freenet GROUP

mobilcom debitel

freenet

TALKLINE

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GRAVIS

MFE Energie

MOTION TM

Interim Report on the 1st quarter 2013

freenet AG • Hollerstraße 126 • 24782 Büdelsdorf

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Key financials: overview Group

Result

Figures in € million	Q1/2013	Q4/2012	Q1/2012 adjusted[1]
Revenue	775.2	819.5	757.2
Gross profit	172.8	203.5	166.9
EBITDA	85.3	94.6	85.1
EBIT	71.1	56.9	48.0
EBT	61.1	44.9	37.6
Group result from continued operations	60.2	42.0	40.6
Group result from discontinued operations	0.0	0.0	0.0
Group result	60.2	42.0	40.6
Earnings per share (€) (diluted and undiluted)	0.47	0.33	0.32

Balance sheet

	31.3.2013	31.12.2012 adjusted[2]	31.3.2012 adjusted[3]
Balance sheet total in € million	2,518.7	2,478.7	2,366.0
Shareholders' equity in € million	1,239.2	1,177.6	1,207.3
Equity ratio in %	49.2	47.5	51.0

Finances and investments

Figures in € million	Q1/2013	Q4/2012	Q1/2012
Free cash flow[4,5]	56.4	64.1	72.4
Depreciation and amortisation	14.2	37.7	37.1
Net investments[5] (Capex)	2.6	8.4	2.2
Net cash[5,6]	–421.4	–451.9	–466.2

Share

	31.3.2013	31.12.2012	31.3.2012
Closing price Xetra in €	18.96	14.00	10.97
Number of ordinary shares in thousand	128,061	128,061	128,061
Market capitalisation in €'000s	2,428,037	1,792,854	1,404,829

Employees

	31.3.2013	31.12.2012	31.3.2012
Employees[6]	4,557	3,886	4,004

Key financials: overview Mobile Communications sector

Customer development

Figures in € million	Q1/2013	Q4/2012	Q1/2012
Mobile Communications customers[6]	13.71	14.08	14.74
Thereof customer ownership	8.47	8.50	8.16
Thereof contract customers	5.80	5.79	5.69
Thereof no-frills customers	2.67	2.71	2.46
Thereof prepaid customers	5.24	5.58	6.58
Gross new customers	0.78	0.91	0.93
Net change	–0.37	–0.23	–0.45

Result

Figures in € million	Q1/2013	Q4/2012	Q1/2012 adjusted[1]
Revenue	767.5	802.1	742.2
Gross profit	167.8	194.4	158.3
EBITDA	83.0	94.3	82.2
EBIT	69.9	57.6	46.2

Monthly average revenue per user (ARPU)

Figures in €	Q1/2013	Q4/2012	Q1/2012
Contract customer	22.4	22.8	23.4
No-frills customer	3.5	3.5	3.9
Prepaid customer	2.8	2.9	2.8

1 The comparative figures in the key financials overview as well as in other tables in this report have been adjusted due to a change of an accounting method, see “Selected explanatory notes”, item 5.
2 The comparative figures in the key financials overview as well as in other tables in this report have been adjusted due to a change of accounting methods, see “Selected explanatory notes”, items 2 and 4.
3 The comparative figures in the key financials overview as well as in other tables in this report have been adjusted due to a change of an accounting method, see “Selected explanatory notes”, item2.
4 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.
5 This information relates to the overall Group (including discontinued operations).
6 At the end of period.

To our shareholders

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

Letter to shareholders

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

The momentum in our already very turbulent industry continues to grow. From the managable features of telecommunications such as pure telephony, emailing and internet surfing, a new digital lifestyle is emerging that will massively change our lives at work and during our free time. Its design possibilities are becoming more mobile, independent, diverse and rich, and the digital lifestyle opens up new dimensions of entertainment, convenience, progress and security via smartphones and tablets.

For freenet AG, with its two decades of experience and successful work in telecommunications, this opens up great challenges but also great opportunities. As a digital lifestyle provider, we can enable and facilitate access to this new and fascinating life world for our 14 million customers—by providing them with expert and independent advice on purchasing and using devices, products, applications and services, and giving them continuous and comprehensive support.

We focus our efforts on four main target groups:

- our main mobilcom-debitel brand is primarily targeted at valuable contract customers with a high need for consultation and individual user profiles;
- our four no-frills brands cater to well-informed, price-conscious customers who are looking for particularly fair offers at the lowest possible price;
- our investors, for whom we strive to generate sustainable results and attractive dividends as well as further pay down our net debt, and of course
- our employees, to whom we offer interesting, secure jobs with prospects for the future.

The positive developments and encouraging figures of the first quarter of this year show that we are on track and heading in the right direction in this respect:

- Against the backdrop of our deliberate strategic focus on valuable contract customers, our revenue came to 775.2 million euros. The first-time consolidation of Gravis – Computervertriebsgesellschaft mbH and MOTION TM Vertriebs GmbH during the quarter under review contributed significantly to revenue;
- Gross profit increased year-on-year to currently 172.8 million euros, and the gross profit margin to 22.3 percent;
- EBITDA increased slightly year-on-year from 85.1 million euros to 85.3 million euros;

- At 56.4 million euros, free cash flow is about 16 million euros lower than during the same period of the prior year (72.4 million euros). This development mainly relates to the first quarter cut off date. Therefore, bonus payments by one network operator weren't received until early April 2013;
- As a result of the intense competitive environment, postpaid ARPU decreased year-on-year by one euro to 22.4 euros, but this was more than offset by increases in value creation in other areas;
- The year-on-year increase in the postpaid and no-frills customer base caused customer ownership, which we have defined as a key performance indicator for the company, to increase from 8.16 million at the end of March 2012 to currently 8.47 million.

Based on the good results, we therefore confirm our guidance for 2013 issued at the beginning of the year: Group EBITDA of 355 million euros and free cash flow of 255 million euros.

In mid-April we invited our shareholders to this year's Annual General Meeting on 23 May. In accordance with our dividend proposal, which we coordinated with the Supervisory Board, we wish to pay shareholders a dividend of 1.35 euros per eligible share for the past financial year. Given the 260 million euros in free cash flow generated in 2012, this puts the payout ratio at around 66 percent, in line with our recently adjusted dividend policy in which we promise future dividend payouts of between 50 and 75 percent of free cash flow.

Our operating business is increasingly profiting from freenet's unique competitive positioning as a strong-selling player in the new digital lifestyle sector. We offer customers our expertise, services and advice, as well as local presence, tried and tested products, favourable tariffs, attractive apps and applications—but without high development and infrastructure costs.

In the first three months of the year we expanded our range of the latest smartphones, adding, for example, the new, powerful and visually brilliant LG Optimus G; at the beginning of the year we also introduced the new Nokia Lumia 920 in combination with a very low flat rate. Incidentally, this reflects the latest market trends in hardware: there has been a surge in the number of absolutely top-class devices from various manufacturers in Asia, Europe and the United States over the past few months.

In February, mobilcom-debitel also launched a "Flat Weeks" campaign during which we enhanced four of our already very successful flat rates in four mobile networks with further benefits. We also offered the new "Blue All-in" original O_2 tariff at a 10-percent discount, and finally we closed the campaign weeks with a new tariff highlight called "real Allnet" featuring flat rates for mobile telephony, internet and text messaging from just 24.90 euros per month.

In support of this, we continued the umbrella marketing campaign “Gemeinsam geht mehr!” (Getting more together!) launched in 2012 with two new spots. They were served a total of 660 times on all high-reach commercial channels and communicated mobilcom-debitel’s systematic focus on becoming a digital lifestyle provider—in addition to our purchasing power with 14 million customers and the benefits they derive from this.

One of the products advertised—the “SmartHome” box allowing remote control of at-home heating via app, piloted last year—has been available in all 530 mobilcom-debitel stores since the beginning of the year. We are currently intensively testing other intelligent digital lifestyle applications for home security; the very high demand for such products has encouraged us to take this initiative.

Because proximity to the customer is essential to the success of these products, services and promotions, we are constantly working to improve and broaden our sales channels and service offerings. Late last year we acquired GRAVIS, the largest independent retailer of Apple products in Germany. This acquisition was legally completed on 31 January 2013.

This represented another milestone in establishing our digital lifestyle expertise. GRAVIS will now market our products to its approximately 5 million Apple customers, while our chain of shops will also stock Apple devices and accessories—and benefit from a substantial image transfer.

Another takeover involves MOTION TM Vertriebs GmbH, a company we have worked closely with since 2005. In March we acquired 51 percent of shares in the Troisdorf company, a leading online retailer in the mobile communications and telecommunications sector. MOTION TM now not only sells our products and those of the four German network operators, but also provides our specialist retail partners in our company with significant systems expertise—with an integrated bundle of hardware, new contracts and contract extensions for all relevant providers in our market.

We are also continuously improving our internal sales structures. For instance, at the beginning of February we launched a completely redesigned activation and information system for our shop staff, retail and sales partners—the “maui 2.0”, a new, uncluttered communications centre based on surveys of more than 1,000 sales staff and partners. As an evolution of our sales and communication tools that have been in place since 2003, the complex, customisable platform provides extensive options such as contract registration, information on products, training and tariff offers. This makes it a central point of contact between companies, brands, sales consultants and customers.

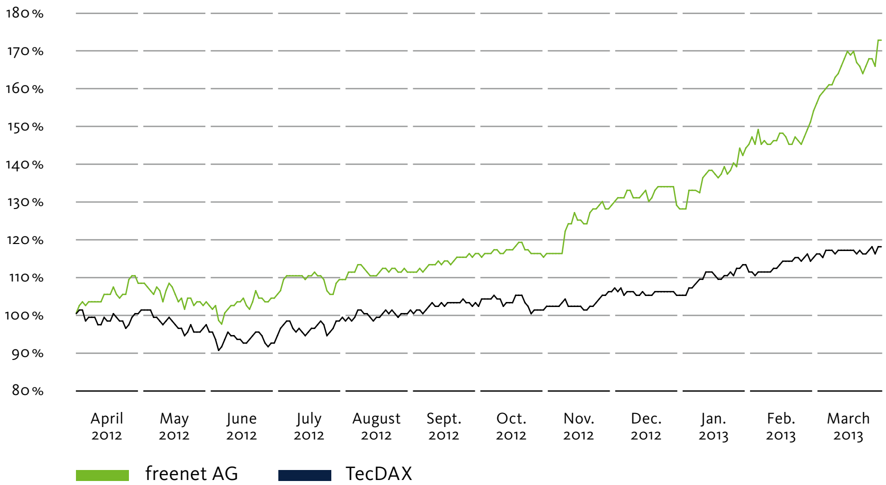
We are convinced that our strategic moves have laid the foundations for strongly positioning our business in the lucrative digital lifestyle growth market—and thus for another successful financial year. We, the employees and management of freenet AG, will continue to work hard to take advantage of the opportunities arising from this in the coming months and quarters.

Christoph Vilanek   Joachim Preisig   Stephan Esch

freenet AG on the capital market

Performance of the freenet share

Figure 1: **Performance of the freenet share over the past twelve months**
(indexed; 100 = Xetra closing price on 31 March 2012)



The German stock market

Thanks to significant interventions by the central banks in the recent past, the general mood in the capital market brightened considerably in the first quarter compared with mid-year 2012. This has reduced the risk of a chronic and self-reinforcing slump in the world economy, especially in the euro zone. Nevertheless, economic policy in dealing with the existing risks remains decisive for future economic development.

Against this background, the German stock market developed positively in the first quarter of 2013. While the DAX only grew by 2 percent, closing at 7,795 points on 29 March, the TecDAX posted a significant increase of 13 percent during the reporting period, to 932 points.

freenet share

In the quarter under review, the freenet share continued to rise as in the previous quarter. The share began the New Year with a Xetra closing price of 14.00 euros, and continued to develop rapidly to 18.96 euros at the end of the quarter. The average Xetra closing price during the reporting period was 16.47 euros.

During the quarter, a total of 35.3 million freenet shares were traded on the Xetra electronic trading platform, up from 39.6 million in the fourth quarter of 2012 and 40.2 million in the first quarter of 2012. The average daily trading volume on alternative trading platforms ("darkpools") in the first quarter remained at about one-third of the total trading volume. The average daily Xetra trading volume amounted to 563,200 units. In the previous quarter, an average 461,300 freenet shares were traded per day on Xetra. In Q1/2012, the figure was 618,000 units.

With a price increase of about 35 percent in the first three months of the current financial year, the freenet share once again did considerably better than its benchmark, the TecDAX, which only recorded an increase of about 13 percent.

Dividend

The Executive Board and Supervisory Board decided to propose the payment of a dividend for the 2012 financial year, amounting to 1.35 euros per no-par share from net income, to the Annual General Meeting on 23 May 2013. This corresponds to a payout ratio of approx. 66 percent of free cash flow.

Shareholder structure

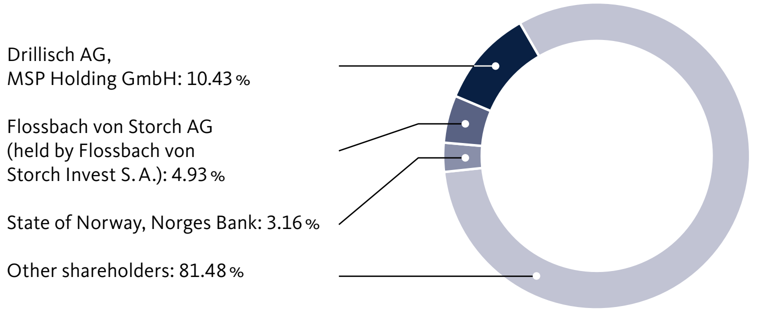
freenet AG's share capital totals 128,061,016 euros and is divided into 128,061,016 registered shares. Each share represents 1.00 euro of the share capital.

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

- In January Flossbach von Storch informed us that it had exceeded the 3-percent reporting threshold. On 1 January its share of voting rights in freenet AG amounted to 4.93 percent (6,318,741 voting rights).
- In March J. P. Morgan informed us that it had exceeded the 3-percent reporting threshold. On 8 March its share of voting rights in freenet AG amounted to 3.02 percent (3,870,625 voting rights).
- In March Drillisch AG informed us that it had fallen below the 20-percent and 15-percent reporting thresholds. On 20 March its share of voting rights in freenet AG amounted to 10.43 percent (13,366,658 voting rights).
- In March J. P. Morgan informed us that it had fallen below the 3-percent reporting threshold. On 20 March its share of voting rights in freenet AG amounted to 2.98 percent (3,816,643 voting rights).
- In March the Norges Bank (Central Bank of Norway) informed us that it had exceeded the 3-percent reporting threshold. On 22 March its share of voting rights in freenet AG amounted to 3.16 percent (4,042,278 voting rights).

Consequently, the shareholder structure at 31 March 2013 was as follows:

Figure 2: **Shareholder structure of freenet AG on 31 March 2013**



Source: freenet AG, 31 March 2013

As a result of the voting rights notifications received during the quarter under review, free float has increased from 75.07 percent to 81.48 percent compared with the end of 2012.

Interim group management report

Overview of the freenet Group's business and operating performance

As a mobile service provider freenet AG markets mobile communications services for Germany's four major network operators on its own account, as well as marketing its own products and services. Private customers (B2C) are its primary target group.

Given the tough competitive environment and fast-changing prices in the industry, the company is focusing on its main brand, mobilcom-debitel, on high-quality contract relationships in customer acquisition and customer management. In addition, freenet's discount brands also very successfully cater for the no-frills sector. In the first quarter of 2013, freenet continued to expand its range of digital lifestyle products, tariffs, apps and services, and intensified its marketing and sales activities in this connection.

Additions to the portfolio…

Hardware,…

Modern smartphones and tablets no longer only provide basic functions such as making calls, emailing and surfing. They now include essential features of a digital lifestyle, serving as remote controls and multi-functional work and entertainment devices. At the beginning of the year, mobilcom-debitel ran a special, offering the Nokia Lumia 920 for a one-time payment of 9.95 euros in combination with a flat rate. With innovative PureView technology, optical image stabilisation and Carl Zeiss optics, the smartphone enables bright, clear photos and videos to be taken even in low-light conditions or at night. It also has one of the most touch-sensitive screens with superior HD resolution.

The new Optimus G LG smartphone, which mobilcom-debitel offered at the end of the quarter for 29.95 euros in combination with a smartphone tariff, also has brilliant optical features, an excellent 15-megapixel camera and a very powerful processor.

attractive flat rates,…

In February mobilcom-debitel launched its Flat Weeks campaign with upgraded smartphone tariffs. It began with a combined offering of "Flat Allnet" and a cutting-edge smartphone at a discounted package price. This was followed by an upgrading of the "Flat Smart Plus", "Flat 4 You Plus", "Flat Clever Plus", and "Flat Easy" tariffs for the price of 29.95 euros per month, with more services and transparency, in Germany's four different mobile networks. At the same time, O_2's new "Blue All-in" tariffs were offered at a 10 percent discount. At the campaign's height, the company presented another tariff highlight—"real Allnet" with flat rates for mobile telephony, internet and text messages for 24.90 euros per month on E-Plus network and 34.90 euros on Deutsche Telekom's network.

digital lifestyle products…

The new "Complete Mobile Music" tariff is aimed at music lovers. It gives them mobile access to over 20 million tracks—as well as a mobile phone internet flat rate, an SMS Allnet Flat, a flat rate network of their choice and a Deutsche Telekom hotspot flat rate for a monthly price of 36.96 euros, including one of the latest smartphones.

Since January the new "my md" app lets users access comprehensive information about their smartphone usage from their mobile. It shows the services or costs incurred for telephony, SMS messaging and data connections, as well as invoice details, call records, customer information, contract content, and even directions to the nearest mobilcom-debitel shop.

Services…

The iPhone remains one of the most sought-after smartphones. Given its complex features, since January mobilcom-debitel has offered special online video tutorials on its website—as a kind of virtual, expert advisor. The short, concise videos give understandable, entertaining explanations of the Apple product's benefits and technical specifications. The service is very well received by customers—one in four mobilcom-debitel iPhone users have already used it. The company will soon expand this service for other popular smartphones.

Expansion of the marketing campaign…

The umbrella campaign launched last year under the slogan "Gemeinsam geht mehr!" (Getting more together!) communicates the purchasing power of around 14 million customers as well as mobilcom-debitel's determined focus on being a digital lifestyle provider.

In February, a new TV spot advertised "SmartHome", which provides intelligent central heating control via smartphone. The company has offered this digital lifestyle product for lowering heating costs via mobile phone in its 530 stores since January. The spot was served a total of 480 times on all high-reach commercial channels.

Another TV spot followed during the Easter period: "WetterApp" was served about 180 times through the end of March, again on all high-reach commercial channels, and virtually sent all weather forecasters on a well-earned holiday in the sun—provided all 14 million customers used a WetterApp to forecast the weather.

…and sales channels

mobilcom-debitel has worked with MOTION TM Vertriebs GmbH since 2005. The company, based in Troisdorf on the Rhine, is one of Germany's leading online retailers in the mobile communications and telecommunications sector, and with "MOON" has its own sales platform for specialist retailers. In February, mobilcom-acquired 51 percent of shares in MOTION TM, thereby increasing its sales network in specialist and online retail.

The integration of GRAVIS progressed according to plan in the first quarter. To achieve this, freenet launched the "Digital Growth" integration project designed to link GRAVIS with the overall freenet Group. Besides the formulation of a joint strategy, the first major milestone at the end of the quarter consisted of defining the management and organisational structure. Next steps in the integration at operational level were also determined in close consultation with the employee representative committees, with the aim of involving all affected employees during the course of the second quarter.

Assets, financial position and results

Customer development

Angaben in Mio.	31.3.2013	31.12.2012	30.9.2012	30.6.2012	31.3.2012
Mobile Communications customers	13.71	14.08	14.31	14.46	14.74
Thereof customer ownership	8.47	8.50	8.38	8.23	8.16
Thereof postpaid customers	5.80	5.79	5.72	5.69	5.69
Thereof no-frills customers	2.67	2.71	2.66	2.54	2.46
Thereof prepaid customers	5.24	5.58	5.93	6.23	6.58

Despite the keenly competitive market environment, our postpaid customer base increased from 5.69 million at the reporting date of the previous year to 5.80 million at 31 March 2013 (31 December 2012: 5.79 million), meaning that we were able to expand the customer base that is most important for our strategic business alignment. The increase of around 106,000 customers compared to 31 March 2012 is mainly due to intensified sales activities and customer retention measures, such as quality drives. After the stabilisation of our contract customer base in the first half of 2012 and slight growth in the second half of 2012, these positive developments in the customer base were successfully continued in the first quarter of 2013.

In the no-frills sector, the number of customers also grew year-on-year. The increase of 209,000 from 2.46 million to 2.67 million customers at 31 March 2013 was primarily due to the increased use of smartphones in conjunction with flat-rate tariffs. Nevertheless, compared to year-end 2012 (2.71 million customers) the no-frills customer base has declined slighty. This decrease of approximately 42,000 customers is related to the writing-off of inactive SIM cards without contracts from a trial business in the autumn 2011.

The year-on-year increase in the postpaid and no-frills customer base has boosted customer ownership, which we have defined as a key performance indicator for the company. Compared to 31 March 2012, it increased by 314,000 to currently 8.47 million. Compared to year-end 2012 (8.50 million customers) this key performance indicator has decreased by around 30,000 for the reasons outlined above.

The number of prepaid SIM cards in circulation declined by 1.34 million from 6.58 million in late March 2012 to 5.24 million customers currently (31 December 2012: 5.58 million customers). This further decrease resulted from the network operators further technically writing off inactive SIM cards.

As a result, the total number of mobile communications customers compared to 31 March 2012 fell by about a million from 14.74 million to 13.71 million. Compared to year-end 2012 (14.08 million customers) the customer base has therefore decreased by around 370,000.

Monthly average revenue per user (ARPU)

Figures in €	Q1/2013	Q4/2012	Q3/2012	Q2/2012	Q1/2012
Contract customer	22.4	22.8	23.6	23.5	23.4
No-frills customer	3.5	3.5	3.9	4.0	3.9
Prepaid customer	2.8	2.9	3.1	2.9	2.8

The monthly average revenue per contract customer (postpaid ARPU) was 1.0 euros lower compared to the previous year falling to 22.4 euros in the first quarter of 2013. Compared with the fourth quarter of 2012 (22.8 euros) postpaid ARPU decreased by 0.4 euros. The major influencing factor is continuing price competition in the German market. This means that freenet customers with expiring contracts with very high monthly base fees are also switching to the latest offers.

In the quarter under review, the average monthly revenue from no-frills customers (no-frills ARPU) was 3.5 euros, on par with the previous quarter (3.5 euros). Compared to the first quarter of 2012 (3.9 euros) no-frills ARPU declined by 0.4 euros. This development is mainly due to the ongoing sales promotion measures in this price-sensitive market environment. The no-frills area primarily addresses price-conscious buyers who mainly sign their mobile contracts online.

Prepaid ARPU stabilised at 2.8 euros in the first quarter of 2013 (previous year: 2.8 euros). Compared with the fourth quarter of 2012 (2.9 euros), it decreased by 0.1 euros.

Revenue and results

Figures in €'000s	Q1/2013	Q1/2012 adjusted	Change
Revenue	775,249	757,199	18,050
Gross profit	172,824	166,852	5,972
Overhead expenses	–87,547	–81,760	–5,787
EBITDA	85,277	85,092	185
EBIT	71,064	48,022	23,042
EBT	61,124	37,566	23,558
Group result	**60,195**	**40,635**	**19,560**

GROUP REVENUE for the first quarter of 2013 increased by 2.4 percent year-on-year. The revenue decrease resulting from the decline in postpaid ARPU was more than compensated for, mainly by the first-time inclusion of GRAVIS in the group of consolidated companies from 1 February 2013, and through rising revenue in high-value sectors.

The **GROSS PROFIT MARGIN** increased by 0.3 percentage points compared to Q1/2012, to 22.3 percent. This is equivalent to a year-on-year 3.6-percent increase in gross profit to 172.8 million euros.

OVERHEAD EXPENSES, which form the difference between gross profit and EBITDA, and which include the items **OTHER OPERATING INCOME, OTHER OWN WORK CAPITALISED, PERSONNEL EXPENSES, OTHER OPERATING EXPENSES** and the **SHARE OF RESULTS OF ASSOCIATES,** rose by 5.8 million euros compared with Q1/2012, primarily due to higher marketing and personnel expenses. The latter are primarily related to the consolidation of GRAVIS.

Consequently, the Group result from continued operations before depreciation and amortisation, interest and taxes **(EBITDA)** in Q1/2013 increased by 0.2 million euros over Q1/2012, to 85.3 million euros.

DEPRECIATION AND AMORTISATION fell by 22.9 million euros year-on-year to 14.2 million euros. This is almost entirely due to the lower impairment of intangible assets from the purchase price allocation in connection with the acquisition of debitel: the depreciation of key assets expired on 31 December 2012 due to the scheduled expiration of the assets' useful lives.

The **INTEREST RESULT,** i.e. the sum of interest income and expenditure, was –9.9 million euros for Q1/2013, up by 0.5 million euros compared to the same quarter last year (–10.5 million euros), primarily due to lower average net debt.

As a result of the effects outlined above, the **GROUP'S PRE-TAX EARNINGS (EBT)** increased by 23.6 million euros year-on-year to 61.1 million euros.

INCOME TAX expenses totalling 0.9 million EUR were reported for the quarter under review, which reflects a 4.0 million-euro decline in income from deferred taxes compared to Q1/2012 (3.1 million euros). This is mainly due to lower deferred tax income resulting from temporary differences, because of the lower impairment of intangible assets from the debitel purchase price allocation mentioned earlier.

As in the first quarter of the previous year, the **GROUP EARNINGS** reported for Q1/2013 resulted solely from continuing operations and amount to 60.2 million euros. This is an increase of nearly 50 percent compared with the 40.6 million euros earned during the same quarter last year, and makes this the second-best quarterly group earnings from continuing operations in freenet's history.

Assets and financial position

Assets

Figures in m€	31.3.2013
Non-current assets	1,775.6
Current assets	743.2
Total assets	**2,518.7**

Figures in m€	31.12.2012 adjusted
Non-current assets	1,756.0
Current assets	722.7
Total assets	**2,478.7**

Shareholders' equity and liabilities

Figures in m€	31.3.2013
Shareholders' equity	1,239.2
Non-current and current liabilities	1,279.5
Total equity and liabilities	**2,518.7**

Figures in m€	31.12.2012 adjusted
Shareholders' equity	1,177.6
Non-current and current liabilities	1,301.1
Total equity and liabilities	**2,478.7**

On 31 March 2013 the group's **TOTAL ASSETS** amounted to 2,518.7 million euros, having increased by 40.0 million euros or 1.6 percent compared to 31 December 2012 (2,478.7 million euros).

The slight increase of various items on the **ASSETS SIDE** (e.g. by 6.8 million euros in goodwill, 5.0 million euros in property, plant and equipment, 15.1 million euros in inventories, 11.3 million euros in trade accounts receivable, and 7.2 million euros in other receivables and other assets) is wholly or partly due to the first-time consolidation of GRAVIS and the MOTION TM. At 503.7 million euros, trade accounts receivable are the dominant item in assets alongside goodwill—and are mainly receivable from end customers and network operators.

As part of the voluntary early application of IFRS 11, FunDorado GmbH is valued at equity for the first time from 1 January 2013. To date, this joint venture had been proportionally consolidated in the consolidated financial statements.

On the **LIABILITIES SIDE,** gross financial debt was down by 31.3 million euros to 625.3 million euros compared to 31 December 2012, primarily due to scheduled redemption repayments.

Pension provisions were reported at 45 million euros at 31 March 2013. Due to the first-time mandatory application of the revised IAS 19, the comparable figure for this balance sheet item as at 31 December 2012 was adjusted upwards by 18.8 million euros—please refer to item2 of our selected explanatory notes. Other liabilities and accruals increased by 17.1 million euros compared to 31 December 2012, to 134.9 million euros, largely due to the closing date-related higher liabilities from sales tax. The 410.4 million euros of trade accounts payable shown on the balance sheet at 31 March 2013 is at approximately on par with that of the previous quarter's reporting date, and mainly consists of payables to network operators, retailers and hardware manufacturers.

The **EQUITY RATIO** increased from 47.5 percent at the end of December 2012 to 49.2 percent at the end of March 2013, mainly due to group earnings of 60.2 million euros generated in the first quarter of 2013.

Primarily as a result of free cash flow totalling 56.4 million euros in the first quarter of 2013, we were able to reduce **NET DEBT,** which amounted to 451.9 million euros at 31 December 2012, by 30.5 million euros to 421.4 million euros—the lowest level seen at the end of a quarter since the acquisition of the debitel Group.

Cashflow

Figures in m€	Q1/2013	Q1/2012	Change
Cash flow from operating activities	59.0	74.7	–15.6
Cash flow from investing activities	–17.1	–1.6	–15.5
Cash flow from financing activities	–45.5	–42.1	–3.3
Change in cash and cash equivalents	**–3.5**	**30.9**	**–34.4**
Free cash flow [1]	**56.4**	**72.4**	**–16.0**

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.

In the first quarter of 2013, **CASH FLOW FROM OPERATING ACTIVITIES** came to 59.0 million euros, which translates to a year-on-year reduction of 15.6 million euros. Given the slightly improved EBITDA, this decline is mainly a result of a 13.5 million-euro increase in net working capital to 18.4 million euros. This development mainly relates to the first quarter cut off date. Therefore, bonus payments by one network operator weren't received until early April 2013. In the previous year, these payments were made in full by the reporting date, which explains an effect of about 19 million euros.

CASH FLOW FROM INVESTING ACTIVITIES amounted to –17.1 million euros in Q1/2013 and thus increased compared to the –1.6 million euros seen in the first quarter of 2012, mainly as a result of payments made for company acquisitions: excluding the liquid assets from the acquisition of these companies, the balance sheet was reduced by 12 million euros for the purchase of GRAVIS and MOTION TM in Q1/2013. Furthermore, the deconsolidation of freeXmedia on 1 January 2013 stripped the Group of cash and cash equivalents totalling 2.7 million euros.

In the quarter under review, **CASH FLOW FROM FINANCING ACTIVITIES** came to −45.5 million euros compared to −42.1 million euros in the same period last year. Both in the reporting quarter and in the same quarter of the previous year an instalment of the redeemable loan was paid, resulting in the reduction of gross financial debt by 40.0 million euros. The change from the prior year's quarter is due primarily to the fact that in Q1/2013 another 4.8 million euros of repayments were made on the financial liabilities of GRAVIS in connection with the transition to a primarily intra-Group financing of GRAVIS.

As a result of the effects described above, in the first quarter of 2013 free cash flow was reduced by 16.0 million euros year-on-year to 56.4 million euros.

Key figures of the financial strategy

The following overview shows the current values of the key figures for our financial strategy and their development compared to the first quarter of the previous year. In each case, the last 12 months (thus April 2012 to March 2013 or for the prior year April 2011 to March 2012) were used for all period-related figures such as EBITDA and net interest.

At the end of February 2013, in conjunction with the publication of the preliminary figures for financial year 2012, the Executive Board adjusted its targets: the bandwidth for the debt factor was expanded from previously 1.5 to 2.5 to currently 1.0 to 2.5. The target values for the control parameters "interest cover" and "equity ratio" remain unchanged.

	Target 2011/12	Q1/2012	Q1/2013	Target 2013/14
Debt factor	1.5—2.5	1.4	1.2	1.0—2.5
Interest cover	> 5	6.6	8.6	> 5
Equity ratio	> 50%	51.0%	49.2%	> 50%

The debt factor is currently at the lower limit of this target range—but it will increase in the second quarter of 2013 due to the upcoming dividend payment.

The interest cover increased from 6.6 to 8.6 compared to the same period last year, due to the positive earnings situation and the further reduction of debt, and is still well above the target level.

The equity ratio as per 31 March 2013 is just below the target of 50 percent. Compared to one year earlier, this reflects a decline of 1.8 percentage points. As a comparison between these balance sheet dates actually shows a slight increase in equity, this decline is primarily the result of the increase in total assets. However, the equity-reducing effect of the pending dividend payout in the next quarter also needs to be taken into account for this key indicator.

Key figures of the dividend policy

The dividend policy adopted by the Executive Board at the beginning of 2013 and agreed by the Supervisory Board stipulates dividend payments of 50 to 75 percent of free cash flow for the future. By increasing this bandwidth starting from the financial year 2012, the Executive Board takes into account the interests of value-oriented shareholders, who wish to participate to a reasonable extent in the company's free cash flow, while ensuring an optimum capital structure for safeguarding the company's value long-term.

	2010	2011	2012	Target 2013	Target 2014
Payout ratio (as a percentage of FCF)	48 %	64 %	66 %[1]	50—75 %	50—75 %
Dividends paid (in euros per share)	0.80	1.20	1.35[1]	n/a	n/a
Dividend yield (on day of payment)	10.0 %	10.6 %	n/a	n/a	n/a

1 In line with the proposal made by the Executive Board and the Supervisory Board.

Employees

At the end of Q1/2013, the number of employees had increased to 4,557 compared to 3,886 at the end of Q4/2012 and 4,004 at the end of Q1/2012. This increase is primarily due to the acquisition of GRAVIS.

Opportunities and risk report

In the first quarter of 2013, there were no significant changes in the opportunities and risks as described in detail in the "Opportunities and risk report" of our Annual Report 2012. The Annual Report 2012 is available online at *www.freenet-group.de/investor/publications/quarterly-annual-reports*.

Forecast

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

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

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

Significant events after the reporting date

With effect from 30 April 2013, the Group acquired the remaining 49 percent of the shares in MFE Energie GmbH by exercising of an existing option to purchase these shares for 5 million euros. A corresponding liability for this payment to the minority shareholders, which is due in the second quarter of 2013, is accounted for in the present condensed interim consolidated financial statements. Consequently, the acquisition of these remaining shares will impact the forthcoming balance sheet at 30 June 2013 through a reclassification within shareholder equity, and hence will not impact the Group result.

There were no other significant events after the reporting date.

Transactions with related parties

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

Figures in €'000s	1.1.2013 —31.3.2013	1.1.2012 —31.3.2012
Sales and income attributable to services		
Joint ventures		
FunDorado GmbH, Hamburg	59	50
Companies with a major influence on freenet AG[1]		
b2c.de GmbH, Munich (Drillisch AG Group)	286	260
	345	**310**
Purchased services and onward charging		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	n/a	7
Joint ventures		
siXXup new Media GmbH, Pulheim	0	33
Companies with a major influence on freenet AG[1]		
Drillisch AG, Maintal	0	6
eteleon e-solutions AG, Munich (Drillisch AG Group)	24	0
b2c.de GmbH, Munich (Drillisch AG Group)	3,029	4,643
	3,053	**4,689**

The following major receivables due from and liabilities due to related parties existed as of 31 March 2013:

Figures in €'000s	31. 3. 2013	31. 3. 2012
Receivables from regular transactions		
Joint ventures		
FunDorado GmbH, Hamburg	28	5
Companies with a major influence on freenet AG[1]		
b2c.de GmbH, Munich (Drillisch AG Group)	n/a	172
	28	**177**
Liabilities from regular transactions		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	n/a	2
Companies with a major influence on freenet AG[1]		
b2c.de GmbH, Munich (Drillisch AG Group)	n/a	186
	n/a	**188**

All transactions were at market rates.

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

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

Condensed interim consolidated financial statements

Overview

Consolidated income statement and consolidated statement of comprehensive income

for the period from 1 January to 31 March 2013

Figures in €'000s	Q1/2013 1.1.2013 —31.3.2013	Q1/2012 1.1.2012 —31.3.2012 adjusted
Revenue	775,249	757,199
Other operating income	17,545	17,613
Other own work capitalised	1,478	1,509
Cost of materials	−602,425	−590,347
Personnel expenses	−40,978	−38,713
Depreciation and impairment write-downs	−14,213	−37,070
Other operating expenses	−65,641	−62,604
Operating result	**71,015**	**47,587**
Share of results of associates	49	435
Interest receivable and similar income	473	785
Interest payable and similar expenses	−10,413	−11,241
Result before taxes on income	**61,124**	**37,566**
Taxes on income	−929	3,069
Group result from continued operations	**60,195**	**40,635**
Group result from discontinued operations	**0**	**0**
Group result	**60,195**	**40,635**
Group result attributable to shareholders of freenet AG	60,215	40,604
Group result attributable to non-controlling interest	−20	31
Earnings per share in € (undiluted)	**0.47**	**0.32**
Earnings per share in € (diluted)	**0.47**	**0.32**
Earnings per share from continued operations in € (undiluted)	0.47	0.32
Earnings per share from continued operations in € (diluted)	0.47	0.32
Earnings per share from discontinued operations in € (undiluted)	0.00	0.00
Earnings per share from discontinued operations in € (diluted)	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)	128,061	128,061
Weighted average of shares outstanding in thousand (diluted)	128,061	128,061

Figures in €'000s	Q1/2013 1.1.2013 —31.3.2013	Q1/2012 1.1.2012 —31.3.2012 adjusted
Group result	**60,195**	**40,635**
Change in fair value of held-for-sale financial instruments	–49	–38
Taxes on income recognised directly in equity	14	11
Other comprehensive income (not recognised in profit or loss)/ to be reclassified to the income statement in the following periods	–35	–27
Other comprehensive income (not recognised in profit or loss)	**–35**	**–27**
Consolidated comprehensive income	**60,160**	**40,608**
Consolidated comprehensive income attributable to shareholders of freenet AG	60,180	40,577
Consolidated comprehensive income attributable to non-controlling interest	–20	31

Consolidated balance sheet

as of 31 March 2013

Assets

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

Shareholders' equity and liabilities

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

Schedule of changes in equity

for the period from 1 January to 31 March 2013

Figures in €'000s adjusted	Share capital	Capital reserve	Cumulative other comprehensive income: Revaluation reserve	Cumulative other comprehensive income: Actuarial profits and losses	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1.1.2012	**128,061**	**737,536**	**19**	**–4,573**	**305,398**	**1,166,441**	**279**	**1,166,720**
Group result	0	0	0	0	40,604	40,604	31	40,635
Change in fair value of held-for sale financial instruments	0	0	–27	0	0	–27	0	–27
Sub-total: Consolidated comprehensive income	0	0	–27	0	40,604	40,577	31	40,608
As of 31.3.2012	**128,061**	**737,536**	**–8**	**–4,573**	**346,002**	**1,207,018**	**310**	**1,207,328**

Figures in €'000s	Share capital	Capital reserve	Cumulative other comprehensive income: Revaluation reserve	Cumulative other comprehensive income: Actuarial valuation reserve in accordance with IAS 19	Retained earnings	Capital and reserves attributable to shareholders of freenet AG	Capital and reserves attributable to non-controlling interest	Shareholders' equity
As of 1.1.2013	**128,061**	**737,536**	**–13**	**–13,284**	**324,883**	**1,177,183**	**370**	**1,177,553**
Initial consolidation of subsidiaries	0	0	0	0	0	0	1,505	1,505
Group result	0	0	0	0	60,215	60,215	–20	60,195
Change in fair value of held-for sale financial instruments	0	0	–35	0	0	–35	0	–35
Sub-total: Consolidated comprehensive income	0	0	–35	0	60,215	60,180	–20	60,160
As of 31.3.2013	**128,061**	**737,536**	**–48**	**–13,284**	**385,098**	**1,237,363**	**1,855**	**1,239,218**

Consolidated statement of cash flows

for the period from 1 January to 31 March 2013

Figures in €'000s	1.1.2013 —31.3.2013	1.1.2012 —31.3.2012
Result from continued and discontinued operations before interest and taxes (EBIT)	**71,064**	**48,022**
Adjustments		
Depreciation and impairment on items of fixed assets	14,213	37,070
Share of results of associates	–49	–435
Income from the sale of subsidiaries	–4,009	0
Loss on disposals of fixed assets	14	159
Increase in net working capital not attributed to investing or financing activities	–18,395	–4,862
Other non-cash components	–76	–37
Income taxes paid	–3,740	–5,262
Cash flow from operating activities	**59,022**	**74,655**
Investments in property, plant and equipment and intangible assets	–2,651	–2,641
Proceeds from the disposal of property, plant and equipment and intangible assets	23	392
Purchase of subsidiaries	–12,033	0
Outflow of funds from deconsolidation	–2,734	0
Interest received	323	629
Cash flow from investing activities	**–17,072**	**–1,620**
Cash repayments of borrowings	–44,807	–40,072
Interest paid	–676	–2,067
Cash flow from financing activities	**–45,483**	**–42,139**
Cash-effective change in cash and cash equivalents	**–3,533**	**30,896**
Cash and cash equivalents 1.1.	**207,956**	**85,673**
Cash and cash equivalents 31.3.	**204,423**	**116,569**

Composition of cash and cash equivalents Figures in €'000s	31.3.2013	31.3.2012
Cash and cash equivalents of continued operations	204,423	116,569
Non-cash outflow of funds from changes from proportionate consolidation to at-equity accounting	–603	0
Liabilities as part of current finance scheduling due to banks	0	0
	203,820	**116,569**

Composition of free cash flow Figures in €'000s	31.3.2013	31.3.2012
Cash flow from operating activities	59,022	74,655
Investments in property, plant and equipment and intangible assets	–2,651	–2,641
Proceeds from the disposal of property, plant and equipment and intangible assets	23	392
Free cash flow (FCF)	**56,394**	**72,406**

Selected explanatory notes in accordance with IAS 34

Key accounting and valuation methods and consolidation principles

1. These condensed consolidated interim financial statements have been prepared in accordance with Regulation 1606/2002 of the European Parliament and Council, based on the international accounting standards endorsed by the European Union, the International Financial Reporting Standards (IFRS), in accordance with IAS 34. The Group took into account all adopted and mandated IFRSs by the EU. An audit review has not been carried out for these condensed consolidated interim financial statements.

   The Group has applied all accounting standards which have been the subject of mandatory adoption since the financial year 2013. Of the accounting standards which are the subject of first-time adoption, the amendment to IAS 12 (Deferred Taxes: Realisation of Underlying Assets), the amendments to IFRS 1 (first-time adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters), to IFRS 13 (Fair-Value Measurement), to IFRIC 20 (Stripping Costs in the Production Phase of a Surface Mine), the amendment to IFRS 7 (Financial Instruments: Disclosures: Netting of Financial Assets and Financial Liabilities), the amendment to IFRS 1 (Government Loans), as well as the various amendments resulting from the annual improvements project 2009 to 2011 (improvements of IFRS) have not had a major impact on the presentation of the net assets, financial position and results of operations of the Group.

   With regard to the effects of the amended standards IAS 19 (Employee Benefits) and IAS 1 (Presentation of Financial Statements—Presentation of the Individual Items of other comprehensive income) which have also been the subject of first-time adoption after the financial year 2013, as well as IFRS 11 (Joint Arrangements) which has voluntarily been the subject of early adoption, please refer to items 2 to 4 of these notes.

   The accounting policies applied for preparing the interim report for the period ending 31 March 2013 and for establishing the comparison figures for the prior year are the same as those which were applied in the consolidated financial statements 2012, with the exception of the new standards which are the subject of mandatory adoption and also with the exception of the modified accounting method for agreements regarding the sale of mobile devices described under item 5 of these notes. A detailed description of the accounting policies of the Group is included in the notes to the consolidated financial statements 2012 of freenet AG.

2. IAS 19 (Employee Benefits) which is the subject of first-time adoption has resulted in more extensive disclosure obligations regarding employee benefits and in particular the changes described in the following. Previously, there has been an option with regard to how unexpected fluctuations in the pension obligations, the so-called actuarial profits and losses, were to be presented in the financial statements. They were recognised either (a) in the income statement, (b) in other comprehensive income or (c) with the so-called corridor method subject to a delay.

freenet AG had applied the corridor method. The new version of IAS 19 abolished this option, so that it is now only possible for this item to be recognised directly and completely in other comprehensive income. In addition, past service cost now has to be recognised directly in profit or loss in the year in which the costs arise. In the past, the expected income of plan assets was calculated at the beginning of the accounting period using the expectations of management regarding the development in the value of the asset portfolio. Now that the amended IAS 19 has been adopted, it is only possible for a typical return on plan assets to be recognised (in the amount of the discount rate of the pension obligations at the beginning of the period).

The adjustment entry to be carried out as of 1 January 2013 had the following impact on the consolidated financial statements of freenet AG: an increase of 18,789 thousand euros in the pension provisions due to the complete disclosure of the cumulative actuarial losses, an increase of 5,505 thousand euros in the deferred tax assets as well as a reduction of 13,284 thousand euros in equity (cumulative other comprehensive income). Corresponding retrospective adjustments were made to the presentation of the balance sheet comparison figures as of 31 December 2012 and the table showing changes in equity from 1 January to 31 March 2013 in these condensed consolidated interim financial statements.

3. For freenet AG, the amendment to IAS 1 (Presentation of Financial Statements) has resulted mainly in an amendment to the presentation of that part of the consolidated income statement which reconciles the consolidated result with the consolidated comprehensive income. As a result of the amendment, the other comprehensive income now has to be split according to whether the income and expenses may be reallocated to the income statement at a later date (known as recycling). The option of presenting the items of other comprehensive income before or after tax has been retained. freenet has decided to use the option for pre-tax presentation. The taxes have to be split according to whether they relate to items which may be reallocated to the income statement in future or not.

4. The Group has voluntarily adopted IFRS 11 (Joint Arrangements) since 1 January 2013. FunDorado GmbH as a joint venture, which previously had been included in the consolidated financial statements using the pro-rata consolidation method, is now consolidated at equity. Accordingly, the interests of the Group in the assets, liabilities, income and expenses of FunDorado GmbH are now no longer shown in the corresponding items in the consolidated financial statements. Instead, the interest of the Group in this joint venture as of 31 March 2013 is shown in the balance sheet item “Investments in associates” with a figure of 1,474 thousand euros. In accordance with the fundamentally retrospective application an estimated comparative value of 1,425 thousand euros is shown as at 31 December 2012. A retrospective adjustment of prior-year comparative figures in the income statement for Q1/2012 was waived due to immateriality. In the first quarter of 2012, FunDorado GmbH contributed 1.1 million euros to consolidated revenue, as well as a share of 0.1 million euros to consolidated net profit.

5. The Group has used an amended accounting method for agreements regarding the sale of mobile devices for the first time in the interim report for the third quarter of 2012, and has done so with retroactive effect as of 1 January 2012. With regard to the change of this accounting method, please also refer to our disclosures in the annual report 2012 of freenet AG (item 2, accounting and valuation methods, in the notes to the consolidated financial statements). This amended accounting policy had not yet been applied in the published condensed consolidated interim financial statements for the period ending 31 March 2012. Accordingly, with regard to the income statement of these condensed consolidated interim financial statements, it was necessary for the comparison figures for the first quarter of the prior year 2012 to be retrospectively adjusted. As a result of this retrospective adjustment, revenue and cost of materials for the first quarter of 2012 have both been increased by 13,006 thousand euros compared with the published consolidated interim financial statements for the period ending 31 March 2012. This is merely an amendment to the method of disclosure within gross profit—the change of method therefore does not have an impact on the net assets and financial position nor the results of the Group.

Major events and transactions

6. On 18 December 2012, the Group concluded a purchase agreement for acquiring all shares and voting rights in Gravis – Computervertriebsgesellschaft mbH ("GRAVIS"). Following cartel law approval, the takeover was completed as of 31 January 2013, which enabled the Group to acquire control over this subsidiary. GRAVIS is the only Apple dealer with nationwide coverage; it has a market share of approx. 14 percent of the German Apple retail market. GRAVIS also operates a significant online business.

   A figure of 12.25 million euros was agreed as the cash purchase price. The cash purchase price is subject to adjustment depending on the net current assets as well as the cash holdings and financial liabilities of the acquired company—the closing statements of GRAVIS at the time of the acquisition are relevant for determining the final figure for these purchase price adjustments. At the point at which these condensedconsolidated interim financial statements were prepared, the cash purchase price was not yet binding as the closing statements have been prepared but have not been finally agreed between the purchaser and the vendor. For the purpose of purchase price allocation, a cash purchase price of 9,724 thousand euros has been included in these condensed consolidated interim financial statements. In the first quarter of 2013, the Group stated a cash outflow of 10,000 thousand euros as the provisional cash purchase price.

   In addition, there may also be earn-outs in a range of between 0 euros and 6.25 million euros; the exact amount of these earn-outs is based on EBITDA (under commercial law) for the calendar year 2013 of GRAVIS and, under certain circumstances, may also depend on the EBITDA (under commercial law) of the acquired company achieved for the calendar year 2012. As of 31 March 2013, the Group recognised a purchase price liability of 5,164 thousand euros for the earn-out. For this purpose, various scenarios of the full range were evaluated with their probabilities of occurrence.

The purchase price allocation carried out in accordance with IFRS 3 for the acquisition of GRAVIS is of a provisional nature as it was only possible to establish a provisional figure for the fair values of the identifiable assets and liabilities.

The following overview provides details of the assets and liabilities of GRAVIS acquired at fair value at the time of initial consolidation:

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

Assets

Figures in €'000s	31. 1. 2013
Non-current assets	
Intangible assets	7,662
Goodwill	3,449
Property, plant and equipment	5,682
	16,793
Current assets	
Inventories	18,831
Trade accounts receivable	3,791
Other receivables and other assets	1,485
Cash and cash equivalents	2,044
	26,151
	42,944

Liabilities

Figures in €'000s	31. 1. 2013
Non-current liabilities	
Deferred income tax liabilities	1,933
	1,933
Current liabilities	
Trade accounts payable	15,328
Other liabilities and accruals	4,500
Current income tax liabilities	216
Borrowings	5,409
Other provisions	670
	26,123
	28,056

The difference of 14,888 thousand euros between the assets and liabilities represents the expected total purchase price (cash purchase price of 9,724 thousand euros plus the earn-out of 5,164 thousand euros). The provisional purchase price allocation results in goodwill of 3,449 thousand euros, which is mainly attributable to the competence of GRAVIS to be able to continue to acquire new customers in future, the sales organisation of GRAVIS as well as the company's workforce which cannot be recognised in the balance sheet. The goodwill was attributed to the cash-generating unit "Mobile Communications": The acquired intangible assets mainly comprise customer relations of 4,334 thousand euros as well as trademark rights of 2,262 thousand euros, which were recognised as a result of the provisional purchase price allocation. Due to the subsequent depreciation of the intangible assets recognised in the course of provisional purchase price allocation, depreciation of 474 thousand euros per quarter has to be recognised in each of the following financial years. No contingent liabilities have been recognised in the purchase price allocation. The fair value of the acquired receivables is 5,276 thousand euros. We have not identified any transactions which have to be shown separately from the acquisition of the assets and liabilities.

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

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

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

   With this acquisition, freenet AG has strengthened its sales ability particularly in online activities. With its distribution platform "moon", MOTION TM also provides the necessary system competence for providing sales support to the company's trading partners.

   A figure of 4.0 million euros was agreed as the cash purchase price. The cash purchase price is subject to adjustment depending on the net current assets as well as the cash holdings and financial liabilities of the acquired company. The annual financial statements of MOTION TM for the period ending 31 December 2012 is the basis for determining these purchase price adjustments; these financial statements were not available in final form at the point at which these consolidated interim financial statements were prepared.

   These condensed consolidated interim financial statements are assuming a cash purchase price of 5,074 thousand euros. In the first quarter of 2013, the Group reported a cash outflow of 4,000 thousand euros as the provisional cash purchase price.

   Because of the fact that 20 March 2013 as the date of the acquisition was very close to 31 March 2013, the reference date of these condensed consolidated interim financial statements, and also in view of the fact that only a limited amount of financial information was available at the point at which these financial statements were prepared, it has so far not been possible for a purchase price allocation process to be carried out. The following overview provides details of the assets and liabilities of MOTION TM acquired at carrying amounts at the time of initial consolidation:

Assets and liabilities of MOTION TM as of 20 March 2013, at carrying amounts

Assets

Figures in €'000s	20.3.2013
Non-current assets	
Intangible assets	44
Goodwill	3,507
Property, plant and equipment	682
	4,233
Current assets	
Inventories	3,373
Trade accounts receivable	9,055
Other receivables and other assets	839
Cash and cash equivalents	582
	13,849
	18,082

Liabilities

Figures in €'000s	20.3.2013
Non-controlling interests in shareholders' equity	**1,505**
Non-current liabilities	
Borrowings	337
Other provisions	55
	392
Current liabilities	
Trade accounts payables	6,430
Other liabilities and accruals	3,765
Current income tax liabilities	878
Borrowings	38
	11,111
	13,008

The difference of 5,074 thousand euros between the assets and liabilities represents the expected purchase price. The difference between this purchase price and the pro-rata equity (at carrying amounts), which is stated as 1,567 thousand euros, results in a theoretical difference of 3,507 thousand euros, which has been shown in the balance sheet item "Goodwill" in these condensed consolidated interim financial statements. Also after the purchase price allocation process which will be carried out in the second quarter of 2013, we expect that this business combination will result in goodwill which is essentially attributable to future earnings opportunities in connection with strengthening our sales ability particularly in online activities. The goodwill will be attributed to the cash-generating unit "Mobile communications": A figure of 1,505 thousand euros was recognised as non-controlling interests in equity as of 31 March 2013.

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

8. The cash flow statement for the first quarter of 2013 shows a figure of 12,033 thousand euros as outflows for the acquisition of subsidiaries under the cash flow from

investing activities. In addition to the cash purchase prices totalling 14,000 thousand euros paid provisionally for the acquisitions of GRAVIS and MOTION TM, the Group also received cash and cash equivalents totalling 1,967 thousand euros for the purposes of the cash flow statement (holdings of liquid assets less liabilities due to banks within the framework of short-term financial scheduling) as a result of the initial consolidation of the acquired companies.

9. During the first quarter of 2013, the two acquired companies contributed a total of 28.9 million euros to consolidated revenue after the time of their initial consolidation. Their contribution to the results of the Group was of minor importance.

10. The starting point for the cash flow statement is the result of the continued and discontinued operations before interest and taxes (EBIT). The following shows the way in which this result is derived from the consolidated income statement:

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

Figures in €'000s	1. 1. 2013 —31. 3. 2013	1. 1. 2012 —31. 3. 2012
Result before taxes on income of continued operations	61,124	37,566
Interest and similar expenses of continued operations	10,413	11,241
Interest and similar income of continued operations	–473	–785
Result of continued and discontinued operations before interest and taxes (EBIT)	**71,064**	**48,022**

11. The depreciation and impairments declined by 22.9 million euros compared with the first quarter of 2012, to 14.2 million euros. This is almost exclusively attributable to lower depreciation recognised in relation to intangible assets from the purchase price allocation on the occasion of the debitel acquisition, after corresponding depreciation for the main assets had expired as of 31 December 2012 due to the expiry of the scheduled useful lives. In the reporting quarter, earnings before taxes on income declined by 4.0 million euros compared with the first quarter of 2012 mainly due to lower deferred tax income from temporary differences attributable to the lower depreciation from the debitel purchase price allocation.

12. In Q1/2013, profits of 4.0 million euros were disclosed under other operating income as a result of the deconsolidation of freeXmedia GmbH which was sold with effect from 1 January 2013. Income of the same order of magnitude attributable to other periods was reported in the first quarter of the previous year as a result of settlements which had been agreed.

Other disclosures

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

Financial instruments according to classes as of 31 March 2013

Figures in €'000s	Valuation category according to IAS 39	Carrying amount 31.3.2013	Approach				Fair value 31.3.2013
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	203,820	203,820				203,820
Total cash and cash equivalents		**203,820**	**203,820**				**203,820**
Other financial assets (measured at cost of purchase)	HFS	503		503			–
Other financial assets (measured at fair value)	HFS	1,018				1,018	1,018
Total other financial assets		**1,521**					
Trade accounts receivable	LR	**503,681**	**503,681**				**503,717**
Other non-derivative financial assets	LR	25,483	25,483				25,483
Held-for-sale other assets	HFS	3,656				3,656	3,656
Derivative financial assets	FIPL	0			0		0
Non-financial assets		13,369					
Sum of receivables and other assets		**42,508**					

Figures in €'000s	Valuation category according to IAS 39	Carrying amount 31.3.2013	Approach				Fair value 31.3.2013
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Liabilities							
Trade accounts payable	FLAC	**410,388**	**410,388**				**410,388**
Financial debt (liabilities due to banks and shareholders)	FLAC	624,682	624,682				676,769
Derivative financial liabilities	FIPL	0			0		0
Sum of financial liabilities within the scope of IFRS 7		**624,682**					**676,769**
Other non-derivative financial liabilities	FLAC	47,972	47,972				47,972
Non-financial liabilities		86,894					
Sum of liabilities and deferrals		**134,866**					
Financial instruments not covered by the scope of IFRS 7							
Present values of liabilities from finance lease according to IAS 17		581					581
Pension provisions according to IAS 19		44,966					44,966
Provisions for employee participation programmes according to IFRS 2		4,201					4,201
Sum of financial instruments not covered by the scope of IFRS 7		**49,748**					
Thereof aggregated by valuation categories according to IAS 39:							
Held-for-sale financial instruments (HFS)	HFS	5,177		503		4,674	4,674
Loans and receivables (LR)	LR	732,984	732,984				733,020
Financial instruments measured at fair value through profit or loss (FIPL)	FIPL	0			0		0
Financial liabilities measured at amortised cost of purchase (FLAC)	FLAC	–1,083,042	–1,083,042				–1,135,129

Fair value hierarchy as of 31 March 2013

Figures in €'000s	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	3,656	3,656	0	0
Other financial assets	1,018	1,018	0	0
Derivative financial receivables	0	0	0	0
Total	**4,674**	**4,674**	**0**	**0**

There were no shifts regarding the levels.

Other financial assets are measured at fair value. Wherever a reliable estimate of fair value is not possible, the asset is valued at cost of purchase. The shares that are valued at cost of purchase are not publicly traded and there is no active market for them. Furthermore, a sale is not currently planned. If there were indications that fair values were lower, these were used.

14. With the exception of the above-mentioned acquisitions, with the exception of the deconsolidations of freeXmedia GmbH as well as a minor group company without any operating activities and also taking account of the change in the method of consolidation for FunDorado GmbH, as explained in item 4 of these notes, the consolidation group is unchanged compared with the consolidated financial statements for the period ending 31 December 2012.

15. As was the case in the consolidated financial statements 2012, an average rate of 29.3 percent (corresponding previous year period: 29.4 percent) was used for calculating the current and deferred taxes on income.

16. With effect from 30 April 2013, the Group acquired the remaining 49 percent of shares in MFE Energie GmbH as a result of the exercising of an existing option for serving these shares, for a purchase price of 5,000 thousand euros. A corresponding liability for this payment to minority shareholders which is due to take place in the second quarter of 2013 has been recognised in these condensed consolidated interim financial statements. Consequently, the acquisition of this remaining interest will be reflected in the next balance sheet as of 30 June 2013 by way of re-classification within equity and will therefore not impact the group result.

    Other events of major significance have occurred after the reference date.

17. Segmental reporting (see following double-page spread)

Segment report 1 January to 31 March 2013

Figures in €'000s	Mobile Communications	Other	Elimination of intersegment revenue and costs	Total
Third-party revenue	**765,093**	**10,156**	**0**	**775,249**
Intersegment revenue	2,369	2,138	–4,507	0
Revenue, total	767,462	12,294	–4,507	775,249
Cost of materials, third party	**–598,629**	**–3,796**	**0**	**–602,425**
Intersegment cost of materials	–1,042	–2,340	3,382	0
Cost of materials, total	–599,671	–6,136	3,382	–602,425
Segment gross profit	**167,791**	**6,158**	**–1,125**	**172,824**
Other operating income	12,325	6,177	–957	17,545
Other own work capitalised	1,411	67	0	1,478
Personnel expenses	–34,681	–6,297	0	–40,978
Other operating expenses	–63,802	–3,921	2,082	–65,641
Share of result in associates	0	49	0	49
Segment EBITDA	**83,044**	**2,233**	**0**	**85,277**
Depreciation and impairment write-downs	–13,162	–1,051	0	–14,213
Segment EBIT	**69,882**	**1,182**	**0**	**71,064**
Group financial result				–9,940
Taxes on income				–929
Group result from continued operations				**60,195**
Group result from discontinued operations				**0**
Group result				**60,195**
Group result attributable to shareholders of freenet AG				60,215
Group result attributable to non-controlling interest				–20
Investments in continued operations	**2,352**	**299**		**2,651**

Segment report 1 January to 31 March 2012 (adjusted)

Figures in €'000s	Mobile Communications	Other	Elimination of intersegment revenue and costs	Total
Third-party revenue	**740,879**	**16,320**	**0**	**757,199**
Intersegment revenue	1,318	1,952	–3,270	0
Revenue, total	742,197	18,272	–3,270	757,199
Cost of materials, third party	**–582,636**	**–7,711**	**0**	**–590,347**
Intersegment cost of materials	–1,234	–1,375	2,609	0
Cost of materials, total	–583,870	–9,086	2,609	–590,347
Segment gross profit	**158,327**	**9,186**	**–661**	**166,852**
Other operating income	13,067	5,797	–1,251	17,613
Other own work capitalised	1,434	75	0	1,509
Personnel expenses	–31,585	–7,128	0	–38,713
Other operating expenses	–59,073	–5,443	1,912	–62,604
Share of result in associates	0	435	0	435
Segment EBITDA	**82,170**	**2,922**	**0**	**85,092**
Depreciation and impairment write-downs	–35,989	–1,081	0	–37,070
Segment-EBIT	**46,181**	**1,841**	**0**	**48,022**
Group financial result				–10,456
Taxes on income				3,069
Group result from continued operations				**40,635**
Group result from discontinued operations				**0**
Group result				**40,635**
Group result attributable to shareholders of freenet AG				40,604
Group result attributable to non-controlling interest				31
Investments in continued operations	**2,315**	**326**		**2,641**

Further information

Financial calendar

8 May 2013
Publication of interim report I/2013

23 May 2013
Annual General Meeting

7 August 2013[1]
Publication of interim report II/2013

7 November 2013[1]
Publication of interim report III/2013

1 Probable dates.

Imprint, contact, publications

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www.freenet-group.de/investor/publications/quarterly-annual-reports

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

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

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

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