freenet GROUP

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Annual Report 2010

Consolidated financial statements of freenet AG

freenet AG • Hollerstraße 126 • 24782 Büdelsdorf

Key figures

Overview Group

Result in € million	2010	2009 adjusted[1]	Q4/2010	Q3/2010 adjusted[1]	Q4/2009 adjusted[1]
Third-party revenue	3,339.5	3,601.8	857.7	843.4	931.4
Gross profit	720.3	762.6	187.8	174.7	205.8
EBITDA	334.9	327.0	88.0	86.2	100.9
Recurring EBITDA	366.5	392.9	96.0	96.2	121.2
EBIT	145.5	124.6	40.7	40.1	48.7
EBT	102.6	36.7	30.9	31.1	28.1
Group result from continued operations	118.8	17.7	43.2	29.7	12.5
Group result from discontinued operations	−6.3	238.8	−3.7	−1.1	232.0
Group result	112.5	256.5	39.5	28.6	244.5
Earnings per share (€)	0.88	2.00	0.31	0.22	1.91

Balance sheet	2010	2009	Q4/2010	Q3/2010	Q4/2009
Balance sheet total in € million	2,542.4	3,033.5	2,542.4	2,455.8	3,033.5
Shareholders' equity in € million	1,134.5	1,047.8	1,134.5	1,095.1	1,047.8
Equity ratio in %	44.6	34.5	44.6	44.6	34.5

Finances and investments in € million	2010	2009 adjusted[1]	Q4/2010	Q3/2010 adjusted[1]	Q4/2009 adjusted[1]
Free cash flow[2,3]	211.7	232.4	63.3	55.9	23.8
Depreciation and amortisation	189.4	202.4	47.3	46.1	52.3
Investments[3]	26.6	69.9	8.0	5.9	18.4
Net cash[3]	−623.1	−789.8	−623.1	−677.8	−789.8

Share	2010	2009	Q4/2010	Q3/2010	Q4/2009
Closing price XETRA (€)	7.90	9.39	7.90	8.63	9.39
Number of ordinary shares (in thousand)	128,061	128,061	128,061	128,061	128,061
Market capitalisation (in €'000s)	1,011,682	1,202,493	1,011,682	1,105,039	1,202,493

Employees	2010	2009	Q4/2010	Q3/2010	Q4/2009
Employess at the end of period	3,972	4,394	3,972	4,049	4,394

1 The comparison figures have been adjusted retrospectively due to IFRS 5 (presentation of Next ID as a discontinued operation).
2 Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.
3 This information relates to the overall Group (including discontinued operations).

Overview Mobile Communications segment

Customer development in million	2010	2009	Q4/2010	Q3/2010	Q4/2009
Mobile Communications customers	15.65	17.58	15.65	15.84	17.58
Thereof contract customers (excluding no-frills customers)	6.11	6.98	6.11	6.37	6.98
Thereof prepaid customers	7.58	9.15	7.58	7.56	9.15
Thereof no-frills customers[1]	1.97	1.45	1.97	1.91	1.45
Gross new customers	4.25	4.28	1.34	1.00	1.27
Net change	−1.93	−1.54	−0.19	−0.69	−0.04

Result in € million	2010	2009	Q4/2010	Q3/2010	Q4/2009
Revenue	3,265.6	3,508.8	839.8	827.2	907.2
Gross profit	674.4	708.2	176.6	164.5	191.6
EBITDA	328.7	322.6	86.1	87.0	97.9
Non recurring items	−26.7	−55.1	−5.2	−8.7	−15.1
Recurring EBITDA	355.3	377.7	91.3	95.8	113.0
EBIT	151.0	136.4	42.0	43.8	50.2
Non recurring items	−26.7	−55.1	−5.2	−8.7	−15.1
Recurring EBIT	177.6	191.5	47.2	52.5	65.3

Monthly average revenue per user (ARPU) in €	2010	2009	Q4/2010	Q3/2010	Q4/2009
Contract customer (excluding no-frills)	24.0	24.2	24.3	24.5	24.1
Prepaid customer	3.2	3.0	3.3	3.4	3.1
No-frills-customer[1]	4.9	5.4	4.6	5.5	5.3

1 Starting in Q1/2010 including no-frills-prepaid.

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Annual Report 2010

Consolidated financial statements of freenet AG

To our shareholders

So much to communicate

mobilcom-debitel's contract customers spent over 11,000 years on the phone in 2010! In addition, our customers sent over 500 million characters in SMS messages—containing words of love, appointments, confirmations and wishes.

The Product Management department supports our customers' ever increasing need to communicate with a number of innovative, low-cost tariffs and hardware offers.

Kerstin Niemann, Product Manager Consumer Tariffs:

"My motto is: a smile adds beauty to any conversation! Our new smartphones with FaceTime video telephony make it possible. My colleagues and I combine the latest smartphone technology with the right tariffs and affordable options to make sure our offers are always up-to-date."

To our shareholders

Letter to shareholders

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

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

Following the debitel acquisition, freenet AG completed a strategic realignment in 2009 and subsequently positioned itself among its competitors as the biggest network-independent telecommunications provider in the German market. Today's freenet Group offers its customers a comprehensive portfolio of services and products, primarily in the field of mobile voice and data services.

Among the targets we had set for 2010 were:

- To continually improve internal processes and services with a view to "operational excellence", and related to this
- To secure long-term profitability and strong cash flow for freenet AG.

As a result, we now look back on a positive financial year 2010. For instance we achieved a recurring Group EBITDA—adjusted for one-off items—of 366.5 million euros and free cash flow came to 211.7 million euros.

The road to achieving this was marked by many small and large successes in the consistent implementation of our goals and by the hard work of all our employees and managers. All of them deserve our thanks for their tireless efforts, including those who left during the course of 2010. Our thanks also go to all our loyal customers and shareholders.

As in the previous year, we systematically focused on valuable contract relationships in new customer acquisition and existing customer management. As expected, this has reduced the customer base to currently 15.65 million. We also expanded our range of products and tariffs, especially in mobile internet as well as in the traditional mobile communications, to allow us to participate in the sustained positive trends in the fields

of data and smartphones. As a result, data revenue share in postpaid mobile communications increased during the year, to 11.4 percent at the end of December 2010. Monthly average revenue per contract customer (ARPU) stabilised at 24 euros across the full year.

The introduction of the Apple iPhone 3G and 3GS, and later of the Apple iPhone 4, was an important milestone. From the first half of the year freenet AG was the distributor of these phones alongside Deutsche Telekom, offering them in its own shops, in all Media-Markt and Saturn branches and at select retailers. Since the fourth quarter, freenet AG has also marketed the Apple iPhone in cooperation with the network operators Vodafone and O_2. Overall, the smartphone share rose to 70 percent in 2010, and we have gained over half a million mobile internet customers.

In the second half of 2010 freenet AG established an innovative tariff concept with its new "free" tariff. It takes advantage of freenet AG's special positioning as a network-independent service provider, thereby giving customers maximum independence in their decision-making. Using a modular principle, customers can compile a customised mobile communications tariff according to their individual needs, choosing between D-network, O_2 and E-Plus each month.

This tariff campaign was accompanied by a complex brand-building and -selling campaign which included about 4,800 TV commercials and advertisements in German media as well as a high-attention PR tour of German cities with a large Statue of Liberty. Independence in consultation and choice of tariff is a key component of our brand core, and is excellently represented by "Liberty".

In the discount sector, freenet AG regularly occupies top positions in the respective categories of infrequent, normal and frequent callers. Over the course of 2010, this competitive positioning was reinforced through new offers related to mobile voice and data services. As a result, we significantly increased our customer base in this segment by more than half a million.

This package of new initiatives and products puts us well on our way to creating the basis for sustained and stable results for freenet AG.

In the past financial year we generated revenue of 3.34 billion euros, compared with 3.60 billion euros in 2009. The Group result from continued operations increased from 17.7 million euros in 2009 to a total of 118.8 million euros—the Group result including discontinued operations amounted to 112.5 million euros.

The Group's net debt was further reduced by 166.7 million euros year-on-year, to 623.1 million euros.

As a result, we—the Executive Board and Supervisory Board—will propose to the upcoming Annual General Meeting the payment of a dividend in the amount of 80 cents per share. This represents a payout ratio of 48 percent of free cash flow.

All these positive developments and successes have encouraged us in our strategic realignment and the related measures we systematically implemented in the past few months and quarters. At the same time they provide the direction and key objectives for the current financial year:

- By expanding our range of products and tariffs related to mobile voice and data services, we want to seize opportunities with the aim of further stabilising ARPU, especially in the contract customer segment.
- The final integration steps are now planned for our very complex IT migration project – one of the most elaborate in the German private sector with about 600 experts working intensively on it—which will unify the two remaining IT landscapes into a single system.
- In the next few months we will extend our Retail+ programme, which has enabled us to achieve double-digit performance improvements in our shops, to our partners in independent specialist retail.

In view of these measures and the stabilising of our customer quality, we expect a positive overall development for the company in the months and quarters ahead. Accordingly, we expect recurring Group EBITDA of 325 million euros and free cash flow of over 200 million euros for the financial year 2011. This takes into account a continued qualitative adjustment of the postpaid customer base by less than 500,000, and a positive development of the no-frills customer base. For 2012, from today's perspective we are expecting a recurring Group EBITDA of over 300 million euros and a sustainably strong free cash flow of over 200 million euros.

To allow our shareholders to participate appropriately in the positive development of freenet AG, the adopted financial policy stipulates that between 40 and 60 percent of future free cash flow will be distributed as dividends. For the financial year 2011, we aim to propose to the Supervisory Board a dividend payment in the amount of 80 cents per share.

In order to meet these objectives and secure the long-term success of your company and ours, we—management and employees of freenet AG—will systematically continue our committed work during the current financial year.

Christoph Vilanek

Joachim Preisig

Stephan Esch

Supervisory Board report

Thorsten Kraemer,
Chairman of the Supervisory Board

In the following, the Supervisory Board reports on its activities during the financial year 2010.

Supervision and advice in an ongoing dialogue with the Executive Board

In the financial year 2010 too, the Supervisory Board diligently performed the supervisory and advisory functions incumbent upon it by law and the articles of association. Many substantive issues were discussed and decided upon in the various Supervisory Board meetings. The consultations with the Executive Board focused especially on the examination of strategic options for the Group, the continuation of the integration of the mobile communications business and IT system landscapes, and the distribution of responsibilities within the Executive Board.

The Supervisory Board regularly advised the Executive Board in its decision-making regarding the management of the company and constantly monitored and supervised its management of the company. The Executive Board involved the Supervisory Board in all fundamental decisions on the management of the company at an early stage and regularly and comprehensively reported on the company's business development, corporate planning, strategic development and current situation both verbally and in writing. To this end, the Executive Board provided reports and documents to the Supervisory Board, both on request and proactively, and answered questions at Supervisory Board plenary and committee meetings. In particular, the Supervisory Board discussed in detail with the Executive Board the deviations of the business development from what has been planned and targeted, and reviewed these on the basis of the documentation provided. Furthermore, the Executive Board continued the company's strategic alignment, with regard to the focus on the mobile communications business and the identification of possible new business segments, in close consultation with the Supervisory Board. All business transactions of material significance to the company were discussed in full by the Supervisory Board based on the Executive Board's reports. Based likewise on the Executive Board's reports and after review and deliberation, the Supervisory Board passed formal resolutions where necessary. Where current business transactions required consideration, meetings were convened at short notice. The Executive Board also kept the Supervisory Board members informed outside of formal meetings of the latest business developments. Furthermore, the Chairman of the Supervisory Board discussed the company's prospects and future strategic alignment in meetings with the Executive Board and was kept informed of current issues and events.

The proper, effective and efficient running of the company by the Executive Board gave no cause for complaint.

In the financial year 2010, the Supervisory Board held four actual meetings and four conference calls and additionally took decisions by written procedure.

Attendance at the Supervisory Board meetings was again very high and averaged more than 94 percent during the year under review: only one member was absent from two meetings, and two members were absent at another meeting. At the other five meetings the Supervisory Board met in full. Accordingly, no Supervisory Board member attended fewer than half of the meetings. Each of the committees met in full in 2010.

Supervisory Board meetings

The meetings regularly presented and discussed the current business and financial situation and compliance with loan terms from financing agreements with the lending banks, and reported on the progress of integration of the IT system landscapes. The meetings also dealt with Executive Board matters. In particular, the Supervisory Board members spent several meetings discussing the development of a compensation system for the Executive Board that would adequately take into account long-term incentives.

The meeting on March 15, 2010 dealt with the annual and consolidated financial statements as of December 31, 2009. The results of the annual audit were discussed together with the external auditors from the auditing firm PricewaterhouseCoopers. Based on its own examination, the Supervisory Board raised no objections to the audit results from the external auditors and followed the recommendation of the audit committee by approving the annual and consolidated financial statements, which were thereby formally adopted.

In a resolution by circulation procedure, the Supervisory Board modified the distribution of responsibilities of the Executive Board members on April 12, 2010.

In a conference call on April 19, 2010 the Supervisory Board discussed a model for outsourcing narrowband network services and the associated restructuring of the landline business. In addition, the appointment of Mr. Stephan Esch as a member of the Executive Board was extended to December 31, 2014.

In a session held as a conference call on May 17, 2010, Supervisory Board members discussed, with the assistance of external legal advisers, the agenda for the Annual General Meeting 2010 and the Supervisory Board resolutions to be proposed to the Annual General Meeting.

The Supervisory Board used the meeting of July 5, 2010 to discuss with the Executive Board options for operational improvements and the expansion of the business model.

In a conference call session on August 27, 2010, the Supervisory Board appointed Mr. Joachim Preisig as Chief Financial Officer with effect from October 1, 2010 and reallocated responsibilities within the Executive Board accordingly. Further to this, the termination agreement with Mr. Axel Krieger was decided on. Another major subject of this meeting was the introduction of a voluntary self-restraint agreement by the Supervisory Board. From the third quarter of 2010, the Supervisory Board will waive attendance fees for Supervisory Board and committee meetings held as conference calls, and for phone participation in actual meetings.

The meeting of September 20, 2010 was used to deal with medium-term developments in the mobile communications market. The Executive Board also presented its plans for energy marketing at this meeting. Moreover, the Supervisory Board discussed the further development of the compensation system for the Executive Board at this meeting.

In the following meeting on December 6, 2010, the planning for the financial year 2011 was discussed in detail with the Executive Board. Another topic was the discussion about possible alternatives to the current loan-based financing.

In a conference call session on December 22, 2010, the Supervisory Board discussed the sale of Next ID GmbH and passed a resolution with regard to the statement of compliance with the German Corporate Governance Code.

Two plenary meetings were held after the end of the financial year.

At the meeting of January 27, 2011 the Supervisory Board dealt with anonymous allegations against the Chief Executive Officer. It had commissioned the auditing firm KPMG to carry out an independent investigation involving spot checks. The Supervisory Board sees the results of the investigation as proof that the anonymous accusations lack substance.

The meeting of March 24, 2011 focused on the examination of the annual and consolidated financial statements as of December 31, 2010. Details are set out in the section "Audit of the annual and consolidated financial statements for the financial year 2010" of this report.

Work of the Supervisory Board committees

In order to deal efficiently with its duties, the Supervisory Board has established a total of one executive committee and five committees. These committees prepare topics to be addressed in plenary session and resolutions to be passed by the Supervisory Board. To the extent that legislation permits, the Supervisory Board's decision-making authority was also delegated to the committees in some individual cases. The Chairman of the Supervisory Board chairs all of the committees, except the audit committee. The chairperson of the committee reports to the Supervisory Board plenary meeting on the content of committee meetings.

Executive committee

The executive committee advises on key issues and prepares resolutions of the Supervisory Board. The executive committee can pass resolutions in place of the Supervisory Board where approval is required for measures and transactions to be carried out by the Executive Board in accordance with the Executive Board's rules of procedure, provided that the matter can bear no delay and a resolution of the Supervisory Board cannot be taken in good time. A total of four executive committee meetings were held in 2010.

Topics discussed at the meetings were the support and advice provided to the Executive Board in reviewing strategic options and the preparation of the plenary sessions. The committee also monitored and supervised current business developments.

Members: Thorsten Kraemer (Chair), Maarten Henderson, Franziska Oelte, Matthias Schneider.

Personnel committee

The personnel committee prepares the Supervisory Board's personnel resolutions. It submits proposals for resolution to the Supervisory Board concerning the compensation of the Executive Board, the compensation system and its regular review. The committee passes resolutions in place of the Supervisory Board about personnel matters regarding members of the Executive Board, subject to the mandatory responsibilities of the Supervisory Board.

In 2010, the personnel committee held a total of three actual meetings and one conference call.

Besides the reorganisation of the Executive Board following the departure of Executive Board member Axel Krieger, the discussion also centred on the harmonisation of regulations in Executive Board service contracts. The committee also dealt extensively with options for reforming the long-term components in the compensation system for Executive Board members.

Members: Thorsten Kraemer (Chair), Prof. Dr. Helmut Thoma, Claudia Anderleit, Joachim Halefeld.

Audit committee

The audit committee is concerned with questions of accounting, in particular the monitoring of the accounting process, the effectiveness of the internal control system, risk management system, compliance and internal audit function and prepares the resolutions of the Supervisory Board concerning the annual and consolidated financial statements, as well as the proposal for the appropriation of profit and the agreements with the auditor (in particular the audit assignment, the determination of auditing focal points, the agreement of fees and any additional services).

A total of six actual meetings were held, at each of which individual agenda items were discussed with the participation of representatives from the auditing firm PricewaterhouseCoopers as auditors.

The committee closely monitored and supervised the annual audit for 2009. Major issues here were among others the deconsolidation of the STRATO Group and the DSL business. The committee recommended to the plenary session the approval of the annual and consolidated financial statements. The committee also inspected the company’s status of compliance, risk management system and internal control system and internal audit function. The committee members discussed regularly reoccurring accounting issues with the auditors. Other topics discussed at the meetings included the quarterly reports and the half-year report as well as the review of the consolidated financial statements for the first half-year of 2010. The committee also dealt intensively with the audit 2010, requesting the statement of independence by the auditors pursuant to section 7.2.1 of the German Corporate Governance Code, monitoring the auditors’ independence, and commissioning the auditors to conduct the audit.

Members: Maarten Henderson (Chair), Dr. Christof Aha, Matthias Schneider, Steffen Vodel.

Mediation committee

The mediation committee is established in accordance with section 27 (3) MitbestG with the purpose of achieving the task described in section 31 (3) clause 1 MitbestG. It was not convened during the financial year 2010.

Members: Thorsten Kraemer (Chair), Dr. Arnold Bahlmann, Franziska Oelte, Claudia Anderleit.

Nominations committee

The nominations committee proposes suitable candidates for upcoming elections to the Supervisory Board for recommendation to the Annual General Meeting. It was not convened during the financial year 2010.

Members: Thorsten Kraemer (Chair), Dr. Arnold Bahlmann, Achim Weiss.

IT/Networks committee

The IT/networks committee is charged with the task of supervising and monitoring IT integration projects that are of particular significance for the Group. The committee met three times in 2010.

Issues discussed were the monitoring and supervising of the IT migration projects, their risks and technical details. The committee also dealt with the transfer of the fixed-network-based voice and internet access services to QSC AG, and the resulting network cooperation.

Members: Thorsten Kraemer (Chair), Achim Weiss, Franziska Oelte, Matthias Schneider.

Audit of the annual and consolidated financial statements for the financial year 2010

The annual financial statements for the financial year from January 1, 2010 to December 31, 2010 prepared by the Executive Board in accordance with the rules of the German Commercial Code (HGB) and the freenet AG management report were audited by the auditing firm PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. The audit was commissioned by the Chairman of the Supervisory Board in accordance with the resolution passed by the Annual General Meeting on July 6, 2010. The auditors issued an unqualified auditor's report. The freenet AG consolidated financial statements as of December 31, 2010 were prepared in accordance with section 315a HGB based on the IFRS international accounting standards. The audit of these consolidated financial statements and of the Group management report was also unqualified.

The reports on these matters were sent on time to all Supervisory Board members. They were discussed within the audit committee on February 11, 2011 and March 4, 2011 and in the meeting of the Supervisory Board on March 24, 2011. The auditors took part in the discussion of the annual and consolidated financial statements in the meetings of both the audit committee and the Supervisory Board. They reported on the material findings of the audit and made themselves available to the audit committee and Supervisory Board to answer any supplementary questions or provide further information. Details of the audit of the company's early risk-detection system were also included in the auditors' reports.

After the concluding results of its audit of the annual and the consolidated financial statements, the management report and the Group management report, as well as the Executive Board's proposal for the appropriation of profit, the Supervisory Board raised no objections and agreed with the results of the auditors' audit. In accordance with the recommendation of the audit committee, the Supervisory Board approved the annual and consolidated financial statements at the meeting on March 24, 2011. The annual financial statements are thus formally adopted.

Furthermore, the Supervisory Board has passed—in accordance with the recommendation of the audit committee of February 16, 2011—a resolution concerning the Executive Board's proposal for the appropriation of profit. In its meeting on March 24, 2011, the Supervisory Board examined the proposal for the appropriation of profit and discussed it with the auditors. Following this, the Supervisory Board agreed with and supports the Executive Board's proposal for the appropriation of cumulative profit.

Changes to the Supervisory Board and the Executive Board

Supervisory Board

No changes were made to the composition of the Supervisory Board or its committees in the financial year 2010.

Executive Board

Axel Krieger left the Executive Board as of December 31, 2010.

The Supervisory Board would like to thank Mr. Krieger for his good cooperation, for his constructive support of the company and for his many years of work for the Group.

The Supervisory Board would also like to express its thanks and appreciation to the members of the Executive Board and all employees of the Group for their personal commitment and hard work in a difficult environment.

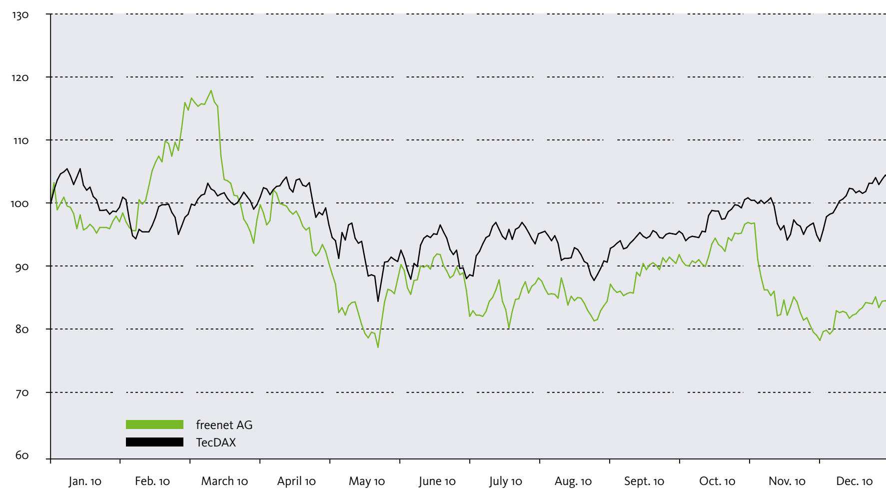
Büdelsdorf, March 24, 2011
The Supervisory Board

Thorsten Kraemer
Chairman

The freenet share

Performance of the freenet share over the past twelve months

(indexed; 100 = XETRA closing price on December 30, 2009)



International financial markets

The debt crisis of several eurozone countries dominated the mood of the international financial markets in 2010. However, due to an overall robust economic recovery, at the same time many companies were able to post surprisingly positive revenues and earnings. Depending on how much a country was affected by the euro crisis and how strong its domestic economy was, share price development in the international financial markets was highly variable.

In an international comparison, German indices benefited in particular from their high proportion of industrial stocks, which were among those that profited the most from the ongoing upswing. The DAX rose by 16.1 percent during the year and hit the 7,000-point mark again for the first time since 2008. The MDAX developed better still, achieving an annual performance of 34.9 percent in 2010. The TecDAX, in which freenet AG is listed, rose by 4.1 percent during the year.

freenet shares

freenet's share price started the financial year 2010 at 9.39 euros on January 4, 2010. After slight declines in the first weeks of the year, the share price recovered from mid-February and rose to 11.07 euros on March 11, 2010. In the following weeks, the price fell, reaching its annual low of 7.25 euros on May 25, 2010. Thereafter, the freenet share price fluctuated between 7.35 euros and 9.11 euros, closing at 7.90 euros on December 30, 2010.

In all, 203.3 million freenet shares were traded via the XETRA system over the course of the year, compared to 147.5 million shares in the previous year. The average daily trading volume during the past financial year was 794.1 thousand shares, versus 580.7 thousand shares in 2009.

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, freenet AG's shareholder structure changed as follows during the financial year 2010:

In January 2010, Cyrte Investments and Telco (Netherlands) Holding B. V. notified us that they had reduced their share of voting rights in the company to 0.00 percent. In May 2010, Classic Fund Management Aktiengesellschaft announced that it held 3.01 percent of the voting rights (exceeding the threshold). In October 2010, we received an announcement stating that Janus Capital Management LLC held 3.09 percent of the voting rights (exceeding the threshold). In November, DWS Investment GmbH notified us that its voting rights in freenet AG had fallen below the 5-percent threshold, and at that time amounted to 4.84 percent. Also in November, Drillisch AG announced that it held a total of 12.14 percent of the voting rights (falling below the threshold), 3.90 percent of which were owned via MSP Holding GmbH. United Internet AG and Mr. Ralph Dommermuth both also notified us that they held a share of 4.98 percent of the voting rights (falling below the threshold). This notification was required because the attribution of voting rights was no longer applicable at the reporting date.

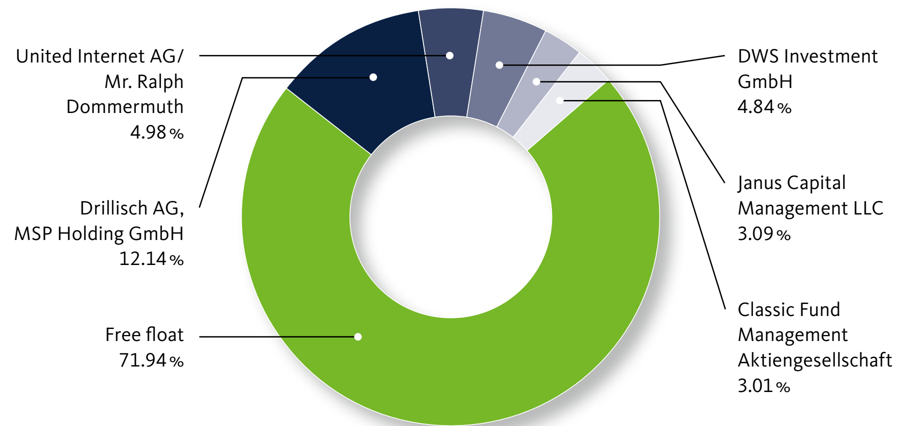
As a result of the notifications of voting rights received in the year under review, the shareholder structure as of December 31, 2010 is as follows:

The largest shareholder in freenet AG is Drillisch AG, which holds a total of 12.14 percent of the voting rights, directly and indirectly via MSP Holding GmbH. Mr. Ralph Dommermuth indirectly owns 4.98 percent of the share capital of freenet AG through United Internet AG.

A share of 4.84 percent is held by DWS Investment GmbH.

Other major shareholders in freenet AG are Janus Capital Management LLC with 3.09 percent and Classic Fund Management Aktiengesellschaft with 3.01 percent.

The free float thus amounts to 71.94 percent, and is distributed among a broad base of private and institutional investors in Germany and abroad.



Source: freenet AG, December 31, 2010

Earnings per share

Undiluted/diluted earnings per share (EPS) in the year under review stood at 0.88 euro compared to 2.00 euros in 2009.

Undiluted/diluted EPS from continued operations in 2010 stood at 0.93 euro (0.14 euro in 2009) and the undiluted/diluted EPS from discontinued operations was −0.05 euro for the past financial year (1.86 euro in 2009).

The basis for calculating EPS is the weighted average of shares outstanding.

	2010	2009 adjusted
Undiluted earnings per share in €	**0.88**	**2.00**
Diluted earnings per share in €	**0.88**	**2.00**
Earnings per share from continued operations in € (undiluted)	0.93	0.14
Earnings per share from continued operations in € (diluted)	0.93	0.14
Earnings per share from discontinued operations in € (undiluted)	−0.05	1.86
Earnings per share from discontinued operations in € (diluted)	−0.05	1.86
Weighted average of shares outstanding in thousand (undiluted)	128,061	128,061
Weighted average of shares outstanding in thousand (diluted)	128,061	128,061

Dividend

On July 6, 2010, the freenet AG Annual General Meeting approved the payment of a dividend for the financial year 2009 in the amount of 20 cents per share. The dividend was paid out on July 7, 2010.

The Executive Board and the Supervisory Board have decided to propose to the Annual General Meeting the payment of a dividend for the financial year 2010 in the amount of 80 cents per share from retained earnings. This represents a payout ratio of 48 percent of free cash flow[1].

For the financial year 2011, the Executive Board aims to propose to the Supervisory Board a dividend payment in the amount of 80 cents per share.

Financial strategy

Target capital structure and payout ratio

Following the strategic realignment of the company, freenet AG resumed dividend payments in the financial year under review, and in early 2011 announced a financial strategy. This strategy has the primary goal of continually enhancing the value of the company and thus represents the interests of shareholders and lenders alike.

The cornerstones of the financial strategy are as follows:

For freenet AG, the capital structure is an important pillar of the financial strategy, which we measure with the following three parameters:

- The debt factor, i. e. the ratio of economic net debt to recurring EBITDA. In this regard we are aiming for a target corridor of 1.5 to 2.5.
- The interest cover, i. e. the relationship between recurring EBITDA and net interest income. It allows the company to ensure that the necessary interest payments from the debt can be covered from the operative business. The company intends to not fall below a factor of 5.0.
- The equity ratio, i. e. the ratio of shareholders' equity to total assets. The company strives to increase its equity ratio to over 50 percent long-term.

Another necessary prerequisite for operational flexibility is to ensure adequate liquidity reserves which protect the company against temporary fluctuations. The company feels that a liquidity reserve of around 50 million euros is appropriate and adequate.

Furthermore we must protect the company's ability to invest in the core business and strategic growth opportunities.

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.

We have also defined a dividend policy that, without prejudice to value creation and financial liquidity, allows our shareholders to participate in the success of the company by way of an attractive annual cash return. The dividend policy adopted by the Executive Board in early 2011 stipulates that 40—60 percent of future free cash flow[1] will be distributed as dividends.

Adherence to the target corridors which we have defined for our relevant financial ratios will ensure that freenet AG achieves all of the above objectives.

Information on the freenet share

Master data

Name:	freenet AG NA
Type of share:	No-par-value share
ISIN:	DE000A0Z2ZZ5
WKN:	A0Z2ZZ
Sector:	DAXsector Telecommunication, DAXsubsector Wireless Communication
Transparency standard:	Prime standard
Market segment:	Regulated market

Information on the security

Class:	Registered shares without par value
Index:	TecDAX, Midcap Market Index, CDAX, HDAX, Prime All Share, Technology All Share
Share capital:	128,061,016.00 euros
Quantity of shares:	128,061,016
Stock exchanges:	Regulated market/Prime standard: Frankfurt Over-the-counter market: Berlin, Hamburg, Stuttgart, Düsseldorf, Hannover, München

XETRA trading parameters

Symbol:	FNTN
Reuters instrument code:	FNTGn.DE
Trading model type:	Continuous trading
Designated sponsor:	Close Brothers Seydler Bank AG, equinet Bank AG

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

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.

Corporate Governance report

freenet AG and its management and supervisory bodies are committed to the principles of good and responsible corporate governance and identify themselves with the objectives of the German Corporate Governance Code as well as the principles of transparent, responsible and value-driven management and control of the company. The Executive Board and Supervisory Board and all executives and employees of freenet Group are committed to these objectives.

The following printed statement of compliance in accordance with section 161 AktG, which like the recent statements of compliance is permanently available on the company website, was issued by the Executive Board and Supervisory Board in December 2010:

"Since issuing its last statement of compliance in December 2009, freenet AG has, with the exception of the deviations listed below, complied with the recommendations contained in the current version of the German Corporate Governance Code (as issued on June 18, 2009/as amended on May 26, 2010) and intends also to comply in future with the recommendations of the May 26, 2010 version of the German Corporate Governance Code, except in cases where there is a declaration to the contrary from the company below.

1. The company has taken out D&O insurance for its Board members. With regard to the members of the Supervisory Board, an agreement of an excess is not intended, as there is no visible benefit to the company associated with this. Acting responsibly is a given duty for all Supervisory Board members. Moreover, an excess would have to be set uniformly on account of the equality principle, although the personal circumstances of the Supervisory Board members vary. An excess would therefore have a varying impact on the Supervisory Board members. Given that their duties are the same, this seems inappropriate. (section 3.8 (3) of the Code)
2. No age limit is laid down for Executive Board and Supervisory Board members. In the Supervisory Board's opinion it makes no sense that well-qualified people with great professional and personal experience should not be considered as candidates simply due to their age. (section 5.1.2, clause 6 and section 5.4.1, clause 2 of the Code)
3. The Supervisory Board has not established now or for the future definite targets for its composition in consideration of specific themes described in the Code as "diversity" or "appropriate degree of female representation". The Supervisory Board deems such restrictions vis-à-vis other criteria for proposals about the election of Supervisory Board members inappropriate and wishes to make decisions concerning proposals about its composition individually in each specific situation. (section 5.4.1 (2) and (3) of the Code)
4. A member of the Supervisory Board has taken on advisory functions for a significant competitor of the company. (section 5.4.2, clause 4 of the Code)"

In accordance with section 3.10 clause 2 of the Code, the explanatory remarks on the above mentioned deviations are each found in the remarks on the deviations.

Due to legal obligations of confidentiality, the Supervisory Board member in question provided no further details regarding the deviation stated in no. 4.

Compensation report

Executive Board compensation

Basic principles of compensation

After the Act on the Appropriateness of the compensation for the Executive Board (VorstAG) came into force, whenever new contracts are signed, or if there are significant changes or extensions to existing contracts, the compensation structure for Executive Board members shall be aimed at a sustainable development of the business. Therefore, variable compensation components will have an assessment basis of several years in order to set long-term incentives. The issued stock appreciation rights indeed no longer constitute long-term incentives as originally intended. During the financial year, the Supervisory Board examined this approach to the compensation system for the Executive Board in three meetings and discussed possibilities for incentive components for the future Executive Board compensation system which are non-conflicting with objectives and practical and which reflect both the earnings indicators and the qualitative and quantitative customer acquisition performance. The linking of variable compensation components to the EBITDA of a single financial year—which was practiced until the Act on the Appropriateness of the compensation for the Executive Board (VorstAG) came into force and usually was reflected in annual target agreements—conflicts with the long-term business objectives and therefore with a compensation system approach aimed primarily at the sustainable development of the business. For these reasons, in 2010 the previous practice was discontinued and no separate target agreements were agreed for annual variable compensation with Executive Board members. As a result, the rules for such an event set out in the Executive Board employment contracts led to lower variable compensation for the Executive Board in the financial year 2010 than would have been the case if the past practice had been retained. Upon completion of the ongoing comprehensive review of the Executive Board compensation, the Supervisory Board is striving for a redesign of the compensation system for the Executive Board whenever new contracts are signed or if existing contracts are extended, in order to take into account both the existing economic points of criticism with regard to the present system and the newly added statutory requirements.

The compensation of members of the Executive Board of the company is broken down as follows:

Compensation for the financial year 2010 (€'000s)	Fixed compensation	Variable compensation from stock appreciation rights[1]	Other variable compensation	Total compensation
Christoph Vilanek	615	28	400	1,043
Joachim Preisig	425	–205	400	620
Stephan Esch	365	–362	230	233
Axel Krieger	575	–663	299	211
	1,980	**–1,202**	**1,329**	**2,107**

1 Incl. non-cash compensation and compensation measured in accordance with IFRS 2 in the financial year.

Compensation for the financial year 2009 (€'000s)	Fixed compensation	Variable compensation from stock appreciation rights[1]	Other variable compensation	Total compensation
Christoph Vilanek[2]	410	424	267	1,101
Joachim Preisig	422	331	400	1,153
Stephan Esch	327	216	137	680
Axel Krieger	503	367	212	1,082
Eric Berger[3]	205	142	62	409
Eckhard Spoerr[4]	53	1,110	29	1,192
	1,920	**2,590**	**1,107**	**5,617**

1 Incl. non-cash compensation and compensation measured in accordance with IFRS 2 in the financial year.
2 Compensation after being appointed to the Executive Board of freenet AG, i.e. for the period from May 1 to December 31, 2009.
3 Fixed compensation and other variable compensation until the termination of the employment agreement, i.e. for the period from January 1 to September 30, 2009; variable compensation from the stock appreciation programme for the full year 2009.
4 Fixed compensation and other variable compensation until the termination of the employment agreement, i.e. for the period from January 1 to January 23, 2009; variable compensation from the stock appreciation programme for the full year 2009.

In the financial year 2010, no new stock appreciation rights or stock options were issued to the members of the Executive Board of the company.

The variable compensation from the stock appreciation programme was shown in the form of negative figures in 2010 for Mr. Preisig, Mr. Esch and Mr. Krieger; this is due to the reduction in the provision for stock appreciation rights. Disregarding the non-cash compensation component of stock appreciation rights, the following amounts of compensation result in 2010: 1,015 thousand euros for Mr. Vilanek, 825 thousand euros for Mr. Preisig, 595 thousand euros for Mr. Esch and 874 thousand euros for Mr. Krieger.

In addition to the amounts set out in the above table, payments of 200 thousand euros arising from restriction of post-employment competition clauses were made to former members of the Executive Board in 2010.

Overall, compensation paid to the members of the Executive Board in 2010 in accordance with section 314 (1) no. 6a HGB (cash-effective compensation incl. the payments to former members of the Executive Board as a result of post-employment competition clauses) amounted to 3,509 thousand euros. In the previous year 2009, the compensation for members of the Executive Board in accordance with section 314 (1) no. 6a HGB amounted to 4,044 thousand euros, including the payments of 508 thousand euros to Mr. Berger in order to cover contractual claims, plus the stock appreciation rights issued to Mr. Vilanek with their total value of 509 thousand euros when they were granted in 2009 (fair value in accordance with IFRS 2).

As of December 31, 2010, the provisions for stock appreciation rights were as follows: 452 thousand euros for Mr. Vilanek (previous year: 424 thousand euros), 181 thousand euros for Mr. Preisig (previous year: 386 thousand euros), 30 thousand euros for Mr. Esch (previous year: 392 thousand euros) and 56 thousand euros for Mr. Krieger (previous year: 719 thousand euros). Provisions for stock appreciation rights totalling 148 thousand euros were shown as of December 31, 2010 for Mr. Spoerr and Mr. Berger as former members of the Executive Board (previous year: 1,921 thousand euros).

As in the previous year, no cash-effective compensation was paid from stock options and stock appreciation rights in the financial year 2010.

In November 2004, an indirect pension commitment was granted to Mr. Esch and Mr. Krieger. In the financial year 2009, an indirect pension commitment was granted to Mr. Vilanek on the occasion of his appointment as Chief Executive Officer as of May 1, 2009. As of December 31, 2010, the Defined Benefit Obligations (DBOs) were as follows: 265 thousand euros for Mr. Vilanek (previous year: 115 thousand euros), 518 thousand euros for Mr. Esch (previous year: 386 thousand euros) and 1,416 thousand euros for Mr. Krieger (previous year: 1,128 thousand euros). As of September 1, 2008, freenet AG took over the pension commitment granted to Mr. Preisig by debitel AG. As of December 31, 2010, the DBO for Mr. Preisig amounted to 347 thousand euros (previous year: 244 thousand euros). The DBOs for Mr. Spoerr and Mr. Berger as former members of the Executive Board totalled 2,096 thousand euros as of December 31, 2010 (previous year: 1,827 thousand euros).

Current and past service time expenses of 373 thousand euros (previous year: 820 thousand euros) are shown in personnel expenses for the members of the Executive Board as a result of the pension commitments.

No loans were extended to any of the members of the Executive Board, and no guarantees or other warranties were issued for any of the members of the Executive Board.

Compensation provisions for the event of a member of the Executive Board ceasing to be employed

Pensions

In November 2004, all members of the Executive Board of the former freenet.de AG were each granted an indirect pension commitment by freenet.de AG.

Upon termination of employment, the members of the Executive Board of freenet AG are entitled to the benefits described under item 35 of the notes.

Premature termination of employment contract

Service contracts in effect with mobilcom AG and freenet.de AG before the merger were transferred to the company when the merger came into effect. The old contracts, which continued to be legally valid, were replaced by new ones. With the exception of the level of compensation, including the number of stock appreciation rights, the new contracts were the same as the old ones, including the terms of benefits in the event of the employment (prematurely) ending. No right exists to claim compensation for loss of office if a member of the Executive Board is responsible himself for the (premature) ending of his service contract.

In particular, the company's service contracts provide the following benefits in the event of termination of employment for the Executive Board member Stephan Esch as well as the former Executive Board members Eckhard Spoerr, Axel Krieger and Eric Berger:

- The right to payment of salary and bonuses (based on the assumption of 100 percent achievement of targets) for the remaining period of the contract where by mutual agreement the service contract is ended or notice to end is served within, in either case, twelve months of a change of control of the company.
- From their 60th birthday, the aforementioned members of the Executive Board shall receive a pension amounting to 2.5 percent of final annual fixed salary for each year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, to a maximum of one-third of final annual fixed salary (guaranteed pension).
- Survivor annuity for the spouse or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. If employment is terminated due to a change of control, all stock appreciation rights remain in force and can be exercised regardless of the vesting period if the other exercise conditions are met within twelve months, but not later than by the end of the term. In the event of a member of the Executive Board terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

For the member of the Executive Board Joachim Preisig, the following rules apply from September 1, 2008:

- Upon retirement on reaching the age of 60, Mr. Joachim Preisig shall receive a pension in the amount of 9,333.00 euros (guaranteed monthly pension). If he leaves early, Mr. Preisig shall receive a pension, after reaching the age of 60 and once the conditions prerequisite to non-forfeiture arise, which is calculated according to legal requirements, hence there is a scaling of the guaranteed pension based on the actual length of service.
- Survivor annuity for the spouse and orphan's pension for binding individual child custody rights on the basis of the guaranteed pension for Joachim Preisig. Widow's and orphan's pensions combined may not exceed 90 percent of the pension that Mr. Preisig was entitled to or eligible for at the time of his death. On reaching the age of 18, orphans will cease to be entitled to receive the monthly orphan's pension. At this point, a one-time lump-sum payment amounting to 24 times the monthly orphan's pension is paid.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. In the event of Mr. Preisig terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

For the Chief Executive Officer Christoph Vilanek, the following rules apply from May 1, 2009:

- From his 60th birthday, Mr. Vilanek shall receive a pension amounting to 2.5 percent of final annual fixed salary for each contractual year commenced on the Executive Board of the company, to a maximum of one-third of final annual fixed salary (target pension).
- Survivor annuity for the spouse or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the target pension.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. In the event of a member of the Executive Board terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

There are no service contracts with any subsidiaries of freenet AG.

Please also refer to item 35 in the notes for further information, in particular about compensation amounts, stock appreciation rights held, share ownership and other details.

Supervisory Board compensation

Basic principles of compensation
The Supervisory Board compensation is governed by the articles of association, and consists of three components:

- Basic compensation
- Attendance fees
- Performance-linked compensation

The Supervisory Board members receive fixed basic compensation of 30,000 euros for each full financial year of membership on the Supervisory Board. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times this amount.

Every Supervisory Board member receives in addition an attendance fee of 1,000 euros for each Supervisory Board meeting he/she attends. Supervisory Board members who belong to a Supervisory Board committee—with the exception of the committee formed in accordance with section 27 (3) MitbestG—receive in addition an attendance fee of 1,000 euros for each meeting of the committee. The committee chairperson receives double this amount. As part of a voluntary self-restraint agreement, the Supervisory Board waived attendance fees for Supervisory Board and committee meetings held as conference calls, as well as for phone participation in actual meetings with effect from the third quarter of 2010.

The Supervisory Board members also receive, after the end of each financial year, variable performance-based compensation in the amount of 500 euros for each 0.01 euro in dividends in excess of 0.10 euro per share of the company which is distributed to the shareholders for the previous financial year. The extent of the compensation is limited to that amount which is payable in the form of basic compensation. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times this amount.

For their activity during the financial year 2010, the members of the Supervisory Board of the company received fixed compensation of 405.0 thousand euros and attendance fees of 158.0 thousand euros. Performance-based compensation of 405.0 thousand euros was also recognised as an expense. Whether this performance-based compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2010. The total compensation paid for Supervisory Board activities was thus 968.0 thousand euros.

Furthermore, Supervisory Board members are reimbursed for expenses incurred as a result of exercising their office as well as for turnover taxes.

Individualised figures for the last two financial years are shown in the following tables. Please note that rounding differences may result from the format used for presenting subtotals and final totals, because the figures have been rounded to one position after the decimal point.

Compensation for the financial year 2010 (€'000s)	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Thorsten Kraemer	60.0	30.0	60.0	150.0
Franziska Oelte[1]	45.0	12.0	45.0	102.0
Dr. Christof Aha	30.0	11.0	30.0	71.0
Claudia Anderleit[1]	30.0	12.0	30.0	72.0
Dr. Arnold Bahlmann	30.0	5.0	30.0	65.0
Joachim Halefeld[1]	30.0	11.0	30.0	71.0
Maarten Henderson	30.0	21.0	30.0	81.0
Hans-Jürgen Klempau[1]	30.0	6.0	30.0	66.0
Matthias Schneider[1]	30.0	18.0	30.0	78.0
Prof. Dr. Helmut Thoma	30.0	12.0	30.0	72.0
Steffen Vodel[1]	30.0	11.0	30.0	71.0
Achim Weiss	30.0	9.0	30.0	69.0
	405.0	**158.0**	**405.0**	**968.0**

1 Employee representatives in accordance with section 7 (1) clause 1 no. 1 MitbestG of May 4, 1976.

Compensation for the financial year 2009 (€'000s)	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Thorsten Kraemer[1]	44.5	32.0	7.4	84.0
Franziska Oelte[3]	45.0	16.0	7.5	68.5
Dr. Christof Aha	14.6	6.0	2.4	23.0
Claudia Anderleit[3]	30.0	25.0	5.0	60.0
Dr. Arnold Bahlmann	14.6	4.0	2.4	21.0
Joachim Halefeld[3]	30.0	25.0	5.0	60.0
Maarten Henderson	14.6	14.0	2.4	31.0
Hans-Jürgen Klempau[3]	30.0	11.0	5.0	46.0
Matthias Schneider[3]	30.0	25.0	5.0	60.0
Prof. Dr. Helmut Thoma[2]	45.6	42.0	7.6	95.2
Steffen Vodel[3]	30.0	14.0	5.0	49.0
Achim Weiss	14.6	5.0	2.4	22.0
	343.5	**219.0**	**57.3**	**619.7**
Former members				
Dr. Dieter Leuering	15.6	8.0	2.6	26.2
Prof. Dr. Hans-Joachim Priester	15.6	12.0	2.6	30.2
Lars P. Reichelt	15.6	1.0	2.6	19.2
Richard Roy	15.6	20.0	2.6	38.2
	62.3	**41.0**	**10.3**	**113.6**
	405.8	**260.0**	**67.6**	**733.3**

1 Chairman of the Supervisory Board since July 7, 2009.
2 Chairman of the Supervisory Board until July 7, 2009.
3 Employee representatives in accordance with section 7 (1) clause 1 no. 1 MitbestG of May 4, 1976.

Incoming, outgoing, going strong.

Our logistics department ensures on-time delivery of goods from the world of mobile communications to our customers and trade partners. Apart from unfailing high quality standards, this also involves efficiency, flexibility, speed and reliability. In 2010, mobilcom-debitel's two logistics sites in Büdelsdorf and Oberkrämer handled a total of 145,000 incoming and 1,120,000 outgoing consignments, working with 6,400 m² of storage space and 4,300 pallet spaces.

Andreas Müller, Supply Chain Management team leader:

“My colleagues and I have everything under control: incoming goods, outgoing goods, returns and stored goods. We pick, pack, unpack… and don’t ‘pack it in’ until we’re sure that the goods will arrive at their destination on time. That’s the way I like it. And our suppliers and our customers like that. Obviously.“

Group management report

Important note:

This Group management report (management report) should be read in context with the audited consolidated financial statements and notes.

This report includes statements looking into the future, i. e. statements that are based not on historic facts but on current plans, assumptions and estimates. Forward-looking statements are valid only at the time that they are made. freenet AG accepts no obligation to modify these in the event that new information comes to light. Statements about the future are by their nature subject to risks and uncertainty. We therefore explicitly point out that a range of factors may influence actual results to such effect that they then differ appreciably from those forecast. Some of these factors are described in the “Risk report” section and in other parts of this report.

Business and macroeconomic conditions

Business operations

The freenet Group is the biggest network-independent telecommunications provider in Germany. The Group offers its customers a comprehensive portfolio of services and products, primarily in the field of mobile voice and data services.

As a mobile service provider, the freenet Group has no network infrastructure of its own but markets, under its own name and for its own account, mobile communications services for the mobile network operators T-Mobile, Vodafone, E-Plus and O_2 in Germany. The network operator contracts signed with the above mentioned companies form the basis of the operative business: Under these contracts, the company buys mobile communications services from the network operators and markets them to its end customers. In addition to its own network-independent postpaid, prepaid and no-frills services and rates, the company also offers the network operators' rates.

In addition, the freenet Group sells mobile communications devices and additional services in the field of mobile data communications.

The primary sales channels are the nearly 600 branded shops, a large presence in electronics retail and superstores—which includes a distribution agreement with Media-Saturn Deutschland GmbH—as well as the online and direct-to-customer sales. This makes the Group the largest network-independent sales and distribution platform for mobile communications products in Germany. Its marketing focus is essentially on the B2C business with private households in Germany.

The company also operates an online portal and is increasingly offering content for mobile internet as well. The freenet Group's Portal business is rounded off by the online marketing agency freeXmedia.

Product brands

Under its main „mobilcom-debitel" brand, the company positions itself as the biggest network-independent telecommunications provider in the German market. The strengths of the brand include network-independent, demand-oriented customer support for selected mobile communications products and services, and a great customer proximity thanks to the biggest network-independent distribution platform for mobile communications products in Germany.

Its no-frills brands „klarmobil", „freenetMobile" and „callmobile" also make the freenet Group one of the leading mobile communications discounters in Germany. The products are available via the internet, the hotline or at retail.

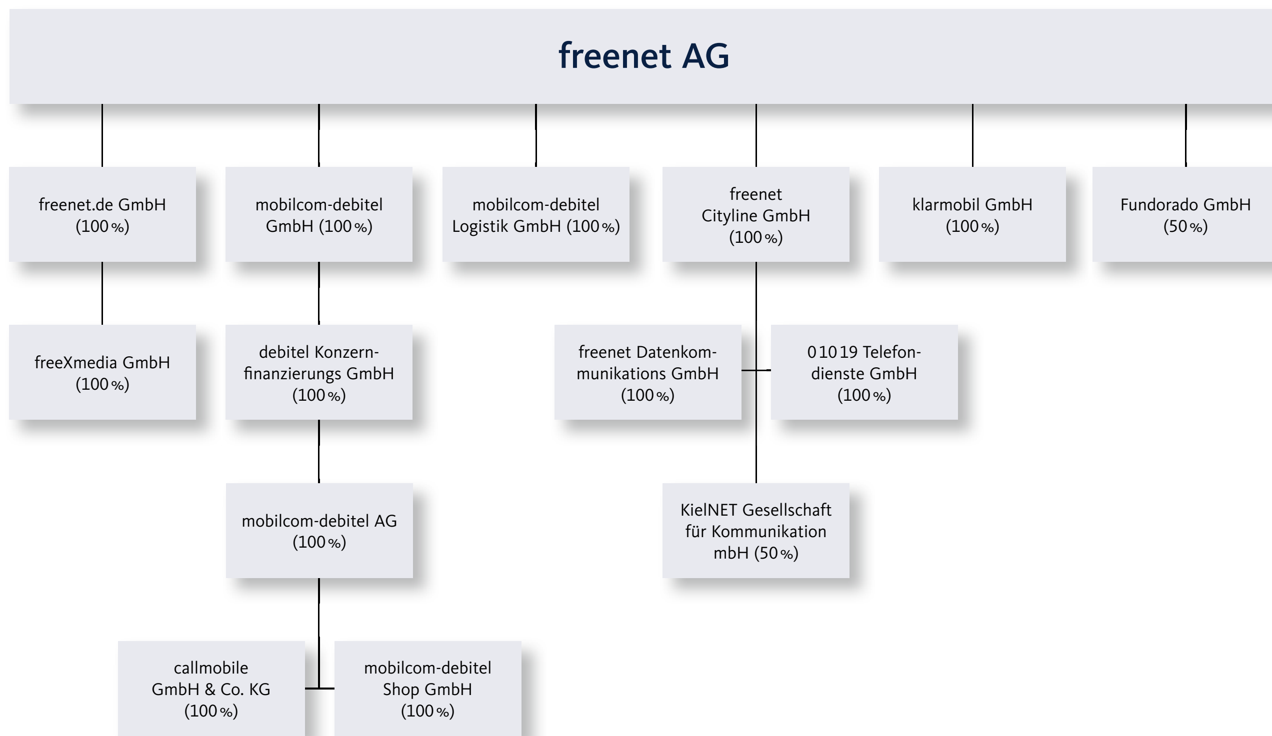
Group structure

During the financial year under review, the Group disposed of its value-added services business. Next ID GmbH and Next ID technologies GmbH, in which this segment was bundled, were sold to mr. net group GmbH & Co. KG.

Within the Group, the two main companies in the Mobile Communications segment were renamed to achieve consistency with the branding. debitel AG now does business as mobilcom-debitel AG, while the former mobilcom Communicationstechnik GmbH is now mobilcom-debitel GmbH.

mobilcom-debitel Logistik GmbH is now also listed in the overview of major Group companies, to reflect its importance in the Group.

Major companies in the Group:



Market development 2010

Overall market

During 2010 the world economy largely recovered from the severe crisis of the previous two years. In Germany, according to the German Federal Statistical Office gross domestic product rose by 3.6 percent. Besides a strong boost from booming exports, particularly to Asia, the key reasons included increasing domestic demand in Germany.

Telecommunications market

In contrast to world markets the telecommunications market in Germany was exposed to few volatile developments. According to figures published by the management consultancy Dialog Consult and the industry association VATM, revenue declined again last year.

While revenue from traditional fixed-line telephony continued to decline as the intense competition remains high, the mobile communications market recorded slightly higher annual revenues for the first time since 2005. This growth was mainly driven by an increased use of mobile phones for calls (+3.2%) over the previous year and a tripling of data volumes. However, overall mobile communications revenues only increased 0.8 percent year-on-year, as retail prices in both telephony and mobile data transmission continued to decline in 2010.

The non-voice share of mobile communications revenues in Germany rose by 1.5 percentage points year-on-year to 28.5 percent. Supported by the increasing distribution of smartphones, the share of data revenues in non-voice revenues grew from 51.5 percent in 2009 to 55.8 percent in 2010.

Telekom remained the market leader in mobile communications in 2010 with a revenue share of 30.1 percent, closely followed by Vodafone with 29.8 percent and freenet and E-Plus in third place, each with a market share of 13.3 percent according to Dialog Consult and VATM. O_2 has a market share of 12.1 percent and Drillisch 1.4 percent.

The total number of active SIM cards stagnated at 108.3 million according to estimates by Dialog Consult and VATM. This is due, not least, to a cleanup of inactive SIM cards in the prepaid sector, carried out by Telekom in particular. Apparently, the mobile communications market is also nearing saturation in terms of participant numbers.

Development

With its focus on mobile voice and data services, freenet AG operates as a service provider in the telecommunications market. So the company does not maintain a separate traditional Research and Development department.

At the same time, rapid technological progress and strong competition in this sector make it necessary to keep abreast of market trends and adjust one’s own product and services portfolio to new market and customer requirements. freenet AG secures its long-term competitiveness by developing and/or evolving innovative offers.

Products

As in 2009, last year the telecommunications market was dominated by developments in the mobile internet sector. New technologies and devices (smartphones, netbooks and surfsticks) and the growing availability of mobile content in conjunction with the progressive expansion of data networks further advanced the convergence of mobile communications and the internet.

Against this backdrop, freenet AG further expanded its range of tariffs, products and services for mobile voice and data services within its business model over the past financial year and tuned them to new customer requirements, in order to sustainably strengthen customer satisfaction and retention.

In **Mobile Communications**, in the second half of 2010 freenet AG established an innovative tariff concept with the new **"free" tariff**. It takes advantage of freenet AG's special positioning as a network-independent provider, and thereby gives customers maximum independence in their decision-making. Using a modular principle that allows them to choose between D-network, O_2 and E-Plus each month, customers can compile a customised mobile communications tariff according to their individual needs. The base rate does not include a minimum charge and can be terminated within a month. Additional bookable options include various voice and data flat rates and an SMS package. Those who want a modern smartphone as well have to sign a 24-month contract.

Another attractive portfolio product for easy calling and mobile internet browsing was added with the new **e@sy tariffs** launched in early April. They provide an internet flat rate and a choice of three options for calls to all German mobile networks and national calls, with different low-cost per-minute prices and minimum charges.

freenet AG introduced its first daily flat rate for mobile surfing with the launch of **"Internet Starter"** in July—as a pre-installed option for all voice rates, and all four German mobile networks. The fixed daily usage price is only charged if the mobile internet is actually accessed on a given calendar day.

However, freenet AG not only catered to the trend toward mobile internet usage by introducing attractive rates. The expansion of its range to include the latest devices also contributed to freenet AG gaining half a million new mobile internet customers in the past financial year.

The introduction of the Apple **iPhone** 3G and 3GS, and later of the Apple iPhone 4, was an important milestone. From the first half of the year freenet AG was the distributor of these phones alongside Deutsche Telekom, offering at its own shops, in all Media-Markt and Saturn branches and select retailers. Since the fourth quarter, freenet AG has also marketed the Apple iPhone in cooperation with the carriers Vodafone and O_2. The enormous customer demand created supply bottlenecks during the year under review.

In November 2010 freenet AG signed a strategic partnership with BlackBerry. The cooperation will enable the company to offer its customers more high-quality smartphones made by BlackBerry to try out in shops.

freenet AG also expanded the quality and quantity of other high-end smartphones in its shops—for example adding devices from HTC and Sony Ericsson and Nokia's new entertainment and multitasking flagship, the Nokia N8.

In November, freenet AG also introduced the mobilcom debitel "Surf Box", which provides access to high-speed mobile internet with a data communications-enabled SIM card wherever an appropriate cellular or WLAN network is available.

In the **discount (no-frills) sector**, freenet AG regularly occupied top positions in the respective segments of the occasional, regular and frequent users. In the course of 2010, this competitive market positioning was reinforced through new mobile voice and data services.

For instance, in June the **"freenetMobile"** product brand was launched for newcomers to the mobile internet. Based on a collaboration between the "klarmobil" and "freenet.de" Group brands, it offers low-price calls and free access to freenet.de's mobile content and services. Customers can call and send texts for a uniform 8 cents per minute to all German networks—without subscription fees, minimum charges or contract periods. They also have free, unlimited access to freenet.de news updates and services including freenet*Mail* mobile e-mail use.

Finally, after callmobile GmbH & Co. KG had signed a cooperation agreement with Vodafone, the attractive terms of a tariff featuring a 9 cents per minute rate, including 10 free minutes every month on all networks, the **"callmobile"** brand soared to first place in the Stiftung Warentest ranking of September 2010 right after its launch.

Assets, financial position and results

Preliminary remarks on the comparability with the previous year

When comparing the consolidated financial statements from 2010 with the adjusted figures for the previous year, it must be noted with regard to the result from discontinued operations that the "DSL business" (consolidated for 11 months) and "STRATO Group" (consolidated for 12 months), formed part of the discontinued operations in 2009. After their deconsolidation in 2009, these business units no longer contributed operational earnings to the consolidated financial statements in 2010 but only contributed earnings from subsequent purchase price adjustments as well as subsequent expenses and income of negligible importance. Profits from discontinued operations in 2009 were significantly influenced by profits from the sale of the business units "DSL business" and "STRATO Group".

A very low retrospective adjustment of the comparative figures for the previous year was made with regard to the representation of the "Next ID" business unit in the income statement as a discontinued operation under IFRS 5.

Where a comparison to the previous year is provided in the following statements, comparison is made to the corresponding retrospectively adjusted comparative figures for the previous year.

Summary statement on the business performance in 2010

In the financial year 2010 the freenet Group was able to report a year-on-year increase in key earnings figures such as Group EBITDA, EBIT and EBT as well as Group result from continued operations, despite the decline in Group revenue and gross profit. The Group result was lower than in the previous year because discontinued operations made a higher contribution to the Group result in 2009. This was due to the profit from the sale of the "DSL business" and the "STRATO Group". Due to the generation of free cash flow of 211.7 million euros, which was slightly lower than in the previous year but stabilised at a high level, it was possible to reduce net financial debt from 789.8 million euros (as of the beginning of the financial year 2010) to 623.1 million euros by December 31, 2010.

These results once more validate freenet AG's consistent continuation in focusing on the core business of mobile voice and data services.

Key items in the consolidated financial statements

The following overview highlights a few important key performance indicators for the Group:

In €'000s	2010	2009	Change
Revenue	3,339,504	3,601,786	–262,282
Gross profit	720,305	762,634	–42,329
EBITDA	334,943	327,025	7,918
EBIT	145,501	124,587	20,914
EBT	102,640	36,733	65,907
Group result from continued operations	118,762	17,721	101,041
Group result from discontinued operations	–6,295	238,769	–245,064
Group result	**112,467**	**256,490**	**–144,023**

Customer and ARPU development

In its core business of mobile voice and data services, freenet AG markets, under its own name and for its own account, mobile communications services for the four network operators in Germany. As competition continues to intensify and prices come under increasing pressure, freenet AG is focusing on valuable postpaid contract customers in its new customer acquisition and existing customer management. This means that the company has reduced its customer base in a deliberate and systematic way. As was also the case in 2009, so-called technical churn in the prepaid business, due mainly to the deactivation of inactive SIM cards by the network operators, again caused considerable customer losses in 2010, although this had no effect on profits. In contrast, the customer base in the discount segment was further expanded due mainly to the focus on data and flatrate products. Overall, the total number of mobile communications customers fell to 15.65 million by the end of 2010 from 17.58 million at the end of 2009. This includes 6.11 million contract customers (excluding no-frills), 7.58 million prepaid customers and 1.97 million no-frills customers.

In 2010, the company's focus on valuable postpaid contract relationships, as described above, enabled it to almost completely halt the decline in ARPU that has been experienced in the last few years. In 2010, ARPU in the contract customers segment was 24.0 euros, down only slightly from 24.2 euros in 2009, and ARPU in the prepaid segment was 3.2 euros, up from 3.0 euros in 2009. In the no-frills segment, the ARPU was 4.9 euros in 2010, which was below the previous year's level of 5.4 euros.

Revenue and results

Group revenue fell to 3,339.5 million euros from 3,601.8 million euros in the previous year. The Mobile Communications segment contributed more than 97 percent, or 3,265.6 million euros, to the segment revenues (2009: 3,508.8 million euros). The

remaining Other revenue is generated by the Portal, Narrowband and B2B Services operations.

The **gross profit margin** increased by 0.4 percentage points to 21.6 percent (2009: 21.2 percent). As a result of the reduced revenue compared to the previous year, gross profit fell to 720.3 million euros in 2010, from 762.6 million euros in 2009.

Group personnel expenses were reduced significantly compared to the previous year, by 50.3 million euros, from 199.7 million euros to 149.3 million euros. This means that the personnel expenses ratio in 2010 improved to 4.5 percent compared to 5.5 percent in 2009. The reduction in personnel expenses was due primarily to the reduction in the number of employees by 422 during the financial year 2010, mainly as a result of continued efficiency improvements and restructuring measures in the operational business. The stock appreciation rights included in personnel expenses had the effect of reducing them by 4.0 million euros in 2010 and increasing them by 2.9 million euros in 2009.

The balance of **other operating expenses and other operating income** resulted in expenses of 247.4 million euros in 2010, which represented an improvement of 0.4 million euros compared to the previous year (expenses of 247.8 million euros).

Largely due to the sum of these above effects, the Group result before interest, tax, depreciation and amortisation **(EBITDA)** from continued operations increased to 334.9 million euros from 327.0 million euros in the previous year. In 2010, EBITDA was burdened by restructuring-related one-off items amounting to 31.6 million euros (previous year: 65.9 million euros). In 2010, these one-off items were mainly linked to the project of integrating the entire IT system landscape following the debitel acquisition.

Depreciation and impairment write-downs amounted to 189.4 million euros compared to 202.4 million euros in the previous year. The slight reduction from the previous year was due primarily to the reduced level of investments. As in the previous year, depreciation costs arose mainly from intangible assets such as customer relationships and trademarks, which were included in the consolidated balance sheet in 2008 on the occasion of the purchase price allocation connected to the debitel acquisition: while 121.6 million euros were written off with regard to these assets in 2010, 124.9 million euros were written off in the previous year.

Net interest income, as a balance of interest income and interest expenses, improved considerably with net interest expenses of 42.9 million euros compared to net interest expenses of 87.9 million euros in the previous year. As in 2009, the net interest income relates primarily to financial liabilities to banks as part of the acquisition of the debitel Group. The decrease compared to the previous year was due mainly to the reduced annual average net financial debt as a result of redemptions following the sale of the “DSL business” and “STRATO Group” at the end of 2009, the expiry of the interest rate swaps on July 31, 2010, and repayments from the operational cash flow.

As a result, **pre-tax Group earnings** of 102.6 million euros from continued operations were registered in 2010. Compared to the previous year (36.7 million euros), this represented an increase of 65.9 million euros or 179.6 percent.

The **result from taxes on income** improved by 35.1 million euros compared to 2009. Whereas in the previous year, tax expenses of 19.0 million euros were recorded, tax income of 16.1 million euros was incurred in 2010. This improvement is mainly due to the one-off effect of deferred taxes relating to the previous year: due to the sale of

the "STRATO Group" and the corresponding omission of future earnings in the Group's multi-annual plan, a one-time write-down of deferred tax assets from tax loss carryforwards amounting to around 25 million euros was made in 2009.

The **Group result from continued operations** after tax therefore increased by 101.0 million euros to 118.8 million euros in 2010 from 17.7 million euros in the previous year.

The **Group result from discontinued operations** was –6.3 million euros in 2010 and largely resulted from the "Next ID" business unit. The "DSL business" and "STRATO Group" business units had already been sold in 2009 and, in 2010, generated only subsequent income and expenses of a low amount together with results from subsequent purchase price adjustments. Whereas in 2009, the discontinued operations posted a profit of 238.8 million euros. It must be noted that a loss of 1.1 million euros from operating activities was realised for the three discontinued business operations combined, so that the profit described from discontinued operations is almost fully explained by the profit of 239.9 million euros from the sale of the business units "DSL business" and "STRATO Group".

The **Group result** posted in 2010 from continued and discontinued operations amounted to 112.5 million euros, after 256.5 million euros were recorded for the previous year.

Assets and financial position

The following overview highlights a few key balance sheet figures for the Group:

Assets in m€	31.12.2010
Non-current assets	1,848.4
Current assets	694.0
Balance sheet total	**2,542.4**

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

Assets in m€	31.12.2009
Non-current assets	1,958.2
Current assets	1,075.3
Balance sheet total	**3,033.5**

Shareholders' equity and liabilities in m€	31.12.2009
Shareholders' equity	1,047.8
Non-current and current liabilities	1,985.8
Balance sheet total	**3,033.5**

As of December 31, 2010, the Group's **total assets** amounted to 2,542.4 million euros and were therefore 491.1 million euros or 16.2 percent lower than at the end of the previous year (December 31, 2009: 3,033.5 million euros). This significant reduction in total

assets is primarily attributable to the reduction in cash and cash equivalents as a result of unscheduled repayments following the sale of the business units "DSL business" and "STRATO Group", as well as to the write-downs on intangible assets.

Non-current assets decreased by 5.6 percent to 1,848.4 million euros (December 31, 2009: 1,958.2 million euros) and, as in the previous year, mainly comprised intangible assets and goodwill. The reduction in non-current assets is mainly due to the depreciation and impairment write-downs of intangible assets in the financial year amounting to 170.4 million euros, of which 121.6 million euros were related to write-downs on intangible assets such as customer relationships and trademarks that were included on the occasion of the purchase price allocation in connection with the debitel acquisition. The balance of other net additions to intangible assets (additions less disposals at net book value), mainly relating to software and licences, was 14.0 million euros.

The reduction in property, plant and equipment by 14.4 million euros to 37.7 million euros is due primarily to write-downs on existing property, plant and equipment with low new investments. An opposite development is the increase in deferred tax assets by 52.7 million euros, from 27.1 million euros to 79.8 million euros. It should be noted that the deferred tax assets on tax loss carryforwards, which increased slightly compared to December 31, 2009, are included in this item. Furthermore, the netted deferred tax liabilities on temporary differences between tax balance sheet values and book values of assets and liabilities are also included in this item, which witnessed a reduction due mainly to write-downs on customer relationships and trademarks that were included on the occasion of the purchase price allocation in connection with the debitel acquisition.

Current assets declined by 35.5 percent to 694.0 million euros (December 31, 2009: 1,075.3 million euros), due mainly to the reduction in cash and cash equivalents (by 306.0 million euros). At the close of the previous year, 362.8 million euros resulted from payments received from the sale of the "DSL business" and the "STRATO Group". Corresponding to the development in revenue, there was a reduction in current trade accounts receivable by 79.8 million euros or 16.4 percent to 407.5 million euros.

As of December 31, 2010, assets attributed to the discontinued operation "Next ID" of 12.3 million euros were listed in the balance sheet item "assets of disposal group classified as held-for-sale"—those assets of the Next ID Group were still listed in the individual balance sheet items of the continued operations in the previous year.

On the liabilities side, there was an increase in **shareholders' equity**: on December 31, 2010, shareholders' equity was 1,134.5 million euros (December 31, 2009: 1,047.8 million euros). This increase by 86.7 million euros mainly results from Group net profit for 2010 (112.5 million euros) and from last year's dividend payment, which was approved at the company's Annual General Meeting on July 6, 2010 (–25.6 million euros).

As a result, the equity ratio increased by 10.1 percentage points to 44.6 percent from 34.5 percent at the end of the previous year.

Regarding **non-current and current liabilities**, which fell in total from 1,985.8 million euros (as of December 31, 2009) by 29.1 percent to 1,407.9 million euros as of December 31, 2010, the reduction in borrowings by 470.1 million euros to 800.0 million euros, of which 454.0 million euros from the cash redemption of borrowings, should be especially emphasised.

As a result, the group **net debt** was reduced by 166.7 million euros to 623.1 million euros (2009: 789.8 million euros) during 2010.

The trade accounts payable, other payables and provisions for other liabilities and charges amounted in total to 545.6 million euros as of December 31, 2010 (December 31, 2009: 667.6 million euros), down by 122.0 million euros compared to the previous year. This reduction was attributable to a number of factors that we will refer to in our following remarks on cash flow from operating activities.

The liabilities attributable to the discontinued operation "Next ID" of 10.3 million euros have been reported as liabilities of disposal group classified as held-for-sale on December 31, 2010. In the previous year, 16.5 million euros were listed in this position for contingent losses resulting from the winding up of the remaining "DSL business".

Cashflow

The following overview highlights a few key cashflow figures for the Group:

Cash flow statement in m€	2010	2009	Change
Cash flow from operating activities	236.3	295.5	–59.3
Cash flow from investing activities	0.4	307.8	–307.4
Cash flow from financing activities	–537.8	–252.0	–285.8
Change in cash and cash equivalents	**–301.1**	**351.4**	**–652.5**
Free cash flow[1]	**211.7**	**232.4**	**–20.7**

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.

Compared to the previous year, **cashflow from operating activities** declined by 59.3 million euros to 236.3 million euros. Compared to the previous year, EBITDA for the whole Group including discontinued operations fell by 11.0 million euros. The figure was adjusted for proceeds from the sale of subsidiaries (incoming payments from the sale of subsidiaries are shown under investment activities). In addition, the reduction in cash inflow from operating activities compared to the previous year was primarily due to the increase in net working capital in 2010 by 82.7 million euros (2009: increase in net working capital by 22.3 million euros). The increase by 82.7 million euros is due mainly to the reduction in liabilities for the remaining declining business operations other than Mobile Communications, the planned reduction in liabilities and accruals with respect to distribution partners from distribution rights as well as with respect to a mobile network operator, the reduction in provisions for restructuring measures related to the integration of the acquired debitel Group, but also fluctuations of liabilities and accruals with respect to mobile communications hardware manufacturers on the balance sheet date. Furthermore, net cash outflow of more than 10.4 million euros (previous year: 20.8 million euros) resulted from tax payments on income, reduced by income tax rebates in 2010.

In the financial year 2010, **cashflow from investing activities** fell by 307.4 million euros compared to the previous year, to 0.4 million euros. This was primarily due to proceeds of 362.8 million euros in 2009 from the sale of the "DSL business" and the "STRATO Group". This sum is made up of payments from preliminary purchase prices amounting to 410.3 million euros in total less cash and cash equivalents of 47.5 million euros that were deducted as a result of the deconsolidation of these sold companies. In 2010, proceeds from the sale of subsidiaries amounted to 19.1 million euros, of which 16.4 million euros resulted from subsequent purchase price payments for the sale of freenet Breitband GmbH, while 0.6 million euros were a subsequent purchase price payment for the sale of the "STRATO Group" and 2.0 million euros were received from the sale of the "Next ID" business unit. The purchase prices for these 3 sales are therefore final. The cash outflow for the renewal and expansion of intangible fixed assets as well as for property, plant and equipment fell by 43.4 million euros compared to the previous year, to 26.6 million euros. This development was due primarily to payments undertaken in the previous year for distribution rights, and declining investments in the "Other" segment. Other incoming payments attributable to investment activities in 2010, largely from the sale of non-current assets (2.0 million euros) and interest (4.3 million euros), arose within the normal scope of business.

Cashflow from financing activities declined by 285.8 million euros year-on-year from –252.0 million euros to –537.8 million euros. Whereas borrowings were reduced by 155.8 million euros in 2009, they were reduced by a further 454.0 million euros in 2010 as a direct result of the company sales completed at the end of 2009. A redemption of 145.3 million euros was made on the vendor loan taken out on the occasion of the debitel acquisition and 308.7 million euros were redeemed on the two long-term bank loans taken out in connection with the debitel acquisition. The repayments on the long-term bank loans consisted of a scheduled payment of 66.7 million euros and an unscheduled payment of 242.0 million euros, largely as a result of the sale of the business units "DSL business" and "STRATO Group". On top of this there were also interest payments of 58.1 million euros, primarily for the loans taken out on the occasion of the debitel acquisition. This was 38.1 million euros lower than in the previous year as a result of the comparatively lower average net financial debt of the Group and also the expiry of the interest swaps in the middle of 2010. Dividend payments of 25.6 million euros had the effect of reducing cash flow from financing activities in 2010.

The company now reports **free cash flow** as a key performance indicator to create additional transparency. 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. Free cash flow amounted to 211.7 million euros in 2010, a decline of 20.7 million euros compared to 2009.

Employees

The number of employees in the freenet Group stood at 3,972 by the end of 2010, compared to 4,394 at the end of the financial year 2009.

Sustainability report

As a company, freenet AG has a responsibility not only towards its customers and shareholders, but also—in the spirit of comprehensive stakeholder value—to its employees, the society, and the environment.

In this context, the financial year 2010 once again saw a variety of activities and measures in the areas of personnel, social engagement and environmental protection.

Employees

Successful business competition is not possible without the dedicated, competent performance of all employees. This is why freenet AG has a responsible human resources policy.

In the area of human resources development, this includes a comprehensive range of training, technical and personal coaching options tailored to individual needs, and development programmes for key players. In addition, rewards for professional commitment include flat hierarchies with great decision-making freedom, extra benefits and offers (such as special employee rates and an employee car ownership scheme) and the payment of bonuses for exceptional performance.

freenet AG offers its employees flexible parental leave and working hours to facilitate a healthy work-life balance. The deliberate consideration of equal treatment between women and men while taking into account their different needs, and the special promotion of women are codified in the mission statement.

Beyond this, freenet AG attaches great importance to cultivating a direct dialogue with its employees. Using various channels, in particular a Group-wide intranet, it keeps employees informed about major operational developments. At the same time idea competitions, innovation management and an employee suggestion scheme encourage employees to help shape these developments with their own initiatives.

Social engagement

freenet AG's social engagement is not limited to its employees; the company embraces its responsibility to society as a whole. To begin with, this obviously relates to customer relationships and is evident in such things as advisories about paid features, as well as in codes of conducts, monitoring and blacklists for chats and communities, and in the strict protection of customer privacy data.

Furthermore, for many years the company has supported about a dozen children's, youth and sports foundations/associations, some with six-figure amounts, as well as an Albert Schweitzer Children's Village in Thuringia and playground initiatives in the Büdelsdorf region.

A few examples from the Group's many other initiatives in 2010 include:

- As part of the "Sparen und Spenden" (Save and Donate) campaign that has been running since 2006 10,000 euros of klarmobil customers' donations were presented to an SOS Children's Village in Haiti.

- From the proceeds of Christmas auctions at various locations, local children's charities near Stuttgart, Düsseldorf, Kaiserslautern and Erfurt each received five-figure donations.
- Instead of sending a Christmas gift to its premium customers, mobilcom-debitel donated 100,000 euros to the "Ein Herz für Kinder" (A Heart for Children) charity during the ZDF telethon. Another 40,000 euros were given to eight children's charities located near the company's sites, with a focus on children's cancer centres and hospices.

Environmental protection

As a service provider, freenet AG is less affected by environmental protection requirements than producing companies. Nonetheless, the Group practices, wherever possible, a responsible handling of the resources used in the Group.

For example, in recent years freenet AG switched its data centre in Düsseldorf to energy-saving computer systems and converted the local electricity supply to "green" electricity.

freenet AG's comprehensive logistics partner is the GLS Group, a highly efficient service provider that is also committed to a sustainable business philosophy. Wherever possible, the Group uses reusable large paperboard containers for in-house storage and reusable europallets in particular.

In a company with currently over 4,000 employees the efficient, environmentally friendly management of staff vehicles must be a priority. freenet AG offers a full-service model in which employees can choose between different models. In addition to model selection and consumption, freenet AG also considers emission categories and CO_2 guidelines in choosing its cars, and favours the latest, most environmentally friendly technology.

In July 2010, the Group also launched the "Volt+Wald" sustainable green energy project. In cooperation with the public utility "Stadtwerke Flensburg", mobilcom-debitel sells low-cost, ecologically produced electricity across Germany in its own shops, at specialist retailers and via its online distribution channels. As part of the electricity supply the "Volt+Wald" initiative plants one tree per customer each year over a period of five years in one of seven German afforestation regions—monitored by TÜV Nord.

The Group's environmental protection efforts are rounded off by numerous smaller measures. For example, all employees are required to separate their waste and reduce paper consumption. The company also does not produce printed copies of quarterly reports. Wherever possible, pollutive business travel is replaced by conference calls and video conferencing. At the same time, the company now also sends information and related material for the shops by email.

freenet AG also gives its customers opportunities to actively help protect the environment by offering online invoices, a repair service and buyback for used mobile phones.

Significant events after the reporting date

In January 2011, DWS Investment GmbH, Frankfurt, Germany, announced a reduction in their share of voting rights in freenet AG from 5.06 percent to 2.97 percent.

Also in January 2011, freenet Group's mobilcom-debitel AG and the Media-Saturn-Deutschland GmbH agreed to continue their collaboration.

The Executive Board has adopted a financial policy which determines that 40—60 percent of future free cash flow[1] will be distributed as dividends.

The Executive Board and the Supervisory Board have decided to propose to the Annual General Meeting the payment of a dividend for the financial year 2010 in the amount of 80 cents per share from retained earnings. This represents a payout ratio of 48 percent of free cash flow[1].

For the financial year 2011, the Executive Board aims to propose to the Supervisory Board the payment of a dividend in the amount of 80 cents per share.

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.

Risk report

Risk management

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

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

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

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

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

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

Major risks

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

Market and competition risks

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

The telecommunications markets continue to be fraught with intensive competition and the customers' high willingness to switch. This can lead to shortfalls in revenue, to loss of market share and to pressure on margins in any given operation and/or can make it more difficult to gain market share. Strong competition also leads to ever-higher costs on new customer acquisition, while revenue continues to fall and customers are very ready to switch. Should this trend continue or even grow stronger, this will have a negative impact on the company's assets, financial position and results. freenet AG strives to minimise its customers' readiness to switch with customer retention measures. If it does not succeed adequately at this, or only at inappropriate cost, this will have a negative impact on the company's assets, financial position and results.

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

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

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

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

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

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

On August 4, 2009, the law to counteract unauthorised telemarketing and to improve consumer protection from special forms of marketing went into effect. This means that consumers may be contacted by phone for advertising purposes only after

explicit prior agreement (known as "OPT-IN"). Consumers have to explicitly agree to their information being used for promotional purposes. Apart from new customer acquisition, this new regulation will impact the management of existing customers considerably, as many existing customers did not explicitly give their agreement. It is since then no longer possible to phone these customers for purely promotional purposes.

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

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

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. This is especially true against the background of the IT migrations ahead in the year 2011, which are enormously complex projects. 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. Moreover, the complex plans for integration resulting from combining the company's units are tying up considerable resources. As far as freenet AG uses the services of third parties in this connection, these risks are not fully within the company's control.

Tax risks

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

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

If within five years 25 percent or more of the shares or voting rights in the company come to be directly or indirectly held by a single shareholder or by several shareholders with parallel interests (harmful acquisition of shares), the company's negative income

(corporation and trade tax loss carryforwards) not settled or deducted by the time of the harmful acquisition could be lost in part or as a whole, in accordance with section 8c KStG, if applicable in conjunction with section 10a (9) GewStG. Shares are considered to be united in a single shareholder if they are transferred to a buyer, to persons close to the buyer or to a group of buyers with parallel interests.

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

Financial risks

The liabilities to banks shown under borrowings stem from variable-interest loans. In connection with the debitel acquisition, freenet AG has guaranteed to continue payments on the debitel Group's liabilities under a syndicated loan contract in the amount of approximately 653 million euros (as of December 31, 2010). The syndicated loan contract also includes a revolving credit line in the amount of 150 million euros. The covenants of the syndicated loan contract restrict the company's financial leeway. Under certain conditions, freenet AG can draw down loans of up to half of the amount of its revolving credit line under the syndicated loan contract. Moreover, the company is only allowed to raise third-party loans beyond the syndicated loan contract within stringent restrictions.

Apart from this, freenet AG's financial and operating leeway is limited by numerous contractual restrictions (undertakings and covenants), to which freenet AG agreed in view of continuing the syndicated loan contract. Among other things, freenet AG is subject to restrictions when raising loans from third parties, granting collateral, or selling assets, especially share property. The syndicated loan contract also obligates freenet AG to proportionally use the proceeds from the sale of certain assets to pay down the debt under the syndicated loan contract. The syndicated loan contract also includes an obligation to use up to 50 percent of the cash flow available from the mobile communications operations after debt servicing, to service the loan, which could impact the company's ability to pay a dividend. Further, as insurance for creditors' claims relating to the syndicated loan contract, shares in the major companies of the freenet Group are mortgaged to the lenders amongst other things.

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. In the event of a change of control, the consortium banks have a special right of cancellation. This would negatively affect the company's ability to continue doing business and could even result in freenet AG's insolvency.

In the past, interest rate risks were partly hedged by means of interest rate swaps, where variable-interest financial liabilities are converted to fixed-interest liabilities.

The interest rate swaps used in the past expired on July 31, 2010, leading to new loan finance-related risks as of August 1, 2010. If the short term interest rates (=EURIBOR) rise over time, interest expense will rise accordingly. However the company has limited the risk of interest rate changes by using an interest rate cap which the company bought in May 2010 with effect from July 31, 2010. The interest rate cap covers 750 million euros of the 800 million euros in financial debt reported at December 31, 2010.

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

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

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

Please also refer to item 34 of the Notes which contains a detailed categorization and elaboration of financial risks, and in particular the principles, goals and implemented measures of the freenet Group's financial risk management.

Legal risks

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

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

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

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

Some individual shareholders are of the view that the capital increase through contribution in kind of mobilcom AG, the company's legal predecessor, in November 2000

was flawed and/or that the contribution in kind rendered was not of any value, with the consequence that on the one hand the company would still be entitled to compensation claims against France Télécom running into billions and further that the shares issued to France Télécom would have had no voting rights.

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

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

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

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

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

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

Key elements in the freenet Group's internal monitoring system are based on automated IT control processes via error files and probations on the one hand, and on the other hand on manual process controls to check the plausibility of the automatically aggregated results.

As part of the internal control system, the risk management system includes not only the operating risk management, but also the systematic early detection, management and monitoring of risks across the Group. Please refer to the "Risk management" section of the risk report for further explanatory remarks on the risk management system.

Structure of the Group accounting process

Accounting processes for the company financial statements of freenet AG's subsidiaries are essentially recorded using local accounting systems by SAP and CSS. In preparing the consolidated financial statements of freenet AG, the subsidiaries enrich their respective company financial statements with further information to create standardized reporting packages, which are managed in MS Excel. freenet AG uses SAP's "EC-CS" module as its consolidation system at the top Group level. When preparing the consolidated balance

sheet, the consolidated income statement, the consolidated cash flow statement, the capital, debt as well as expense and income consolidations etc., the data reported by the subsidiaries is entered into the consolidating system in various ways—automatically via the SAP module “FI” and sometimes manually by entering reported data that had previously been summarised for various subgroups. The individual notes are taken from the standardised reporting packages in each case; the notes are then consolidated 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 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 auditor and other review bodies are also involved in the freenet Group’s monitoring with process-independent review activities.

In particular, the Group auditor’s review of the consolidated financial statements 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.

Information required under takeover law according to section 315 (4) HGB

Composition of share capital
The share capital (capital stock) of freenet AG amounts to 128,061,016 euros and is divided into 128,061,016 individual registered shares. Each share confers one vote at the Annual General Meeting.

Share transfer and voting restrictions
The Executive Board is not aware of any restrictions on voting rights or the transfer of shares.

Shareholdings exceeding 10 percent of the voting rights
Drillisch AG holds a total of 12.14 percent of the voting rights of the company, directly and indirectly via MSP Holding GmbH.

Shares vested with special rights or powers of control
There are no shares vested with special rights which confer powers of control.

Type of control of voting rights in the event of employees' participation
Employees cannot claim any special rights if they are shareholders.

Appointment and dismissal of members of the Executive Board, amendments to the Articles of Association
The appointment and dismissal of members of the Executive Board of freenet AG is subject to sections 84, 85 AktG and section 31 MitbestG in conjunction with section 5 (1) of the Articles of Association. The clauses governing amendments to the Articles of Association are sections 133, 179 AktG and section 16 in the Articles of Association of freenet AG.

Authorisation of the Executive Board to issue shares
In accordance with section 4 (7) of the Articles of Association, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the Group's share capital by up to 20,000,000 euros by issuing the same amount of new registered or bearer shares, on or before July 6, 2011, against cash and/or contributions in kind ("approved capital 2009").

Authorisation of the Executive Board to buy back shares
The Annual General Meeting of July 6, 2010, authorised the Executive Board to buy back shares up to 10 percent of the current share capital on or before July 5, 2015. This authority may be exercised by the Group or its subsidiaries or by third parties on account of the Group or its subsidiaries. The Executive Board chooses whether the buyback shall take place through the stock exchange, by means of a public purchase offer, by means of a public invitation to submit tenders, by issuing delivery rights to the shareholders, or using equity derivatives (put or call options or a combination of the two).

Change of control

The liabilities to banks taken on by the freenet Group under the syndicated loan contract may be called in part or in full under certain conditions. A right to call the loan may arise in the event of violations of certain contractual restrictions and obligations that freenet AG took on upon the transfer of the syndicated loan. In some cases, freenet AG has no influence on the conditions under which the consortium banks obtain a right to call the loan.

This is true in particular for the right to call the loan in the event of a change of control at the company. Such a change of control already exists, provided the obligation to submit a takeover bid exists, if one party, or several parties acting jointly, obtain a majority at the Annual General Meeting. In the event of the cancellation of the syndicated loan contract, freenet AG bears the risk that subsequent financing to settle the syndicated loan contract cannot be obtained or can only be obtained on terms that are unfavourable for freenet AG. If no subsequent financing can be obtained, freenet AG would be exposed to the risk that the consortium banks liquidate the pledge in the major companies which had been granted to their benefit as well as other collateral furnished by the freenet Group.

Indemnity agreement of the company

In the event of a change of control, stock appreciation rights may be exercised regardless of the vesting period.

Compensation report of the Executive Board and the Supervisory Board

Executive Board compensation

Basic principles of compensation

In accordance with the Supervisory Board's procedural rules, compensation for the Executive Board is set by the Supervisory Board at the proposal of freenet AG Supervisory Board's personnel committee.

The compensation of members of the Executive Board of the company is performance-driven and is comprised of three components: a fixed compensation component, a performance-based element and a long-term component to serve as an incentive.

The compensation of members of the Executive Board of the company is broken down as follows; the following table shows the Executive Board compensation in accordance with section 314 (1) no. 6a HGB, i.e. only the cash-effective compensation and therefore without the non-cash-effective compensation components from stock appreciation rights:

Executive Board compensation 2010 (€'000s)	Fixed compensation	Other variable compensation	Total compensation
Christoph Vilanek	615	400	1,015
Joachim Preisig	425	400	825
Stephan Esch	365	230	595
Axel Krieger	575	299	874
	1,980	**1,329**	**3,309**

Executive Board compensation 2009 (€'000s)	Fixed compensation	Other variable compensation	Total compensation
Christoph Vilanek[1]	410	267	677
Joachim Preisig	422	400	822
Stephan Esch	327	137	464
Axel Krieger	503	212	715
Eric Berger[2]	205	62	267
Eckhard Spoerr[3]	53	29	82
	1,920	**1,107**	**3,027**

1 Compensation after being appointed to the Executive Board of freenet AG, i.e. for the period May 1, 2009, to December 31, 2009
2 Fixed compensation and other variable compensation until the termination of the employment agreement, i.e. for the period January 1, 2009, to September 30, 2009
3 Fixed compensation and other variable compensation until the termination of the employment agreement, i.e. for the period January 1, 2009, to January 23, 2009

In addition to the amounts set out in the above table, payments of 200 thousand euros arising from restriction of post-employment competition clauses were made to former members of the Executive Board in 2010.

Overall, compensation paid to the members of the Executive Board in 2010 in accordance with section 314 (1) no. 6a HGB (cash-effective compensation incl. the payments to former members of the Executive Board as a result of post-employment competition clauses) amounted to 3,509 thousand euros. In the previous year 2009, the compensation for members of the Executive Board in accordance with section 314 (1) no. 6a HGB amounted to 4,044 thousand euros, including the payments of 508 thousand euros to Mr. Berger in order to cover contractual claims, plus the stock appreciation rights issued to Mr. Vilanek with their total value of 509 thousand euros when they were granted in 2009 (fair value in accordance with IFRS 2).

As of December 31, 2010, the provisions for stock appreciation rights were as follows: 452 thousand euros for Mr. Vilanek (previous year: 424 thousand euros), 181 thousand euros for Mr. Preisig (previous year: 386 thousand euros), 30 thousand euros for Mr. Esch (previous year: 392 thousand euros) and 56 thousand euros for Mr. Krieger (previous year: 719 thousand euros). Provisions for stock appreciation rights totalling 148 thousand euros were shown as of December 31, 2010, for Mr. Spoerr and Mr. Berger as former members of the Executive Board (previous year: 1,921 thousand euros).

In the financial year 2010, no new stock appreciation rights or stock options were issued to the members of the Executive Board of the company.

As in the previous year, no cash-effective compensation was paid from stock options and stock appreciation rights in the financial year 2010.

In November 2004, an indirect pension commitment was granted to Mr. Esch and Mr. Krieger. In the financial year 2009, an indirect pension commitment was granted to Mr. Vilanek on the occasion of his appointment as Chief Executive Officer as of May 1, 2009. As of December 31, 2010, the Defined Benefit Obligations (DBOs) were as follows: 265 thousand euros for Mr. Vilanek (previous year: 115 thousand euros), 518 thousand euros for Mr. Esch (previous year: 386 thousand euros) and 1,416 thousand euros for Mr. Krieger (previous year: 1,128 thousand euros). As of September 1, 2008, freenet AG took over the pension commitment granted to Mr. Preisig by debitel AG. As of December 31, 2010, the DBO for Mr. Preisig amounted to 347 thousand euros (previous year: 244 thousand euros). The DBOs for Mr. Spoerr and Mr. Berger as former members of the Executive Board totalled 2,096 thousand euros as of December 31, 2010 (previous year: 1,827 thousand euros).

Current and past service time expenses of 373 thousand euros (previous year: 820 thousand euros) are shown in personnel expenses for the members of the Executive Board as a result of the pension commitments.

No loans were extended to any of the members of the Executive Board, and no guarantees or other warranties were issued for any of the members of the Executive Board.

Compensation provisions for the event of a member of the Executive Board ceasing to be employed

Pensions

In November 2004, all members of the Executive Board of the former freenet.de AG were each granted an indirect pension commitment by freenet.de AG.

Upon termination of employment, the members of the Executive Board of freenet AG are entitled to the benefits described under item 35 of the notes.

Premature termination of employment contract

Service contracts in effect with mobilcom AG and freenet.de AG before the merger were transferred to the company when the merger came into effect. The old contracts, which continued to be legally valid, were replaced by new ones. With the exception of the level of compensation, including the number of stock appreciation rights, the new contracts were the same as the old ones, including the terms of benefits in the event of the employment (prematurely) ending. No right exists to claim compensation for loss of office if a member of the Executive Board is responsible himself for the (premature) ending of his service contract.

In particular, the company's service contracts provide the following benefits in the event of termination of employment for the Executive Board member Stephan Esch as well as the former Executive Board members Eckhard Spoerr, Axel Krieger and Eric Berger:

- The right to payment of salary and bonuses (based on the assumption of 100 percent achievement of targets) for the remaining period of the contract where by mutual agreement the service contract is ended or notice to end is served within, in either case, twelve months of a change of control of the company.
- From their 60th birthday, the aforementioned members of the Executive Board shall receive a pension amounting to 2.5 percent of final annual fixed salary for each year commenced on the Executive Board of the company or its legal predecessor freenet.de AG, to a maximum of one-third of final annual fixed salary (guaranteed pension).
- Survivor annuity for the spouse or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the guaranteed pension.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. If employment is terminated due to a change of control, all stock appreciation rights remain in force and can be exercised regardless of the vesting period if the other exercise conditions are met within twelve months, but not later than by the end of the term. In the event of a member of the Executive Board terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not

later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

For the member of the Executive Board Joachim Preisig, the following rules apply from September 1, 2008:

- Upon retirement on reaching the age of 60, Mr. Joachim Preisig shall receive a pension in the amount of 9,333.00 euros (guaranteed monthly pension). If he leaves early, Mr. Preisig shall receive a pension, after reaching the age of 60 and once the conditions prerequisite to non-forfeiture arise, which is calculated according to legal requirements, hence there is a scaling of the guaranteed pension based on the actual length of service.
- Survivor annuity for the spouse and orphan's pension for binding individual child custody rights on the basis of the guaranteed pension for Joachim Preisig. Widow's and orphan's pensions combined may not exceed 90 percent of the pension that Mr. Preisig was entitled to or eligible for at the time of his death. On reaching the age of 18, orphans will cease to be entitled to receive the monthly orphan's pension. At this point, a one-time lump-sum payment amounting to 24 times the monthly orphan's pension is paid.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. In the event of Mr. Preisig terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

For the Chief Executive Officer Christoph Vilanek, the following rules apply from May 1, 2009:

- From his 60th birthday, Mr. Vilanek shall receive a pension amounting to 2.5 percent of final annual fixed salary for each contractual year commenced on the Executive Board of the company, to a maximum of one-third of final annual fixed salary (target pension).
- Survivor annuity for the spouse or life companion, and orphan's pension for any children until the end of schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the target pension.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, will remain in place. In the event of a member of the Executive Board terminating his service contract for any other good cause or due to a complete reduction in earnings capacity or invalidity, or in the event of death, all stock appreciation rights remain in force and can be exercised, subject to the other contractual conditions, within a period of twelve months from the end of employment, but not later than by the end of the term. Where such termination is due to good cause, the 12-month restriction does not apply.

There are no service contracts with any subsidiaries of freenet AG.

Please also refer to item 35 in the notes for further information, in particular about compensation amounts, stock appreciation rights held, share ownership and other details.

Supervisory Board compensation

Basic principles of compensation

The Supervisory Board compensation is governed by the articles of association, and consists of three components:

- Basic compensation
- Attendance fees
- Performance-linked compensation

The Supervisory Board members receive fixed basic compensation of 30,000 euros for each full financial year of membership on the Supervisory Board. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times this amount.

Every Supervisory Board member receives in addition an attendance fee of 1,000 euros for each Supervisory Board meeting he/she attends. Supervisory Board members who belong to a Supervisory Board committee—with the exception of the committee formed in accordance with section 27 (3) MitbestG—receive in addition an attendance fee of 1,000 euros for each meeting of the committee. The committee chairperson receives double this amount. As part of a voluntary self-restraint agreement, the Supervisory Board waived attendance fees for Supervisory Board and committee meetings held as conference calls, as well as for phone participation in actual meetings with effect from the third quarter of 2010.

The Supervisory Board members also receive, after the end of each financial year, variable performance-based compensation in the amount of 500 euros for each 0.01 euro in dividends in excess of 0.10 euro per share of the company which is distributed to the shareholders for the previous financial year. The extent of the compensation is limited to that amount which is payable in the form of basic compensation. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times this amount.

For their activity during the financial year 2010, the members of the Supervisory Board of the company received fixed compensation of 405.0 thousand euros and attendance fees of 158.0 thousand euros. Performance-based compensation of 405.0 thousand euros was also recognised as an expense. Whether this performance-based compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2010. The total compensation paid for Supervisory Board activities was thus 968.0 thousand euros.

Furthermore, Supervisory Board members are reimbursed for expenses incurred as a result of exercising their office as well as for turnover taxes.

Opportunities and forecast

Opportunities

In the financial year 2010, freenet AG systematically continued its focus on mobile voice and data services which had been started as a result of the debitel acquisition. In this connection, the company largely implemented a comprehensive restructuring and integration programme. For the period 2011/2012, additional measures are planned that will further enhance the long-term competitiveness of the company. They include the following operational priorities and opportunities:

- Final integration steps to unify the two remaining IT landscapes into a single system, with the aim of exploiting additional synergies and cost savings;
- Expanding the company's tariff and product offers, especially in the field of mobile internet but also in the segments of traditional mobile communications, in order to seize opportunities for growth;
- Extending the measures to increase quality and productivity (Retail+) successfully implemented in its own shops in 2010 to independent specialist retailers;
- Continuous process and quality improvements to further reduce cost structures;
- Exploiting the company's distribution power to market new products;
- A quantitative and qualitative expansion of the range of smartphones, especially in the premium segment, and further development of attractive apps and thus participation in the growth trend, with the aim of stabilising ARPU in the contract customer segment long-term.

Forecast

Macroeconomic development

In its annual economic report the German government predicts an increase in real gross domestic product by 2.3 percent for 2011. Hence positive effects on the labour market and further increases in disposable income of private households are expected, which could have a positive impact on private consumption.

Telecommunications market

The VATM and Dialog Consult experts expect a slight increase in mobile communications revenue for 2011, but a decline in the already low mobile communications retail prices by as much as three percent.

freenet Group

The freenet Group's businesses operate in fiercely competitive markets, with varying growth rates and in some cases declining user numbers. Based on the market expectations of the German government, the VATM and Dialog Consult the company currently expects the following developments for 2011 and 2012:

With the stabilization of the customer quality and after the completion of integration activities in the course of 2011, the freenet AG Executive Board foresees a positive overall future development for the company.

In its new customer acquisition and existing customer management, the company will continue to focus on valuable contract relationships. In the past this has led to a reduction of the customer base. The planning for 2011 takes into account a continued qualitative adjustment of the postpaid customer base by less than 500 thousands, and a positive development in the no-frills customer base. For the financial year 2012, efforts will be made to achieve a high degree of stabilisation of the customer base.

The company aims to counter the expected market-wide price decline and associated decline in ARPU by improving the quality of the customer base and by marketing data tariffs. For the financial year 2011, the company expects a stabilisation of the ARPU on the level of the previous year.

Notably as a consequence of the declining customer base in Mobile Communications in 2010, the company expects a year-on-year decline in revenue in 2011.

The freenet Group is aiming for an adjusted Group EBITDA of 325 million euros and a free cash flow[1] of over 200 million euros for the financial year 2011.

For 2012, from today's perspective the company is expecting an adjusted Group EBITDA of over 300 million euros and a sustainably strong free cash flow[1] of over 200 million euros.

Furthermore, the Executive Board has adopted a financial policy which determines that 40—60 percent of future free cash flow[1] will be distributed as dividends.

The Executive Board and the Supervisory Board have decided to propose to the Annual General Meeting the payment of a dividend for the financial year 2010 in the amount of 80 cents per share from retained earnings. This represents a payout ratio of 48 percent of free cash flow.

For the financial year 2011, the Executive Board aims to propose to the Supervisory Board the payment of a dividend in the amount of 80 cents per share.

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.

Summary statement on the prospective development of the Group

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

Büdelsdorf, March 6, 2011
The Executive Board

Christoph Vilanek   Joachim Preisig   Stephan Esch

Consolidated financial statements

Data is our daily bread.

Unseen by the customer, the IT department ensures the smooth functioning of technological processes in the background. To make these processes even more efficient, the freenet Group IT team is hard at work on a complex project on an unprecedented scale: unifying our two remaining IT landscapes into a single system.

An elaborate project involving the migration of 20 terabytes of data material, which is unparalleled in Europe.

Heike Peters, Administrator Office IT:

"There's so much to do. In addition to the tasks of the everyday routine, my colleagues and I are working full steam on unifying all systems and data. This allows us to successfully merge mobilcom, debitel and Talkline also on an IT level."

Consolidated financial statements

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Consolidated income statement and consolidated statement of comprehensive income for the period from January 1 to December 31, 2010

In €'000s	Note	1.1.2010 —31.12.2010	1.1.2009 —31.12.2009 adjusted
Revenue	4	3,339,504	3,601,786
Other operating income	5	85,692	116,444
Other own work capitalised		9,991	10,192
Cost of materials	6	–2,619,199	–2,839,152
Personnel expenses	7	–149,312	–199,653
Depreciation and impairment write-downs	8	–189,442	–202,438
Other operating expenses	9	–333,064	–364,277
Operating result		**144,170**	**122,902**
Share of results of associates	17	1,331	1,685
Interest receivable and similar income	10	18,163	15,188
Interest payable and similar expenses	11	–61,024	–103,042
Result before taxes on income		**102,640**	**36,733**
Taxes on income	12	16,122	–19,012
Group result from continued operations		**118,762**	**17,721**
Group result from discontinued operations	24	**–6,295**	**238,769**
Group resullt		**112,467**	**256,490**
Group result attributable to shareholders of freenet AG		112,433	256,485
Group result attributable to minority interest		34	5
Earnings per share (undiluted) in €	13.1	**0.88**	**2.00**
Earnings per share (diluted) in €	13.2	**0.88**	**2.00**
Earnings per share from continued operations (undiluted) in €	13.1	0.93	0.14
Earnings per share from continued operations (diluted) in €	13.2	0.93	0.14
Earnings per share from discontinued operations (undiluted) in €	13.1	–0.05	1.86
Earnings per share from discontinued operations (diluted) in €	13.2	–0.05	1.86
Weighted average of shares outstanding in thousand (undiluted)		128,061	128,061
Weighted average of shares outstanding in thousand (diluted)		128,061	128,061

In €'000s	1.1.2010 —31.12.2010	1.1.2009 —31.12.2009
Group result	**112,467**	**256,490**
Change in fair value of held-for-sale financial instruments	22	12
Taxes on income recognised directly in equity	–7	–4
Change in value recognised directly in equity	**15**	**8**
Consolidated comprehensive income	**112,482**	**256,498**
Consolidated comprehensive income attributable to shareholders of freenet AG	112,448	256,493
Consolidated comprehensive income attributable to minority interest	34	5

Consolidated balance sheet as of December 31, 2010

Assets in €'000s	Note	31.12.2010	31.12.2009
Non-current assets			
Intangible assets	14, 15	578,722	735,082
Goodwill	14, 15	1,115,924	1,116,505
Property, plant and equipment	14, 15	37,678	52,103
Investments in associates	17	3,403	3,645
Other investments	18	2,258	2,190
Deferred income tax assets	19	79,828	27,090
Trade accounts receivable	21	19,530	3,755
Other receivables and other assets	21	11,006	17,817
		1,848,349	**1,958,187**
Current assets			
Inventories	20	51,897	52,057
Current income tax assets	23	3,486	10,005
Trade accounts receivable	21	407,539	487,296
Other receivables and other assets	21	44,500	45,689
Cash and cash equivalents	22	174,334	480,291
Assets of disposal group classified as held-for-sale	24	12,283	0
		694,039	**1,075,338**
		2,542,388	**3,033,525**

Shareholders' equity and liabilities in €'000s	Note	31.12.2010	31.12.2009
Shareholders' equity	25		
Share capital	25.1	128,061	128,061
Capital reserves		737,536	737,536
Revaluation reserve		56	41
Retained earnings		268,811	181,980
Capital and reserves attributable to shareholders of freenet AG		**1,134,464**	**1,047,618**
Capital and reserves attributable to minority interest		0	141
		1,134,464	**1,047,759**
Non-current liabilities			
Trade accounts payable	27	387	3
Other payables	27	11,796	54,138
Borrowings	29	584,583	718,207
Pension provisions	30	24,638	24,194
Provisions for other liabilities and charges	31	19,211	12,792
		640,615	**809,334**
Current liabilities			
Trade accounts payable	27	355,191	390,289
Other payables	27	132,082	177,927
Current income tax liabilities	28	27,339	7,337
Borrowings	29	215,435	551,874
Provisions for other liabilities and charges	31	26,929	32,469
Liabilities of disposal group classified as held-for-sale	24	10,333	16,536
		767,309	**1,176,432**
		2,542,388	**3,033,525**

Schedule of changes in equity for the period from January 1 to December 31, 2010

In €'000s	Share capital	Capital reserves	Revaluation reserves	Retaines earnings	Capital and reserves attri-butable to shareholders of freenet AG	Capital and reserves attributable to minority interest	Share-holders' equity
As of 1.1.2009	**128,061**	**737,536**	**33**	**–74,505**	**791,125**	**136**	**791,261**
Consolidated comprehensive income	0	0	8	256,485	256,493	5	256,498
As of 31.12.2009	**128,061**	**737,536**	**41**	**181,980**	**1,047,618**	**141**	**1,047,759**
As of 1.1.2010	**128,061**	**737,536**	**41**	**181,980**	**1,047,618**	**141**	**1,047,759**
Dividend payment	0	0	0	–25,602	–25,602	0	–25,602
Deconsolidation due to sale of subsidiaries	0	0	0	0	0	–175	–175
Consolidated comprehensive income	0	0	15	112,433	112,448	34	112,482
As of 31.12.2010	**128,061**	**737,536**	**56**	**268,811**	**1,134,464**	**0**	**1,134,464**

Consolidated statement of cash flows from January 1 to December 31, 2010

In €'000s	Note	1.1.2010 –31.12.2010	1.1.2009 –31.12.2009
Result from continued and discontinued operations before interest and taxes (EBIT)		**139,058**	**352,528**
Adjustments			
Depreciation and impairment on items of fixed assets	8, 24	191,624	224,872
Share of results of associates	17	–1,331	–1,685
Proceeds from the sale of subsidiaries	24	–4,251	–239,920
Loss on disposals of fixed assets		4,259	2,816
Increase in net working capital[1] not attributed to investing or financing activities	20, 21, 30, 31, 33.1	–82,658	–22,294
Other non-payment components		–49	23
Income taxes paid	12, 19	–10,400	–20,797
Cashflow from operating activities	33.1	**236,252**	**295,543**
Investments in property, plant and equipment and intangible assets		–26,561	–69,920
Proceeds from the disposal of property, plant and equipment and intangible assets		2,044	6,734
Proceeds from the sale of subsidiaries	24	19,062	362,793
Return of capital from associates	17	1,573	1,502
Interest received		4,275	6,726
Cashflow from investing activities	33.2	**393**	**307,835**
Dividend payment		–25,602	0
Cash repayments of bonds and borrowings	29	–454,047	–155,813
Interest paid		–58,117	–96,197
Cashflow from financing activities	33.3	**–537,766**	**–252,010**
Cash-effective change in cash and cash equivalents		**–301,121**	**351,368**
Cash and cash equivalents at 1.1.		**331,418**	**–19,950**
Cash and cash equivalents at 31.12.		**30,297**	**331,418**
Cashflow from operating activities		236,252	295,543
Investments in property, plant and equipment and intangible assets		–26,561	–69,920
Proceeds from the disposal of property, plant and equipment and intangible assets		2,044	6,734
Free cash flow (FCF)		**211,735**	**232,357**

1 Net working capital is defined as the sum of the following positions: Trade accounts receivable, Other receivables and other assets, Inventories, Trade accounts payable, Other payables, Pension provisions, Provisions for other liabilities and charges. Moreover positions such as "Assets of disposal group classified as held-for-sale" as well as "Liabilities of disposal group classified as held-for-sale" can contain positions of net working capital due to their nature and origin. With their respective amounts such items are also included in "Decrease/increase in net working capital"

Consolidated statement of movements in non-current assets as of December 31, 2010

In €'000s	Cost of purchase or production				
	1.1.2010	Additions	Transfers	Disposals	31.12.2010
Intangible assets					
Internally-generated software	36,763	10,175	4,068	5,274	45,732
Software and licences	242,619	5,365	–4,037	20,821	223,126
Trademarks	335,035	0	0	0	335,035
Customer relationships	489,072	0	0	174	488,898
Goodwill	1,116,505	0	0	128	1,116,377
	2,219,994	**15,540**	**31**	**26,397**	**2,209,168**
Property, plant and equipment					
Land, facilities on land and buildings	14,914	65	0	0	14,979
Switches and networks	177,910	65	–4,799	61,207	111,969
Technical equipment and machinery	23,605	2,596	3,704	75	29,830
Other office equipment	120,479	8,078	1,190	20,619	109,128
Payments on account and assets under construction	129	217	–126	2	218
	337,037	**11,021**	**–31**	**81,903**	**266,124**
	2,557,031	**26,561**	**0**	**108,300**	**2,475,292**

Depreciation and impairment write-downs						Net book amounts	
1.1.2010	**Additions**	**Impairment write-downs**	**Transfers**	**Disposals**	**31.12.2010**	**31.12.2010**	**1.1.2010**
20,588	11,126	0	0	5,090	26,624	19,108	16,175
163,290	42,278	2,545	26	20,644	187,495	35,631	79,329
12,998	4,851	0	0	0	17,849	317,186	322,037
171,531	110,585	0	0	15	282,101	206,797	317,541
0	0	453	0	0	453	1,115,924	1,116,505
368,407	**168,840**	**2,998**	**26**	**25,749**	**514,522**	**1,694,646**	**1,851,587**
5,801	564	0	0	0	6,365	8,614	9,113
176,984	118	120	–4,799	61,204	111,219	750	926
19,398	1,899	226	3,727	75	25,175	4,655	4,207
82,751	16,569	290	1,046	14,969	85,687	23,441	37,728
0	0	0	0	0	0	218	129
284,934	**19,150**	**636**	**–26**	**76,248**	**228,446**	**37,678**	**52,103**
653,341	**187,990**[1]	**3,634**[1]	**0**	**101,997**	**742,968**	**1,732,324**	**1,903,690**

1 The additions to depreciation in the amount of 187,990 thousand euros and the impairment write-downs in the amount of 3,634 thousand euros are included in the income statement as follows:

Depreciation and impairment write-downs on property, plant and equipment and intangible assets	189,442
Group result from discontinued operations	2,182
	191,624

Consolidated statement of movements in non-current assets as of December 31, 2009 (adjusted)

In €'000s	Cost of purchase or production					
	1.1.2009	Change in companies included in consolidation	Additions	Transfers	Disposals	31.12.2009
Intangible assets						
Internally-generated software	26,755	–175	9,989	203	9	36,763
Software and licences	231,166	–25,616	39,855	1,580	4,366	242,619
Trademarks	352,639	–17,704	100	0	0	335,035
Customer relationships	524,870	–36,304	506	0	0	489,072
Goodwill	1,120,162	–3,717	60	0	0	1,116,505
	2,255,592	**–83,516**	**50,510**	**1,783**	**4,375**	**2,219,994**
Property, plant and equipment						
Land, facilities on land and buildings	14,930	0	5	0	21	14,914
Switches and networks	187,670	0	574	61	10,395	177,910
Technical equipment and machinery	50,343	–31,516	3,286	2,882	1,390	23,605
Other office equipment	143,441	–19,098	15,220	–2,938	16,146	120,479
Payments on account and assets under construction	1,597	0	325	–1,788	5	129
	397,981	**–50,614**	**19,410**	**–1,783**	**27,957**	**337,037**
	2,653,573	**–134,130**	**69,920**	**0**	**32,332**	**2,557,031**

Depreciation and impairment write-downs							Net book amounts	
1.1.2009	Change in companies included in consolidation	Additions	Impairment write-downs	Transfers	Disposals	31.12.2009	31.12.2009	1.1.2009
11,534	–11	6,594	2,471	0	0	20,588	16,175	15,221
119,612	–12,423	48,649	9,433	2	1,983	163,290	79,329	111,554
5,178	0	7,820	0	0	0	12,998	322,037	347,461
69,918	–10,258	111,873	0	–2	0	171,531	317,541	454,952
0	0	0	0	0	0	0	1,116,505	1,120,162
206,242	**–22,692**	**174,936**	**11,904**	**0**	**1,983**	**368,407**	**1,851,587**	**2,049,350**
5,248	0	565	0	0	12	5,801	9,113	9,682
177,011	0	4,175	6,193	0	10,395	176,984	926	10,659
34,441	–19,887	4,623	1,480	0	1,259	19,398	4,207	15,902
83,706	–12,818	20,728	268	0	9,133	82,751	37,728	59,735
0	0	0	0	0	0	0	129	1,597
300,406	**–32,705**	**30,091**	**7,941**	**0**	**20,799**	**284,934**	**52,103**	**97,575**
506,648	**–55,397**	**205,027[1]**	**19,845[1]**	**0**	**22,782**	**653,341**	**1,903,690**	**2,146,925**

1 The additions to depreciation in the amount of 205,027 thousand euros and the impairment write-downs in the amount of 19,845 thousand euros are included in the income statement as follows:

Depreciation and impairment write-downs on property, plant and equipment and intangible assets	202,438
Group result from discontinued operations	22,434
	224,872

Notes to the consolidated financial statements of freenet AG for the financial year 2010

1. General information

1.1 Business activity and accounting standards

freenet AG (also referred to in the following as “the Company”), the Group‘s parent company (also referred to in the following as “freenet”), is registered in Büdelsdorf, Germany. The Group provides telecommunication services in Germany focussing on mobile communications/mobile internet.

The consolidated financial statements for the financial year 2010 were prepared in accordance with the IFRS of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as applied in the European Union as of December 31, 2010. The regulations of commercial law applicable in accordance with section 315a HGB have additionally been taken into consideration.

The consolidated financial statements have been prepared in euros, the Company‘s functional currency. Unless otherwise specified, all figures are stated in thousand euros (€’000s) or million euros.

The consolidated financial statements have been prepared applying the historical cost convention—subject to the restriction that some financial assets are stated with their fair value. The annual financial statements of the companies included in the consolidated financial statements are subject to uniform accounting and valuation principles. They have all been prepared in relation to the balance sheet date of the consolidated financial statements.

The following table shows the new or modified standards (IAS/IFRS) or interpretations (IFRIC), which are the subject of mandatory adoption with effect from January 1, 2010, or which have been the subject of early voluntary adoption since January 1, 2010, and the related impact on the Group:

Standard/Interpretation		Mandatory application	Adoption by EU Commission	Impact
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements under IFRS	1.7.2009	12.6.2009	Depending on the nature and extent of future transactions
IFRS 3 (revised 2008)	Business Combinations	1.7.2009	12.6.2009	Depending on the nature and extent of future transactions
IFRIC 12	Service Concession Agreements	30.3.2009	26.3.2009	None
IFRIC 15	Agreements for the Construction of Real Estate	1.1.2010	27.7.2009	None
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1.7.2009	5.6.2009	None
IFRIC 17	Distributions of Non-cash Assets to Owners	1.11.2009	27.11.2009	None
IFRIC 18	Transfer of Assets from Customers	1.11.2009	1.12.2009	None
IAS 39	Financial Instruments: Recognition and Measurement (Admissible Underlyings as Part of Hedge Relationships)	1.7.2009	16.9.2009	None
IFRS 1	Restructuring of the Standard	1.1.2010	26.11.2009	None
IFRS 2	Changes to IFRS 2 and IFRIC 11: Share-based Payment Transactions with Cash Settlement within a Group	1.1.2010	24.3.2010	None
Diverse	Annual Improvements Project 2009—Improvements to the IFRS	1.1.2010 (some earlier)	24.3.2010	No material impact

The following table shows the new or modified standards (IAS/IFRS) or interpretations (IFRIC) which are not the subject of mandatory adoption in the financial year 2010 and their probable impact on the Group:

Standard/Interpretation		Mandatory application	Adoption by EU Commission	Impact
IAS 24	Related Party Disclosures	1.1.2011	20.7.2010	Still being reviewed by management
IFRS 1	Change to IFRS 1: Limited Exemption from Comparative Disclosures in Accordance with IFRS 7 for First-Time Adopters	1.7.2010	1.7.2010	None
IAS 32	Change to IAS 32: Classification of Subscription Rights	1.2.2010	24.12.2009	None
Diverse	Annual Improvements Project 2010—Improvements to the IFRS	Depending on the standard	Pending	Still being reviewed by management
IFRIC 14	Change to IFRIC 14: Advance Payments as Part of Minimum Funding Requirements	1.1.2011	20.7.2010	None
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1.7.2010	24.7.2010	Still being reviewed by management
IFRS 7	Change to IFRS 7: Financial Instruments—DIsclosures (October 2010)	1.7.2011	Pending	Still being reviewed by management
IFRS 1	Change to IFRS 1: Severe High Inflation and Remedying of Fixed Data for First-Time Adopters	1.7.2011	Pending	None
IAS 12	Change to IAS 12: Deferred Taxes—Realisation of Underlying Assets	1.1.2012	Pending	Still being reviewed by management
IFRS 9	Financial Instruments—Classification and Valuation	1.1.2013	Pending	Still being reviewed by management

1.2 Consolidated companies

The consolidated financial statements include all companies with respect to which the Company is directly or indirectly in a position to determine the company's financial and business policies in such a way that the Group parent benefits from the activities of the company in question. For a complete list of all companies included in freenet AG's consolidated financial statements, please consult our disclosures in accordance with section 315a HGB in item 36.

A joint venture is a contractual agreement under which two or more partners carry out an economic activity which is subject to joint management.

Associated companies are defined as companies over which the Group exerts a significant influence but which are not controlled by the Group; normally involving a share of between 20 and 50 percent in voting rights.

01019 Telefondienste GmbH, 01024 Telefondienste GmbH, freenet.de GmbH, freeXmedia GmbH, freenet Cityline GmbH, freenet Datenkommunikations GmbH, 01050.com GmbH, tellfon GmbH, 01083.com GmbH, new directions GmbH, freenet Direkt GmbH, mobilcom-debitel GmbH, MobilCom Multimedia GmbH,

mobilcom-debitel AG, debitel Konzernfinanzierungs GmbH, mobilcom-debitel Shop GmbH, DEG Logistik GmbH, Stanniol GmbH für IT & PR, MIDRAY GmbH, as well as meOme GmbH will take advantage of the exemption regulations specified in section 264 (3) HGB for the annual financial statements for the period ending December 31, 2010.

1.3 Consolidation principles

Companies are included for the first time in the consolidated financial statements with effect from the date on which the Company assumes control. Minority interests in the companies are disclosed separately on the balance sheet.

The purchase method was applied to the capital consolidation.

The historical cost of company acquisitions is determined by the sum of the fair values of the assets purchased, the liabilities acquired, any equity instruments issued for acquisition purposes and the costs directly attributable to the acquisition.

All of the acquired company's identifiable assets, liabilities and contingent liabilities meeting the recognition criteria of IFRS 3.37 will be disclosed separately at their fair value, irrespective of the extent of any minority interests.

Goodwill is recognised as that portion of the asset value at the time of acquisition, as determined in the initial valuation, which is in excess of the purchaser's share of the fair value of the acquired company's identifiable assets, liabilities and contingent liabilities. Any excess in the share of the fair net value of the acquired company over the costs of acquisition is immediately recognised as revenue.

Joint ventures are included in the consolidated financial statements using the proportional consolidation method. The Group's shares of the assets, liabilities, revenue and expenditure are summarised in the corresponding items on the consolidated balance sheet and income statement.

Investments in associates are disclosed in the consolidated financial statements according to the equity method, whereby the recognised values of the holdings are increased or reduced by the proportion of the changes in the joint venture's equity capital which is attributable to the freenet Group. Goodwill arising from the acquisition of associates is not disclosed separately.

Internal profits and losses, revenue, costs and income as well as intercompany receivables and liabilities are eliminated. The elimination of intercompany profits is also applicable for associates.

2. Accounting and valuation methods

The following accounting and valuation methods were applied when preparing the consolidated financial statements. The accounting and valuation methods have been applied consistently compared with the previous year, with the exception of the changes described under "2.20 Comparable figures and changes in the accounting policies".

2.1 Revenue

The Group mainly provides services for a short period. Revenue is recognised after the services have been rendered completely if the amount of revenue can be reliably determined and if it is probable that a future economic benefit will flow to the Company. Services rendered but not yet invoiced are accrued separately in the consolidated

financial statements. Revenue is disclosed net of value added tax and cash discounts. Revenue comprises the fair value of the consideration which has been received or which will be received for the sale of products and services within the framework of normal business activities.

Most of the sales of the Group are generated with a large number of end users; the remaining sales are attributable to business clients.

Supplementary notes on revenue:

Revenues in the Mobile Communications segment are generated by the range of mobile communications services offered, one-off provision charges as well as the sale of mobile devices and accessories. Mobile communications revenues (voice communication as well as data transmission) comprise monthly charges, charges for special features as well as connection and roaming charges. The voice communication and data transmission fees are recognised as revenue over the period during which the service is provided. Revenues from the sale of mobile devices and accessories products are recognised when the products are delivered to the customer or the distributor. Revenue attributable to provision fees are realised at the point at which network access is provided to the customer.

Certain end user contracts in the Mobile Communications segment are multiple-component contracts as detailed in IAS 18.13. The “relative-fair-value method” is used for revenue generated with multiple-component contracts. The Group applies the US-GAAP guideline EITF 00-21 in accordance with IAS 8.10 et seq. The price for the entire multiple-component business is broken down over the various valuation entities on the basis of the proportionate fair values. The extent of the revenue to be recognised in relation to the elements which have already been supplied is limited to the extent of the revenue which is not dependent on services to be provided in future (so-called “cash restriction”).

The Group receives commission revenue from the operators of the mobile communications networks particularly for new users who are signed up and for contract extensions. Commission revenue for new customers is recognised as soon as a new customer is provided with network access at a network provider. The commission claims are based on contractually defined qualitative and quantitative features, such as the number of new customers per quarter or the average revenue per user. In addition, advertising cost subsidies are also provided for some advertising campaigns and, if the granting of the subsidies is linked to the new customers, these are recognised in the revenue. Where claims extend beyond the period in which the services were performed, commission revenue is accrued accordingly.

With regard to added-value services, amounts are received for the Company’s own account and also on behalf of third parties. Amounts which the Company charges for the account of the customer do not constitute revenue in accordance with IAS 18.

2.2 Borrowing costs

Borrowing costs are capitalised if a qualified asset exists. Other borrowing costs are recognised as expense.

2.3 Intangible assets

Goodwill is tested for impairment at least once every year, and is shown at original cost less cumulative impairments.

For this purpose, the goodwill is allocated to cash generating units. It is allocated to those cash generating units or groups of cash generating units which are expected to derive a benefit from the merger which gave rise to the goodwill. With regard to the specific breakdown, please refer to item 14 “Intangible assets, property, plant and equipment and goodwill” as well as item 15 “Impairment test for non-monetary assets”.

One brand with a major residual carrying amount is an asset with an indefinite useful economic life which is not depreciated, and instead is subject to an impairment test once every year or if there are any indications of an impairment. An indefinite useful life has been chosen because no steady loss of value is discernible with respect to this asset, nor could any time limit be set on its useful life.

On the other hand, the other brand names with a major residual carrying amount have a determinate useful economic life. These brand names are carried at their historical cost and are depreciated over their expected useful economic life on a straight-line basis. On the balance sheet date December 31, 2010, the remaining useful life of these brand names was between 36 and 60 months.

Licences and software are shown at cost and are depreciated using the straight-line method over their expected economic life, in general three years for software and three to ten years for licences.

Costs incurred in developing or maintaining software programs are usually recognised as expenses in the year they are incurred. Such costs are recognised as intangible assets under the heading “internally generated software” provided they relate to a clearly defined software product which can be used by the Company, and the product‘s expected overall economic benefit is greater than the costs incurred These costs include the personnel costs for the software development team as well as expenditure on services and fees incurred in creating the asset. Development costs are not capitalised until the point in time when their technical and economic feasibility can be proven. Capitalised software development costs are subjected to straight-line depreciation over the duration of their prospective useful life of three to five years.

Customer relations are depreciated over a period of 42 to 66 months using the straight-line method. The main customer relations shown in the consolidated financial statements are written down over a residual useful life of 24 months as of December 31, 2010.

A distribution right is depreciated using the straight-line method over the expected duration of the underlying agreement.

2.4 Property, plant and equipment

Property, plant and equipment is valued at the cost of acquisition or production less systematic straight-line depreciation. The useful lives assumed for the depreciation of assets reflect the assets’ expected useful lives within the Company. In calculating depreciation, the residual values at the end of the assets’ useful lives are disregarded on grounds of immateriality.

The residual book values and useful economic lives are reviewed at each balance sheet date and adjusted where applicable.

Systematic depreciation of property, plant and equipment is generally based on the following useful lives:

Asset	Useful life
Buildings	25 to 33 years
Technical equipment and machinery	3 to 19 years
Motor vehicles	2 to 7 years
IT equipment	3 to 10 years
Telecommunications equipment and hardware	3 to 6 years
Leasehold improvements	3 to 10 years

2.5 Impairment of non-monetary assets

Non-monetary assets are always impaired if the book value exceeds the recoverable amount. The recoverable amount is defined as the higher of the fair value of the asset less costs to sell and the value in use.

An impairment test has to be carried out if triggering events indicate that the value of the asset might be impaired. Goodwill and assets with indefinite useful lives must be tested once a year in accordance with the provisions of IAS 36 for loss of value (impairment).

If the reason for an impairment is no longer applicable, the value of the asset is written up to a figure not exceeding the amortised cost of purchase. This is not applicable for goodwill and assets with an indefinite useful economic life, because no write-ups are possible in this respect.

2.6 Leases

2.6.1 Leases where the Group is the lessee

The Group decides on a case by case basis whether assets are to be leased or purchased. For non-current assets, specific rules apply to motor vehicles (operating leases) and plant and equipment (purchase), but not to IT hardware and telecommunications equipment.

Leases which the Group enters into as the lessee are classified as either operating leases or finance leases, depending on whether all the significant risks and opportunities associated with the ownership of the leased property are transferred. Payments made in connection with an operating lease (net after taking account of incentive payments made by the lessor) are recognised as a cost in the income statement using the straight-line method over the duration of the lease.

In the case of finance leases, IAS 17 specifies that the leased assets of which the Group is the beneficial owner are capitalised and depreciated over their expected useful lives. Accordingly, the liability arising from the lease is shown as a liability and reduced by the repayment content of the leasing instalments which have already been made. The interest content of the leasing instalments is recognised directly in the income statement. As of the closing date December 31, 2010, no contracts were classified as finance leases.

2.6.2 Leases where the Group is the lessor

When beneficial ownership of an asset is transferred to the contractual partner or customer, the Group shows a receivable due from the lessee in accordance with IAS 17. The receivable is shown in the amount of the net investment value at the time at which the contract is concluded. Lease instalments which are received are split into an interest component, which is recognized in the income statement, and a redemption component. The interest components are recognised as financial income spread over the relevant periods. As of the closing date December 31, 2010, there are no contracts in which the Group is classified as the lessor.

2.7 Investments in associates

Equity investments in associates continue to be recognised via an individual financial statement prepared for the various associates in accordance with IFRS and the Group's accounting and valuation methods. With regard to the principles of consolidation using the equity method, please refer to item 1.3.

2.8 Financial instruments

2.8.1 Definition and classification

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. For the purpose of measurement, financial assets are normally broken down into the following categories:

- Financial assets measured at fair value through profit or loss,
- Loans and receivables,
- Held-to-maturity financial assets,
- Available-for-sale financial assets.

The classification depends on the individual purpose for which the financial assets were acquired. Management determines the classification of the financial assets upon initial recognition.

2.8.2 Financial assets measured at fair value through profit or loss

This category comprises financial assets which are classified as held-for-trading right from the very beginning, and financial assets which are classified as "measured at fair value through profit or loss" right from the start. A financial asset is assigned to this category if it is in principle acquired with the intention of being sold in the near future or if the financial asset is designated accordingly by management. Derivatives are also included in this category.

The financial assets measured at fair value through profit or loss which existed on the balance sheet date consist of derivative financial assets which are shown under current other receivables and other assets.

2.8.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. They arise if the Group provides money, commodities or services directly to a debtor without any intention of trading the

receivables. They are included under current assets, with the exception of those which only fall due 12 months after the balance sheet date. Such assets are shown as non-current assets. Loans and receivables are shown in the balance sheet under trade accounts receivable, as well as in other receivables and other assets. They also include services which have been provided but which have not yet been billed but for which a contractual claim exists.

2.8.4 Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed terms in relation to which Group management intends and is able to hold until final maturity. Held-to-maturity financial assets—with the exception of those which fall due within 12 months after the balance sheet date and which are shown correspondingly as current assets—have to be shown under non-current assets.

At present, the Group does not classify any financial instruments as held-to-maturity.

2.8.5 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which either have to be classified under this category or which have not been classified under any of the other categories shown. They are classified under non-current assets if management does not intend to sell them within 12 months after the balance sheet date.

Shares in affiliated companies and investments are considered to be available-for-sale financial assets. The available-for-sale financial assets which existed on the balance sheet date are shown in the other financial assets as well as the other receivables and other assets.

2.8.6 Measurement of financial instruments

Regular purchases and sales of financial assets are shown as of the trade date, i.e. the day on which the Group enters into an obligation to buy or sell the asset. Financial assets which are not designated as “measured at fair value through profit or loss” are initially shown with their fair value plus transaction costs.

Financial assets which are designated as “measured at fair value through profit or loss” are initially shown with their fair value; corresponding transaction costs are expensed in the income statement.

Financial assets measured at fair value through profit or loss are subsequently measured at fair value. Any profit or loss resulting from the subsequent measurement of financial assets measured at fair value through profit or loss is taken to the income statement. Interest swaps and caps are derivative financial instruments and are used for hedging the risks of rising interest rates for financial liabilities. Because freenet does not maintain complete documentation and also does not maintain an effectiveness test, the interest swaps and caps are not shown as “hedge accounting” in accordance with IAS 39. Changes in fair value are thus immediately recognised in the income statement. Interest swaps and interest caps are measured at the market price. This is derived from the corresponding quotes of credit institutions which determine the market price on the basis of future cash flows by way of internal mark-to-market models.

After initial recognition, loans and receivables are shown at amortised cost using the effective interest method less impairments for reductions in value. Profits and losses are shown in the result for the period if the loans and receivables are derecognised, impaired or amortised.

After initial recognition, held-to-maturity investments are shown at fair value plus transaction costs. Profits and losses are recognised in the result for the period if the held-to-maturity investments are derecognised, impaired or amortised.

After initial recognition, available-for-sale financial assets are shown with their fair value, whereby unrealised profits or losses are recognised directly in equity, under the revaluation reserve. Dividend income arising from financial assets in this category has to be shown as other income in the income statement. Dividends attributable to available-for-sale equity instruments have to be shown in the income statement as other income at the point at which the legal claim of the Group for payment arises.

Shares in affiliated companies, investments and securities however are shown at cost, because it is not possible for their fair value to be reliably determined. The shares are not listed and an active market does not exist; moreover, there is no intention for these assets to be sold at present. If there are any indications of lower fair values, these are recognised.

2.8.7 Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits and other current highly liquid financial assets with an original term of max. three months.

2.8.8 Liabilities

Liabilities comprise the financial liabilities, trade accounts payable as well as other liabilities. When initially recognised, they are shown with the fair value of the consideration received less the transaction costs associated with borrowing.

In the following period, the financial liabilities are shown at amortised cost using the effective interest method. Profits and losses are recognised in the income statement when the liabilities are derecognised or amortised.

Non-current liabilities are shown at amortised cost. Any differences between historical cost and the repayment amount are recognised in accordance with the effective interest method.

Current liabilities are shown in the amount due for repayment or fulfilment. Loan liabilities are classified as current liabilities provided that the Group does not have the unconditional right to postpone settlement of the liability to a point in time no earlier than 12 months from the balance sheet date.

Derivative financial instruments are measured on the basis of future cash flows. Accordingly, derivative financial instruments can also be shown as financial liabilities.

Financial liabilities arising from finance leases are shown at the present value of the minimum lease payments.

2.8.9 Impairment of financial assets

On every balance sheet date, a check is performed to determine whether there are any objective indications of an impairment of a financial asset or a group of financial assets. In the case of equity instruments which are classified as available-for-sale financial

assets, a considerable or permanent decline in the fair value to a level below the costs of these equity instruments is considered to be an indication that the equity instruments are impaired. If there is such an indication for available-for-sale assets, the cumulative loss—measured as the difference between the cost of purchase and the current fair value less any impairment losses recognised in relation to the relevant financial asset—is derecognised from equity and shown in the income statement. Once impairments of equity instruments have been recognised in the income statement, they are not subsequently reversed.

In the case of listed equities which are categorised as available for sale, a major or permanent decline of the fair value of the securities to a level below their cost of purchase is considered to be an objective indication of an impairment. If no market prices are available, other valuation methods are used, e.g. the DCF method.

An impairment of trade accounts receivable is recognised if there are objective indications that the due amounts are not fully recoverable. Considerable financial difficulties of a debtor, an increased probability that the borrower will become bankrupt or will have to go through another restructuring process, as well as any breach of contract, e.g. default or late payment of interest and principal, are considered to be an indication of the existence of an impairment.

In the case of some categories of financial assets, for instance trade accounts receivable, assets for which no impairment has been determined on an individual basis are tested for impairment on a portfolio basis. Objective indications of an impairment of a portfolio of receivables might be the Group's experience with payment inflows in the past, an increase in the frequency of payment defaults within the portfolio over the average duration of a loan as well as evident changes in the national or local economic climate which are associated with defaults of receivables.

The book value of the receivable is reduced by using an impairment account. If a receivable has become irrecoverable, it is derecognised from the impairment account. Subsequent payment inflows in relation to previously derecognised amounts are shown in the income statement under impairments of trade accounts receivable.

2.8.10 Derecognition of financial assets

The Group derecognises a financial asset only if the contractual right to cash flows attributable to a financial asset expires or if it transfers the financial asset and essentially all the risks and opportunities with ownership of the assets to a third party.

2.9 Inventories

Inventories are shown at the lower of cost and the net realisable value on the balance-sheet date. The net realisable value is defined as the estimated recoverable proceeds less costs to sell. Costs of purchase and costs of production are measured on the basis of the moving average.

2.10 Foreign currency transactions

The financial statements of foreign Group companies which do not prepare their accounts in the reporting currency are translated into euros. The modified reference date method is used for translation purposes. Receivables and liabilities are translated using the exchange rate applicable on the date of the transaction.

The balances of the income statement are translated into euros using average rates. Profits and losses arising from changes in exchange rates which occur by the balance sheet date are shown in the income statement.

2.11 Shareholders' equity

Ordinary shares, capital reserves, revaluation reserves, retained earnings as well as minority interests are shown as shareholders' equity.

2.12 Pension provisions

Pension provisions are measured and recognised in accordance with IAS 19.

The pension provision shown in the balance sheet is equivalent to the actuarial present value of the defined benefit obligation on the balance-sheet date less the fair value of the plan assets adjusted by cumulative actuarial profits and losses which have so far not been shown in the income statement as well as subsequent service cost not shown in the income statement. The present value of the defined benefit obligation is calculated every year by an independent actuarial expert using the projected unit credit method. This method takes account not only of the pensions and acquired vested interests known on the balance sheet date; it also includes likely future increases in pensions and salaries.

Actuarial profits and losses which are based on adjustments and changes to actuarial assumptions attributable to past experience are shown in the income statement if the balance of the cumulative actuarial profits and losses not shown in the income statement exceeds the higher of ten percent of the present value of the defined benefit obligation (before deduction of the plan assets) or ten percent of the fair value of the plan assets at the end of the previous reporting period. These profits or losses are realised over the expected remaining service years of the beneficiary.

Past service cost is immediately taken to the income statement, unless the changes in the pension plan depend on the employee remaining with the Company for a defined period (period until entitlement becomes vested). In this case, the past service cost is shown in the income statement using the straight-line method over the period until the rights become vested.

The service cost is shown under personnel expenses, and the interest portion of the addition to provisions is shown in financial result.

Contributions to defined-contribution benefit plans are recognised in the income statement in the year in which they are incurred.

2.13 Other provisions

Provisions are recognised for legal or constructive obligations of uncertain timing or amount which arise as a result of past events, where it is more likely than not that settlement of the obligation will lead to an outflow of Group resources and where a reliable estimate of the extent of the obligation can be made. The provisions are valued using a best-possible estimate of the obligation on the balance-sheet date, taking into account the discounting of non-current obligations.

If a number of identical obligations exists, the probability of an asset charge on the basis of this Group of obligations is determined. A provision is also shown if there is only a minor probability of an asset charge in relation to individual obligations included in this group.

Restructuring provisions comprise payments for the premature termination of rental agreements as well as severance payments to employees.

According to IAS 16, the purchase costs of tenant fittings include costs expected for obligations to remove tenant fittings. In accordance with IAS 37, a provision is therefore created to cover the present value of obligations for which an outflow of resources is likely; this provision is created at the point at which the obligations arise. Changes in the value of an existing provision, in other words changes in the fulfilment amount and/ or the discount rate, are recognised by means of an adjustment to the book value of the tenant fittings (upper limit: recoverable amount; lower limit: zero).

2.14 Employee participation programmes

The Group offers the following employee participation programmes:

- Stock appreciation rights of freenet AG
- Stock options for the former mobilcom AG

The accounting and valuation methods of the individual share option programmes are detailed in the following:

2.14.1 Stock appreciation rights of freenet AG

The stock appreciation rights issued by freenet AG are measured at the fair value of the stock appreciation rights which will probably become vested. These rights are exercised in return for payment of a cash amount equivalent to the difference between the relevant stock price and the strike price less taxes and charges. For details, please refer to our explanations to item 26 “Employee participation programmes”.

2.14.2 Stock options of the former mobilcom AG

The former mobilcom AG had set up a stock-based compensation plan which is funded by equity instruments. The fair value of the work provided by the employees in return for the granting of options is recognised as an expense. The entire expense, which has to be recognised over the period until the point at which the options become vested, is calculated on the basis of the fair value of the options which have been granted. The estimate of the number of options which are expected to become exercisable is reviewed on every balance sheet day.

As part of the process of exercising options, the former mobilcom AG took advantage of the substitution right which it had been granted. The stock options are redeemed in the form of a cash settlement. Following revaluation using the parameters applicable for the corresponding reference date, allocations are paid into the provision via an entry in shareholders‘ equity with no impact on the income statement.

2.15 Deferred and current taxes on income

Deferred taxes are recognised for tax loss carry-forwards and using the liability method, for all temporary differences between the tax balance sheet values and the book values of assets and liabilities. Deferred taxes are measured at the tax rates (and tax laws) that apply or have been substantively enacted on the balance sheet date and that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets in relation to allowable temporary differences are recognised to the extent that deferred tax liabilities exist. If the amount of the deferred tax assets in relation to allowable temporary differences exceeds this figure, the deferred tax assets are only recognised to the extent that it is likely that the deferred tax assets will be used by future profits. Deferred tax assets in relation to any tax losses carried forward are also only capitalised to the extent that it is likely that they will be utilised by future profits.

The current tax expense is calculated in accordance with the German tax regulations which are applicable on the closing date or which will be applicable in the near future.

2.16 Accruals and deferrals for government grants

Accounts receivable in the form of government grants are capitalised provided a corresponding claim exists and the amount thereof can be estimated with sufficient reliability. In accordance with IAS 20, this item is shown as accruals and deferrals in the other liabilities, accruals and deferrals, and is recognised in the income statement in accordance with the period over which the subsidised assets are written down. If at the time when the grant entitlement comes into being, the assets in question have already been depreciated either in whole or in part, it will be recognised immediately.

2.17 Exercise of management discretion

We provide the following details pursuant to IAS 1.122:

The statement and calculation of provisions depends on estimates. Provisions for passive legal disputes in particular are created on the basis of the assessment of the lawyers representing the Group companies.

An evaluation of the value of the receivables as well as other assets was carried out for establishing suitable valuation adjustments for trade accounts receivable and other assets. These assessments were based mainly on past experience as well as on the age structure and on the status of receivables in the dunning and collection process.

Estimates had to be made on the basis of individual assessments of management for determining the result from the discontinued operation “Next ID”—please refer to item 24 “Discontinued operations”.

With regard to the accrual of purchased services from sales commissions for the various products of the Group, estimates are made on the basis of past experience to assess the probability with which final commissions (which can no longer be cancelled) become payable.

There are transactions in relation to which it is not possible to determine the definitive taxation during the normal course of business. The Group determines the extent of provisions for anticipated tax audits on the basis of estimates as to whether, and if so to what extent, additional taxes on income will become due. If the eventual taxation in relation to these transactions differs from the originally assumed figure, this will have an impact on the current and deferred taxes on income in the period in which the taxation is definitively determined.

2.18 Forward looking assumptions and margins of error

With regard to the most significant forward-looking assumptions and margins of error inherent in the consolidated financial statements, we hereby make the following observations pursuant to IAS 1.125:

With regard to the forward-looking assumptions made within the framework of the tests relating to potential goodwill impairments (book value as of December 31, 2010: 1,115.9 million euros; previous year: 1,116.5 million euros) as well as impairments of intangible assets with an indefinite useful economic life (book value as of December 31, 2010: 293.3 million euros, previous year: 293.3 million euros), please refer to item 15 “Test for impairment of non-monetary assets”. A sensitivity assessment regarding the impairment test for the assets allocated to the “Mobile Communications” CGU has established that the fair value less costs to sell would decline by approx. 195 million euros if the WACC were increased by 0.5 percentage points and would increase by approx. 230 million euros if the WACC were to decline by 0.5 percentage points and that, if earnings before interest and taxes (EBIT) were to be reduced or increased by 10 percent in the planning period, the fair value less costs to sell would decrease by 512 million euros (if the WACC were to be increased by 0.5 percentage points) or increase of 607 million euros (if the WACC were to be reduced by 0.5 percentage points); this would not result in any impairment with regard to the assets allocated to this CGU.

The deferred tax assets relating to losses carried forward are based on corporate planning which recognises forward-looking assumptions, for instance with regard to macro-economic developments as well as the development of the telecommunications market. With regard to the extent of the capitalised deferred taxes on losses carried forward and also the extent of the losses carried forward in relation to which no deferred tax assets have been recognised, please refer to item 19 “Deferred tax assets and deferred tax liabilities”. A sensitivity test for the deferred tax assets has established that the deferred tax assets would increase or decrease by approx. 13.7 million euros if the corporation tax income were to increase or decrease by 10 percent in the respective planning period.

With regard to the creation of the provision for contingent losses for any vacancy of rented shops and office buildings, assumptions have been made in relation to the possibility of these areas being sublet in future. With regard to the valuation of the provision for contingent losses for reducing the landline/internet network, an assumption has been made with regard to the extent of future losses in this field.

With regard to the assumptions and estimates made in the binomial model used for determining the provisions for outstanding stock options and stock appreciation rights according to IFRS 2 as of December 31, 2010, please refer to item 26 “Employee participation programmes”.

With regard to pension provisions and similar obligations, item 30 describes how forward-looking assumptions have been made for the valuation of the provisions for pensions and similar obligations. This involves the recognition of a discount rate, the trend in pensions, the assessment of the future development of the pensionable income of the beneficiary as well as an assessment of an expected return on the plan assets.

With regard to the measurement of restructuring provisions for paying severance payments, it was necessary to make estimates regarding the number of employees who will receive severance payments after the balance sheet date from the restructuring programme, and it was also necessary to make estimates regarding the amount of the

severance payment which will probably be payable for each employee. These estimates were made on the basis of experience gained with previous restructuring programmes. Please refer to item 31 “Other provisions”.

2.19 Discontinued operations and available-for-sale long-term assets

Discontinued operations and available-for-sale long-term assets, which are classified as held-for-sale, are shown at the lower or book value and fair value less costs to sell if it is generally more likely that their book value can be realised by way of a sale than by way of further use. At the point of reclassification to the discontinued operations and available-for-sale long-term assets, depreciation of the corresponding assets is no longer calculated.

The available-for-sale assets or the available-for-sale group of assets are reclassified as “Continued operations” when the criteria of IFRS 5 are no longer satisfied. The assets or the group of assets are shown at the lower of book value less depreciation or revaluations which would have been carried out if the assets or group of assets had not been classified as “discontinued operations” and the recoverable amount at the time of reclassification. The adjustments to the revaluation of the group of assets are shown in the income statement as part of continued operations.

2.20 Comparable figures and changes in the accounting policies

When a comparison is made between the consolidated financial statements 2010 and the adjusted previous year figures, it is necessary to bear in mind that, with regard to the result of discontinued operations, “DSL Business” (consolidated for 11 months), “STRATO Group” (consolidated for 12 months) were considered to be discontinued operations. Because they were deconsolidated in 2009, these segments were no longer included in the results of operating activities in 2010; instead, they were only included in the consolidated financial statements with results from subsequent purchase price adjustments as well as subsequent expenses and income of negligible importance. The profit from discontinued operations generated in the previous year 2009 was mainly influenced by the profit from the disposal of the segments “DSL Business” and “STRATO Group”.

The previous year figures for the segment “Next ID” have been retrospectively adjusted in the income statement as discontinued operations in accordance with IFRS 5; please refer to item 24 “Discontinued operations”.

The change in the structure of the consolidated cash flow statement constitutes a change in accounting policies – please refer to item 33 “Notes to the consolidated cash flow statement”.

3. Segmental reporting

In accordance with IFRS 8, and on the basis of internal management, operating segments have to be distinguished from group segments whose operating results are regularly reviewed by the main decision-making body of the Company with regard to decisions relating to the allocation of resources to this segment and the measurement of its profitability.

The Executive Board organises and manages the Company on the basis of the differences between the individual products and services offered by the Company. Because the Group exercises its business operations almost exclusively in Germany, there is no organisation and management based on geographical regions. The Group operated in the following operating segments in 2010:

Mobile Communications:

- Activities as a mobile communications service provider—marketing of mobile communication services (voice and data services) for the mobile communication operators T-Mobile, Vodafone, E-Plus and O_2 in Germany
- On the basis of the network operator agreement concluded with these network operators, a range of the Company's own independent services and tariffs as well as a range of tariffs of the network operators
- Sale of mobile communications devices as well as additional services for mobile data communications
- Rendering of sales services

Other:

- Rendering of portal services such as E-commerce/-advertising services (these essentially comprise the range of online shopping services and the marketing of advertising banners on web sites) as well as pay services for end users; up to and including 2009, presentation as separate segment "Portal"
- Development of communication solutions, EDP services and other services for business customers; range of value-added services for business customers; up to and including 2009, presentation as separate segment "B2B"
- Range of narrowband voice services (call-by-call, preselection) and data services, up to and including 2009, presentation as separate segment "Narrowband"
- Rendering of sales services
- Up to and including 2009: Range of broadband internet connections and access facilities, range of broadband voice services, presentation as segment "Broadband"
- Up to and including 2009: Range of hosting services, such as registration of top-level domains, provision of web space, implementation of associated software solutions, presentation as segment "Hosting"

Starting with the financial year 2010, segment reporting of the freenet AG Group no longer consists of six segments; instead, it only consists of the two segments "Mobile Communications" and "Other".

Following the sales in the previous year of the "STRATO Group" and "DSL Business", the former segments "Broadband" as well as "Hosting" now only comprise residual activities of negligible importance. Following an extensive review, these segments as well as the other previous segments "Portal", "B2B" and "Narrrowband" no longer attain the quantitative threshold of IFRS 8.13 for reportable segments, and are therefore no longer listed as segments in these abbreviated consolidated financial statements.

The individual operating segments each also provide or provided services to other operating segments. These services are charged on the basis of transaction prices which are the subject of commercial negotiation.

Income and expenses are allocated to the segments on the basis of selected criteria and economic relevance. In the financial year 2010, it was possible for all expenses and income to be clearly allocated to the two segments "Mobile Communications" and "Other" by allocating the individual consolidated group companies to one of the segments. In 2009, it was only possible for revenues, cost of materials and also the gross profit to be clearly allocated using the dimensions of the cost centre; this means that the entire Group gross profit has been completely allocated to segments.

For purposes of segment reporting, the figures and measurements shown for the corresponding expenses and income do not differ from the figures and measurements shown in the consolidated balance sheet and the consolidated income statement.

The mass business which is carried out by the freenet Group and which focuses mainly on private customers is not dependent on individual customers. The previous year comparison figures of segment reporting have been retrospectively adjusted, and are accordingly no longer identical with the segment report 2009 as published in the consolidated financial statements 2009. With regard to the background for this retrospective adjustment, please refer to item 24 „Discontinued operations“.

Segment report 1.1.2010—31.12.2010 €'000s	**Mobile Communi-cations**	**Other**	**Elimination of intersegment revenue and costs**	**Effects regarding IFRS 5**	**Total**
Third-party revenue	**3,261,682**	**92,910**	**0**	**–15,088**	**3,339,504**
Intersegment revenue	3,953	6,481	–10,434	0	0
Revenue, total	3,265,635	99,391	–10,434	–15,088	3,339,504
Cost of materials, third parties	**–2,588,655**	**–34,450**	**0**	**3,906**	**–2,619,199**
Intersegment cost of materials	–2,531	–6,041	8,572	0	0
Cost of materials, total	–2,591,186	–40,491	8,572	3,906	–2,619,199
Segment gross profit	**674,449**	**58,900**	**–1,862**	**–11,182**	**720,305**
Other operating income	79,323	13,302	–4,162	–2,771	85,692
Other own work capitalised	9,265	726	0	0	9,991
Personnel expenses	–123,161	–34,525	0	8,374	–149,312
Other operating expenses	–311,225	–37,703	6,024	9,840	–333,064
Share of results of associates	0	1,331	0	0	1,331
Segment EBITDA	**328,651**	**2,031**	**0**	**4,261**	**334,943**
Depreciation and impairment write-downs	–177,664	–13,960	0	2,182	–189,442
Segment EBIT	**150,987**	**–11,929**	**0**	**6,443**	**145,501**
Group financial result					–42,861
Taxes on income					16,122
Group result from continued operations					118,762
Group result from discontinued operations					–6,295
Group result					**112,467**
Group result attributable to shareholders of freenet AG					112,433
Group result attributable to minority interest					34
Investments in continued operations	21,821	4,343			26,164

Segment report 1.1.2009—31.12.2009 **€'000s**	**Mobile Communications**	**Broadband**	**Portal**
Third-party revenue	**3,499,740**	**232,274**	**40,451**
Intersegment revenue	9,088	0	2,843
Revenue, total	3,508,828	232,274	43,294
Cost of materials, third parties	**–2,798,455**	**–157,413**	**–14,317**
Intersegment cost of materials	–2,143	–7,803	–3,690
Cost of materials, total	–2,800,598	–165,216	–18,007
Segment gross profit	**708,230**	**67,058**	**25,287**
Other operating income			
Other own work capitalised			
Personnel expenses			
Depreciation and impairment write-downs			
Other operating expenses			
Share of results of associates			
Group result before financial result and taxes on income			
Group financial result			
Taxes on income			
Group result from continued operations			
Group result from discontinued operations			
Group result			
Group result attributable to shareholders of freenet AG			
Group result attributable to minority interest			

Of the figure of 124,587 thousand euros shown for EBIT in continued operations, 136,433 thousand euros are attributable to the Mobile Communications segment, 4,253 thousand euros are attributable to the Portal segment and –16,099 thousand euros are attributable to the Fixed Network segment (consisting of B2B, Narrowband and Holding activities).

Of the figure of 327,025 thousand euros shown for EBITDA, 322,601 thousand euros are attributable to the Mobile Communications segment, 4,862 thousand euros are attributable to the Portal segment and –438 thousand euros are attributable to the Fixed Network segment.

Of the figure of 63.6 million euros shown for investments in continued operations (excl. the payments for the acquisition of subsidiaries and equity participations), 49.2 million euros are attributable to the Mobile Communications segment and 14.4 million euros are attributable to the Fixed Network segment.

Hosting	B2B	Narrowband	Elimination of intersegment revenue and costs	Effects regarding IFRS 5 (adjusted)	Total (adjusted)
88,674	**68,088**	**42,069**	**0**	**–369,510**	**3,601,786**
2,476	1,975	79	–16,461	0	0
91,150	70,063	42,148	–16,461	–369,510	3,601,786
–15,676	**–50,507**	**–14,391**	**0**	**211,607**	**–2,839,152**
–702	–1,880	–1	16,219	0	0
–16,378	–52,387	–14,392	16,219	211,607	–2,839,152
74,772	**17,676**	**27,756**	**–242**	**–157,903**	**762,634**
					116,444
					10,192
					–199,653
					–202,438
					–364,277
					1,685
					124,587
					–87,854
					–19,012
					17,721
					238,769
					256,490
					256,485
					5

4. Revenue

A breakdown of revenue of 3,340 million euros (previous year: 3,602 million euros) is set out under item 3 “Segment reporting”.

Of external revenue generated in the Mobile Communications segment, 2,345 million euros (previous year: 2,593 million euros) relates to rentals and fees, 501 million euros (previous year: 586 million euros) relates to fees for premiums and commissions, and 416 million euros (previous year: 320 million euros) relates to the sale of mobile communications devices and accessories.

5. Other operating income

The other operating income mainly comprises income from dunning charges and charges for reversing direct debits, advertising cost subsidies, income from charging fees to employees for the use of company cars, rental income as well as income from the reversal of provisions and accrued liabilities.

In the previous year, this item also included income from the sale of shops as a result of the reorganisation of branch operations.

6. Cost of materials

Cost of materials is broken down as follows:

€’000s	2010	2009 adjusted
Costs of purchased goods	544,446	513,638
Costs of purchased services	2,074,753	2,325,514
	2,619,199	**2,839,152**

Costs of purchased goods principally comprise the cost value of mobile telephones and also bundles from prepaid business.

The costs of purchased services mainly comprised charges for mobile communications commissions and premiums for sales partners.

7. Personnel expenses

Personnel expenses are broken down as follows:

€’000s	2010	2009 adjusted
Wages and salaries	124,749	169,493
Social contributions	24,563	30,160
	149,312	**199,653**

The number of persons employed on average in the Group has declined by 31.7 percent compared with the previous year, namely from 6,020 to 4,111 persons, mainly as a result of the sales which took place last year of “DSL Business” with the call centre in Kiel and the “STRATO Group” and also as a result of the restructuring process following the debitel acquisition. At the end of the financial year, the Group employed 3,972 persons (previous year: 4,394 persons). The stock appreciation programme of the Company has resulted in personnel expenses declining by 4,011 thousand euros in accordance with IFRS 2 (previous year: increase of 2,940 thousand euros in personnel expenses). With regard to an explanation of the stock appreciation programme and the stock option programme, please refer to our comments to items 2.14 and 26 “Employee incentive programme”.

Personnel expenses also comprise an expense of 473 thousand euros for defined benefit plans (previous year: 920 thousand euros), see also item 30 “Pension provisions and similar obligations”.

Personnel expenses include a figure of 11,771 thousand euros as the employer’s social insurance contribution as costs of defined contribution benefit plans (previous year adjusted: 14,803 thousand euros).

8. Depreciation and impairments

The following table sets out the depreciation and impairments:

€’000s	2010	2009 adjusted
Depreciation on intangible assets	168,325	171,324
Impairment write-downs on intangible assets	2,044	4,165
Depreciation on property, plant and equipment	18,938	26,726
Impairment write-downs on property, plant and equipment	135	223
	189,442	**202,438**

The impairment write-downs on intangible assets mainly relate to a distribution right as well as the right to use a software program. The value of the distribution right has been fully impaired due to the restructuring process at a distribution partner threatened by insolvency and the resultant assessment of the value in use (zero). The partial impairment write-down of a right to use a software program was attributable to the intention to make only limited use of this software in future, which is equivalent to a reduction in the value in use. This software had been primarily used in the former “DSL Business”, which means that the limited use is a consequence of the sale of “DSL Business” which took place last year.

The impairment write-downs on intangible assets shown in the previous year were mostly attributable to the group-wide integration process within the debitel Group, and related to software and utilisation rights as well as self-developed software and development costs for self-created software.

9. Other operating expenses

Other operating expenses mainly comprise marketing costs, administration costs, postage costs, costs of impairments and the default of receivables as well as legal and consultancy costs.

In the financial year, costs of impairments and the default of receivables totalling 46,178 thousand euros (previous year: 31,472 thousand euros) were incurred. Of this figure, trade accounts receivable accounted for 46,178 thousand euros (previous year: 31,410 thousand euros) and other assets accounted for 0 thousand euros (previous year: 62 thousand euros).

Payments of 51,929 thousand euros (previous year: 74,004 thousand euros) were recognised in the income statement for rental and leasing contracts.

A figure of 0 thousand euros (previous year: 18 thousand euros) is shown for foreign currency translation under other operating expenses.

10. Other interest and similar income

Other interest and similar income consists of the following items:

€'000s	2010	2009 adjusted
Interest receivable from banks, debt collection and similar income	3,412	5,378
Market valuation of derivative financial instruments	13,460	8,109
Compound interest from assets	991	601
Interest of tax refund	300	1,100
	18,163	**15,188**

11. Interest and similar expenses

Interest and similar expenses are broken down as follows:

€'000s	2010	2009
Interest payable to banks and similar costs	50,419	93,354
Expense of cumulative interest in relation to liabilities	8,111	6,811
Interest on supplementary tax payments	726	1,446
Interest on pension obligations	1,502	1,398
Expense of the valuation of derivative financial instruments	266	0
Interest on finance leases	0	33
	61,024	**103,042**

12. Taxes on income

This item comprises paid and outstanding taxes on income as well as deferred taxes.

€ ˚000s	2010	2009
Current tax expense for the financial year	–25,143	–20,561
Tax expense (previous year: tax income) for previous years	–6,924	1,066
Deferred tax income (previous year: tax expense) due to the write-up (previous year: write-down) of deferred tax assets	14,563	–18,866
Deferred tax income due to temporary differences	34,601	32,185
Deferred tax expense attributable to tax rate changes	–1,060	–2,113
Actual tax income (previous year: tax expense)	**16,037**[1]	**–8,289**[2]

1 Of the figure of 16,037 thousand euros shown for the actual tax income for the year 2010, 16,122 thousand euros is attributable to tax income for the continued operations, and 85 thousand euros is attributable to tax costs for the discontinued operations.
2 Of the figure of 8,289 thousand euros shown for the actual tax expense for the year 2009, 19,012 thousand euros is attributable to a tax expense for the continued operations, and 10,723 thousand euros is attributable to tax income for the discontinued operations.

For further details concerning deferred taxes, please refer to item 19 “Deferred tax assets and liabilities”.

Applying the average tax rate of the consolidated companies to the consolidated result before taxes on income would result in anticipated tax expenses of 28.4 million euros (previous year: 80.0 million euros). The difference between this amount and the actual tax income of 16.0 million euros (previous year: tax expense of 8.3 million euros) is shown in the following reconciliation.

€'000s	2010	2009
Results of continued and discontinued operations before taxes on income	**96,430**	**264,779**
Expected tax expense applying a tax rate of 29.4 percent (previous year: 30.2 percent)	–28,350	–79,963
Change in the allowance for deferred tax assets and non-recognised deferred tax assets in relation to losses carried forward	50,627	9,541
Tax effect of non-allowable expenses and tax-free income	787	43,869
Effects due to changes in tax rate	–1,060	–2,113
Tax expense from previous years	–6,924	1,066
Other income and expenses	957	19,311
Actual tax income (previous year: tax expense)	**16,037[1]**	**–8,289[2]**
Effective tax rate in percent	–16.63	3.13

1 Of the figure of 16,037 thousand euros shown as actual tax income for the year 2010, 16,122 thousand euros are tax income in relation to continued operations and 85 thousand euros are tax expense for discontinued operations.

2 Of the figure of 8,289 thousand euros shown as actual tax expense for the year 2009, 19,012 thousand euros are tax expense in relation to continued operations and 10,723 thousand euros tax income are tax income to the discontinued operations.

For the Group companies, a corporation tax rate of 15 percent (previous year: 15 percent) was used in the financial year 2010 for calculating the current and deferred taxes on income. A solidarity surcharge of 5.5 percent in relation to the corporation tax as well as an average trade tax assessment rate of 387.59 percent (previous year: 411.46 percent) were also used. The deferred taxes in the financial year 2010 were calculated with an average rate of 29.4 percent (previous year: 30.2 percent).

13. Earnings per share

13.1 Undiluted earnings per share

Undiluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation during the financial year. In future, it is possible that undiluted earnings per share might be increased as a result of the possible utilisation of contingent capital.

	2010	2009 adjusted
Group result attributable to shareholders of freenet AG in €'000s	112,433	256,485
Weighted average of shares outstanding	128,061,016	128,061,016
Earnings per share in € (undiluted)	**0.88**	**2.00**
Thereof from continued operations in €	0.93	0.14
Thereof from discontinued operations in €	–0.05	1.86

13.2 Diluted earnings per share

Diluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation increased by potentially diluting shares.

The number of potentially diluting shares is calculated as the difference between the potential ordinary shares attributable to employee stock option programmes valued at the subscription price and the ordinary shares issuable at fair value.

	2010	2009 adjusted
Group result attributable to shareholders of freenet AG in €'000s	112,433	256,485
Weighted average of shares outstanding	128,061,016	128,061,016
Potential number of diluting shares	0	0
Weighted average of shares outstanding plus potential number of diluting shares	128,061,016	128,061,016
Earnings per share in € (diluted)	**0.88**	**2.00**
Thereof from continued operations in €	0.93	0.14
Thereof from discontinued operations in €	–0.05	1.86

14. Intangible assets, property, plant and equipment and goodwill

Movements in property, plant and equipment and intangible assets are shown in the schedule of non-current assets.

The main book values of intangible assets relate to brand rights and customer relations attributable to the purchase price allocation on the occasion of the acquisition of the debitel Group in the financial year 2008.

The following table sets out the book values of these brand rights and customer relations as at the end of the financial year:

€'000s	31.12.2010	31.12.2009
Brand rights	316,968	321,809
Customer relations	206,632	314,031
	523,600	**635,840**

In addition to the brand rights and customer relations from the debitel acquisition, further intangible assets of 55.1 million euros are shown as of December 31, 2010 (December 31, 2009: 99.2 million euros).

The income statement was only affected to a limited extent by research and development expenses.

The goodwill recognised in relation to cash generating units is broken down in the following:

€'000s	31.12.2010	31.12.2009
Mobile Communications	1,111,830	1,111,830
Other	4,094	4,675
	1,115,924	**1,116,505**

Of the figure of 581 thousand euros shown for the reduction under "Other", 453 thousand euros relates to the goodwill attributed to the "Next ID" segment. Please refer also to item 24 "Discontinued operations".

15. Impairment test for non-monetary assets

In accordance with the provisions of IAS 36, we hereby provide the following details on asset impairment testing:

Goodwill of 1,111,830 thousand euros was allocated to the cash generating unit ("CGU") "Mobile Communications" (previous year: 1,111,830 thousand euros); an intangible asset with an indefinite useful life of 293,204 thousand euros was allocated to a brand right (previous year: 293,204 thousand euros). The business models "Postpaid", "Prepaid", "No frills" as well as "Original Mobile Network Operator Business" are combined in the "Mobile Communications" CGU.

Because it is possible for cash flows to be allocated to the brand right with an undefined useful life, the capital value oriented method in the form of the licence price analogy method was used for determining the fair value less costs to sell. The licence

rate for this brand right calculated on the basis of comparable transactions is 1.5 percent, with due consideration being given to its specific strength as a premium brand. The planned brand-relevant revenue for this brand right is taken from the planning for the CGU "Mobile Communications" described in the text below. The capitalisation rate (WACC) after tax used for calculating the fair value is 6.6 percent as of the closing date (previous year: 7.4 percent). With regard to the capitalisation rate in the subsequent phase (starting 2015), a discount of 0.5 percent has been assumed as a result of growth assumptions (previous year: 0.5 percent). There was no need for an impairment to be recognised for the brand right with an indefinite useful life allocated to the CGU "Mobile Communications".

The fair value less costs to sell has been used as the recoverable amount of the "Mobile Communications" CGU. Planning which covers the period up to and including 2014 and which was approved by management was used for calculating the fair value. The detailed planning phase was extrapolated in the perpetual yield.

Planning is based on detailed assumptions derived from previous experience and future expectations in relation to the main event and value drivers. In principle, the gross profit of the "Mobile Communications" CGU can be broken down into two earnings flows, the contribution to results made by new customers and customer retention. These are opposed by the costs for purchased services, particularly with regard to the mobile network operators. The costs of acquiring and retaining customers dominate the contribution to earnings made by new customers and customer loyalty. This is opposed by costs for procuring the hardware and dealer commissions to be paid to sales partners as a result of the acquisition or loyalty programmes. freenet is assuming slightly reduced customer acquisition and slightly higher customer retention costs in the planning period.

The capitalisation rate after tax derived in relation to the specific risk structure of the CGU "Mobile Communications" on the basis of market data and used in the course of determining the fair value is 6.6 percent (previous year: 7.4 percent). With regard to the capitalisation rate in the subsequent phase (starting 2015), a discount of 0.5 percent has been assumed as a result of growth assumptions (previous year: 0.5 percent).

The impairment test 2010 carried out in relation to the "Mobile Communications" CGU established that no impairment has to be recognised in relation to the allocated goodwill as well as the intangible assets with an indefinite useful life.

In the financial year 2010, impairments of 2,179 thousand euros (previous year: 4,388 thousand euros) were recognised in relation to non-monetary assets for the continued operations – please refer to item 8 "Depreciation and impairments".

16. Joint ventures

The consolidated financial statements show an investment in three joint ventures, including FunDorado GmbH, Hamburg, (FunDorado), which was established in the financial year 2001 and in which the freenet Group holds a 50.0 percent stake (previous year: 50.0 percent). FunDorado operates a fee-based internet portal.

The following assets, liabilities, income and expenditure are shown as of December 31, 2010 or in the financial year 2010:

€'000s	FunDorado GmbH	Attributable to the Group
Current assets	2,179	1,089
Non-current assets	1,826	913
	4,005	**2,002**
Current liabilities	1,922	961
Non-current liabilities	76	38
	1,998	**999**
Income	7,991	3,996
Expenses	6,890	3,445

The following assets, liabilities, income and expenditure are shown as of December 31, 2009 or in the financial year 2009 for FunDorado:

€'000s	FunDorado GmbH	Attributable to the Group
Current assets	2,240	1,120
Non-current assets	1,526	763
	3,766	**1,883**
Current liabilities	1,938	969
Non-current liabilities	104	52
	2,042	**1,021**
Income	8,604	4,302
Expenses	7,602	3,801

As was the case in the previous year, no contingent liabilities or capital obligations existed in connection with the Group's holding in this joint venture as of December 31, 2010. In the financial year 2010, FunDorado GmbH employed an average of 38 persons (previous year: 38).

Effective October 13, 2006, FunDorado GmbH acquired a 50 percent stake in NetCon Media s. r. o. based in Hlucin, the Czech Republic (referred to in the following as NetCon). The Company produces content which is designed primarily to be used in the fee-based internet portal of FunDorado. NetCon in turn owns a 100 percent stake

in its sales company siXXup new Media GmbH, Pulheim (referred to in the following as siXXup). NetCon as well as siXXup are both included as joint ventures in the consolidated financial statements. For the sake of simplicity, November 1, 2006 has been chosen as the date of initial consolidation.

Including the balances of its subsidiary siXXup, NetCon shows the following assets and liabilities as of December 31, 2010, and the following assets, liabilities, income and expenses for the financial year 2010:

€'000s	NetCon Media s. r. o.	Attributable to the Group
Current assets	266	67
Non-current assets	327	82
	594	**148**
Current liabilities	131	33
Non-current liabilities	0	0
	131	**33**
Income	1,652	413
Expenses	1,642	411

Including the balances of its subsidiary siXXup, NetCon shows the following assets, liabilities, income and expenses as of December 31, 2009 and for the financial year 2009 respectively:

€'000s	NetCon Media s. r. o.	Attributable to the Group
Current assets	261	65
Non-current assets	182	46
	443	**111**
Current liabilities	81	20
Non-current liabilities	0	0
	81	**20**
Income	1,126	282
Expenses	1,048	262

In the financial year 2010, NetCon, including its subsidiary, employed an average of 75 persons (previous year: 71).

As of December 31, 2010, there were no contingent obligations or capital commitments in connection with the Group interest in these joint ventures.

17. Investments in associates

The book value of companies accounted for using the equity method as of December 31, 2010 was 3,403 thousand euros (previous year: 3,645 thousand euros); as was the case in the previous year, this related to KielNET GmbH Gesellschaft für Kommunikation, Kiel (referred to in the following as "KielNET"). The Group owns a 50 percent stake in this company. If voting in the case of resolutions is tied, the deciding vote is held by Stadtwerke Kiel AG, Kiel. KielNET supplies telecommunication services within the license area in the Kiel region.

In the financial year 2010, KielNET generated revenue of 19,083 thousand euros (previous year: 20,392 thousand euros) as well as net income of 2,662 thousand euros (previous year: 3,370 thousand euros). As of December 31, 2010 the assets of this company amounted to an aggregate 16,962 thousand euros (previous year: 17,074 thousand euros), and the liabilities amounted to an aggregate 10,208 thousand euros (previous year: 9,835 thousand euros).

The 242 thousand euros decline in the book value of the companies accounted for using the equity method compared with December 31, 2009, in conjunction with earnings of 1,331 thousand euros (previous year: 1,685 thousand euros) generated by the companies accounted for using the equity method in 2010, is due to the fact that a dividend payment of 1,573 thousand euros was received from KielNET; this has to be treated as a reduction in the equity participation.

18. Other investments

The other financial investments shown as of the balance sheet date mainly comprise the investment in Libri.de GmbH, Hamburg with an unchanged book value of 304 thousand euros as well as the investment in Pocketfilm Media Entertainment GmbH, Frechen, of 398 thousand euros. These investments were measured at cost.

The other financial instruments mainly comprise a silent partnership, measured at cost of purchase of 500 thousand euros (previous year: 500 thousand euros) as well as long-term fixed-income bonds of 1,054 thousand euros (previous year: 987 thousand euros) which serve as rent collateral for shops and which are measured at fair value.

No impairments had been recognised in relation to the other financial assets as of the balance sheet date and also as of the previous balance sheet date. Moreover, no disposals have taken place.

19. Deferred tax assets and liabilities

After temporary differences were taken into consideration, deferred tax assets and liabilities were calculated using the liability method with a total tax rate of 29.4 percent (previous year: 30.2 percent).

The following amounts are shown in the consolidated balance sheet:

€'000s	31.12.2010	31.12.2009
Deferred tax assets	79,828	27,090
Deferred tax liabilities	0	0
	79,828	**27,090**

The overhang of deferred tax assets which are recognised (78.9 million euros; previous year: 27.1 million euros) is classified as short-term (34.9 million euros; 27.1 million euros) and long-term (44.9 million euros; previous year: 0) as a result of the anticipated use of tax loss carry-forwards.

Changes in the deferred tax assets and liabilities for the financial year 2010 and 2009 are shown in the following tables:

Changes in deferred tax assets and liabilities in 2010 €'000s	**1.1.2010**	**Change in group of consolidated companies**	**Shown directly in equity**	**Income and expenses from taxes on income**	**31.12.2010**
Property, plant and equipment	–272	0	0	1,383	1,111
Intangible assets	–202,085	0	0	41,295	–160,790
Financial assets	–138	0	–7	121	–24
Loss carry-forwards	215,237	–220	0	8,679	223,696
Provisions	6,765	0	0	2,764	9,529
Other liabilities and accruals	9	0	0	–469	–460
Debt	433	0	0	–2,569	–2,136
Others	7,141	0	0	1,761	8,902
	27,090	**–220**	**–7**	**52,965**	**79,828**

The income tax expenses and income (52,965 thousand euros) are shown in the consolidated income statement as follows:

€'000s	**2010**
Taxes on income	52,965
Group result from discontinued operations	0
	52,965

The income tax expenses and income correspond to the sum of the deferred taxes on income attributable to continued and discontinued operations.

The deferred tax assets and deferred tax liabilities developed as follows in the financial year 2009:

Changes in deferred tax assets and liabilities in 2009 €'000s	**1.1.2009**	**Change in group of consolidated companies**	**Shown directly in equity**	**Income and expenses from taxes on income**	**31.12.2009**
Property, plant and equipment	–1,110	–4	0	842	–272
Intangible assets	–251,670	0	0	49,585	–202,085
Financial assets	–928	0	–4	794	–138
Loss carry-forwards	234,103	0	0	–18,866	215,237
Provisions	14,867	–30	0	–8,072	6,765
Other liabilities and accruals	1,454	1,053	0	–2,498	9
Debt	–547	0	0	980	433
Others	18,709	–9	0	–11,559	7,141
	14,878	**1,010**	**–4**	**11,206**	**27,090**

The summarised net development of deferred taxes is shown in the following:

€'000s	**2010**	**2009**
As of 1.1.	27,090	14,878
Change in group of consolidated companies	–220	1,010
Shown directly in equity	–7	–4
Tax income	52,965	11,206
As of 31.12.	**79,828**	**27,090**

The existing tax loss carry-forwards which can be carried forward without any restriction exceed the sum of the forecast cumulative result of the following financial years. Accordingly, the consolidated financial statements only recognise a deferred tax asset to the extent that it is considered to be probable that this asset will indeed be realised. The expected results are based on the Company's forecast for pre-tax result applicable as of the balance sheet date. As of December 31, 2010, deferred tax assets of 223,696 thousand euros existed in relation to losses carried forward (previous year: 215,237 thousand euros). Of this item, corporation tax loss carry-forwards account for 115,819 thousand euros (previous year: 105,307 thousand euros), and loss carry-forwards which are attributable to trade tax accounted for 107,877 thousand euros (previous year: 109,930 thousand euros). Further loss carry-forwards for which no deferred tax assets have been recognised in the consolidated financial statements relate to corporation tax (2.3 billion euros) and trade tax (1.7 billion euros) (previous year: 2.3 billion euros corporation tax and 1.7 billion euros trade tax). As was the case as of the previous year reporting date, there are no undisclosed interest carry-forwards in accordance with section 4h (1) clause 2 EStG.

As of December 31, 2010, there are temporary outside-basis differences (net capital under IFRS is higher than the corresponding carrying amounts of investments for tax purposes) of approx. 12.3 million euros. No deferred taxes have been created in relation to this figure because it is not expected that the differences will reverse in the immediate future.

20. Inventories

Inventories are broken down as follows:

€'000s	31.12.2010	31.12.2009
Mobile telephones/accessories	34,211	29,928
SIM cards	8,821	5,708
Bundles and vouchers	8,377	15,304
Other	488	1,117
	51,897	**52,057**

An impairment of 4,837 thousand euros (previous year: 3,679 thousand euros) has been recognised in relation to year-end stocks of inventories.

21. Receivables and other assets

This item is broken down as follows:

€'000s	31.12.2010	31.12.2009
Trade accounts receivable	427,069	491,051
Other assets	35,744	45,700
Advance payments	19,762	17,806
	482,575	**554,557**

Trade accounts receivable are due from external parties, and comprise mainly receivables attributable to fees, equipment sales and fixed network and internet services.

The total of trade accounts receivable and the other non-derivative financial assets, less impairments which had been recognised, amounted to 442,170 thousand euros as of December 31, 2010 (previous year: 520,943 thousand euros). In the freenet Group, the most significant item in this category are trade accounts receivable. These are due mainly from end customers, and to a lesser extent they are due from business customers, dealers and sales partners.

Invoices in the Mobile Communications segment are issued by the Group itself. In the Other segment, some invoices are issued by the Group itself; for narrowband services, the collection services of Deutsche Telekom AG (DTAG) are utilised.

Where invoices are issued to end customers by the Group itself, they are mostly due immediately after the invoice is raised. The invoices submitted to DTAG have a payment term of 30 days.

Last year, in the case of trade accounts receivable which were not impaired and which were not overdue, no renegotiations were held in relation to existing receivables.

As of December 31, 2010, trade accounts receivable and other non-derivative financial assets of 352,501 thousand euros (December 31, 2009: 355,851 thousand euros) are neither impaired nor overdue.

Trade accounts receivable and other non-derivative financial assets of 7,285 thousand euros (December 31, 2009: 24,386 thousand euros) are overdue but are not impaired. These receivables are due from various customers who have not defaulted in the past.

The maximum default risk as of the balance sheet date corresponds to the book value of the above-mentioned trade accounts receivable.

The Group does not have any securities which have been provided to it.

In the year under review, sales of receivables resulted in expenses of 64 thousand euros (previous year: income of 506 thousand euros). All major risks and opportunities associated with ownership of these receivables were transferred to the buyer.

The following information relates to the age structure of this category of trade accounts receivable and non-derivative financial assets.

€'000s	**Carrying amount 31.12.2010**	**Thereof: On closing date neither impaired nor overdue**	**Thereof: On closing date not impaired and overdue by**		
			Fewer than 90 days	**Between 91 and 180 days**	**More than 180 days**
Trade accounts receivable	427,069	337,608	6,958	46	134
Other non-derivative financial assets	15,101	14,893	0	0	147
	442,170	**352,501**	**6,958**	**46**	**281**

€'000s	**Carrying amount 31.12.2009**	**Thereof: On closing date neither impaired nor overdue**	**Thereof: On closing date not impaired and overdue by**		
			Fewer than 90 days	**Between 91 and 180 days**	**More than 180 days**
Trade accounts receivable	491,051	327,917	15,632	2,070	5,994
Other non-derivative financial assets	29,892	27,934	0	127	563
	520,943	**355,851**	**15,632**	**2,197**	**6,557**

The following table sets out information concerning the movement in impairments for the category of trade accounts receivable as well as non-derivative financial assets:

€'000s	
Impairments created as of 31 December 2009	126,280
Impairments created as of 31 December 2010	129,018
Net allocations to impairments in the financial year 2010	**2,738**

€'000s	
Impairments created as of 31 December 2008	125,397
Impairments released due to deconsolidation (at time of deconsolidation)	–2,827
Impairments created as of 31 December 2009	126,280
Net additions to impairments in the financial year 2009	**3,710**

Of the figure stated for receivables and other assets, 40 thousand euros (previous year: 4,606 thousand euros) are attributable to related parties, see item 35 “Transactions with related parties”.

22. Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

€'000s	31.12.2010	31.12.2009
Cash in hand and cash at banks	174,334	480,285
Securities (money market paper)	0	6
	174,334	**480,291**

The following is a reconciliation of liquid assets with cash and cash equivalents in accordance with IAS 7, consisting of cash at banks, cash in hand, cheques and current money market paper which can be liquidated at any time as well as current financial liabilities with an original term of up to three months:

€'000s	31.12.2010	31.12.2009
Liquid assets of continued operations	174,334	480,291
Liquid assets of discontinued operations	2,588	0
Liabilities as part of current finance scheduling due to banks	–146,625	–148,873
	30,297	**331,418**

23. Current tax assets

The current tax assets mainly comprise receivables attributable to corporation tax netting credit balances from previous years.

24. Discontinued operations

On December 23, 2010, the freenet Group and mr.net group GmbH & Co. KG signed an agreement regarding the sale of all shares in Next-ID GmbH as well as Next ID technologies GmbH (referred to in the following jointly as the “Next ID“ segment or the “Next ID Group“.

The business of the Next ID Group mainly consists of providing a range of added value services for business customers. The Next ID Group is attributed to the “Other” segment.

A cash price of 2.0 million euros was agreed for the sale; this figure was received by freenet in the financial year 2010.

The transaction was completed on January 1, 2011. At that time, control over the operations which were sold was transferred to the acquirer; consequently the companies which were sold were also deconsolidated at that time. These companies are thus still fully consolidated in the consolidated balance sheet as of December 31, 2010.

The “Next ID” segment is shown as discontinued operations in accordance with IFRS 5 in these consolidated financial statements for the period ending December 31, 2010. The assets and liabilities of this segment as of December 31, 2010 and the expenses and income of the segment for the financial year 2010 have been reclassified as “discontinued operations”. The previous year comparison figures of the income statement have been retrospectively adjusted.

As detailed in the consolidated financial statements of freenet AG for the period ending December 31, 2009, the segments “DSL Business” (deconsolidated as of November 30, 2009) as well as “STRATO Group” (deconsolidated as of December 31, 2009) were sold during 2009. These two segments still generated results in 2010, relating to subsequent purchase price adjustments, and, to a minor extent, expenses and income which occurred after deconsolidation. Accordingly, the consolidated income statement for 2010 shows the segment “Next ID” as well as the segments “DSL Business” and “STRATO Group” as discontinued operations.

The balance sheet items of the discontinued operations “Next ID” were as follows as of December 31, 2010:

Assets €’000s	31.12.2010
Non-current assets	
Receivables, other assets and advance payments	5
	5
Current assets	
Inventories	1
Receivables, other assets and advance payments	9,689
Cash and cash equivalents	2,588
	12,278

Liabilities €’000s	31.12.2010
Current liabilities	
Trade accounts payable, other liabilities and deferrals	10,309
Other provisions	24
	10,333

The results for the discontinued operations in 2010 and 2009 are broken down as follows:

€’000s	2010				2009 (adjusted)			
	DSL business	STRATO	Next ID	Total	DSL business	STRATO	Next ID	Total
Revenue	2,383	0	12,841	15,224	232,213	88,413	52,647	373,273
Other operating income	144	45	1,368	1,557	3,468	2,359	3,544	9,371
Profit from the disposal of discontinued operations	4,513	–115	0	4,398	16,948	222,972	0	239,920
Cost of materials	513	0	–4,555	–4,042	–161,464	–13,214	–40,692	–215,370
Personnel expenses	–2,962	0	–5,411	–8,373	–19,459	–20,297	–6,710	–46,466
Depreciation	0	0	–727	–727	0	–5,610	–1,367	–6,977
Impairment write-downs	0	0	–1,455	–1,455	–15,457	0	0	–15,457
Other operating expenses	–4,020	0	–9,005	–13,025	–77,116	–24,567	–8,671	–110,354
Interest and similar income	0	0	233	233	29	163	80	272
Interest and similar expenses	0	0	0	0	0	–166	0	–166
Taxes on income	0	0	0	0	0	14,163	0	14,163
Taxes on the profit from the disposal of discontinued operations	–85	0	0	–85	–2,240	–1,200	0	–3,440
Result from discontinued operations	**486**	**–70**	**–6,711**	**–6,295**	**–23,078**	**263,016**	**–1,169**	**238,769**

The agreement for the sale of the Next ID Group specifies that the internal business relations between the freenet Group and the Next ID segment will in certain cases be terminated soon after the sale has been completed and that some of the services will continue to run in the long term. Accordingly, with regard to the expenses and income in connection with internal relations, the net income of the Next ID segment has been broken down into two figures, namely before and after expenses have been consolidated.

With regard to the result for the period 2010 of the Next ID Group, the positions "Impairments" as well as "Other operating expenses" include a total of 2,503 thousand euros for costs for recognising a probable loss, which however has not been realised as of the reporting date, attributable to the imminent deconsolidation of the Next ID Group.

The sale of freenet Breitband GmbH (as a component of the "DSL Business" segment) to 1&1 Internet AG in 2009 involved the sale of a fully consolidated group company to a related party. As a result of purchase price adjustments, a subsequent disposal gain of 4.5 million euros was generated from this sale in the financial year 2010.

Intangible assets and property, plant and equipment which are attributable to DSL Business and which were not sold as part of the sale of freenet Breitband GmbH as well as freenet Customer Care GmbH in 2009 were classified as held-for-sale as of December 31, 2009 and subsequently up to and including June 30, 2010. In relation to pending services related to these intangible assets and property, plant and equipment, a provision of 16.5 million euros to cover contingent losses had been shown in the balance sheet as of December 31, 2009 (June 30, 2010: 12.8 million euros) under the item "Liabilities in connection with the sale of certain assets". So far, these assets have not been sold, and such a sale is also no longer likely to take place in the short term. Accordingly, the provision for contingent losses above has been reclassified under continued operations, and is shown in an amount of 12.4 million euros under the "Other provisions" as of December 31, 2010; of this figure, 10.2 million euros is of a long-term nature and 2.2 million euros is of a short-term nature. Please refer also to item 31 "Other provisions".

The cash-flow statement shows the figures for the overall Group (continued and discontinued operations).

The discontinued operations "Next ID" accounted for an outflow of 3.0 million euros of the figure shown for cash flow from operating activities in 2010 (previous year: cash outflow of 2.4 million euros); they accounted for an outflow of 0.4 million euros of the figure shown for cash flow from investing activities (previous year: cash outflow of 0.4 million euros) and accounted for a cash inflow of 0.2 million euros in the figure shown for cash flow from financing activities (previous year: cash inflow of 0.1 million euros).

Of the reported cash flow from operating activities, cash outflows of 3.6 million euros are attributable to the discontinued operations "DSL Business" in 2010 (previous year: cash outflows of 10.4 million euros). There were no cash flows from investing activities and financing activities for "DSL Business" in the financial year 2010. In the previous year comparison period, the cash outflows from investing and financing activities attributable to "DSL Business" were small.

No cash flows were reported for the "STRATO Group" segment in 2010. In 2009, the discontinued operations "STRATO Group" accounted for a cash inflow of 36.9 million euros of the figure shown for cash flow from operating activities, and also accounted for

cash outflows of 5.9 million euros of the figure shown for cash flow from investing activities; cash flows from financing activities were small.

With regard to the effects of the subsequent purchase price payment received in the course of the year from the sales of the segments “DSL Business” and the “STRATO Group” as well as the purchase price payment received in the course of the year from the sale of the segment “Next ID”, please refer to item 33 “Notes to the consolidated cash flow statement”.

25. Shareholders’ equity

25.1 Share capital

The issued share capital of the company is 128,061 thousand euros. The share capital consists of 128,061,016 registered no-par-value shares each with a theoretical nominal value of 1.00 euro. The entire share capital is fully paid up. All shares have been issued with equal rights.

Pursuant to section 71 (1) no. 8 AktG, the Executive Board was authorised by the Annual General Meeting on July 6, 2010, with the approval of the Supervisory Board, to acquire and use treasury shares equivalent to a total of up to 10 percent of the share capital existing at the time at which the resolution regarding this authorisation is adopted or – if this amount is lower – the share capital existing at the time at which this authorisation is exercised, for every permissible purpose subject to the legal regulations. This authorisation is applicable until July 5, 2015.

In addition to the authorisation pursuant to section 71 (1) no. 8 AktG, the Executive Board may additionally use equity derivatives in order to acquire treasury shares.

The complete wording of these authorisation resolutions was published on 21 May 2010 under items 7 and 8 on the agenda in the invitation to attend the Annual General Meeting 2010 in the Electronic Federal Gazette.

25.2 Authorised capital

On July 7, 2009, the Annual General Meeting of the Company adopted authorised capital of 20,000,000 euros, which was entered in the commercial register on September 9, 2009. In accordance with section 4 (7) of the articles of incorporation, the Executive Board is authorised, with the approval of the Supervisory Board, to increase the Company’s share capital by July 6, 2011 on one occasion or in several amounts on several occasions by a total of up to 20,000,000 euros by way of issuing new no-par value registered or bearer shares in return for cash and/or non-cash contributions (authorised capital 2009). The Executive Board is also authorised to take a decision with regard to excluding shareholders’ subscription rights in legally permitted cases and subject to the approval of the Supervisory Board.

25.3 Contingent capital

In accordance with the resolution of the Annual General Meeting of July 20, 2007, the contingent capital of the Company was increased by up to 318,447 euros (contingent capital 2007).

As a result of the merger in accordance with section 23 of the German Reorganisation Act (Umwandlungsgesetz; UmwG), the Company is obliged to grant equivalent rights to holders of stock options of the former mobilcom AG. In accordance with

section 4 of the merger agreement of July 8, 2005, this was achieved by the Company converting the former subscription rights for shares in mobilcom AG into subscription rights for shares of the Company in accordance with the ratio of 1:1 defined in the merger agreement for converting the shares of mobilcom AG into shares of the Company.

In order to be in a position to issue new shares of the Company to the option holders in accordance with the regulations set out in the option conditions if the above-mentioned stock options are exercised, contingent capital 318,447 euros was created in section 4 (8) of the articles of incorporation. The contingent capital increase is only carried out to the extent that the holders of the option rights actually exercise their right to subscribe for shares of the Company and only to the extent that the Company does not grant any of its own shares or pay cash in order to fulfil the option rights. The new shares participate in profits from the beginning of the financial year in which they are issued. So far, no shares have been issued out of the contingent capital 2007.

According to a resolution of the Annual General Meeting of July 7, 2009, a contingent capital increase of up to 15,000,000 euros was carried out for the share capital by way of issuing up to 15,000,000 new no-par value registered shares, with each individual no-par value share accounting for 1.00 euro of the share capital ("contingent capital 2009"). The purpose of the contingent capital increase is to enable no-par value registered shares to be granted to the holders of conversion or option bonds which are issued on the basis of the authorisation of the Company adopted by the Annual General Meeting of 7 July 2009 under agenda item 10 letter A) and which provide a conversion or option right in relation to the no-par value registered shares of the Company or which establish a conversion obligation in relation to these shares.

The issue amount for the new registered no-par-value shares is based on the rules set out in section 4 (9) of the articles of incorporation. The contingent capital increase is only to be carried out to the extent to which conversion or option rights are utilised or to which holders with a conversion obligation meet their conversion obligation and if treasury shares are not used for settlement or if the Company does not provide a cash settlement. The new shares will carry a dividend entitlement from the beginning of the financial year in which they are issued. The Executive Board is authorised to fix the further details for carrying out the contingent capital increase.

26. Employee participation programmes

The Group offers the following employee participation programmes:

- Stock appreciation rights of freenet AG
- Stock options of the former mobilcom AG

26.1 Stock appreciation rights of freenet AG

In the course of 2006, freenet AG introduced a so-called stock appreciation programme by issuing a total at present of 5,145,000 stock appreciation rights (Aktienwertsteigerungsrechte—SARs) to senior executives, including members of the Executive Board. In the financial year 2008, stock appreciation rights were issued in two additional programmes: In programme 2, 720,000 stock appreciation rights were issued to senior executives as of April 1, 2008; as of September 30, 2008, 400,000 stock appreciation rights were granted to Mr. Joachim Preisig on the occasion of his appointment to the Executive Board of freenet AG (programme 3). In the financial year 2009, 400,000 SARs

(programme 4) were issued to Mr. Christoph Vilanek as of May 1, 2009 on the occasion of his appointment to the Executive Board.

The stock appreciation right programmes do not provide any authorisation to subscribe for shares; instead, they specify a cash payment for each stock appreciation right equivalent to the difference between a strike price and the share price of the Company applicable upon exercising, which however is subject to a cap in the individual programmes. The individual caps and the strike price for each programme are set out in the following table.

The value of dividend payments to the shareholders and other benefits for the shareholders are each deducted from the strike price in accordance with recognised methods for the total shareholder return approach. Subject to the condition that the employee is still employed by the Company, the shut-out period for 20 percent of the stock appreciation rights to which a beneficiary is entitled ends on 7 November of each year starting with November 7, 2006 for the first tranche (programme 1), on 1 April of each year starting with April 1, 2009 for the first tranche (programme 2) and on August 31, of each year starting with August 31, 2009 (programme 3), or on April 29, of each year, starting with April 29, 2010, providing that certain targets have been attained.

For each first tranche of a program, the relevant target is that the price of the Company's shares must exceed the strike price (under the total shareholder return approach) by at least five percent (programme 1) or by at least ten percent (programs 2, 3 and 4) at least on one occasion in the period starting immediately before the corresponding stock appreciation rights become exercisable and ending with the expiry of the relevant program. For the stock appreciation rights of the tranches two to five, the percentage is incremented by five percentage points per tranche (programme 1) or by ten percentage points per tranche (programmes 2, 3 and 4) up to a 25 percent increase in relation to the strike price for tranche 5 (programme 1) and 50 percent increase in relation to the strike price for the tranche 5 (programmes 2, 3 and 4).

If a change of control takes place at the Company, the above shut-out periods are no longer applicable; however, the profit targets are retained.

The term of all stock appreciation rights is due to end on February 2, 2012 (programme 1), April 1, 2014 (programme 2), September 1, 2014 (programme 3) and May 1, 2015 (programme 4) respectively. The exercise period in each instance is defined as the period which commences 31 stock exchange trading days on the stock exchange in Frankfurt am Main after the end of the first ordinary Annual General Meeting of the Company after the end of the corresponding shut-out period until the end of the term.

Details of stock appreciation rights which have so far been issued are set out in the following table:

Stock appreciation rights programme 1	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2009	Issued	Exercised	Disposals	Balance SARs 31.12.2010	Provisions 31.12.2009 €'000s
Tranche 1	10.96	11.51	27.00	2.2.2012	9,000	0	0	0	9,000	
Tranche 2	10.96	12.06	27.00	2.2.2012	747,000	0	0	37,292	709,708	
Tranche 3	10.96	12.60	27.00	2.2.2012	747,000	0	0	37,292	709,708	
Tranche 4	10.96	13.15	27.00	2.2.2012	747,000	0	0	37,292	709,708	
Tranche 5	10.96	13.70	27.00	2.2.2012	747,000	0	0	37,292	709,708	
					2,997,000	**0**	**0**	**149,168**	**2,847,832**	**288**

Stock appreciation rights programme 2	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2009	Issued	Exercised	Disposals	Balance SARs 31.12.2010	Provisions 31.12.2009 €'000s
Tranche 1	11.13	12.24	21.00	1.4.2014	40,500	0	0	11,683	28,817	
Tranche 2	11.13	13.36	21.00	1.4.2014	40,500	0	0	11,683	28,817	
Tranche 3	11.13	14.47	21.00	1.4.2014	40,500	0	0	11,683	28,817	
Tranche 4	11.13	15.58	21.00	1.4.2014	40,500	0	0	11,683	28,817	
Tranche 5	11.13	16.70	21.00	1.4.2014	40,500	0	0	11,683	28,817	
					202,500	**0**	**0**	**58,415**	**144,085**	**63**

Stock appreciation rights programme 3	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2009	Issued	Exercised	Disposals	Balance SARs 31.12.2010	Provisions 31.12.2009 €'000s
Tranche 1	11.26	12.39	21.46	1.9.2014	80,000	0	0	0	80,000	
Tranche 2	11.26	13.51	21.46	1.9.2014	80,000	0	0	0	80,000	
Tranche 3	11.26	14.64	21.46	1.9.2014	80,000	0	0	0	80,000	
Tranche 4	11.26	15.76	21.46	1.9.2014	80,000	0	0	0	80,000	
Tranche 5	11.26	16.89	21.46	1.9.2014	80,000	0	0	0	80,000	
					400,000	**0**	**0**	**0**	**400,000**	**181**

Stock appreciation rights programme 4	Strike price €	Target price €	Cap €	Maturity	Balance SARs 31.12.2009	Issued	Exercised	Disposals	Balance SARs 31.12.2010	Provisions 31.12.2009 €'000s
Tranche 1	7.80	8.58	18.00	1.5.2015	100,000	0	0	0	100,000	
Tranche 2	7.80	9.36	18.00	1.5.2015	100,000	0	0	0	100,000	
Tranche 3	7.80	10.14	18.00	1.5.2015	100,000	0	0	0	100,000	
Tranche 4	7.80	10.92	18.00	1.5.2015	50,000	0	0	0	50,000	
Tranche 5	7.80	11.70	18.00	1.5.2015	50,000	0	0	0	50,000	
					400,000	**0**	**0**	**0**	**400,000**	**452**

The obligation arising from the stock appreciation rights programme was determined in accordance with IFRS 2 using an option price model (binomial model). In 2010, this programme has resulted in a reduction of 4,011 thousand euros in personnel expenses, due exclusively to the reduction of the provision compared with December 31, 2009. No further SARs were granted in 2010, no SARs were exercised and no cash payments were made as a result of such rights being exercised. As of December 31, 2010, a sundry provision of 984 thousand euros (of which 688 thousand euros short-term and 296 thousand euros long-term) is shown for the outstanding SARs. In total, 100,000 SARs are exercisable as of December 31, 2010 (tranche 1 from programme 4).

The ranges of the option prices for each stock appreciation right are between 0.08 euro and 0.18 euro for programme 1, between 0.45 euro and 0.85 euro for programme 2, between 0.49 euro and 1.03 euros for programme 3 and between 1.58 euros and 2.09 euros for programme 4.

The valuation parameters of the option price model for all four programs have been set as follows: the share price of the company on the closing date (7.90 euros) has been used as the share price. The expected volatility was defined as 32.0 percent—it was determined using an estimate of the future performance of the share price of the Company taking account of a mean value between the historical volatility of matching maturities as well as the implied volatility of the shares of freenet AG. The risk-free interest rate was determined on the basis of the yield structure curve of German Federal Bonds as of the balance sheet date. As of December 31, 2010, the risk-free interest rate for the individual tranches of programme 1 was between 0.46 and 0.54 percent; the risk-free interest rate for programme 2 was between 0.76 and 1.11 percent, the risk-free interest rate for programme 3 was between 0.81 and 1.41 percent, and the risk-free interest rate for programme 4 was between 0.90 and 1.56 percent. For each of the measured tranches of the individual programmes, the expected remaining term of the stock appreciation rights was determined as the remaining waiting time as of the valuation reference date plus half of the remaining term after the end of the waiting time is attained. Further parameters such as the relative success targets of the individual tranches of the programs have also been taken into consideration.

26.2 Stock options of the former mobilcom AG

The former mobilcom AG granted stock options to the Executive Board, the executive bodies of the subsidiaries and selected employees of mobilcom AG and the following companies affiliated with mobilcom AG. In accordance with section 4 (1) of the merger agreement of July 8, 2005, which was signed by the Company as well as mobilcom AG and freenet.de AG, freenet AG grants identical rights to all holders of options in accordance with section 23 UmwG, because the mobilcom shares were converted in a ratio of 1:1 into shares of freenet AG.

The options are not permitted to be exercised before the expiry of two years after the point at which they are issued (shut-out period). Assuming success in meeting a relative target of a 20 percent increase in the share price compared with the strike price, up to 50 percent of the option rights which have been granted can be exercised after the shut-out period; a further 25 percent can be exercised for the first time after a period of three years, and the remaining options can only be exercised four years after the time at which the options were issued. After the expiry of the corresponding shut-out period, a further period of three years is defined as the period in which the rights can be exercised. Details concerning the options which have been issued so far are set out in the following table:

Stock options	Strike price €	Target price €	Maturity	Balance stock options 1.1.2010	Expired	Exercised	Disposals	Balance stock options 31.12.2010
Tranche 2004	17.09	20.51	31.03.11	73,412	16,884	0	5,240	51,288
				73,412	**16,884**	**0**	**5,240**	**51,288**

The 51,288 (previous year: 73,412) share options which had not been exercised as of the balance sheet date are options which are linked to the employee's relationship within the Group.

No stock options were exercised last year because the exercise conditions had not been satisfied.

The difference to be granted for each option of tranche 2004 is defined as the difference between the average XETRA closing price of the shares of the Company on the last ten trading days before the exercise date and the exercise price of 20.51 euros.

The options recognised as disposals (5,240 options; previous year: 4,541) were issued to employees whose employment contract at a Group company had been terminated before the end of the exercise period.

In addition, the financial year saw the expiry of 16,884 (previous year: 31,952) stock options for which the contractually defined exercise period expired or which expired upon maturity.

The stock options of the 2004 tranche are valued by means of a binomial model. In these models, possible developments of a stock price are modelled using a binomial decision tree. The valuation is based on the following assumptions: With the exercise price of 20.51 euros, the reference date of freenet shares on the Frankfurt stock

exchange (XETRA) was used (7.90 euros). The expected volatility was set at 32.0 percent—it was estimated using an estimate of the future performance of the share price of freenet AG in XETRA trading of the Frankfurt stock exchange, including historical volatility of matching maturities. The risk-free interest rate of matching maturities was determined separately for the vested options and also for the non-vested options on the basis of the yield structure curve of German Bunds as of the closing date. As of December 31, 2010, this resulted in a risk-free interest rate of approx. 0.6 percent for the program. The relevant period until the expiry date was used as the expected remaining term of the stock options. Further parameters such as the relative success targets of the programme were also taken into consideration.

No further provisions were created as of December 31, 2010 for the stock option programme of the former mobilcom AG, as was also the case as of the previouis reporting date, because the stock options had to be classified as worthless in accordance with the valuation model which was applied. The option price for each stock option amounted to almost 0.00 euros as of December 31, 2010.

27. Trade accounts payable, other liabilities and accruals

The trade accounts payable as well as other liabilities and accruals are broken down as follows:

€'000s	31.12.2010	31.12.2009
Trade accounts payable	355,578	390,292
Advance payments received	100,946	101,891
Other liabilities and accruals	42,932	130,174
	499,456	**622,357**

In the financial year 2010, a figure of 0 thousand euros (previous year: 701 thousand euros) from the proportionate reversal of the accruals for public sector subsidies was recognised in the income statement, as described under item 2.16.

Of the figure shown for liabilities, 4 thousand euros (previous year: 47 thousand euros) is attributable to related parties; please refer to item 35 "Transactions with related parties".

Of the figure shown for liabilities, 487,273 thousand euros (previous year: 568,216 thousand euros) is due within the next 12 months. Liabilities of 12,150 thousand euros (previous year: 54,141 thousand euros) have a maturity between one year and five years. Liabilities of 33 thousand euros (previous year: 0 thousand euros) have a maturity of more than five years.

Other liabilities which are due to expire after December 31, 2011 are discounted to an amount of 11,574 thousand euros with a discount rate of 7.80 percent. The market value of these liabilities totalled 12,545 thousand euros as of December 31, 2010. For the remaining long-term other liabilities of 609 thousand euros, the market value is approximately equivalent to the recognised book value as a result of the discounting process.

The maturities of those liabilities which are shown in the categories Trade accounts payable and other non-derivative financial liabilities are as follows: 383,680 thousand

euros (previous year: 454,537 thousand euros) is due within one year, 12,150 thousand euros (previous year: 40,092 thousand euros) is due between one year and five years, and 33 thousand euros (previous year: 14,046 thousand euros) is due more than five years after the closing date.

28. Current income tax liabilities

Current income tax liabilities mainly comprise expected additional corporation tax and trade tax payments for previous financial years.

29. Debt

Debt is structured as follows:

€'000s	31.12.2010	31.12.2009
Non-current		
Liabilities due to banks	584,583	718,207
	584,583	**718,207**
Current		
Liabilities due to banks	215,435	406,251
Liabilities due to shareholders (vendor loans)	0	145,623
	215,435	**551,874**

The long-term borrowings of 584.6 million euros shown in the Group as of December 31, 2010 (previous year: 718.2 million euros) are attributable to the long-term portion of two bank loans taken on to finance the debitel acquisition in 2008, and are due to run until 31 July 2014. The short-term borrowings of 215.4 million euros reported as of December 31, 2010 (previous year: 551.9 million euros) comprise the short-term portion of the two bank loans mentioned above (68.8 million euros; previous year: 243.9 million euros) as well as a revolving facility of 146.6 million euros at the banks financing the debitel acquisition (previous year: 146.6 million euros). In the previous year, a vendor loan of 145.6 million euros, liabilities attributable to derivative financial instruments (swaps) of 13.5 million euros and other borrowings of 2.3 million euros were shown under short-term borrowings. Of the figure shown for borrowings as of December 31, 2009, related parties accounted for 145.6 million euros, see item 35.

Netted with the liquid assets and including the liquid assets attributable to the discontinued operations, net borrowings of 623.1 million euros were shown in the Group as of December 31, 2010 (previous year: 789.8 million euros).

30. Pension provisions and similar obligations

The pension obligations are a consequence of indirect and direct pension commitments. The pension benefit provided in each case is the payment of a lifetime retirement pension upon reaching the age of 60 or 65 and the payment of benefits to surviving dependants. The pension benefits are partly financed by a reinsured benevolent fund. All pension commitments are always determined by the amount of salary and the time of service at the Company.

The amount of the provision in the consolidated balance sheet is calculated as follows:

€'000s	31.12.2010	31.12.2009
Present value of funded obligations	4,642	3,700
Present value of unfunded obligations	27,187	26,457
Fair value of plan assets	–2,294	–1,389
Actuarial losses (profits)	–4,897	–4,574
Provision shown in balance sheet	**24,638**	**24,194**

It is expected that these obligations will be fulfilled in the long term.

The following table sets out the development in the present value of the funded and non-funded obligations:

€'000s	2010	2009
As of 1.1.	**30,157**	**23,241**
Past service costs	0	545
Current service cost	460	432
Interest expense	1,502	1,398
Employees' contribution	254	1,095
Actuarial losses	636	4,308
Payments made	–1,180	–862
As of 31.12.	**31,829**	**30,157**

The following amounts have been shown for the defined-benefit plans for the current reporting period and the previous reporting periods:

€'000s	2010	2009	2008	2007	2006
Present value of funded obligations	4,642	3,700	1,830	1,550	1,453
Present value of unfunded obligations	27,187	26,457	21,411	82	78
Fair value of plan assets	–2,294	–1,389	–1,122	–829	–699
Net income/(net loss) of the plan	**29,535**	**28,768**	**22,119**	**803**	**832**
Experience-based adjustments of the liabilities of the plan	9	–79	–5	4	4
Experience-based adjustments of the assets of the plan	230	–214	–97	–255	–22

The plan assets consist of a reinsurance policy concluded by the benevolent fund set up for this purpose with a fair value of 2,294 thousand euros (December 31, 2009: 1,389 thousand euros); they are invested in equity fund units and shares. The following table sets out the development in fair value:

€'000s	2010	2009
As of 1.1.	**1,389**	**1,122**
Expected income from plan assets	70	56
Difference between expected and actual income from plan assets	230	–214
Employers' contribution to plan assets	605	425
As of 31.12.	**2,294**	**1,389**

The actual income from the plan assets amount to 300 thousand euros (2009: expenses of 158 thousand euros), and are calculated as the sum of the expected income from the plan assets and the actuarial profits or losses.

For the financial year 2011, freenet is expecting payments into the plan assets of 515 thousand euros as well as payments out of the plan assets for pensions of 597 thousand euros.

The following items are recognised in the consolidated income statement:

€'000s	2010	2009
Current and past service cost	460	976
Interest expense	1,502	1,398
Actuarial losses (realised)	83	0
Expected income from plan assets	–70	–56
Total cost of defined benefit plans	**1,975**	**2,318**
Thereof recognised in personnel expenses	473	920
Thereof recognised in interest and similar expenses	1,502	1,398

Movements in the amounts recognised as provisions are shown in the following:

€'000s	2010	2009
As of 1.1.	**24,194**	**22,068**
Total cost recognised in the consolidated income statement	1,975	2,318
Payments made	–1,785	–1,287
Employees' contribution	254	1,095
As of 31.12.	**24,638**	**24,194**

The main actuarial assumptions are as follows:

In percent	31.12.2010	31.12.2009
Discount rate	5.0	5.1
Expected income from plan assets	5.0	5.0
Future salary increases (programme debitel)	2.5	2.5
Future salary increases (programme freenet)	0.0	0.0
Future pension increases	2.0	2.0

The discount rate of 5.0 percent has been determined on the basis of the iBoxx index. The figure has been adjusted by securities which had already been downgraded as of the balance sheet date and also securities put on watch for downgrade at Moody's and subordinate bonds. In addition, the figure has been extrapolated by swap rates in order to achieve reconciliation with a longer term of obligations.

The RT 2005G mortality tables of Dr. Klaus Heubeck have been used as the biometric basis.

The anticipated income from the plan assets has been determined on the basis of a consideration of the underlying historical prices of the plan assets as well as the anticipated average performance of the plan assets until the end of the term of the pension plan.

31. Other provisions

The following overview sets out a breakdown of the development of provisions:

€'000s	1.1.2010	Consumption	Reversal	Compounding	Allocation	Reclassification	31.12.2010
Contingent losses	14,507	4,198	491	1,462	2,416	12,843	26,539
Litigation risks	3,958	335	376	0	9,019	–24	12,242
Obligation to restore assets to original condition	4,282	682	750	94	0	0	2,944
Restructuring	16,432	12,060	4,057	0	1,568	0	1,883
Outstanding stock options and stock appreciation rights	4,995	0	4,011	0	0	0	984
Warranty/guarantee	547	0	70	0	0	0	477
Storage costs	540	0	65	0	0	0	475
Other	0	0	0	0	596	0	596
	45,261	**17,275**	**9,820**	**1,556**	**13,599**	**12,819**	**46,140**

The restructuring provisions essentially comprise personnel costs in connection with the process of integrating the acquired debitel Group and also in connection with restructuring the landline activities of the Group. The outflow of assets for these provisions is expected for 2011.

The provisions for contingent losses partly relate to pending services in connection with the landline activities of the Group (12,432 thousand euros), whereby the outflow of assets is expected to take place in 2011 (2,176 thousand euros) and in the years 2012 to 2017 (10,256 thousand euros). As of December 31, 2009, a provision of 16,536 thousand euros had been created for this issue; because the activities are attributed to "DSL Business", this figure has been shown under the item "Liabilities in connection with the disposal of certain assets". This provision was reclassified as continuing operations as of 1 July 2010 with a value of 12,843 thousand euros (please also refer to item 24 "Discontinued operations"); the figure has been shown in the column entitled "Reclassification" in the schedule of provisions. Provisions for contingent losses have also been created for vacancy costs of rented shops and office buildings (10,006 thousand euros); the outflow of assets is expected in 2011 (4,318 thousand euros) as well in the period 2012 to 2017 (5,688 thousand euros)—a rate of 4.50 percent has been used for unwinding purposes in this respect. And finally, the provisions for contingent losses include a figure of 4,101 thousand euros for losses expected from negative-margin tariffs; the outflow of assets is expected in 2011.

The figure stated for the provision for dismantling obligations relates to obligations for dismantling tenant fittings and various technical and administration locations

of the Group. After the expected expiry of the underlying tenancy agreements, the outflow of funds is expected to be 449 thousand euros in 2011 and 2,495 thousand euros in the years 2012 to 2018. The provisions have again been discounted with a rate of 4.25 percent.

The provision for litigation relates to the expected costs of various actions against group companies as well as other outstanding disputes with third parties. Most of these provisions related to litigation with former trade partners and customers as well as issues of competition law. The Group expects that the majority of the disputed questions will be settled during the financial year 2011. More information is not given here so that the legal and negotiating position is not announced ahead of time, thereby creating a risk for the position.

Further details concerning the creation of provisions for outstanding stock options and stock appreciation rights are documented under item 26 "Employee participation programmes".

32. Other financial obligations, contingencies, securities for loans

At the end of the financial year, there are operating lease obligations (which cannot be terminated) from leases and leasing agreements as well as maintenance, support and other obligations and order commitments in the following amounts:

€'000s	31.12.2010	31.12.2009
Rent and leasing obligations		
Due within one year	33,534	38,143
Due between one year and five years	72,726	74,793
Due term greater than five years	13,837	22,044
	120,097	**134,980**
Maintenance, support and other obligations		
Due within one year	15,066	16,504
Due between one year and five years	1,455	21
Due term greater than five years	0	0
	16,521	**16,525**
Acceptance obligation from orders		
Regarding intangible assets	5	585
Regarding property, plant and equipment	180	21
Regarding inventories, expenses and services	20,624	20,245
	20,809	**20,851**
	157,427	**172,356**

The obligations from rental and leasing agreements relate mainly to the rental of office buildings and shops as well as hardware leasing. As of the balance sheet date, there were options for extending the majority of leases and leasing agreements. The conditions of these extension options are in all cases freely negotiable or identical to the current

conditions of the agreements. The obligations arising from maintenance, support and other agreements relate mainly to agreements for the maintenance of IT hardware and databases, building services engineering as well as the network infrastructure.

The acceptance obligations from orders at the end of the financial year amounted to 20,809 thousand euros (previous year: 20,851 thousand euros). Of this figure, 185 thousand euros (previous year: 606 thousand euros) is attributable to the procurement and production of fixed assets. Further purchase obligations of 20,624 thousand euros (previous year: 20,245 thousand euros) mainly relate to services in connection with ongoing projects as well as products purchased for resale, e.g. mobile phones and accessories. This item also includes financial obligations arising from data centre services.

Major assets of the Group were provided as collateral for the debt raised within the framework of the debitel acquisition. freenet AG as well as major Group companies are borrowers with regard to this loan agreement, or act as guarantors for the loan agreement. These companies have mainly assigned their relevant accounts receivable due from banks existing in the form of liquid assets, major parts of their receivables and other assets (with the exception of receivables due from end users) as well as certain intangible assets as collateral to the lenders. With regard to the balance sheet as of December 31, 2010, this means that most of cash at banks, the trade accounts receivable, other receivables, other assets as well as a small percentage of intangible assets have been pledged as collateral.

Other liability obligations exist as a result of letters of comfort and guarantees for rents and amounted to 15,452 thousand euros (previous year: 10,545 thousand euros) as of the balance sheet date.

33. Notes to the consolidated cash flow statement

In the consolidated cash flow statement, the figures are reported for the overall Group (continued and discontinued operations). Separate details relating to discontinued operations are set out in item 24 “Discontinued operations”.

Cash and cash equivalents consist of cash at banks, cash in hand, cheques and short-term money market papers which can be liquidated at any time and current financial liabilities, each with an original maturity of less than three months. Cash and cash equivalents also include cash and cash equivalents of the Next ID Group as discontinued operations (2.6 million euros).

The cash flows are broken down as ongoing business activities, investing activities and financing activities. The indirect calculation method has been used for presenting the cash flow from ongoing business activities.

33.1 Cash flow from ongoing business activities

Compared with the comparison period, the inflow of cash from operating activities declined by 59.3 million euros to 236.3 million euros.

Compared with the previous year, earnings before interest, taxes, depreciation and amortisation (EBITDA) declined by 11.0 million euros for the overall Group incl. discontinued operations, adjusted by the revenues included from the sale of subsidiaries (the inflows from the sale of subsidiaries are shown under investing activities). In addition, the reduction in the inflow of cash from operating activities compared with the previous year is mainly attributable to an increase of 82.7 million euros in net working capital

in 2010 (2009: increase of 22.3 million euros in net working capital). The increase of 82.7 million euros is mainly attributable to the reduction of liabilities of the declining "Other" operations with the exception of Mobile Communications, the scheduled reduction of liabilities and accruals for distribution partners from distribution rights and also for a mobile communication network operator, the reduction in provisions for restructuring in connection with the integration of the acquired debitel Group as well as fluctuations in liabilities due to reference date factors and accruals with regard to hardware manufacturers in the Mobile Communications segment.

In 2010, there were also net outflows of 10.4 million euros (previous year: 20.8 million euros) due to tax payments, reduced by tax refunds.

33.2 Cash flow from investing activities

In 2010, the cash inflow from investing activities declined by 307.4 million euros compared with the previous year, namely to 0.4 million euros.

This development in cash flow is mainly attributable to inflows in 2009 of 362.8 million euros generated by the disposal of DSL Business and the STRATO Group. This figure consists of inflows from provisional purchase prices (a total of 410.3 million euros) as well as an outflow of liquid assets due to the deconsolidation of these companies which have been sold (47.5 million euros). The inflows of 19.1 million euros due to the sale of subsidiaries shown for 2010 mainly comprise 16.4 million euros attributable to subsequent purchase price payments for the sale of freenet Breitband GmbH, 0.6 million euros for subsequent purchase price payments for the sale of the STRATO Group as well as 2.0 million euros for purchase price payments received for the sale of the "Next ID" segment. The purchase prices for these three sales are thus final.

The cash outflows for the renewal and extension of intangible assets and also for property, plant and equipment have declined by 43.4 million euros compared with the previous year, namely to 26.6 million euros. This development has been due mainly to outflows in the previous year for distribution rights as well as lower investments in the "Other" segment.

Further inflows attributable to investing activities in 2010, mainly from the sale of fixed assets (2.0 million euros) and interest (4.3 million euros) have been in line with forecast expectations.

33.3 Cash flow from financing activities

Compared with the comparable period of the previous year, cash flow from financing activities declined by 285.8 million euros from −252.0 million euros to −537.8 million euros.

Whereas borrowings of 155.8 million euros were reduced in 2009, a total of 454.0 million euros was repaid in relation to borrowings in 2010 as a direct consequence of the sales concluded at the end of 2009. Of this figure, 145.3 million euros was attributable to the vendor loan raised on the occasion of the debitel acquisition, and 308.7 million euros was attributable to the two long-term bank loans existing in connection with the debitel acquisition. Of the repayments of the long-term bank loans, 66.7 million euros were scheduled and 242.0 million euros were unscheduled, mainly as a result of the sales of the segments "DSL Business" and "STRATO Group".

There have also been interest payments of 58.1 million euros, mainly for the loans raised on the occasion of the debitel acquisition, which is equivalent to a reduction of 38.1 million euros compared with the previous year; this reduction is due to the comparatively lower average net borrowings of the Group and also the expiry of the interest swap in mid-2010.

In the financial year 2010, the dividend payment of 25.6 million euros which was adopted at the annual general meeting of freenet AG held on July 6, 2010 had the effect of reducing cash flow from financing activities.

33.4 Changes in the structure of the consolidated cash flow statement

The Company is of the opinion that it will provide the readers of the consolidated financial statements with a clearer picture of the financial position of the Group as a result of the changes described in the following in the structure of the consolidated cash flow statement compared with the previous year. The suggestions of investors and analysts have also been considered with regard to these changes. The previous year column of the consolidated cash flow statement has been adjusted accordingly.

The statement now commences with the "Result of continued and discontinued operations before taxes and interest" (EBIT) instead of the "Result of continued and discontinued operations before taxes on income"; this means that the adjustments of operating activities no longer have to be adjusted by the interest and similar income as well as interest and similar expenses. In addition, under operating activities, the positions "Decrease/increase in provisions", "Decrease/increase in inventories, receivables and other assets which are not classified as investing or financing activities" as well as "Decrease/increase in liabilities as well as other liabilities not classified as investing or financing activities" have now been combined to form a position "Decrease/increase in net working capital if not attributable to investing or financing activities". Under investing activities, the positions "Outflows for investments in property, plant and equipment" as well as "Outflows for investments in intangible assets" have been combined to form a new position "Outflows for investments in property, plant and equipment and intangible assets". The "Free cash flow" indicator has also been introduced for information purposes; this is defined as the cash flow from operating activities less the outflows for investments in property, plant and equipment and intangible assets, plus the inflows from disposals of intangible assets and property, plant and equipment. There have also been changes in the sequence in which items are disclosed under operating activities.

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

The starting point for determining the cash flow statement is the earnings before interest and taxes (EBIT) of the continued and discontinued operations. The following sets out the process of calculating this result from the consolidated income statement and also from the breakdown of the result of discontinued operations for the period (please refer to item 24).

€'000s	1.1.— 31.12.2010	1.1.— 31.12.2009
Earnings before taxes of continued operations	102,640	36,733
Interest payable and similar expenses of continued operations	61,024	103,042
Interest receivable and similar income of continued operations	–18,163	–15,188
Result from discontinued operations	–6,295	238,769
Taxes on income of discontinued operations	85	–10,722
Interest payable and similar expenses of discontinued operations	0	166
Interest receivable and similar income of discontinued operations	–233	–272
Earnings before interest and taxes (EBIT) of continued and discontinued operations	**139,058**	**352,528**

34. Additional information concerning financial instruments

34.1 Disclosures in accordance with IFRS 7

This section provides an overview of the significance of financial instruments for the Group, and provides additional information on balance sheet items which include financial instruments.

We have set out the following information for the presentation of the financial instruments in the Group as of December 31, 2010 and as of December 31, 2009, the related allocation to classes and reconciliation with the corresponding valuation categories under IAS 39:

Financial instruments according to classes as of 31 December 2010 €'000s	Valuation category according to IAS 39	Carrying amount 31.12.2010	Approach				Fair value 31.12.2010
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	174,334	174,334				174,334
Total cash and cash equivalents		**174,334**	**174,334**				**174,334**
Other financial assets (measured at cost of purchase)	HFS	1,205		1,205			–
Other financial assets (measured at fair value directly in equity)	HFS	1,053				1,053	1,053
Total financial assets		**2,258**					
Trade accounts receivable	LR	427,069	427,069				427,069
Other non-derivative financial assets	LR	15,101	15,101				15,101
Held-for-sale other assets	HFS	4,427				4,427	4,427
Derivative financial assets	FIPL	838			838		838
Non-financial assets		35,140					
Sum of other receivables and other assets		**55,506**					
Liabilities							
Trade accounts payable	FLAC	355,578	355,578				355,578
Financial debt (liabilities due to banks)	FLAC	800,018	800,018				800,018
Derivative financial liabilities	FIPL	0			0		0
Sum of financial liabilities		**800,018**					**800,018**
Other non-derivative financial liabilities	FLAC	40,285	40,285				41,701
Non-financial liabilities		103,593					
Sum of other liabilities and deferrals		**143,878**					
Thereof aggregated by valuation categories according to IAS 39:							
Held-for-sale financial instruments (HFS)	HFS	6,685		1,205		5,480	5,480
Loans and receivables (LR)	LR	616,504	616,504				616,504
Financial instruments measured at value through profit or loss (FIPL)	FIPL	838			838		838
Financial liabilities measured at amortised cost of purchase (FLAC)	FLAC	–1,195,881	–1,195,881				–1,197,297

Financial instruments according to classes as of 31 December 2009 €'000s	Valuation category according to IAS 39	Carrying amount 31.12.2009	Approach				Fair value 31.12.2009
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	480,291	480,291				480,291
Total cash and cash equivalents		**480,291**	**480,291**				**480,291**
Other financial assets (measured at cost of purchase)	HFS	1,203		1,203			–
Other financial assets (measured at fair value directly in equity)	HFS	987				987	987
Total financial assets		**2,190**					
Trade accounts receivable	LR	491,051	491,051				491,051
Other non-derivative financial assets	LR	29,892	29,892				29,892
Held-for-sale other assets	HFS	5,174				5,174	5,174
Non-financial assets		28,440					
Sum of other receivables and other assets		**63,506**					
Liabilities							
Trade accounts payable	FLAC	390,292	390,292				390,292
Financial debt (liabilities due to banks)	FLAC	1,256,621	1,256,621				1,256,621
Liabilities from finance leases	FLAC	0	0				0
Derivative financial liabilities	FIPL	13,460			13,460		13,460
Sum of financial liabilities		**1,270,081**					**1,270,081**
Other non-derivative financial liabilities	FLAC	118,383	118,383				119,993
Non-financial liabilities		113,682					
Sum of other liabilities and deferrals		**232,065**					
Thereof aggregated by valuation categories according to IAS 39:							
Held-for-sale financial instruments (HFS)	HFS	7,364		1,203		6,161	6,161
Loans and receivables (LR)	LR	1,001,234	1,001,234				1,001,234
Financial instruments measured at value through profit or loss (FIPL)	FIPL	–13,460			–13,460		–13,460
Financial liabilities measured at amortised cost of purchase (FLAC)	FLAC	–1,765,296	–1,765,296				–1,766,906

The non-financial assets constitute that part of the balance sheet item “Other receivables and other assets” not covered by the scope of IFRS 7.

The non-financial liabilities constitute that part of the balance sheet item “Other liabilities and deferrals” not covered by the scope of IFRS 7.

The market value of cash and cash equivalents, trade accounts receivable, other current financial assets, trade accounts payable and other current financial obligations is roughly equivalent to the book value. This is due to the short remaining terms of these financial instruments.

The market values of the non-current receivables and other financial assets with remaining terms of more than one year correspond to the book values of the payments associated with the assets, with due consideration being given to the relevant interest parameters. The book values of these financial instruments are approximately equivalent to the market values as a result of the discounting process.

For those financial instruments measured at market value, the Group uses the price in an active market as the market value.

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

For the other held-for-sale assets, the Group defines the market value as the price in an active market.

The market value of the financial debt is equivalent to the book value as a result of the short remaining terms involved.

The market value of the derivative financial instruments which are not exchange-traded is determined by the Group on the basis of recognised actuarial methods (discounted cash flow method or option price models). The expected future cash flows from the financial instrument are calculated on the basis of the relevant rate structure and forward curves and are then discounted to the closing date. The market value confirmations obtained from the external partners are periodically compared with the market values which have been calculated internally.

Trade accounts payable and other financial liabilities and accruals normally have short remaining terms; the recognised figures are approximately equivalent to the market value. The following overview shows the major parameters used as the basis for valuing the financial instruments measured at fair value. The individual levels are defined in accordance with IFRS 7 as follows:

Level 1:
Unchanged use of prices on active markets for identical financial assets or financial liabilities

Level 2:
Use of input factors which are not the listed prices recognised in Level 1, but which are directly (i. e. in the form of a price) or indirectly (i.e. derived from prices) observable for the financial asset or the financial liability.

Level 3:
Use of factors which are not based on observable market data for measuring the financial asset or the financial liability (input factors not based on observable market data).

Fair value hierarchy 2010 (€'000s)	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	4,427	4,427		
Other financial assets	1,053	1,053		
Derivative financial liabilities	838		838	
Total	**6,318**	**5,480**	**838**	

Fair value hierarchy 2009 (€'000s)	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	5,174	5,174		
Other financial assets	987	987		
Derivative financial liabilities	–13,460		–13,460	
Total	**–7,299**	**6,161**	**–13,460**	

For the individual categories of financial instruments in accordance with IAS 39, the following net results were shown in the financial year 2010 and in the previous year:

Net results by valuation categories 2010 (€'000s)	**From interest**	**From subsequent measurement**			**From disposal**	**Net result**
		At fair value (income statement)	**At fair value (equity)**	**Impairment/ receivables losses**		
Valuation category						
Held-for-sale financial instruments (HFS)	0	0	22	0	0	22
Loans and receivables (LR)	3,412	0	0	−46,114	−64	−42,766
Financial instruments measured at fair value through profit or loss (FIPL)	0	13,460	0	0	0	13,460
Financial liabilities measured at amortised cost (FLAC)	−50,419	0	0	0	0	−50,419
	−47,007	**13,460**	**22**	**−46,114**	**−64**	**−79,703**

Net results by valuation categories 2009 (adjusted, €'000s)	**From interest**	**From subsequent measurement**			**From disposal**	**Net result**
		At fair value (income statement)	**At fair value (equity)**	**Impairment/ receivables losses**		
Valuation category						
Held-for-sale financial instruments (HFS)	0	0	12	0	0	12
Loans and receivables (LR)	5,378	0	0	−32,040	506	−26,156
Financial instruments measured at fair value through profit or loss (FIPL)	−4,463	8,109	0	0	0	3,646
Financial liabilities measured at amortised cost (FLAC)	−88,891	0	0	0	0	−88,891
	−87,976	**8,109**	**12**	**−32,040**	**506**	**−111,389**

Net gains and losses from loans and receivables include changes in the impairments, gains and losses from derecognition as well as inflows and recoveries in the value of previously written-off loans and receivables.

Net gains and losses from the category of financial instruments measured at fair value through profit and loss include the income and expenses from interest as well as the market valuation of the interest swap and interest cap as well as income from the market valuation of money market paper.

Net gains and losses from the category of available-for-sale financial instruments comprise impairments as well as gains and losses from derecognition.

Net gains and losses from financial liabilities at amortised cost of purchase comprise gains or losses from derecognition.

In addition, information concerning interest income and interest expenses of the financial assets and financial liabilities not recognised at fair value through profit and loss are shown using the effective interest rate method.

34.2 Principles and objectives of financial risk management

With its assets, liabilities and planned transactions, the freenet Group is exposed in particular to market risks, liquidity risks and default risks.

The objective of financial risk management is to constantly monitor these risks and to limit them by operational and finance-oriented activities.

The fundamental aspects of financial policy are defined by the Executive Board. In addition, certain financial transactions require the prior approval of the Executive Board.

The Group Treasury department provides services to the operating segments and co-ordinates access to the financial markets. In addition, it monitors and manages the market and liquidity risks associated with the operating segments of the Group by way of regular internal risk reporting which analyses the risks on the basis of degree and extent. The overriding priority for the Group Treasury department is the principle of minimising risk; a further important objective is to optimise net interest income. Prudent liquidity management controlled by the Group Treasury department involves holding an adequate reserve of liquid assets, the possibility of obtaining finance by way of an adequate commitment of credit lines and the possibility of closing open market positions. Liquidity risks are reduced by permanently monitoring the finance status and by maintaining adequate reserves in the form of credit lines.

The Group Treasury department is responsible for monitoring the default risks of major debtors (in particular distributors, dealers and other B2B partners) as well as regular internal risk reporting for these risks. Receivables due from end users are monitored in the Receivables Management department. One of its main objectives is to minimise the costs attributable to the failure or impairment of receivables due from end customers and sales partners.

The primary objective of the capital risk management of the Group is to monitor the financial covenants specified in the syndicate loan agreement, where failure to meet such financial covenants might involve the loans being called in immediately. The main financial covenants are defined in relation to the interest cover (ratio between recurring EBITDA and net interest income) in the Mobile Communications segment as well as the debt cover (ratio between net debt and recurring EBITDA) of the Mobile Communications segment. All covenants were met as of the reporting date.

At the Group level, the ratio between Group net debt and Group equity in accordance with IFRS (gearing) is a relevant parameter of capital risk management. Gearing was 0.55 as of the closing date (previous year: 0.75).

In order to actively manage the capital structure, management is permitted to sell assets in order to reduce debt in this way, and is also entitled to take measures such as issuing new shares.

34.3 Market risk

The activities of our Group mean that it is primarily exposed to financial risks attributable to changes in interest rates and currency exchange rates.

34.3.1 Interest rate risk

The Group is exposed to interest rate risks because the Group companies take on debt primarily with variable interest rates. The most significant interest rate risk is attributable to the long-term financial liabilities. For these long-term financial liabilities for which interest is applied at a variable rate, the risk of rising interest costs has been considerably reduced by way of taking out interest swaps or interest caps. The interest swaps which cover 70 percent of the two long-term bank loans, expired on July 30, 2010 in line with the terms of the agreement. In May 2010, corresponding interest caps were purchased with effect from July 30, 2010 in order to guarantee that there was no break in interest rate hedging. When the interest caps was taken out, the Group agreed with third parties—against payment of a premium—that it would receive at defined intervals the difference between the contractually agreed interest and the prevailing (higher) variable rates in relation to the nominal amount. Of the borrowings of 800.0 million euros shown on December 31, 2010, 750.0 million euros was covered by the interest rate caps.

The Group Treasury department constantly monitors the various opportunities available for investing the liquid assets and debt on the basis of the daily liquidity planning at its disposal as well as the various options available for scheduling the debt. Demand for and the investment of liquid funds in the Group are managed centrally on the basis of several existing internal cash pooling agreements in which the main companies of the freenet Group participate.

The short-term and long-term bank loans raised as of the balance sheet date are all subject to floating interest rates and were taken out subject to the terms specified in the loan agreement on the occasion of the financing of the debitel acquisition (fixed margins based on EURIBOR or LIBOR).

Changes in market interest rates for the net interest income of financial instruments which were originally subject to interest at a variable rate might have an impact on net interest income and are included in the process of calculating the result-related sensitivities.

In order to present the market risks, the Group uses a sensitivity analysis which shows the effects of theoretical changes in relevant risk variables on the result and shareholders' equity.

The periodic effects are determined by relating the theoretical changes in the risk variables to the financial instrument holdings as of the closing reference date.

In the balance sheet, liabilities due to banks of 800.0 million euros are shown under the short-term and long-term borrowings as of December 31, 2010. Interest in a range of 3.1 to 4.7 percent was charged on these bank borrowings as of the balance sheet date.

Of the above liabilities due to banks, 215,435 thousand euros is shown as short-term liabilities. At the point at which these financial statements were prepared, there is a mandatory requirement for a figure of approx. 69 million euros to be repaid in relation to these liabilities. On the basis of an interest rate expected in accordance with market estimates, which lies within a range of between 3.2 and 5.1 percent for the individual loans, outflows of 34,442 thousand euros would be incurred for interest in relation to the above-mentioned bank borrowings in 2011. Based on the net position of variable rate assets and liabilities, taking account of the hedging instruments which have been taken out, a parallel upward shift of 50 basis points in the interest curve would have an impact of 2,180 thousand euros on results after tax (previous year: 240 thousand euros), and a

downward shift of 50 basis points in the rate curve would have an impact of -2,180 thousand euros on the result after tax (previous year: -245 thousand euros).

Money market funds are subject to marginal interest rate fluctuations so that there is always a possibility of price losses. However, the risk is not significant as the moneys have been invested in funds on a very short-term basis (held for trading). There are no contractually defined maturity dates or interest adjustment dates; a return results from the change in the price of the instrument and any dividend payments. Based on the financial investments in money market funds and bonds shown in the balance sheet under the other receivables and other assets as well as under other financial investments, a 5 percent increase in the price of the acquired shares would have an impact of –193 thousand euros on shareholders' equity (previous year: 216 thousand euros), and a 5 percent decline in the price would have an impact of –193 thousand euros on shareholders' equity (previous year: –216 thousand euros).

The risk of interest rate changes is negligible for the other interest-bearing assets and liabilities.

34.3.2 Foreign currency risk

Foreign currency trades are conducted to a minor extent within the Group. The foreign currency risk is generally hedged by concluding currency futures or, if necessary, by means of cash holdings denominated in foreign currency.

Overall, the Group considers that the foreign currency risk is of negligible significance.

34.4 Liquidity risk

The liquidity risk of the Group is defined as the risk that the Company might not be able to meet its financial obligations, for instance it might not be able to repay debt, pay purchase obligations and obligations arising from leasing agreements.

Comprehensive financing planning instruments are used throughout the Group to monitor and control liquidity. Different planning horizons are considered in this respect, ranging up to one year. The short-term liquidity planning and control are done on a daily basis for the following three months. The planning is updated daily by the Group Treasury department following liaison with Accounting and Controlling on the basis of current data.

The Group also manages liquidity risks by holding appropriate cash at banks, credit lines at banks and also by constantly monitoring the forecast and actual cash flows. Reconciliations are also performed for the maturity profiles of the financial assets and liabilities.

The Group anticipates that it will be able to meet its other obligations out of operating cash flows and the proceeds of maturing financial assets.

As of the closing date, the Group had drawn down 146.6 million euros out of the revolving credit line of 150.0 million euros. Under certain conditions, freenet AG is able to additionally use up to half of the amount of the revolving credit line under the syndicate loan agreement.

Securities (money market funds and bonds in the securities deposit account) can be liquidated at short notice. There are no plans to sell any of the holdings. If it became necessary to sell these holdings, their sale at short notice would possibly be more difficult as there is no organised capital market for these interests.

Major assets of the Group have also been provided as security for the debt raised as part of the debitel acquisition. freenet AG as well as major Group companies are borrowers with regard to this loan agreement, or act as guarantors for the loan agreement. These companies have mainly assigned their receivables due from banks which exist in the form of liquid assets, considerable amounts of their receivables and other assets as well as certain intangible assets to the lenders in the form of security.

The following tables show the contractually agreed undiscounted interest and redemption payments of the original financial liabilities of the Group at the end of the financial years 2010 and 2009:

Financial liabilities (€'000s)	**Carrying amount 31.12. 2010**	**Cashflows 2011**			**Cashflows 2012**			**Cashflows 2013 and later**		
		Interest (fix)	**Interest (variabel)**	**Repayment**	**Interest (fix)**	**Interest (variabel)**	**Repayment**	**Interest (fix)**	**Interest (variabel)**	**Repayment**
Trade accounts payable	355,578			355,191			387			
Debt (liabilities due to banks)	800,018		34,442	215,435		33,677	66,667		46,096	517,916
Other non-derivative financial liabilities	43,285			28,489			8,981			2,815

Financial liabilities (€'000s)	**Carrying amount 31.12. 2009**	**Cashflows 2010**			**Cashflows 2011**			**Cashflows 2012 and later**		
		Interest (fix)	**Interest (variabel)**	**Repayment**	**Interest (fix)**	**Interest (variabel)**	**Repayment**	**Interest (fix)**	**Interest (variabel)**	**Repayment**
Trade accounts payable	390,292			390,292						
Debt (liabilities due to banks and shareholders)	1,256,621		43,116	538,414		42,464	66,667		114,598	651,540
Financial debt (derivative financial liabilities)	13,460	13,505								
Other non-derivative financial liabilities	118,383			64,245			40,092			14,046

34.5 Risk of default

A credit risk is defined as the unexpected loss of cash or revenue. This risk materialises if the customer is not able to meet his obligations within the agreed period.

Trade accounts receivable from end customers are the main item in the freenet Group with regard to default risks. In the mass business of our Group, particular attention is devoted to the creditworthiness of customers and sales partners. Credit checks are carried out for major contract customer areas before a contract is taken out with the customer.

Once a contract has been entered into, the performance of a rapid and regular dunning and collection process with several collection companies in benchmarking and long-term collection monitoring as well as high-spender monitoring are key measures for minimising the default risk in our Group.

An ongoing dunning and debt collection process is also operated with regard to accounts due from dealers and franchise partners. Credit limits are also defined and monitored. Where appropriate, a delivery restriction is imposed if the limit is reached.

Major credit risks are also covered by way of commercial credit insurance. In order to minimise the credit risk, the Group has insured a certain percentage of sales with key accounts (dealers and distributors in mobile communications). Every month, the Group Treasury department notifies the insurer of the current sales of each key account. The insurer uses this notification to calculate the sales volume to be insured. The risks attributable to key accounts who are not insured are limited by means of an internal limit system—in general, key accounts with a poor rating have to pay in advance, or the transaction is not carried out.

In order to determine an impairment of trade accounts receivable, due account is taken of any change in creditworthiness between the point at which the terms of payment were granted and the balance sheet date. There is no significant concentration of credit risk because the customer base is broad and because there are no correlations.

An appropriate creation of impairments takes account of default risks. Receivables and other assets are derecognised if the Group considers the receivable is irrecoverable.

Securities and liquid assets are mainly invested at major German banks. There is no significant risk of default. The Group Treasury department constantly monitors the current and expected future yields of the investments.

With regard to those trade accounts receivable which are neither impaired nor overdue for payment, there are no indications as of the balance sheet date that the debtors will not meet their payment obligations.

With regard to the other financial assets of the Group, such as cash and cash equivalents and available-for-sale investments, the maximum credit risk in the case of counterparty default is equivalent to the book value of these instruments.

35. Transactions with related parties

35.1 Overview

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

€'000s	2010	2009
Sales and income attributable to services		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	1,197	1,640
Joint ventures		
FunDorado GmbH, Hamburg	177	175
Companies with a major influence on freenet AG		
1&1 Internet AG, Montabaur	6,428	5,340
	7,802	**7,155**
Purchased services and onward charging		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	38	447
Joint ventures		
siXXup new Media GmbH, Pulheim	73	0
FunDorado GmbH, Hamburg	15	13
NetCon Media s. r. o., Hlucin, Czech Republic	2	73
	128	**533**
Interest expenses from vendor loans		
Companies with a major influence on freenet AG		
Telco (Netherlands) Holding B.V., Hoofddorp, the Netherlands	181	7,425

The following major receivables due from and liabilities due to related parties existed as of the end of the financial year:

€'000s	31.12.2010	31.12.2009
Receivables from regular transactions		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	13	164
Joint ventures		
FunDorado GmbH, Hamburg	27	20
Companies with a major influence on freenet AG		
1&1 Internet AG, Montabaur	n. a.	4,422
	40	**4,606**
Liabilities from regular transactions		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	0	43
Joint ventures		
FunDorado GmbH, Hamburg	4	4
	4	**47**
Debt from vendor loans		
Companies with a major influence on freenet AG		
Telco (Netherlands) Holding B. V., Hoofddorp, the Netherlands	n. a.	145,623

In addition, the sale of freenet Breitband GmbH to 1&1 Internet AG was the sale of a fully consolidated Group company to a related entity. This sale generated a disposal profit of 4,513 thousand euros in 2010 after a disposal profit of 16,948 thousand euros had already been shown in 2009 from this sale.

United Internet AG as well as its affiliated companies, such as 1&1 Internet AG, have no longer been shown as related parties since 23 November 2010. On that date, the Company received official notification that United Internet AG owned a stake of 4.98 percent in freenet AG—this means that United Internet AG is no longer able to exert control over freenet AG.

If the parties were not to be classified as related in accordance with IAS 24 during the financial year, no comparison information was disclosed (n. a.). All transaction prices were negotiated on an arm's length basis.

35.2 Executive Board compensation

The compensation of members of the Executive Board of the company is broken down as follows:

Compensation for the financial year 2010 (€'000s)	Fixed compensation	Variable compensation from stock appreciation rights[1]	Other variable compensation	Total compensation
Christoph Vilanek	615	28	400	1,043
Joachim Preisig	425	–205	400	620
Stephan Esch	365	–362	230	233
Axel Krieger	575	–663	299	211
	1,980	**–1,202**	**1,329**	**2,107**

1 Incl. non-cash compensation and compensation measured in accordance with IFRS 2 in the financial year.

Compensation for the financial year 2009 (€'000s)	Fixed compensation	Variable compensation from stock appreciation rights[1]	Other variable compensation	Total compensation
Christoph Vilanek[2]	410	424	267	1,101
Joachim Preisig	422	331	400	1,153
Stephan Esch	327	216	137	680
Axel Krieger	503	367	212	1,082
Eric Berger[3]	205	142	62	409
Eckhard Spoerr[4]	53	1,110	29	1,192
	1,920	**2,590**	**1,107**	**5,617**

1 Incl. non-cash compensation and compensation measured in accordance with IFRS 2 in the financial year.
2 Compensation after being appointed to the Executive Board of freenet AG, i.e. for the period 1 May to 31 December 2009.
3 Fixed compensation and other variable compensation until the termination of the employment agreement, i.e. for the period from 1 January to 30 September 2009; variable compensation from the stock appreciation programme for the full year 2009.
3 Fixed compensation and other variable compensation until the termination of the employment agreement, i.e. for the period from 1 to 23 January 2009; variable compensation from the stock appreciation programme for the full year 2009.

In the financial year 2010, no new stock appreciation rights or stock options were issued to the members of the Executive Board of the Company.

The variable compensation from the stock appreciation programme was shown in the form of negative figures in 2010 for Messrs. Preisig, Esch and Krieger; this is due to the reduction in the provision for stock appreciation rights. Disregarding the non-cash compensation component of stock appreciation rights, the following amounts of compensation result in 2010: 1,015 thousand euros for Mr. Vilanek, 825 thousand euros for Mr. Preisig, 595 thousand euros for Mr. Esch and 874 thousand euros for Mr. Krieger.

In addition to the amounts set out in the above table, payments of 200 thousand euros arising from restriction of post-employment competition clauses were made to former members of the Executive Board in 2010.

Overall, compensation paid to the members of the Executive Board in 2010 in accordance with section 314 (1) no. 6a HGB (cash-effective compensation incl. the payments to former members of the Executive Board as a result of post-employment competition clauses) amounted to 3,509 thousand euros. In the previous year 2009, the compensation for members of the Executive Board in accordance with section 314 (1) no. 6a HGB amounted to 4,044 thousand euros, including the payments of 508 thousand euros to Mr. Berger in order to cover contractual claims, plus the stock appreciation rights issued to Mr. Vilanek with their total value of 509 thousand euros when they were granted in 2009 (fair value in accordance with IFRS 2).

As of December 31, 2010, the provisions for stock appreciation rights were as follows: 452 thousand euros for Mr. Vilanek (previous year: 424 thousand euros), 181 thousand euros for Mr. Preisig (previous year: 386 thousand euros), 30 thousand euros for Mr. Esch (previous year: 392 thousand euros) and 56 thousand euros for Mr. Krieger (previous year: 719 thousand euros). Provisions for stock appreciation rights totalling 148 thousand euros were shown as of December 31, 2010 for Mr. Spoerr and Mr. Berger as former members of the Executive Board (previous year: 1,921 thousand euros).

As in the previous year, no cash-effective compensation was paid from stock options and stock appreciation rights in the financial year 2010.

In November 2004, an indirect pension commitment was granted to Mr. Esch and Mr. Krieger. In the financial year 2009, an indirect pension commitment was granted to Mr. Vilanek on the occasion of his appointment as Chief Executive Officer as of May 1, 2009. As of December 31, 2010, the Defined Benefit Obligations (DBOs) were as follows: 265 thousand euros for Mr. Vilanek (previous year: 115 thousand euros), 518 thousand euros for Mr. Esch (previous year: 386 thousand euros) and 1,416 thousand euros for Mr. Krieger (previous year: 1,128 thousand euros). As of 1 September 2008, freenet AG took over the pension commitment granted to Mr. Preisig by debitel AG. As of December 31, 2010, the DBO for Mr. Preisig amounted to 347 thousand euros (previous year: 244 thousand euros). The DBOs for Mr. Spoerr and Mr. Berger as former members of the Executive Board totalled 2,096 thousand euros as of December 31, 2010 (previous year: 1,827 thousand euros).

Current and past service time expenses of 373 thousand euros (previous year: 820 thousand euros) are shown in personnel expenses for the members of the Executive Board as a result of the pension commitments.

No loans were extended to any of the members of the Executive Board, and no guarantees or other warranties were issued for any of the members of the Executive Board.

35.3 Supervisory Board compensation

The Supervisory Board compensation is governed by the articles of association, and consists of three components:

- Basic compensation
- Attendance fees
- Performance-linked compensation

The basic compensation was modified with a resolution of the Annual General Meeting of 7 July 2009. Starting with financial year 2009, the Supervisory Board members receive fixed basic compensation of 30,000 euros for each full financial year of membership on the Supervisory Board. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times this amount.

Every Supervisory Board member receives in addition an attendance fee of 1,000 euros for each Supervisory Board meeting he/she attends. Supervisory Board members who belong to a Supervisory Board committee—with the exception of the committee formed in accordance with section 27 (3) MitbestG—receive in addition an attendance fee of 1,000 euros for each meeting of the committee. The committee chairperson receives double this amount.

The Supervisory Board members also receive, after the end of each financial year, variable performance-based compensation in the amount of 500 euros for each 0.01 euro in dividends in excess of 0.10 euro per share of the company which is distributed to the shareholders for the previous financial year. The extent of the compensation is limited to that amount which is payable in the form of basic compensation. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one and a half times this amount.

For their activity during the financial year 2010, the members of the Supervisory Board of the Company received fixed compensation of 405.0 thousand euros and attendance fees of 158.0 thousand euros. Performance-based compensation of 405.0 thousand euros was also recognised as an expense. Whether this performance-based compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2010. The total compensation paid for Supervisory Board activities was thus 968.0 thousand euros.

Furthermore, Supervisory Board members are reimbursed for expenses incurred as a result of exercising their office as well as for turnover taxes.

Individualised figures for the last two financial years are shown in the following tables. Please note that rounding differences may result from the format used for presenting subtotals and final totals, because the figures have been rounded to one position after the decimal point.

Compensation for the financial year 2010 (€'000s)	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Thorsten Kraemer	60.0	30.0	60.0	150.0
Franziska Oelte[1]	45.0	12.0	45.0	102.0
Dr. Christof Aha	30.0	11.0	30.0	71.0
Claudia Anderleit[1]	30.0	12.0	30.0	72.0
Dr. Arnold Bahlmann	30.0	5.0	30.0	65.0
Joachim Halefeld[1]	30.0	11.0	30.0	71.0
Maarten Henderson	30.0	21.0	30.0	81.0
Hans-Jürgen Klempau[1]	30.0	6.0	30.0	66.0
Matthias Schneider[1]	30.0	18.0	30.0	78.0
Prof. Dr. Helmut Thoma	30.0	12.0	30.0	72.0
Steffen Vodel[1]	30.0	11.0	30.0	71.0
Achim Weiss	30.0	9.0	30.0	69.0
	405.0	**158.0**	**405.0**	**968.0**

1 Employee representatives in accordance with section 7 (1) clause 1 no. 1 MitbestG of 4 May 1976.

Compensation for the financial year 2009 (€'000s)	Basic compensation	Attendance fees	Performance-based compensation	Total
Active members				
Thorsten Kraemer[1]	44.5	32.0	7.4	84.0
Franziska Oelte[3]	45.0	16.0	7.5	68.5
Dr. Christof Aha	14.6	6.0	2.4	23.0
Claudia Anderleit[3]	30.0	25.0	5.0	60.0
Dr. Arnold Bahlmann	14.6	4.0	2.4	21.0
Joachim Halefeld[3]	30.0	25.0	5.0	60.0
Maarten Henderson	14.6	14.0	2.4	31.0
Hans-Jürgen Klempau[3]	30.0	11.0	5.0	46.0
Matthias Schneider[3]	30.0	25.0	5.0	60.0
Prof. Dr. Helmut Thoma[2]	45.6	42.0	7.6	95.2
Steffen Vodel[3]	30.0	14.0	5.0	49.0
Achim Weiss	14.6	5.0	2.4	22.0
	343.5	**219.0**	**57.3**	**619.7**
Former members				
Dr. Dieter Leuering	15.6	8.0	2.6	26.2
Prof. Dr. Hans-Joachim Priester	15.6	12.0	2.6	30.2
Lars P. Reichelt	15.6	1.0	2.6	19.2
Richard Roy	15.6	20.0	2.6	38.2
	62.3	**41.0**	**10.3**	**113.6**
	405.8	**260.0**	**67.6**	**733.3**

1 Chairman of the Supervisory Board since 7 July 2009.
2 Chairman of the Supervisory Board until 7 July 2009.
3 Employee representative in accordance with section 7 (1) clause 1 no. 1 MitbestG of 4 May 1976.

36. Disclosures in accordance with section 315a HGB

The average number of employees in the Group (section 314 (1) no. 4 HGB) has been shown in item 7 "Personnel expenses".

With regard to the disclosures concerning compensation of the executive bodies of the Company (section 314 (1) no. 6 HGB), please refer to item 35 "Transactions with related parties".

In accordance with section 314 (1) no. 8 HGB, we hereby declare that the declaration of conformity in accordance with section 161 AktG was submitted by the Executive Board and Supervisory Board of the Company in December 2010. It has been made permanently available to shareholders in the internet at the following address:

http://www.freenet.ag/media/Entsprechenserklaerung_freenet_AG_2010.pdf

A total of 1,784 thousand euros in fees was paid to the auditor in accordance with section 314 (1) no. 9 HGB during the financial year. Of this figure, 1,118 thousand euros related to auditing services, 642 thousand euros related to other certification services and 24 thousand euros related to other services.

In accordance with section 313 (2) to (3) HGB, we have provided the following overview for the companies included in the consolidated financial statements.

	Holding
Fully consolidated companies	
freenet Cityline GmbH, Kiel	100 %
freenet.de GmbH, Hamburg	100 %
freeXmedia GmbH, Hamburg	100 %
freenet Zugangsdienste GmbH, Hamburg	100 %
01019 Telefondienste GmbH, Hamburg	100 %
01024 Telefondienste GmbH, Kiel	100 %
01050.com GmbH, Hamburg	100 %
freenet Datenkommunikations GmbH, Hamburg	100 %
tellfon GmbH, Hamburg	100 %
01083.com GmbH, Hamburg	100 %
mobilcom-debitel GmbH, Schleswig	100 %
mobilcom-debitel Logistik GmbH, Schleswig	100 %
MobilCom Multimedia GmbH, Schleswig	100 %
klarmobil GmbH, Büdelsdorf	100 %
Next-ID GmbH, Bonn	100 %
Next ID technologies GmbH, Hamburg	100 %
CLAROMOVIL S. L., Madrid (Spain)	100 %
altnetsurf GmbH, Crailsheim	100 %
new directions GmbH, Hamburg	100 %
freenet Direkt GmbH, Hamburg	100 %
meOme GmbH, Hamburg	100 %
air2mp3 GmbH, Karlsruhe	51 %
4Players GmbH, Hamburg	100 %
debitel Konzernfinanzierungs GmbH, Stuttgart	100 %
Stanniol GmbH für IT & PR, Oberkrämer	100 %
mobilcom-debitel AG, Stuttgart	100 %
mobilcom-debitel Shop GmbH, Oberkrämer	100 %
DEG Logistik GmbH, Oberkrämer	100 %
callmobile GmbH & Co. KG, Hamburg	100 %
callmobile Verwaltungs GmbH, Hamburg	100 %
MIDRAY GmbH, Cologne	100 %
debitel go GmbH, Stuttgart	100 %
Joint ventures	
FunDorado GmbH, Hamburg	50 %
Netcon Media s. r. o., Hlucin, Czech Republic	25 %
siXXup new Media GmbH, Pulheim	25 %
Associated companies	
KielNET GmbH Gesellschaft für Kommunikation, Kiel	50 %

37. Major events after the balance sheet date

The Executive Board has decided to propose to the Supervisory Board a dividend payment for the financial year 2010 in the amount of 80 cents per share from retained earnings.

In January 2011, the freenet Group and Media-Saturn Deutschland GmbH agreed that the cooperation between these two companies would be continued until the end of 2013. With the exception of products of Telefonica o2 Germany, freenet will continue to offer the mobile communications products of the network operators T-Mobile, Vodafone and E-Plus as well as its own products in all Media stores and Saturn stores in Germany.

The sale of the Next ID Group was completed on January 1, 2011—please also refer to our comments to item 24 “Discontinued operations”.

Büdelsdorf, March 6, 2011
freenet AG
The Executive Board

Christoph Vilanek

Joachim Preisig

Stephan Esch

Auditor's Report

We have audited the consolidated financial statements prepared by freenet AG, comprising the income statement and statement of comprehensive income, the balance sheet, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2010 to December 31, 2010. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, March 7, 2011
PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Niklas Wilke
Wirtschaftsprüfer (German Public Auditor)

ppa. Marko Schipper
Wirtschaftsprüfer (German Public Auditor)

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the 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.

Büdelsdorf, March 6, 2011
freenet AG
The Executive Board

Christoph Vilanek

Joachim Preisig

Stephan Esch

Further information

No two customers are alike.

“Good telecommunications consultants face the challenge of dispensing professional and empathetic advice, despite ever-shrinking product cycles and changing fields of application, to inspire their customers with practical solutions,” says Michael Deppner, coach at mobilcom-debitel.

“The fact that we can provide independent consultation is our greatest advantage.” mobilcom-debitel’s sales consultants listen, advise and put together individual telecommunications packages to match the needs and habits of their customers.

Olaf Iwersen, sales consultant:

"I've always wanted to work with people. Now, I successfully connect people with smartphones, tariffs, options, accessories and exclusive offers each day. My recipe for success? A good mix of empathy, professional expertise, and another major factor: I enjoy my job."

Further information

Glossary

AktG	German: Aktiengesetz; English: German Stock Corporation Act.
App	Short form of "Application".
ARPU	Average Revenue Per User.
B2B	Business with business customers (B2B = Business to Business).
B2C	Business with consumers (B2C = Business to Consumer).
Broadband	Digital data transmission with a speed of more than 128 kbps.
CGU	Cash Generating Unit; A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
COSO	Committee of Sponsoring Organizations of the Treadway Commission; a voluntary private-sector organization in the US, dedicated to improving the quality of financial reporting on the basis of ethical behaviour, effective internal controls and good corporate governance.
D&O insurance	Directors' and Officers' Liability Insurance; Insurance payable to the directors and officers of a company, or to the corporation itself, to cover damages or defense costs in the event they are sued for wrongful acts while they were with that company.
DBO	Defined Benefit Obligation.
Dialog Consult	Dialog Consult GmbH; Management consultancy company with international project experience in the areas of corporate, competitive and market entry strategy; Industry focus on telecommunication among others.
Diluted earnings per share	Diluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation increased by potentially diluting shares. The number of potentially diluting shares is calculated as the difference between the potential ordinary shares attributable to employee stock option programmes valued at the subscription price and the ordinary shares issuable at fair value.
DSL	Digital Subscriber Line; A Digital Subscriber Line is used by households and companies for transmitting and receiving data at high transmission speed (up to 52,000 kbps). This is a major increase in speed compared with modem or ISDN connections of up to 128 kbps.
DTAG	Deutsche Telekom AG.
EBIT	Earnings before interest and taxes.

EBITDA	Earnings before interest, taxes, depreciation and amortisation.
EBT	Earnings before taxes.
EPS	Earnings per share; this ratio specifies the portion of consolidated net profit or loss which is attributable to an individual share. It is calculated by dividing the consolidated net profit/net loss by the weighted average number of issued shares.
Federal Network Agency	Federal Network Agency for Electricity, Gas, Telecommunication, Posts and Railways (German: Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen).
FIPL	Financial instruments measured at fair value through profit and loss.
Fixed network	In general language, this concept is used to describe a telecommunications network which is used for providing line-borne services.
FLAC	Financial liabilities measured at amortised cost.
Free cash flow	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.
GewStG	German: Gewerbesteuergesetz; English: German Trade Tax Act.
Gross profit	Revenue minus cost of materials.
HFS	Held-for-sale financial instruments.
HGB	German: Handelsgesetzbuch; English: German Commercial Code.
IFRS	International Financial Reporting Standards; A collection of standards for the external reporting of companies.
ISIN	International Securities Identification Number.
IT	Information Technology; describes any technology that helps to produce, store and communicate information with the use of electronic computers and computer software.
IT migration	IT migration involves moving a set of instructions or programmes, from one platform to another within a company.
KStG	German: Körperschaftsteuergesetz; English: Corporation Tax Act.
LR	Loans and receivables.

MitbestG	German: Mitbestimmungsgesetz; English: Codetermination Act.
Mobile service provider	Provider of mobile communications services without their own mobile network; they sell mobile telephony minutes, SIM cards and mobile telephones as well as value added services, such as SMS, in their own name and for their own account.
Narrowband	Analogue or digital data transmission with a speed of up to 128 kbps.
Pay services	Paid services describes the offering and provisioning of digital services in digital media subject to a charge.
Portal	Central web site which generally comprises a comprehensive range of navigation functions, aggregated content and additional services, such as e-mail.
PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft	Auditing and consulting services organisation in Germany.
Recurring EBIT	EBIT adjusted for one-off items.
Recurring EBITDA	EBITDA adjusted for one-off items.
SAR	Stock appreciation rights.
SIM card	Subscriber Identity Module; chip card with a processor and memory of GSM telephones, storing various information, including the user number allocated by the network operator, and which identifies the user in the mobile network.
Smartphone	Mobile device with touch and/or qwertz keyboard and feature set for easy internet access and/or e-mail transfer (for example push e-mail).
SMS	Short message service.
Stiftung Warentest	Germany's leading consumer safety group, tests consumer goods and services according to scientific methods in independent institutes and publishes the results in its magazines.
Surfstick	Here "Internet dongle": An internet dongle is a UMTS radio modem for fast mobile internet access with a notebook. The internet dongle is comparable in size with a USB memory stick and is also plugged in to the USB port of a notebook or netbook. It enables users to have fast access to the world wide web on the go. Most internet dongles support the UMTS extension standard HSDPA with a download speed of up to 7.2 megabits per second.

TÜV Nord
Technical service provider in Germany, providing a broad range of advisory, service, and testing services in the Mobility, Industrial Services, International, Natural Resources and Training and Human Resources fields.

UmwStG
German: Umwandlungssteuergesetz; English: Reorganisation Tax Act.

Undiluted earnings per share
Undiluted earnings per share are calculated by dividing the result attributable to the shareholders by the weighted average number of shares in circulation during the financial year.

Value-added service
A value added service is an independent range of services within a telecommunications service, which is characterised by special connection treatment, virtual connections, independent charging or content services.

VATM
German: Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e.V.; English: The association of telecommunications and value added service providers.

VorstAG
German: Gesetz zur Angemessenheit der Vorstandsvergütung; English: Act on the Appropriateness of the compensation for the Executive Board.

WACC
Weighted average cost of capital; the rate that a company is expected to pay on average to all its security holders to finance its assets.

WKN
German: Wertpapierkennnummer; English: securities identification number.

WpHG
German: Wertpapierhandelsgesetz; English: German Securities Trading Act.

Financial calendar

March 25, 2011
Publication of Consolidated Financial Statements/Annual Report 2010

May 11, 2011[1]
Publication of interim report I/2011

June 30, 2011[1]
Annual General Meeting

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

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

1 Probable dates.

Imprint, contact, publications

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http://www.freenet-group.de/investor-relations/publikationen/quartals-geschaeftsberichte

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*.

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