of 288 thousand euros has to be recognised in each quarter of the following financial years. No contingent liabilities have been recognised in the purchase price allocation. The fair value of the acquired receivables amounts to 9,894 thousand euros. Impairments of 15 thousand euros had been created in relation to trade accounts receivable with a gross value of 9,070 thousand euros as of the date of the acquisition.

In segment reporting of the freenet AG Group, MOTION TM is allocated to the segment "Mobile Communications". In connection with the acquisition of MOTION TM, various options have been agreed with regard to a future acquisition

of the remaining 49 percent of shares. Among other things, the minority shareholders own options for serving to the freenet Group the remaining shares which exist at the time of exercising. A long-term other liability of 7,601 thousand euros was recognised for these options as of 30 June 2013. This liability has been recognised in equity against the consolidated cumulative profit.

8. With effect from 30 April 2013, the Group acquired the remaining 49 percent of shares in MFE Energie GmbH by exercising an existing option for serving the shares, for a purchase price of 5,000 thousand euros. This figure was paid in the second quarter of 2013. This acquisition of remaining shares had an impact on the current consolidated balance sheet as of 30 June 2013 by way of reclassification within equity—the consolidated result has thus not been affected.
9. The cash flow statement for the first half of 2013 shows outflows of 12,111 thousand euros for the acquisition of subsidiaries under cash flow from investing activities. In addition to the cash purchase prices totalling 14,078 thousand euros which were paid for the acquisitions of GRAVIS as well as MOTION TM as of 30 June 2013, the Group received cash and cash equivalents totalling 1,967 thousand euros in the cash flow statement as a result of the initial consolidation of the acquired companies (cash and cash equivalents less liabilities due to banks within the framework of short-term finance scheduling). The figure of 5,000 thousand euros paid in the second quarter of 2013 for the acquisition of the remaining shares in MFE Energie GmbH reduced the cash flow from financing activities.
10. After the times of their initial consolidation, the two acquired companies GRAVIS and MOTION TM contributed a total of 98.7 million euros to Group revenue during the first half of 2013. If both transactions had taken place as of 1 January 2013, the contribution made by these two companies to the consolidated revenue in the first half of 2013 would have been 139.5 million euros. The contribution to the result of the Group was of minor significance. This is also applicable if both transactions had taken place as of 1 January 2013.
11. The starting point for the cash flow statement is the result of the continued and discontinued operations before interest and taxes (EBIT). The way in which this result is derived from the consolidated income statement is shown in the following:

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

Figures in €'000s	1. 1. 2013	1. 1. 2012
	–30. 6. 2013	–30. 6. 2012
Result before taxes on income of continued operations	122,605	76,243
Interest and similar expenses of continued operations	20,913	21,896
Interest and similar income of continued operations	–787	–1,483
Result of continued and discontinued operations before interest and taxes (EBIT)	142,731	96,656

12. The depreciation and impairments have declined by 46.4 million euros compared with the first half of 2012, namely to 27.7 million euros. This is almost exclusively attributable to lower depreciation recognised in relation to intangible assets resulting from the purchase price allocation on the occasion of the debitel acquisition, after the depreciation for the main assets expired as of 31 December 2012 as a result of the expiry of the scheduled useful lives. The lower depreciation also resulted in lower deferred tax assets, and was thus one of the major factors behind the decline of 13.0 million euros in the result of taxes on income.
13. In the first half of 2013, profits of 4.0 million euros from the deconsolidation of freeXmedia GmbH, which was sold with effect from 1 January 2013, were shown within the other operating income in the first half of 2013. With regard to the disclosures in the notes relating to the sale of freeXmedia GmbH, please refer to our annual report 2012, notes item 25. In the first half of the previous year, income of the same order of magnitude attributable to other periods was generated as a result of settlements which had been agreed.

Other disclosures

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

Financial instruments according to classes as of 30 June 2013

Figures in €'000s	Valuation category according to IAS 39	Carrying amount 30.6.2013	Approach				Fair value 30.6.2013
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	127,076	127,076				127,076
Total cash and cash equivalents		127,076	127,076				127,076
Other financial assets (measured at cost of purchase)	HFS	503		503			-
Other financial assets (measured at fair value)	HFS	1,009				1,009	1,009
Total other financial assets		1,512					
Trade accounts receivable	LR	461,001	461,001				461,014
Other non-derivative financial assets	LR	32,754	32,754				32,754
Held-for-sale other assets	HFS	2,900				2,900	2,900
Derivative financial assets	FIPL	0			0		0
Non-financial assets		12,750					
Sum of receivables and other assets		48,404					

Figures in €'000s	Valuation category according to IAS 39	Carrying amount 30. 6. 2013	Approach				Fair value 30. 6. 2013
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Liabilities							
Trade accounts payable	FLAC	375,681	375,681				375,681
Financial debt (liabilities due to banks and shareholders)	FLAC	663,727	663,727				704,974
Derivative financial liabilities	FIPL	0			0		0
Sum of financial liabilities within the scope of IFRS 7		663,727					704,974
Other non-derivative financial liabilities	FLAC	48,629	48,629				48,629
Non-financial liabilities		75,457					
Sum of liabilities and deferrals		124,086					
Financial instruments not covered by the scope of IFRS 7							
Present values of liabilities from finance lease according to IAS 17		525					525
Pension provisions according to IAS 19		45,300					45,300
Provisions for employee participation programmes according to IFRS 2		3,155					3,155
Sum of financial instruments not covered by the scope of IFRS 7		48,980					
Thereof aggregated by valuation categories according to IAS 39:							
Held-for-sale financial instruments	HFS	4,412		503		3,909	3,909
Loans and receivables	LR	620,831	620,831				620,844
Financial instruments measured at fair value through profit or loss	FIPL	0			0		0
Financial liabilities measured at amortised cost of purchase	FLAC	-1,088,037	-1,088,037				-1,129,284

Fair value hierarchy as of 30 June 2013

Figures in €'000s				
	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	2,900	2,900	0	0
Other financial assets	1,009	1,009	0	0
Derivative financial receivables	0	0	0	0
Total	3,909	3,909	0	0

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

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

15. Compared with the consolidated financial statements for the period ending 31 December 2012, the consolidation group was unchanged with the exception of the above-mentioned company acquisitions, with the exception of the deconsolidations of freeXmedia GmbH and a minor group company without any operations and also with due consideration being given to the amended consolidation method for FunDorado GmbH, as explained in item 4 of these notes.
16. As was the case in the consolidated financial statements 2012, an average tax rate of 29.3 percent (previous year comparison period: 29.4 percent) was used as the basis for calculating the current and deferred taxes on income.
17. During the first half of 2013, the net financial debt increased by 85.9 million euros, from 451.3 million euros to 537.2 million euros. This is mainly due to the dividend of 172.8 million euros which was paid out in May 2013, whereas the free cash flow of 126.8 million euros generated in the first half of 2013 had a positive impact on financial debt.
18. On 6 August 2013 freenet AG renewed the existing cooperation agreement governing the exclusive sales partnership between its wholly owned subsidiary mobilcom-debitel GmbH and Media-Saturn Deutschland GmbH by a minimum of another three years. Under the sales cooperation, mobilcom-debitel GmbH sells own tariffs and the original tariffs of the mobile network operators T-Mobile, Vodafone and E-Plus as well as its own mobile communications products and services in all Media Markt and Saturn stores across Germany. The products of Telefonica Germany AG (formerly Telefonica O₂ Germany) continue to remain exempt from this cooperation. The last renewal of the cooperation until end of 2013 was agreed by freenet AG and Media-Saturn Deutschland GmbH in January 2011.

19. Segment reporting

Segment report 1 January to 30 June 2013

Figures in €'000s	Mobile Communi- cations	Other	Elimination of intersegment revenue and costs	Total
Third-party revenue	1,565,752	19,133	0	1,584,885
Intersegment revenue	3,360	5,176	-8,536	0
Revenue, total	1,569,112	24,309	-8,536	1,584,885
Cost of materials, third party	-1,227,120	-7,922	0	-1,235,042
Intersegment cost of materials	-2,726	-3,302	6,028	0
Cost of materials, total	-1,229,846	-11,224	6,028	-1,235,042
Segment gross profit	339,266	13,085	-2,508	349,843
Other operating income	27,074	7,339	-1,873	32,540
Other own work capitalised	2,594	269	0	2,863
Personnel expenses	-70,103	-11,489	0	-81,592
Other operating expenses	-130,139	-7,582	4,381	-133,340
Share of result in associates	0	125	0	125
Segment EBITDA	168,692	1,747	0	170,439
Depreciation and impairment write-downs	-25,756	-1,952	0	-27,708
Segment EBIT	142,936	-205	0	142,731
Group financial result				-20,126
Taxes on income				-7,015
Group result from continued operations				115,590
Group result from discontinued operations				0
Group result				115,590
Group result attributable to shareholders of freenet AG				115,354
Group result attributable to non-controlling interest				236
Investments in continued operations	5,260	830		6,090

Segment report 1 January to 30 June 2012 (adjusted)

Figures in €'000s

	Mobile Communi- cations	Other	Elimination of intersegment revenue and costs	Total
Third-party revenue	1,480,228	32,828	0	1,513,056
Intersegment revenue	2,514	3,710	-6,224	0
Revenue, total	1,482,742	36,538	-6,224	1,513,056
Cost of materials, third party	-1,159,663	-15,990	0	-1,175,653
Intersegment cost of materials	-2,221	-2,484	4,705	0
Cost of materials, total	-1,161,884	-18,474	4,705	-1,175,653
Segment gross profit	320,858	18,064	-1,519	337,403
Other operating income	29,334	7,154	-2,261	34,227
Other own work capitalised	2,804	391	0	3,195
Personnel expenses	-64,224	-14,132	0	-78,356
Other operating expenses	-119,439	-10,787	3,780	-126,446
Share of result in associates	0	709	0	709
Segment EBITDA	169,333	1,399	0	170,732
Depreciation and impairment write-downs	-71,876	-2,200	0	-74,076
Segment-EBIT	97,457	-801	0	96,656
Group financial result				-20,413
Taxes on income				5,973
Group result from continued operations				82,216
Group result from discontinued operations				0
Group result				82,216
Group result attributable to shareholders of freenet AG				82,174
Group result attributable to non-controlling interest				42
Investments in continued operations	5,503	1,685		7,188

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.

Büdelndorf, 6 August 2013

freenet AG
The Executive Board



Christoph Vilanek

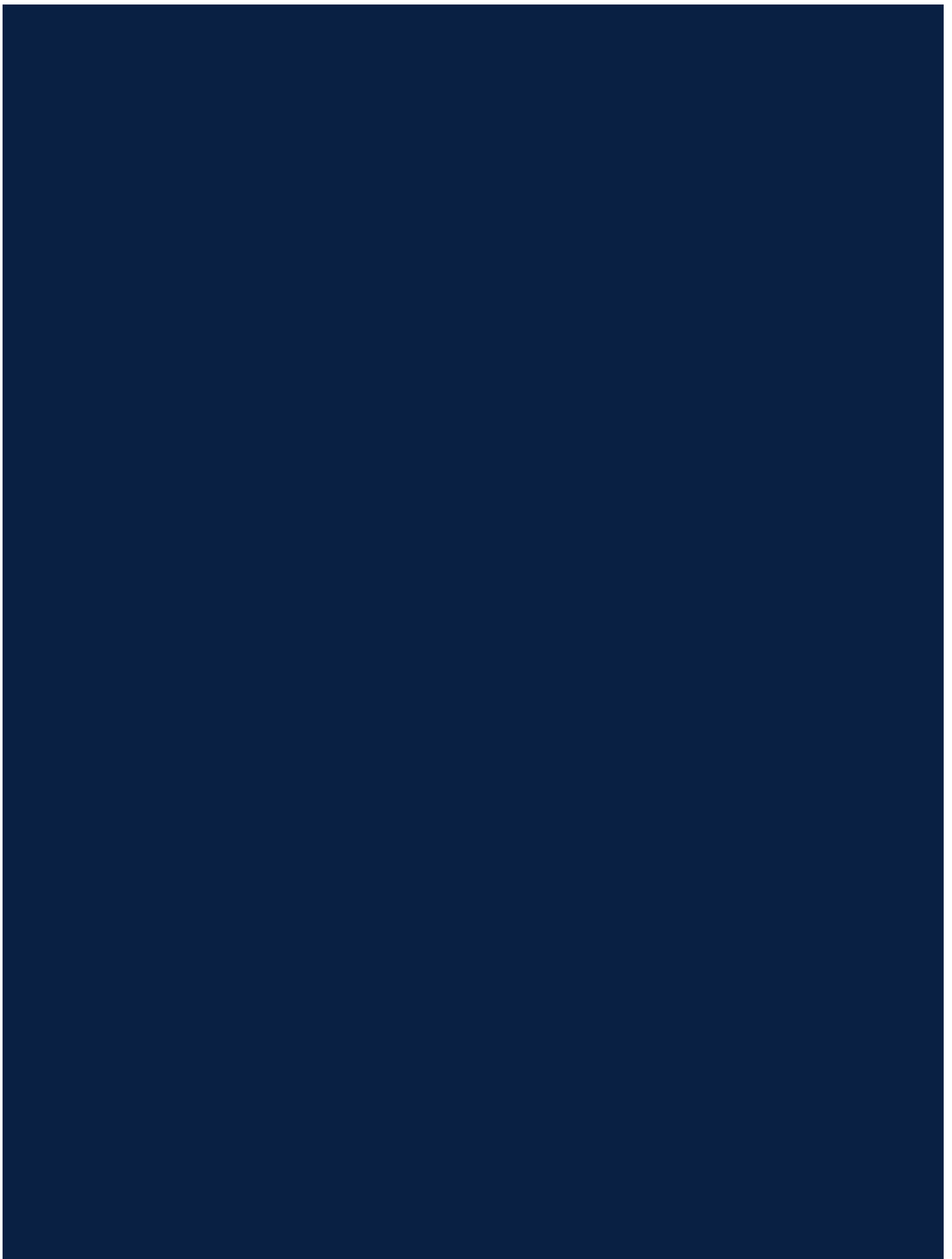


Joachim Preisig



Stephan Esch

Further information



Financial calendar

7 August 2013

Publication of interim report II/2013

7 November 2013¹

Publication of interim report III/2013

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 Annual Report is a translation of the German version of the Annual Report. The German version of this Annual 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 this code.

freenet **GROUP**

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