Annual Report 2013

Consolidated financial statements of freenet AG

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Key financials: Group overview

Result

In EUR million/as indicated	2013	2012 adjusted[1]	Q4/2013	Q3/2013	Q4/2012 adjusted[1]
Revenue	3,193.3	3,084.8	818.8	789.6	815.2
Gross profit	731.2	719.8	199.8	181.6	200.2
EBITDA	357.4	357.4	94.4	92.6	94.1
EBIT	301.3	208.8	80.0	78.6	56.6
EBT	258.4	166.7	67.0	68.8	44.6
Group result from continued operations	238.9	173.2	59.8	63.6	42.0
Group result from discontinued operations	0.0	0.0	0.0	0.0	0.0
Group result	238.9	173.2	59.8	63.6	42.0
Earnings per share in EUR (diluted and undiluted)	1.87	1.35	0.47	0.50	0.33

Balance sheet

In EUR million/as indicated	31.12.2013	31.12.2012 adjusted[1]	31.12.2013	30.9.2013	31.12.2012 adjusted[1]
Balance sheet total	2,477.2	2,478.7	2,477.2	2,476.4	2,478.7
Shareholders' equity	1,239.6	1,177.6	1,239.6	1,179.2	1,177.6
Equity ratio in %	50.0	47.5	50.0	47.6	47.5

Finances and investments

In EUR million	2013	2012 adjusted[1]	Q4/2013	Q3/2013	Q4/2012 adjusted[1]
Free cash flow[2,3]	256.2	259.7	54.6	74.9	63.8
Depreciation and amortisation	56.1	148.6	14.4	14.0	37.5
Net investments[3] (CAPEX)	22.2	20.4	9.2	7.0	8.2
Net cash[3,4]	–427.2	–451.9	-427.2	–471.9	–451.9

Share

	31.12.2013	31.12.2012	31.12.2013	30.9.2013	31.12.2012
Closing price Xetra in EUR	21.78	14.00	21.78	17.89	14.00
Number of ordinary shares in '000s	128,061	128,061	128,061	128,061	128,061
Market capitalisation in EUR'000s[4]	2,789,169	1,792,854	2,789,169	2,291,012	1,792,854

Employees

	31.12.2013	31.12.2012[1]	31.12.2013	30.9.2013	31.12.2012[1]
Employees[4]	4,576	3,865	4,576	4,593	3,865

Key financials: overview Mobile Communications segment

Customer development

In million	2013	2012	Q4/2013	Q3/2013	Q4/2012
Mobile Communications customers[4]	13.29	14.08	13.29	13.37	14.08
Thereof customer ownership	8.76	8.50	8.76	8.67	8.50
Thereof contract customers	5.86	5.79	5.86	5.82	5.79
Thereof no-frills customers	2.90	2.71	2.90	2.85	2.71
Thereof prepaid customers	4.53	5.58	4.53	4.70	5.58
Gross new customers	3.34	3.50	0.91	0.79	0.91
Net change	−0.79	−1.11	−0.08	−0.19	−0.23

Result

In EUR million	2013	2012	Q4/2013	Q3/2013	Q4/2012
Revenue	3,160.4	3,025.9	809.7	781.6	802.1
Gross profit	710.8	688.6	194.7	176.9	194.4
EBITDA	365.1	356.5	101.3	95.1	94.3
EBIT	312.7	212.2	87.9	81.9	57.6

Monthly average revenue per user (ARPU)

In EUR	2013	2012	Q4/2013	Q3/2013	Q4/2012
Contract customer	22.3	23.4	21.6	22.6	22.8
No-frills customer	3.4	3.9	3.0	3.5	3.5
Prepaid customer	3.0	3.0	3.0	3.2	2.9

1 The comparative figures in the key financials overview as well as in other tables in this report have been adjusted due to the change of an accounting method, see items 1.1 and 2.18 of the notes to the consolidated financial statements.
2 Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.
3 This information relates to the overall Group (including discontinued operations).
4 At the end of period.

Annual Report 2013

Consolidated financial statements of freenet AG

Digital lifestyle and mobile communications

freenet AG as a service provider

Social, economic and political life today is changing at tremendous speed and with enormous dynamism. The world is going mobile to a new and fascinating degree—smartphones and tablets are enabling an individualised, innovative lifestyle based on digitalization. This Digital Lifestyle affects nearly all areas of society, as some key figures, developments and examples illustrate:

- In 2013 the number of worldwide smartphone sales passed the one billion mark for the first time. On top of this, 230 million tablets were sold around the world.
- Three out of four Germans never leave home without their smartphone or mobile phone; among under –30s this rises to 83 percent.
- Half of all students in Germany use a smart mobile device—a smartphone or tablet—for learning or studying. Given the chronically overcrowded lecture halls, students prefer to work at home, in parks or in cafés.
- Retail is undergoing a massive transformation: worldwide, smartphone users spent over $20 billion shopping on their mobile devices in 2013. This involved more than 160 million eBay apps being downloaded from app stores and 5.6 million products being posted for sale via mobile device every week—1.5 million items a month in Germany alone.
- In Germany, one product changes hands every second via mobile transaction. The most popular categories are electronics, home & garden, car & motorcycle. Every ten minutes a vehicle is bought via smartphone or tablet. A pair of women's shoes is sold every 30 seconds.
- One in every two smartphone/tablet owners uses "location based services" while shopping—apps that gather information about retailers, offers and prices in the area. Preferred products are fashion, electronics, books and food.
- In terms of transparency and sustainability, in future foods will be traceable back to their source using smartphones and printed QR codes (the black and white speckled square images).
- One in two Germans aged between 18 and 30 now plan their next trip or holiday via smartphone—and one in four go on to book it in this way.
- Smartphones have also long been usable as a means of payment. They can easily be connected to card terminals or used as mobile cash registers, by vendors at farmers' markets or flea markets, for example. In the US, millions of users are already making use of this feature, generating tens of billions of dollars in mobile revenues annually.
- The Smart Home market—products for the intelligent networking and control of home, IT and telecommunications equipment—will grow by 20 percent a year across Europe over the next four years to an estimated 4.1 billion euros.

- In addition, smartphones and tablets also ensure social and political progress. People can use them to inform and organise themselves; women can establish networks with other women or obtain medical advice and other information. Studies show that women's equality rises significantly along with mobile communications penetration, as does the population's health and educational opportunities.

In this fascinating world of Digital Lifestyles, freenet AG sets its own highlights:

- as an independent service provider that offers customers integrated lifestyle product ranges, and inexpensive mobile communications tariffs and services on all four German networks;
- with its main brand mobilcom-debitel, which possesses more than two decades of experience and expertise in telecommunications, mobile communications and the Internet;
- with the GRAVIS premium brand for high-end Digital Lifestyle products and services;
- with the discount brands klarmobil, callmobile, freenetmobile and debitel light;
- with expert, objective consultation and support, tailored to the individual needs of each client,
- without being compelled to recoup high development costs, yet with the market and buying power of a large, established customer base and a nationwide sales presence;
- with the freenet.de portal including a wide variety of information and entertainment as well as a large app store for Android, iOS and Nokia apps.
- with maximum closeness to the customer based on
  - 553 shops operated under the main mobilcom-debitel brand and 32 GRAVIS stores,
  - 400 major electronics retailers (exclusivity agreement with Media-Saturn Deutschland GmbH),
  - around 5,600 further distribution points,
  - with a broad range of effective online channels, social networks, and excellent customer support via leading-edge apps, chat, email, telephone, regular mail, and personal conversations.
- as one of the leading digital large companies in Germany: According to an Accenture Study published in February 2014 freenet AG ranks seventh among the 20 German large companies with the highest degree of digitalisation.

Approximately 4,600 employees in eleven offices ensure freenet AG's outstanding competitive positioning with their daily commitment to their company and customers. freenet AG gives back to society with a variety of social and environmental initiatives at its sites and beyond. This is also in the spirit of mobilcom-debitel's long-running "Gemeinsam geht mehr!" (Getting more together!) marketing campaign.


10%
Tarifrabatt*

Award-winning tariffs

Smartphone and tablet features are becoming more and more complex and form the basis of contemporary Digital Lifestyle:

- as mobile, multi-functional devices for communication and information,
- for career and leisure, work and entertainment,
- as a means of payment and central control unit for mobile applications.

With their bundled services flat rates are becoming massively important in the use of smartphone and tablet: customers are increasingly demanding tariffs with maximum transparency, providing good value for money at a calculable cost.

Against this background, freenet AG is continually expanding its range of flat rates as well as individual tariffs and adapting it to constantly changing customer needs and market conditions. In all, the Group offers dozens of tariffs through its individual brands or subsidiaries, each aimed at precisely defined target groups.

The main brand—a fixture in the mobile communications market for over twenty years with its two components mobilcom and debitel—focuses on high-value contract relationships in its customer acquisition and customer base management. The range on offer includes its own tariffs alongside the original network operator tariffs—usually at discounts of 10 percent. In addition, freenet also operates very successfully with four discount brands in the “no-frills” segment.

In the financial year 2013, the launch of the innovative Allnet suite of rates in July represented a major step for the main mobilcom-debitel brand. The new “classic Allnet”, “comfort Allnet” and “premium Allnet” tariffs complement the existing “real Allnet” tariff and benefit from freenet’s special competitive positioning as a service provider that covers all four German mobile communications networks: users can choose between the low-cost E-Plus/O_2 networks or—for an extra 10 euros per month—Vodafone and Deutsche Telekom’s high-end networks (D-networks).

At launch, the regular package prices initially ranged from 9.90 euros per month for “classic Allnet”, with unlimited free calls to all German networks, to 19.90 euros for “comfort Allnet”, which additionally includes unlimited mobile Internet, through to 39.90 euros for “premium Allnet”, which includes the flat rate for calls, up to 2 GB of mobile Internet, multiple SIM cards, unlimited SMS texting, and 100 roaming minutes within the EU. The mobile phone option gives users the latest smartphone of their choice for an additional 5 to 10 euros a month.

During the course of the year, these and other tariffs were further upgraded or discounted, some as part of marketing and Christmas campaigns or via the company's own online sales platform www.crash-tarife.de. For example, since November klarmobil's Allnet flat rate, bookable online, costs just 4.85 euros per month for the first twelve months, and increases to 19.85 euros for the second year of the contract term. "There is currently no cheaper flat rate for calls and the Internet in Germany," concluded the independent price comparison portal billig-tarife.de!

More and more consumers are using their smartphones more for mobile surfing rather than making phone calls. The "Smart Surf" tariff for frequent surfers, launched in autumn of 2013, is a response to this trend. For 14.99 euros a month on the O_2 and Vodafone networks, it offers 1 GB of free data with a maximum bandwidth of 7.2 Mbits/s, plus 50 free call minutes to all domestic mobile networks, as well as 50 free SMS texts for O_2 customers.

For tablet and notebook users, the "surf flat 5000" rate—bookable on crashtarife.de since August 2013—offers a data flat rate including 5 GB of high-speed bandwidth at speeds of up to 7.2 Mbits/s, which makes it comparable to DSL 6000, at the base price of 6.95 euros for the first twelve months. There is no hook-up fee, and as a special offer the Surfstick costs 1.00 euro. In the second year of the contract term, the monthly fee increases to 15.95 euros.

Smartphone customers who hit their available data volume limits with their chosen tariff can select additions such as the mobilcom-debitel "T@ke-away Flat Upgrade", launched in spring 2013 and usable on the O_2 and Vodafone networks. For 9.95 euros a month, this increases the volume for existing and new customers by 1 GB, both for tariffs that include data volumes and for the classic T@ke-away Flat data option.

Over the course of the year, the tariffs offered by mobilcom-debitel and its discount subsidiaries scored dozens of test victories, recommendations, and awards in independent comparison tests by the trade and business press. The top rankings achieved in the reader polls of the magazines connect, Funkschau and Telecom Handel were especially gratifying and significant.

Innovative applications

Home automation is one of the key growth segments in the Digital Lifestyle market. In autumn 2012 freenet launched its first product in this sector, with the trial introduction of SmartHome sets for remote control of home heating via smartphone. With monthly prices for different kits starting at 8.99 euros, the packages include heating controllers with adapters, a control unit and window contacts, and can be expanded into a complex SmartHome network using additional components. Users can control their individual home heating units by app while they are on the go, or turn it down/off at the touch of a button when leaving the house or apartment.

Since the beginning of 2013, the SmartHome box has been available at all 553 shops operated under the main mobilcom-debitel brand, and since November last year, there has been a money-back guarantee for customers: if they don't reduce heating costs by at least 20 percent compared to the previous year's bills with the mobile control, basic monthly charge is refunded.

Another Digital Lifestyle solution from mobilcom-debitel involves home security. Since the second half of 2013, the company has offered three versions of a "SmartHome camera", starting at a base price of 5.49 euros per month. Its features include zoom function, infrared motion sensors and a built-in microphone, enabling mobile camera control of the home and grounds even at night. On request, email notifications can be sent to the smartphone when the camera detects movement in the house.

With these increasingly extensive Digital Lifestyle functions, it becomes more and more important that users be able to reliably access their individual applications and data at all times—this is even more crucial when they change their device, telecommunications provider, or network. With this in mind, the new md Cloud service was launched in April 2013 for new and existing customers, in two versions: "Cloud basic" gives each user 25 GB of storage for 1.99 euros a month; "Cloud pro" 50 GB for 3.99 euros per month.

Both versions work on all Internet-enabled devices—both web-based and via Android or iOS app, available on Google Play or the iTunes Store. By hosting and operating the Cloud in Germany, the company has designed this service to offer what it considers to be maximum data security and privacy.

In the entertainment segment, mobilcom-debitel's innovations during the year included the "GameFlat" and the "md MusicFlat" for new and existing customers. From 2.99 euros per month, gamers can download and use many of the latest premium games on Gameloft at m.md.de/games, without any hidden extras or in-game purchases later. An additional premium option includes top games like Iron Man 3, Asphalt 7, Shark Dash or Real Football 2013. Customers keep the games after the end of the contract term.

The "md MusicFlat", offered in cooperation with the streaming provider JUKE, is available in two versions—as an optional add-in to an existing mobilcom-debitel contract for 8.99 euros per month, or as a complete package with a matching smartphone tariff for 24.99 euros per month. It lets users access more than 20 million pop, rock, jazz and classical music tunes in the Dolby Pulse format, create favourites and playlists from them, use "MusicFlat" via Wi-Fi, and use the playlists in offline mode.

mobilcom-debitel is also enhancing its Mobile Payment business with new and attractive applications. For instance, the sms&park 2.0 GPS smartphone app lets users first locate free parking in the area and then pay the parking fee with a click. It is billed on their next mobile phone bill without requiring registration. The service is already available in many German towns and cities—and the number of locations is growing steadily.

Since autumn 2013 Deutsche Bahn's Touch&Travel is also available to mobilcom-debitel customers. Before commencing a journey, users log in at "Touchpoints" using NFC tags, QR Codes or touch-point number, board the selected train and show the barcode displayed on the smartphone as a ticket. At the end of the journey, they then log off again at the Touchpoint.

Sought-after devices

freenet's strong position as Germany's biggest network-independent telecommunications provider is also reflected in hardware. The company has a strong negotiating position based on

- around 13.3 million mobile communication customers,
- significant selling power in its branded shops
- efficient online channels,
- 400 major electronics markets (exclusivity agreement with Media-Saturn Deutschland GmbH) and around 5,600 further points of sale.

freenet benefits when purchasing hardware from a wide range of manufacturers, and telecommunications services from the four network operators. The company passes the resulting benefits on to its customers, for example in form of the latest smartphones and tablets at very competitive prices.

For instance, as an established Apple partner the company usually offers the always hotly anticipated new products from the iconic American manufacturer at its sales outlets as soon as they come onto the market.

mobilcom-debitel also mounts exclusive offers in cooperation with other hardware manufacturers. Back in 2012, the company was the first German provider to offer the Huawei Ascend P1 in its shops. The Chinese manufacturer has since further established itself on the German market with what the press described as “spectacular new releases” such as the Ascend P6, which was the world's thinnest smartphone at launch. The Ascend P6 is available at mobilcom-debitel alongside smartphones, tablets or notebooks from other relevant manufacturers ranging from Apple, Nokia and Sony to Samsung.

Another exclusive mobilcom-debitel partnership involves the LG smartphone portfolio. The South Korean manufacturer first successfully addressed the premium segment in Germany with the Optimus G, and now offers another high-end LG product with the G2.

In December, mobilcom-debitel offered the GALAXY Note 3 and GALAXY Tab 3 8.0 from the current global market leader Samsung as part of a "Digital Lifestyle Christmas". Both devices were available from 99.95 euros in combination with a mobilcom-debitel smartphone tariff. In addition, as a special Christmas gift, the cutting-edge GALAXY Gear SmartWatch was offered in a package deal with the GALAXY Note 3 and the mobilcom-debitel real Allnet tariff for 349.99 euros. And in another Christmas deal, the company offered the Samsung Galaxy SIII Mini for a one-off 49.95 euros in conjunction with the Smart Surf tariff.

Comprehensive services

For a service provider, maximum closeness to the customer is both the key to sustainable success and a raison d'être. Against this background, freenet works diligently on the continuous improvement of its service performance and customer interfaces. This applies to

- mobilcom-debitel's own shops and GRAVIS stores,
- in 400 major electronics markets (exclusivity agreement with Media-Saturn Deutschland GmbH),
- the around 5,600 further points of sale,
- its presence on online/social media channels as well as
- its customer service by phone and in writing.

In earlier years, mobilcom-debitel had already further expanded or improved the number, structure and furnishings of its shops in major cities, with projects including "Instore TV" and "Z Shops": the shops were equipped with high-end flat-screen displays for fast, efficient delivery of information about the latest Digital Lifestyle offerings via video; and "more of everything" in the Digital Lifestyle accessories sector-sorted by theme and with a "Try it!" wall.

During the course of 2013, as part of optimising the network of locations, the number of shops operated under the mobilcom-debitel brand was increased further to 553 at year-end. At the same time, following the GRAVIS acquisition at the beginning of the year the business year was dominated by the development of the long-standing exclusive Apple dealer into a more broad-based Digital Lifestyle provider—with the goal of optimal customer proximity and support at its stores.

To this end, in a first step in early September GRAVIS opened two exclusive 20m² "shop-in-shop" concessions for Samsung and Sony at the store on Ernst-Reuter-Platz in Berlin, where the two Asian premium manufacturers present and sell their product lines. Meanwhile, selected mobilcom-debitel shops are supplementing their range of Apple products, and the freenet online platform vitrado.de has added the GRAVIS range to their site's sales portfolio at year-end. The aim of the closer integration of the shop and sales product ranges is to show users bridges and links between the complex individual product lines from different manufacturers, present and explain them to the customer, and provide in-depth consultation and support in the process.

As part of this, in early summer mobilcom-debitel launched an app for advising customers on the tablet, programmed in-house. It

- analyses customer's current usage patterns taking into account existing data protection policies,
- draws conclusions based on this and
- uses this to create a custom offer,
- documents the consultation process and gives the customer the documentation as a printout or by email
- as a basis for a later contract.

The in-store smartphone and tablet displays also ensure greater effectiveness and visibility/tangibility. The "mini InstoreTV" multimedia info app uses them to showcase the special features of each device in detail; the customers can test the real devices in detail and with accessories, while the sales consultants use the displays for their sales pitch.

mobilcom-debitel is also pursuing innovative approaches and concepts with new flagship stores at Dusseldorf airport and a Wuppertal shopping centre. At it first airport store, the company is focusing primarily on service and accessories—keeping in mind that travellers generally need chargers, car adapters, headphones, carrying cases and small gifts rather than contracts. Of

course, they also have the latest smartphones with tariffs, and a free, lockable battery-charging station as a special service. The concept clearly works, as shown in the fact that sales of accessories are double those of other locations. Meanwhile, in Wuppertal there is an open shop in the walking area of the shopping centre—with its own innovative design concept and a focus on Digital Lifestyle products and accessories.

A distribution collaboration that has been tried and tested over the years—the exclusive partnership with Saturn and Media Markt shops—was extended ahead of time last year, by at least three years. As before, mobilcom-debitel exclusively sells the original tariffs of the operators T-Mobile, Vodafone and E-Plus alongside its own mobile communications tariffs and products at all Media Markt and Saturn branches.

Diversified customer approach

The many different initiatives to optimise customer proximity and support also include the company's Erfurt training centre, where each year about 2,500 employees receive training and coaching in customer service and sales, based among other things on the findings of regular mobilcom-debitel "mystery shopping" tests. The centre, which is one of the most state-of-the-art in Europe, was fitted with the latest technical equipment, room structures and look in 2013.

All these investments are paying off, as demonstrated not only by customer numbers, but also by the numerous awards individual Group companies have received for their service. For instance, mobilcom-debitel GmbH is among the three nominees for the "CCV Quality Award 2013" in the Customer Satisfaction category, Germany's highest award for call-centre organisations.

GRAVIS, meanwhile, was the top scorer for "service' in a survey of 1,600 customers of electronics markets—alongside ElectronicPartner, a long-standing mobilcom-debitel sales partner. GRAVIS—together with Media Markt—also topped the "Range and products" category.

And last but not least, for the second time in a row the subsidiary klarmobil GmbH won "Website of the Year"—the most important German online audience award—in the"Telecommunications" category with their klarmobil.de website. Around 300,000 Internet users had voted klarmobil.de "Best Website of the Year" and "Most Popular Website of the Year".

"Gemeinsam geht mehr!" (Getting more together!) is the slogan of an umbrella campaign launched in 2012 to systematically communicate mobilcom-debitel's positioning as a Digital Lifestyle provider, based on the purchasing power of around 13.3 million mobile communication customers. This slogan also sums up the variety of marketing activities with which the company cooperates with its sales partners to establish and shape the dialogue with its customers.

As part of the campaign, several series of TV commercials were run during 2013 to advertise mobilcom-debitel's Digital Lifestyle products—such as the SmartHome box for mobile heating control and the WetterApp weather app—as well as the company's inexpensive flat rates. The individual spots were each served several hundred times all on the popular commercial channels.

In November the company received a coveted gold POSMA award in the Services category for the campaign kick-off, with well-known representatives from retail, trade media, science, industry and POS agencies (POS, point of sale) honouring the POS measures, decor and bus tour of German cities. In addition, it won a bronze POSMA Award in the "Personal Promo" category for the "mit Biss" (with zest) Apple tariffs promotion, which involved staff handing out "branded" apples advertising mobilcom-debitel's "mit Biss" tariffs, to Apple fans standing in line for the launch of the iPhone 5.

In the summer of 2013, klarmobil GmbH also launched a new campaign with the slogan "Günstig in Gut" (A good kind of inexpensive) with the underlying core message of "We are the best among the inexpensive providers." Comparable to the main mobilcom-debitel markets, this is underpinned by the freenet subsidiary's strategy of focusing not only on pure price-positioning in the market, but also on offering very high-quality mobile communications in the low-price segment, with excellent service. For instance klarmobil customers are offered a choice of tailor-made low tariffs on all German mobile networks. And the new, low-cost customer hotline emphasises this focus on combining high quality standards with an inexpensive range of tariffs.

The bus tour through German cities mentioned earlier has been an integral part of mobilcom-debitel's marketing mix since 2010. It has proven to be a powerful means of increasing footfall in the shops of the cities it visits, resulting in sales increase of between 70 and 100 percent. In the past financial year, the company continued its journey to Germany customers—and created another highlight with the launch of the SmartMobil-Tour in September to coincide with IFA 2013.


obile Welt in ihrer schönsten Form.

To our shareholders

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

Letter to shareholders

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

As the largest network-independent telecommunications provider in Germany, for over two decades we have successfully operated in a market that since its liberalisation has been characterised by enormous competitive intensity and challenges, but also by great opportunities. These extraordinarily dynamic developments intensified again in the 2013 financial year. The consolidation among network providers that began during the year has given the undiminished competition in our industry a new form going forward; it is likely to become a bit more transparent and predictable, but also less aggressive.

To date, as a result of this intense competition, average revenue per user (ARPU) has been on a downward trend for several years across the market, along with the service revenue of companies in our traditional business of mobile communications. Amongst other factors, this is supported by flat rates increasingly in demand by customers.

Given this challenging market environment, we can draw a very positive balance for the financial year 2013. We have met or exceeded all of our key targets and corresponding indicators:

- Revenues rose by 3.5 percent year-on-year to 3.19 billion euros. Key growth drivers in revenue were the consolidation of GRAVIS and MOTION TM at the beginning of the year.
- At 731.2 million euros, gross profit is above the prior year—with a gross profit margin of 22.9 percent.
- At 357.4 million euros EBITDA was on the previous year's level and thus within our guidance.
- At 256.2 million euros, free cash flow is slightly above our guidance for 2013.
- In May we paid out a dividend of 1.35 euros per dividend-bearing share (66 percent of free cash flow) for the 2012 financial year. This is in line with our financial policy of having shareholders participate in the company's success to the tune of between 50 and 75 percent of free cash flow.
- Postpaid ARPU is down to 22.3 euros, but has proven relatively resistant compared with the overall market.
- The development of our customer ownership base, a key performance indicator for our company, is particularly gratifying: during the year, the number of customers in the postpaid and no-frills segments increased by about 260,000 and is now at 8.76 million.

A number of strategic decisions and actions in recent years and months are responsible for this success. They fit together like pieces of a mosaic to form a coherent overall picture. These include

- freenet AG's prudent acquisitions in the past financial year,
- our deliberate focus on valuable contract customers in mobile communications,
- an ideal mix of services and brands to cover the different needs of mobile communications customers—from SIM cards to high-end smartphones,
- the ongoing processes to improve customer service, customer proximity and customer approach,
- the wide range of training programmes and services for our employees, who reward this investment with exemplary commitment to their company and their customers, as well as
- the resolute development of the attractive Digital Lifestyle growth market.

In this area, which brings us closer to smartphones and tablets with their fascinating features, we continued to establish an additional revenue stream for our company in 2013, and made some waves with innovative products and services. The year's outstanding new offerings were

- the SmartHome box for intelligent home energy control via smartphone app—with radiator thermostats, adapters, control units and window contacts—which can be flexibly extended into a complex SmartHome network by adding components;
- the SmartHome camera with infrared for night filming, high resolution and built-in microphones for mobile monitoring of your home and grounds while you are away;
- md Cloud for reliable storage and retrieval of your own data and applications—even if you change your device, network or telecommunications provider. It is hosted and operated in Germany, and therefore provides the best possible German data protection;
- the md MusicFlat and GameFlat, which gives users access to over 20 million songs from all genres, or to a variety of the latest premium games on Gameloft.

As a Digital Lifestyle provider, we see our special responsibility, strength and core competence in advising customers according to their individual needs—and making them targeted offers that correspond precisely to their user profiles while ensuring high flexibility. So we offer the home-automation, security and entertainment products listed above in different-sized versions, packages and terms—each at very reasonable monthly fees.

The same is true for our offers in our legacy business of mobile communications. mobilcom-debitel's Allnet suite of rates launched last year, for example, lets customers choose between four flat rates—"classic Allnet", "comfort Allnet", "real Allnet" and "premium Allnet". These are available at transparent package prices of 9.90 to 39.90 euros per month—and for an extra 10 euros a month, on Vodafone or Deutsche Telekom's high-quality "D networks".

Additional options include a choice of any mobile communications network in Germany, various upgrades, and the purchase of a late-model smartphone, as well as the carrier's original tariffs—usually at a 10-percent discount. For customers who do not require special advice or a new handset, our discount subsidiaries offer even more inexpensive rates, mostly bookable online, which have won many awards in tests. So we really do give customers "always the right choice"—we deliver on our claim in our day-to-day consultation work.

Our continuous initiatives and improvements to customer proximity and support at the shops are also part of this. We continued upgrading the technology of our shops in the past financial year, e. g. with the new app, developed in-house for sales consultation on the tablet, or with Mini Instore TV, which turns the features of smartphones and tablets offered at the shop into a tangible experience for the customer.

Meanwhile, the acquisition of GRAVIS at the beginning of the year has given us a broader, better positioning as a Digital Lifestyle provider. As a first step, we fitted mobilcom-debitel stores with "shop-in-shop" systems for the Apple world, and then expanded the sale of a selected Apple product portfolio from GRAVIS to most of our stores.

We are also further developing the long-standing exclusive Apple dealer into a complete Digital Lifestyle provider. For example, we are gradually integrating exclusive shop-in-shop outlets for other premium manufacturers, starting with Samsung and Sony, at selected GRAVIS stores. This is consistent with our goal of offering customers integrated product lines including accessories, and developing them with expert, independent advice and support. In this way, we generate lucrative added revenue to cushion the price pressure in our legacy core business of mobile communications.

A further systematic step in this direction is our recent acquisition of the Jesta Digital Group. With offices in Berlin and Los Angeles, the Group is one of the world's leading suppliers of mobile digital entertainment formats, and reaches around 100 million customers in more than 50 countries via its own mobile advertising platform. This extends freenet's product range and reach, and opens up international customer potential for mobile communications services and content.

We also further strengthened our sales channels in 2013. In spring, we acquired MOTION TM, a leading German online retailer in the mobile communications and telecommunications sector, and in the summer we were able to sign an early extension of our long-standing exclusive partnership with Media-Saturn Deutschland GmbH for at least three years.

With this range of strategic decisions and acquisitions, the associated new products, and other initiatives to optimise our services to customers, we have laid an excellent foundation for continuing freenet AG's successful course in the months and years ahead.

Moreover, in the 2013 financial year key indicators of our financial strategy—the debt ratio, interest cover and equity ratio—developed positively.

On this basis, we are striving for a slight increase in consolidated revenue for both 2014 and 2015. We expect to see a moderate increase in the important customer ownership base (postpaid and no-frills) in both years, while postpaid ARPU for the current financial year is expected to be slightly down year-on-year and to stabilise in financial year 2015.

Accordingly, we are aiming for Group EBITDA of approximately 365 million euros for financial year 2014 and of around 370 million euros for 2015. Free cash flow is expected to reach approx. 265 million euros for financial year 2014 and approx. 280 million euros for financial year 2015.

We are confident and determined to meet the challenges of the telecommunications market in the current year and beyond with our strategy for sustainable profitability—and to make the best possible use of the enormous opportunities in our industry. We do so with a strengthened, experienced team and with the assurance that as in previous years, we—the Executive Board and all employees of freenet AG—will devote all of our commitment and expertise to doing so in the interests of our customers, business partners and shareholders.

Christoph Vilanek | Joachim Preisig | Stephan Esch

Interviews with the Executive Board

Christoph Vilanek:

"We offer customers integrated worlds of Digital Lifestyle products and services."

Looking at the trend of the past twelve months, the triumphant advance of smartphones and their intelligent applications seems practically unstoppable.

More than 62 million Germans currently use smartphones—and in the last few months of last year alone they bought more than 26 million more of these fascinating all-rounders. 20 percent of our contract customers are already using a LTE supporting device. So the quantum leaps in the Digital Lifestyle sector, which we described right here in this report last year, have indeed gained further momentum.

And there's no end in sight to this boom?

The market penetration for mobile communications contracts is expected to rise to a projected 160 percent in 2020, so statistically by then each German will have 1.6 contracts. But much more important are the applications that this will make possible: in 2013, smartphone and tablet users spent around $26 billion on apps globally, and tens of thousands of developers work in the app economy producing new applications. And in 2013 we also observed that more than 10 percent of our contract customers bought a variety of additional services from us as well. That's an extraordinary increase over 2012, and in 2013 we saw revenues in this attractive field reach relevant orders of magnitude for the first time.

So there's plenty of growth potential in this area?

The Digital Lifestyle market with all of its potential applications is still in a bit of an "embryonic state," as the Arthur D. Little consulting firm pithily puts it. And that was only referring to the Smart Home sector, i. e. the intelligent networking and mobile control of all home electrical and electronic devices and functions.

Current forecasts peg the possible sales volume of such Smart Home solutions at over 4 billion euros in Europe by 2017, with annual revenue growth expected to be around 12 percent through the year 2020 for Smart Home products and services. The focuses here include at-home cloud applications, as well as nursing care and health. Being part of this development is freenet AG's strategic goal—and our successes in 2013 make me very optimistic.

What implications does this have for Germany's economy and growth?

As ever, policymakers business associations and trade unions prefer to focus on traditional key industries such as mechanical engineering, motor vehicle manufacturing, and chemistry—but nowadays our industry is the source of key impetus. In a survey, the Institute of the German Economy recently found that Germany occupies the top spot in the industrial countries surveyed when it comes to the proportion of mobile communications in GDP growth: in the three years from 2010 to 2012, 6.3 percent of growth in gross domestic product was solely due to the increase in mobile communications contracts. This also means that this industry—including its impact on other segments—can be one of the few growth stories.

So freenet is on target with the strategy it has been pursuing for the past several years!

We are setting new highlights by accelerating Digital Lifestyle products and services as a second mainstay of business alongside traditional mobile communications—last year, for example, these included our new md Cloud, the SmartHome box for intelligent home-heating control, and an app-controlled IP camera for home monitoring. The success of this strategy is starting to be reflected in our figures as well. But it is also becoming evident that we will need a great deal of staying power here, and have to trust in our ideas—it will probably take some time before we reach revenue and sales of a magnitude that is even remotely comparable to those of mobile communications. But it is the right addition, and an important one, and is based on our core competencies. A wise man once said that strategy is realising what you are good at and where you earn a lot of money—and then to do more of it. That's what we are trying to do.

So everything's coming up roses?

That would be too easy. We are deploying our resources where many competitors have weaknesses in home automation marketing. On the one hand, innovative applications and their benefits aren't explained to customers properly and in an understandable way. And on the other, experts criticise the very fragmented range of suppliers, in which equipment manufacturers, telecom providers and Internet companies each pursue their own concepts, while joint projects are the exception.

So this is where the challenges and opportunities of a service provider such as freenet AG lie.

That's exactly how we see it. For us, customer proximity and focus are the crucial competitive factors; accordingly we are making this the focus of our business workflows and all interfaces to the customer. We want to make the features of Digital Lifestyle understandable, traceable and tangible in all their fascinating facets—not just in the sales pitch, but throughout the entire customer and product lifecycle. Our credo is "Multi-channel Customer Experience Management".

What exactly does that mean?

That can be clearly illustrated using a few examples. Just think of the fragmented, incompatible concepts of device manufacturers or network providers. For example, if former Apple customers who use the cloud moves to Samsung, they lose all their stored data, just as T-Mobile customers do when they switch to Vodafone. However, users who choose our new md Cloud receive exemplary data security—in more ways than one: our Cloud accompanies them henceforth—under German data protection laws—like an umbrella through the world of Digital Lifestyle. No matter which smartphone, tablet or network the customer prefers currently or in the future, no matter which provider they may switch to later. And when a device change is pending, we help ensure that everything runs smoothly.

And all this service is available at very transparent terms tailored to the needs of the customer.

That is what we strive for. Incidentally, this is also true for our other Digital Lifestyle products. Take our SmartHome box for intelligent heating control via app. It is available in various versions, but can be expanded on request if the user wants to expand the application. We also give him a money-back guarantee on basic monthly charges if the mobile communications control doesn't cut the heating costs by at least 20 percent over the previous year's bills. That is true customer focus! Our new app-controlled IP camera for mobile monitoring of one's home and outdoor premises can also be configured or adapted according to the user's individual needs.

And for the tariffs for using smartphones and the like...

...the same applies. For example, anyone who encounters the limits of the data volume available in their chosen tariff given the increasingly diverse Digital Lifestyle options, can increase their data volumes by 1 GB with the mobilcom-debitel “T@ke-away Flat Upgrade” for only 9.95 euros a month. We always give customers “the right choice”—this is how we at freenet AG understand and define real customer support and care.

Which in turn has to be genuinely put into practice by every single employee, though!

Yes, and that’s why we go to great lengths with our employees. For example, by hosting systematic, targeted training courses and workshops at our integrated training centre in Erfurt. Or with projects to ensure more efficient, faster customer service—regardless of which channel the user contacts us on. We want every single employee to be excited about implementing our corporate philosophy every day, to bring it to life, so to speak. We are there for the customer, and not vice versa! I also demand that our managers regularly work in our shops, with our sales partners or in the call centre to experience closeness to the customer first-hand and learn from the process.

At the same time you are driving forward the continuous improvement of the mobilcom-debitel chain of shops.

I’m convinced that a local, in-person contact is still an incredibly important element of customer service. That is why

- we want to be even easier, faster and closer for customers to reach;
- we offer them integrated product lines from all relevant providers—from devices and accessories to favourable, appropriate tariffs and applications, to comprehensive, objective consultation;
- we work systematically on being as state-of-the-art as possible when it comes to the technical equipment and features of our shops.

As a truly independent Digital Lifestyle provider, we reach around 13.3 million mobile communication customers and are in an excellent competitive position to realise these goals.

So the acquisitions of the last financial year make sense against the background of having the best possible selection for customers.

In early 2013, we began by taking over the long-standing exclusive Apple retailer GRAVIS. We are now systematically further developing the company into a complete Digital Lifestyle provider—for example, with exclusive shop-in-shop outlets for other premium manufacturers such as Samsung or Sony. We've already started doing this in selected flagship stores—and are now continuing down that path steadily and step by step. At the same time, we are also enhancing and extending the Digital Lifestyle worlds at our mobilcom-debitel shops.

And then at year-end, you added another Digital Lifestyle company, the Jesta Digital Group.

Yes, with its offices in Berlin and Los Angeles, the group is one of the world's leading suppliers of leading-edge digital entertainment formats and of services for users of digital applications: Jesta's range of services includes ringtones and dial tones, logos, full-track music, mobile games and videos, a portal for downloading premium content, and mobile dating and advertising platforms.

The company's mobile advertising platform Motility Ads currently reaches around 100 million customers in more than 50 countries, and its business model and reach make it an attractive partner for network operators, mobile communications companies, and content providers. So freenet is opening up international customer potential for mobile communications services and content. At the same time, we benefit from Jesta's expertise in mobile communications and direct marketing, in purchasing and the marketing of media services. I see this, too, as an excellent implementation of our "Always the right choice!" vision.

Joachim Preisig:

“We are resolutely advancing the development of our company!”

Earnings in the mobile communications industry have been falling for years. freenet, however, continually delivers stable results, most recently even increasing its revenues again. What’s the secret behind this positive performance?

It’s not so much a secret as a bundle of correct strategic decisions. And then we put them into practice with the utmost determination. It is indeed true that average revenue per customer (ARPU) has been declining for years in traditional mobile communications. We responded proactively to this.

By doing what?

First, we began focusing—at an early stage—on high-value contract relationships, which deliver better earnings, in our customer acquisition and customer base management. At the same time, we are constantly working on making our internal processes, services and sales even more efficient. We are also developing a new, dynamic growth segment in the form of Digital Lifestyle products and services. And finally, we made some smart acquisitions in the past few years.

How is this reflected in the current figures?

Even though we didn’t launch or start selling key Digital Lifestyle products such as our own md Cloud, our SmartHome box for mobile heating control, the md Music Flat and the GameFlat Flat in our shops until sometime last year, they have already generated tens of millions in revenues. A very encouraging start!

Especially since freenet, as a service provider, doesn’t incur any major development costs for innovative Digital Lifestyle products.

That’s right. Essentially, we keep scanning the market for interesting, innovative products. If they meet our criteria, we turn them into attractive packages for the customer—in conjunction with expert advice and comprehensive services. However, in the case of the mobilcom-debitel Cloud and home automation solutions in particular, we also helped to shape the value chain ourselves—thereby further increasing their margins for us.

Talking about more efficient processes. In the financial year before that, freenet's initiatives and projects in this area focused especially on services and offers in the shops. What were the main areas of focus in 2013?

Most recently there was more of a focus on customer service. On the one hand, we again upgraded the technology and features of our training centre in Erfurt, which was already one of the most state-of-the-art in the European telecommunications industry. This means we can better train and coach our employees in matters of consultation, service and sales.

On the other hand, the launch of our Balance project was another key focus in 2013. Its aim is to manage the concerns of the customer in a more flexible, convenient and efficient way: Whether the service is contacted by telephone, email, fax or letter, customers should be routed as quickly as possible to the employee who is best trained and prepared to deal with their request. To achieve this, customer concerns and the skills of our service staff are matched, or brought into balance, by an intelligent routing strategy. In the medium term, we are working towards a single, central processing system that eliminates the boundaries between the different departments, e. g. call centres or writing teams, that treats customers' concerns as a single process with the fastest and best possible solution as its goal.

Customers will be pleased!

I'm assuming so. In any case the goal is to significantly improve customer satisfaction. We are seeing sustained growth in Customer Ownership, our most valuable customer segment—even though the German market is more than saturated. Our systematic efforts to provide comprehensive customer service clearly contribute to this: a satisfied customer doesn't switch, especially since we give them the full range of choices when a new contract is pending—the attractive rates of mobilcom-debitel and our discount subsidiaries and the original tariffs of network operators at a discount.

What's next—this year and after that?

First of all, there is "integration work" to be done, as in 2013. Early last year, we had taken over the online retailer MOTION TM and GRAVIS, the leading German retail chain for Apple products. In the months that followed we supplemented or merged the GRAVIS product range with the product lines of our shops.

At the end of the year, the agreement to purchase Jesta Digital Group added an exciting new task: With around 300 employees at its offices in Berlin and Los Angeles, the Jesta Digital Group is a globally leading provider of leading-edge digital entertainment formats and of services for their users. Jesta's products expand our strategic portfolio of mobile Digital Lifestyle applications, increase their reach, and simultaneously open up new national and international customer groups for the freenet Group's offerings.

All while maintaining freenet AG's sound, conservative financial strategy.

Exactly! Basically, we are restricting our potential interest to reasonably priced companies whose acquisition makes strategic sense and usually has a direct positive impact on freenet AG's EBITDA and free cash flow. The Jesta acquisition takes place within the parameters of our financial policy: the underlying EBITDA multiple for the Jesta Digital transaction is below the current stock market EBITDA multiple for the freenet AG group. The purchase also reduces our dependence on the traditional, ARPU-driven mobile communications business and strengthens our Digital Lifestyle revenue contributions in a practically ideal way.

What else is on your growth agenda?

Besides the growth impetus created by acquisitions, we will also continue to develop organically over the next two to three years—especially by strengthening our stationary sales. For instance, our current 553 shops operated under the main mobilcom-debitel brand are mostly focused in major German cities. Now we are increasingly moving into smaller towns of 30,000 inhabitants and upwards, and will increase the number of mobilcom-debitel shops to 750 in the medium term. We are paying for this from our current investment budget of 20 million euros a year, fed from our free cash flow.

So the recent syndicated loan to refinance freenet AG's business activities has a different background!

Yes. For several years now we've been working on systematically reducing the Group's debt and diversifying its financing. Since 2011, the latter has rested on two large, fixed-interest pillars—a multi-year bank loan including a credit line, and a bond. Then at the turn of the year 2012/13, a promissory note with a volume of 120 million euros was added. The capital measure concluded in December 2013 allows us to prematurely repay the current credit line of initially 240 million euros, which comes due in 2014. The newly agreed credit line allows for a total of 300 million euros to be drawn down, which then largely ensures the repayment of the 400 million euro bond that expires in 2016.

That's a pretty solid financial foundation for achieving your other goals.

Absolutely. Besides, we have a healthy equity ratio of currently 50.0 percent, and our net debt, which was dramatically reduced over the past few years, is now at 427.2 million euros and therefore continues to be at the lower end of our target corridor—while the debt ratio is 1.2.

And the targets for 2014 remain unchanged?

Yes. With revenue expected to increase again, we are striving to increase EBITDA for the current year to 365 million euros. And as before, we want our shareholders to participate appropriately in the company's success. That is why we set a bandwidth of 50 to 75 percent of free cash flow in our dividend policy, which we want to distribute as an annual dividend. We did so in the past financial year, and we don't plan to change that.

Stephan Esch:

„We are a data security trailblazer among German providers!"

IT as it relates to mobile communications and the Internet has always been an exciting business—and this was probably especially true in 2013.

Indeed, and in more ways than one! With Edward Snowden, the term big data has now taken on a whole new meaning—and has dominated the national and international press as well as the socio-political discourse as well as for months ever since. At the same time, the fascinating dimensions and perspectives that the Digital Lifestyle opens up for our industry have further emerged during the past year and have become manifest in specific products.

So for freenet AG it's been exciting in a positive way?

That's right. Although the past few years have been very exciting ones for us anyway in terms of IT, with the merging of three different IT systems and the merger of three separate service providers into freenet Group in its present form.

In 2013 this was followed by the integration of further acquisitions—such as the GRAVIS retail chain—and the launch of Digital Lifestyle products. On the one hand, we obviously want to take advantage of synergy effects in our data centres. On the other, even in the new lines of business with their innovative products and applications we naturally have a duty to send our customers correct, transparent and timely invoices—month after month.

In Germany there was a huge public outcry in the wake of the former NSA employee's revelations; beyond the wiretapping of Angela Merkel's phone, are we Germans particularly hard hit?

Actually no more than other countries and their citizens, but emotionally and psychologically we are. I believe that after our experience of two totalitarian states in the last century, we Germans are extremely sensitive in this regard—and therefore are more committed to privacy protection than other nations. Besides, our country—unlike, say, Britain, Spain and the United

States—has been spared massive terrorist attacks in recent decades. Apparently, the countries affected by them are more likely to accept intensive data monitoring for security purposes.

As a result, there have been several initiatives for more privacy protection as well as a significant shift of users away from U.S. email providers…

…, and freenet has been one of the beneficiaries. For instance, after the Snowden revelations we saw monthly increases of up to 80 percent in the number of our users. The firm Convios Consulting found that 10 percent of Germans surveyed who had American email accounts had switched or definitely planned to switch providers, and nearly a quarter were at least considering such a change in the near future.

Because they feel safer with a German provider…

…which they in fact are as far as data security is concerned. With us, at least for local authorities, the German Data Protection Act applies if the provider's jurisdiction and server are located in Germany.

Add to that initiatives such as "Email made in Germany", which freenet was one of the first companies to join.

We have a long tradition of being a trailblazer among German providers in matters of security. More than ten years ago, we committed ourselves to basic rules regarding this. We offer secure data hosting in German data centres, and store the data with maximum privacy in accordance with the German Data Protection Law. We also use the TLS protocol to encrypt communication between mail servers for the customer, plus SSL during login and on request for the entire session.

So special security features also apply for the new Cloud that mobilcom-debitel has offered since spring of 2013?

Indeed. For a low monthly fee of a few euros, we provide various dimensions of online storage for data, documents, appointments, photos, and music. Our customers can access them anytime, anywhere—from their smartphone or tablet, at home or in the office. We are one of the very few providers to exclusively store this customer data in Germany.

And now comes yet another initiative, the "Internet protection shield" that some of the German network operators claim to be working on...

... which I'm not expecting too much from at the end of the day. The shield is meant to guarantee that German domestic emails and other data will only be sent via hubs in Germany in future, so they cannot be spied on as easily any more by foreign intelligence services and companies.

This would require the network operators in Germany to directly merge their networks to ensure national traffic management.

Yes, and later this "German Internet" could then be extended to the Schengen countries—at least that was being considered at times. However, this would require considerable investment in German hubs and higher user fees, because the local exchange points between the individual ISPs would no longer be able to cope with German domestic traffic, which in the past has frequently looked for low-cost "detours" on available connections in England or America for instance. Besides, this contradicts the basic idea and the outstanding success of data traffic via the Internet as a global, flexible and easily accessible network for virtually endless information and communication for everyone.

It would be impossible to keep the secret services out anyway!

That would appear to be the case, if TV and press reports are to be believed. Last November the FAZ wrote: "How servilely the German intelligence services offer themselves to the British and Americans, so they aren't always relegated to a side table during the big data roulette game." There's nothing left to add to that, really.

So there won't be a total shielding of our data, calls and emails in the future, either.

Hardly. But as a business, we can and must attempt to do our best to fend off smaller, "routine" attacks on internal company data and customer communications. We must also at all costs avoid our IT systems collapsing as a result of attacks or overloads.

For example, through phishing, Trojans, viruses or—an extremely important field—industrial espionage.

Exactly. First of all, our own security experts at freenet AG IT are meant to ensure this. Beyond this, this year we are performing penetration tests over several months for the third year running. This involves "white hackers"—benign IT attackers, so to speak, certified by the Federal Office for Security in Information Technology (BSI)—search for gaps in our systems, drawing on their experience at banks, insurance companies and energy groups. We also give them additional guidance and information about potential vulnerabilities in the system, but without the access data. We essentially hand them the best preconditions for cracking our systems—showing them the doors to the IT, but without giving them a key. All the better if our systems hold strong nevertheless—as they have done very impressively so far.

So customers and business partners are in the best of hands at freenet?!

That is what we try to ensure. But ultimately, no one is immune against massive criminality, as last year's data theft by an external service provider at a major network operator showed—or the CDs containing customer data from Swiss banks. The latter were considered the paragon of excellence in security for decades. Clearly, even intelligence services can no longer protect themselves against data theft in their own ranks, which has a certain irony.

Basically, in IT as in real life there is a perpetual race between good and evil; between honest people and businesses who work hard for their goals and achievements, and criminal elements who want a piece of the pie with as little effort as possible. At freenet AG, we do everything we can to ensure that the "good guys" always stay one step ahead.

Supervisory Board report

Dr. Hartmut Schenk,
Chairman of the Supervisory Board

Dear Ladies and Gentlemen,

In the following, the Supervisory Board reports on its activities during the financial year 2013.

Supervision and advice in an ongoing dialogue with the Executive Board

As in previous years, in financial year 2013 the Supervisory Board diligently performed the supervisory and advisory functions incumbent upon it by law and the articles of association. Besides the many substantive issues that were discussed and decided upon in the various Supervisory Board meetings, in the first half of 2013 the deliberations of the plenary meetings focused in particular on

- a review of and resolution on the financial statements as of 31 December 2012 and
- preparing the ordinary Annual General Meeting on 23 May 2013.

In the second half of the year, the Supervisory Board then focused on

- current projects in mergers & acquisitions, especially the acquisition of the Jesta Digital Group and
- optimising the company's financial structure.

The Supervisory Board continually monitored and supervised the Executive Board's management of the company and regularly advised it in its decision-making as part of corporate governance. The Executive Board involved the Supervisory Board at an early stage in all fundamental decisions on the management of the company, 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 comprehensively 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 performance from the plans and targets, and reviewed these on the basis of the documentation provided.

Furthermore, the Executive Board continued the company's strategic alignment—i. e. the focus on the mobile communications business and the identification of possible new business areas—in close consultation with the Supervisory Board. All business transactions of material significance to the company were discussed in great detail by the Supervisory Board based on the Executive Board's reports. Likewise based on the Executive Board's reports and after due review and deliberation, the Supervisory Board passed formal resolutions where necessary. The Executive Board also kept the Supervisory Board members apprised of the latest business developments beyond the formal meetings. Furthermore, the Chairman of the Supervisory Board discussed the company's prospects and future strategic alignment in regular 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 financial year 2013 the Supervisory Board held four actual meetings and one conference call and additionally took decisions by written procedure. Attendance at the Supervisory Board meetings during the reporting period was extremely high: with the exception of one meeting which was attended by eleven of the twelve Supervisory Board members, the Supervisory Board always met in full. Accordingly, no Supervisory Board member attended fewer than half of the meetings. Likewise, in 2013 the committees met in full except for one meeting of the personnel (HR) committee.

No circumstances that could cause conflicts of interests on the part of Executive and Supervisory Board members, and that would require disclosure to the Supervisory Board and notice to the Annual General Meeting, were disclosed to the Supervisory Board.

Supervisory Board meetings

The content regularly discussed at board meetings included
- the current business performance
- the market and competitive situation and
- the Company's financial position and funding situation.

At a conference call session on 8 March 2013 the Supervisory Board discussed a current acquisition project that the Executive Committee had already discussed beforehand.

In the meeting of 25 March 2013 the central auditing and consulting subject were the annual and consolidated financial statements as of 31 December 2012. The results of the audit were discussed together with the auditor representatives from the auditing firm RBS RoeverBroennerSusat GmbH & Co. KG. The discussion was also attended by representatives of the auditing firm PricewaterhouseCoopers who as auditors for some key companies in the Group answered questions about the auditing of the mobile communications service provider business. After having finished its own examination, the Supervisory Board raised no objections to the auditors' findings and in accordance with the Audit Committee's recommendation it approved the annual and consolidated financial statements. The annual financial statements were thereby formally adopted. Another key point of this meeting was the agenda for the Annual General Meeting 2013 and the Supervisory Board resolutions to be proposed to the AGM. Through the shareholder representatives, the Supervisory Board also adopted a resolution about appointments to the capital side of the newly established Supervisory Board of the subsidiary mobilcom-debitel GmbH. In addition to the three freenet AG Executive Board members, Dr. Hartmut Schenk and Robert Weidinger from the freenet AG Supervisory Board, and the freenet AG Corporate HR Chief Nicole Engenhardt-Gillé were appointed as shareholder representatives to the Supervisory Board of mobilcom-debitel GmbH.

The tenure of the previous employee representatives on the Supervisory Board ended with effect from the end of the Annual General Meeting on 23 May 2013 and the terms of the members newly elected by the workforce began. For this reason, after the Annual General Meeting a meeting of the Supervisory Board with the new lineup was held, at which Mr. Knut Mackeprang was elected as the Deputy Chairman and the committees were newly appointed.

On 19 September 2013 the Executive Board reported in detail on the business performance in and strategic further development of measures with focus on the Digital Lifestyle business. It presented several acquisition targets to the Supervisory Board that it had identified and which it feels could facilitate inorganic growth in the core business and Digital Lifestyle. Another topic was the idea of optimising the company's financing structure by agreeing a credit line of 300 million euros, which the Supervisory Board approved at its meeting of 5 December 2013.

Also on 5 December 2013, the Executive Board presented more specific ideas about possible acquisitions. In this context, the Supervisory Board approved the acquisition of the Jesta Digital Group, which had already been the subject of earlier deliberations by the Executive Committee. At this meeting, the 2014 budget was also adopted, and the annual declaration of compliance with the German Corporate Governance Code resolved. The Executive Board and Chairman of the Audit Committee jointly reported on the current status of a call for proposals at the Annual General Meeting 2014 for the election of an auditor and Group auditor for the annual and consolidated financial statements of 31 December 2014. Finally, the Supervisory Board members started deliberating on the composition of the Executive Board appointments after the expiry of the current term.

After the end of the 2013 financial year, a plenary meeting was held on 25 March 2014. Its main focus was the discussion about the annual and consolidated financial statements as of 31 December 2013. Details are set out in the 'Audit of the annual and consolidated financial statements for the financial year 2013' section of this report. Other topics included the agenda for the Annual General Meeting 2014 with the proposed Supervisory Board resolutions for the Annual General Meeting, in particular the proposal for the election of the auditor and Group auditor for financial year 2014.

Work of the Supervisory Board committees

In order to efficiently fulfil its duties, the Supervisory Board has set up an Executive Committee and four other committees. The general tasks and members of each committee are described in greater detail in the corporate management statement.

Executive Committee

The Executive Committee discussed current M&A projects at two actual meetings in 2013. Among other things, the committee members held in-depth discussions on the preparation of the Supervisory Board's resolution on the purchase of Jesta Digital Group.

Personnel committee

The Personnel (HR) Committee convened for a total of three actual meetings in 2013. At its first meeting in 2013, the committee determined whether and to what extent the parameters for the variable component of the Executive Board's remuneration were met in 2012, determined new parameters for the target agreements for financial year 2013, and proposed them to the Supervisory Board for adoption. The other two meetings focused on preparatory talks regarding possible extensions to the Executive Board appointments and Executive Board employment contracts, and initial deliberations about possible criteria for meeting the targets of the variable remuneration for the Executive Board in 2014.

Audit Committee

The Audit Committee regularly discussed the latest accounting and audit issues with the auditors at four actual meetings. The members of the committee dealt intensively with the annual report, the half-year report and the interim reports. A key topic for the Committee in the first half of 2013 was the dividend proposal, which the committee members discussed intensively with the Chief Financial Officer. In the second half of 2013 the focus was on the process of selecting the auditor and Group auditor for financial year 2014. The selection process was carried out in close cooperation with the Committee and its chairman, under involvement of the Chief Financial Officer, who carried out the organisational activities. The committee members were regularly apprised by the Executive Board about other current issues such as the level of financing. Furthermore, the managers responsible for risk management, fraud management, internal auditing and compliance made regular reports to the committee.

The main focus of the Audit Committee's work was to facilitate and support the annual audit. For this purpose the committee

- sought a statement of independence by the auditors in accordance with section 7.2.1 of the German Corporate Governance Code,
- monitored the independence of the auditor and the execution of the audit,
- determined the main points of the audit and
- prepared the Supervisory Board resolutions on the annual and consolidated accounts, as well as the proposal for profit distribution and the agreements with the auditor.

Mediation Committee

The Mediation Committee was not convened in 2013.

Nominations Committee

The Nominations Committee was not convened in 2013.

Audit of the annual and consolidated financial statements for the financial year 2013

The annual financial statements for the financial year from 1 January 2013 to 31 December 2013, 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 and tax consulting company RoeverBroennerSusat GmbH & Co. KG, Hamburg. The audit was commissioned by the chairman of the Audit Committee in accordance with the resolution passed by the Annual General Meeting on 23 May 2013. The auditors issued an unqualified auditor's report. The freenet AG consolidated financial statements as of 31 December 2013 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 audit was reported to and discussed by the Audit Committee on 26 February 2014 and by the Supervisory Board in its meeting on 25 March 2014. The auditors participated in the discussion of the annual financial statements and the consolidated financial statements by both Boards. 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.

After the concluding results of its audit of the annual and the consolidated financial statements, the management report and the Group management report 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 25 March 2014. The annual financial statements are thus formally adopted.

In addition, in its meeting on 25 March 2014, the Supervisory Board reviewed the Executive Board's proposal for the appropriation of profit and discussed it with the auditors. Subsequent to this, the Supervisory Board who followed the recommendation of the audit committee agreed with the Executive Board's proposal for the appropriation of profit.

Changes to the Supervisory Board and the Executive Board

Executive Board

There were no changes to the composition of the Executive Board in financial year 2013.

Supervisory Board

The tenure of employee representatives on the Supervisory Board ended with effect from the end of the Annual General Meeting on 23 May 2013. freenet Group company employees re-elected the previous members Mrs. Claudia Anderleit and Mrs. Gesine Thomas to the Supervisory Board. Mrs. Nicole Engenhardt-Gillé, Mr. Joachim Halefeld, Mr. Steffen Vodel and Mrs. Angela Witzmann stepped down from the Supervisory Board when the Annual General Meeting ended, and were replaced by Mrs. Birgit Geffke, Mr. Knut Mackeprang, Mr. Ronny Minak and Mr. Michael Stephan.

The Supervisory Board thanks all the departed members for their good cooperation, and constructive and professional support. 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.

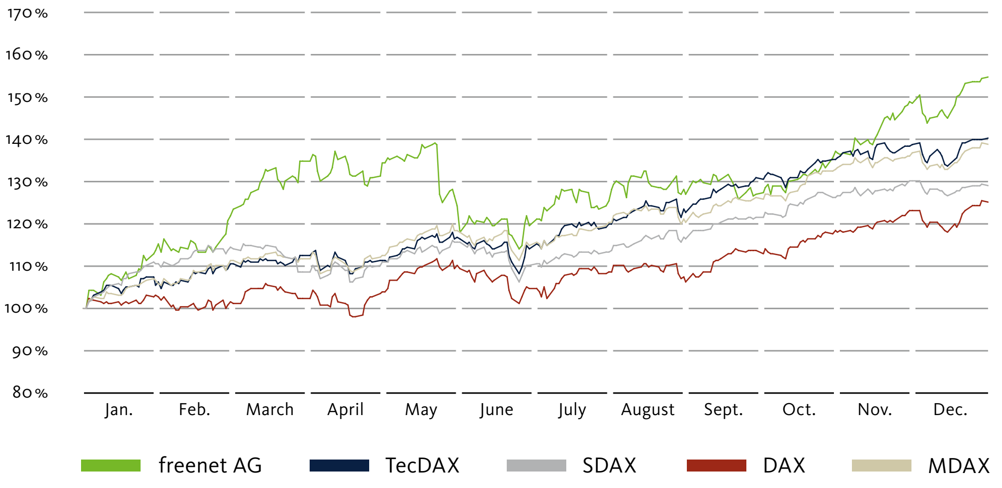
Büdelsdorf, 25 March 2014
The Supervisory Board

Dr. Hartmut Schenk
Chairman of the Supervisory Board

freenet AG and the capital markets

Performance of the freenet share

Figure 1: **Performance of the freenet share in 2013**
(Indexed; 100 = Xetra closing price on 30 December 2012)



International financial markets

Since the end of the first quarter, the international financial markets were significantly affected by market participants' expectations of U.S. monetary policy and the various economic signals that resulted. In addition, the world's major central banks continued their expansionary monetary policy, which initially generally led to yield losses in the bond markets. In the second quarter, increased interest on government bonds temporarily put the international stock markets under pressure. However, the stock markets received a significant boost again following mid-year reaffirmation of the Federal Reserve's accommodative, expansive monetary policies, and the mostly positive quarterly results of US companies. Improved forecasts regarding a rapid recovery from the recession in Europe also contributed to this.

At year-end the international stock markets once again benefited from the improved global economic activity and the Federal Reserve's announcement that it would reduce monthly bond purchases. While the outlook for France deteriorated again due to a renewed increase in fears of recession, overall the euro area in general was most recently on the road to recovery as leading indicators improved. However, market participants' expectations regarding an incipient shift by the Federal Reserve away from its expansionary monetary policy remains crucially important. The announcement that it would reduce (taper) its monthly bond purchases to $75 billion starting January 2014 was already positively received in the European equity market, against the backdrop of an improved economic outlook in Europe. Accordingly, the European bond markets were under pressure to sell lately.

The freenet share

The DAX developed very positively overall during the year, increasing by 25 percent on an annual basis. The freenet share again significantly outperformed it, increasing by of 56 percent. As a result, freenet AG's market capitalisation increased by about 1 billion euros in financial year 2013, to around 2.8 billion euros.

In the 2013 financial year, our share also outperformed the technology stocks on the TecDAX (up 41 percent) as well as the SDAX (29 percent) and MDAX (39 percent) listed companies.

The freenet share initially continued its rise from the prior quarter in the first quarter of the year. The share began the New Year with a closing price of 14.00 euros in Xetra trading, and developed dynamically until the end of the quarter to the level of 18,96 euros. The average Xetra closing price in the first quarter was 16.47 euros, and the average daily volume traded on the platforms of Deutsche Börse AG ("DBAG") was 563,200 units.

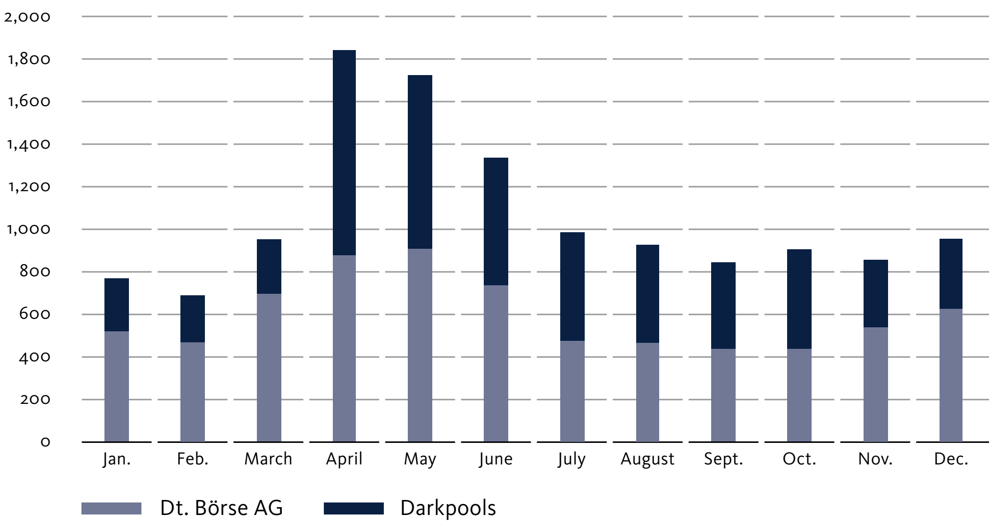
The freenet share was not immune to the market environment of heightened uncertainty during the second quarter. While the closing price in Xetra trading was 18.96 euros at the beginning of the quarter, the share developed erratically until the AGM on 23 May. After the dividend payout of 1.35 euros per share, the price was in the range of 16.00 to 18.00 euros with comparatively high volumes of orders, finally reaching a closing price of 16.78 euros at the end of the quarter. The average Xetra closing price in the second quarter was 18.10 euros, and the average daily volume traded on the platforms of DBAG was 846,700 units.

Price development remained erratic in the third quarter, which the freenet share started with a closing price of 17.03 euros, falling to a low of 16.95 euros during early July, and peaking in mid August at 18.60 euros. The quarter finally ended with a closing price of 17.89 euros. The average Xetra closing price during the reporting period was 17.95 euros and the average daily trading volume on the platforms of DBAG was 462,900 units.

In the fourth quarter, the share initially experienced a sideways trend starting from a value of 18.07 euros in October, then from the beginning of November a new dynamism took it to the year-end closing price of 21.78 euros, which was also the year's high point. The average Xetra closing price in the fourth quarter was 19.84 euros and the average daily volume traded on the platforms of DBAG was 533,500 units.

The average daily volume traded on alternative trading platforms ("dark pools") increased from around 246 thousand units in the first quarter to around 789 thousand units in the second quarter. In the third quarter, dark pool trading activity was 462 thousand units, falling to 383 thousand units in the final quarter. Throughout the year, dark pool trading accounted for approximately 44 percent of total trading activity. Nevertheless, freenet AG was able to clearly maintain its #4 ranking on the TecDAX in terms of market cap and #1 in terms of trading liquidity.

Figure 2: **Average daily trading volume of the freenet share in 2013 in thousands**



Shareholder structure

freenet AG's share capital totals 128,061,016 euros and is divided into 128,061,016 registered shares. The proportional value of the share capital attributable to each share is 1.00 euro.

Current shareholder structure

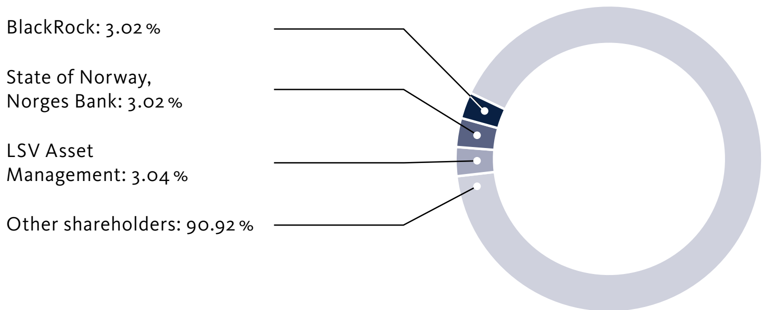
In the financial year 2013 the shareholder structure of freenet AG changed as follows according to voting rights notifications received pursuant to section 21 WpHG (German Securities Trading Act):

- In January Flossbach von Storch informed us that on 1 January its share of voting rights in freenet AG had exceeded the 3-percent reporting threshold and amounted to 4.93 percent (6,318,741 voting rights).
- In March J. P. Morgan informed us that on 8 March its share of voting rights in freenet AG had exceeded the 3-percent reporting threshold and amounted to 3.022 percent (3,870,625 voting rights).
- In March Drillisch AG informed us that on 20 March its share of voting rights in freenet AG had fallen below the 20-percent and 15-percent reporting thresholds and amounted to 10.43 percent (13,366,658 voting rights).
- In March J. P. Morgan informed us that on 20 March its share of voting rights in freenet AG had fallen below the 3-percent reporting threshold and amounted to 2.98 percent (3,816,643 voting rights).
- In March the Norges Bank informed us that on 22 March its share of voting rights in freenet AG had exceeded the 3-percent reporting threshold and amounted to 3.16 percent (4,042,278 voting rights).

- In May Drillisch AG informed us that on 7 May 2013 its share of voting rights in freenet AG had fallen below the 10-percent reporting threshold and amounted to 9.99 percent (12,791,658 voting rights).
- In May the Norwegian Ministry of Finance informed us in the name of and on behalf of the State of Norway that on 8 May 2013 had fallen below the 3-percent reporting threshold and amounted to 2.37 percent (3,033,294 voting rights).
- In June the Norwegian Ministry of Finance informed us in the name of and on behalf of the State of Norway that on 11 June its share of voting rights in freenet AG had exceeded the 3-percent reporting threshold and amounted to 3.02 percent (3,863,574 voting rights).
- In June Drillisch AG informed us that on 24 June 2013 its share of voting rights in freenet AG had fallen below the 5-percent reporting threshold and amounted to 4.50 percent (5,766,540 voting rights).
- In August Polaris Capital Management informed us that on 9 August its share of voting rights in freenet AG had exceeded the 3-percent reporting threshold and amounted to 3.06 percent (3,921,847 voting rights).
- In August Flossbach von Storch AG informed us that on 9 August its share of voting rights in freenet AG had fallen below the 3-percent reporting threshold and amounted to 2.9998 percent (3,841,524 voting rights).
- In September Polaris Capital Management informed us that on 23 September its share of voting rights in freenet AG had fallen below the 3-percent reporting threshold and amounted to 2.96 percent (3,793,247 voting rights).
- In October Drillisch AG informed us that on 30 September its share of voting rights in freenet AG had fallen below the 3-percent reporting threshold and amounted to 0.39 percent (500,000 voting rights).
- In December BlackRock informed us that on 18 December its share of voting rights in freenet AG had exceeded the 3-percent reporting threshold and amounted to 3.02 percent (3,867,903 voting rights).
- In January 2014 LSV Asset Management informed us that on 14 September 2012 its share of voting rights in freenet AG had exceeded the 3-percent reporting threshold and amounted to 3.04 percent (3,897,259 voting rights).

As a result, the shareholder structure at the end of 2013 was as follows:

Figure 3: **Shareholder structure of freenet AG on 31 December 2013**



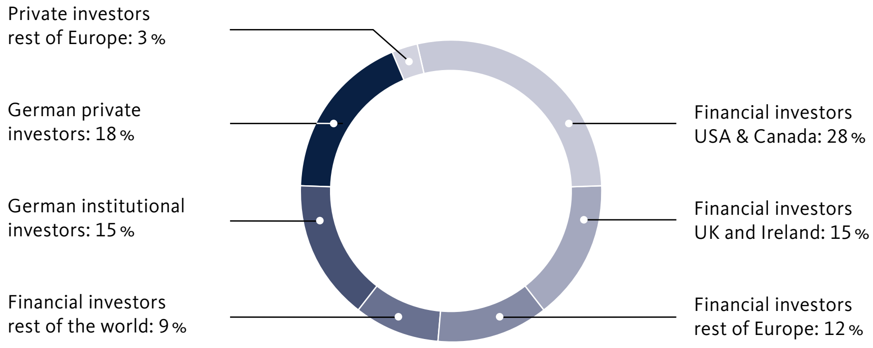
Source: freenet AG, 31 December 2013

Geographic distribution

At around 64 percent (previous year: 58 percent), institutional financial investors still represent the largest group of investors in freenet AG. The largest proportion of these (28 percent) are financial investors from North America, which represents a near-doubling of the previous year's proportion. In addition, investors from the UK and the rest of Europe continue to be heavily represented with 15 percent and 12 percent, respectively. At 9 percent, financial investors from other countries also account for a significant proportion.

33 percent, or nearly all of the remaining share capital, is held by German investors. Of this, with 18 percent the majority is held by German private investors, after Drillisch AG ended its strategic investment. Finally, an additional 3 percent of the shares are held by private investors from the rest of Europe.

Figure 4: **Geographical distribution of the freenet AG shareholder structure on 31 December 2013**



Source: Private investor shares according to the share register; institutional and financial investors according to shareholder identification

Earnings per share

Undiluted/diluted earnings per share (EPS) in the reporting year amounted to 1.87 euros compared to 1.35 euros in 2012.

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

Table 1: **Earnings per share**

	2013	2012
Undiluted earnings per share in EUR	**1.87**	**1.35**
Diluted earnings per share in EUR	**1.87**	**1.35**
Earnings per share from continued operations in EUR (undiluted)	1.87	1.35
Earnings per share from continued operations in EUR (diluted)	1.87	1.35
Earnings per share from discontinued operations in EUR (undiluted)	0.00	0.00
Earnings per share from discontinued operations in EUR (diluted)	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)	128,011	128,011
Weighted average of shares outstanding in thousand (diluted)	128,011	128,011

Dividend

On 23 May 2013, the freenet Annual General Meeting approved the payment of a dividend of 1.35 euros per eligible share for the financial year 2012, representing a payout ratio of approximately 66 percent of free cash flow. The dividend was distributed on 24 May 2013.

The Executive Board and Supervisory Board decided to propose the payment of a dividend for the 2013 financial year, amounting to 1.45 euros per share from net income, to the Annual General Meeting on 13 May 2014. This corresponds to a payout ratio of approximately 72 percent of free cash flow.

Analysts' recommendations

In the 2013 financial year, 16 well-known analyst firms published more than 150 comments and recommendations regarding the freenet share. The three most active analysts published 15 reports each. The median is 10 comments per analyst. In 100 cases (72 percent) a "buy" recommendation was made; in 40 reports (28 percent) the analysts gave a "hold" recommendation. During the reporting period, there was only one "sell" recommendation.

Investor Relations

freenet AG cultivates an ongoing dialogue with institutional and private investors as well as analysts. At 15 investor conferences (previous year: 12) and 16 road shows (previous year: 11) at major European stock exchange locations and in New York, and for the first time in San Francisco and Los Angeles, the Executive Board and the Investor Relations team discussed the freenet Group's current business development, strategic direction, and objectives with institutional investors and analysts. By systematically expanding these activities by about a third, we responded to changes in the shareholder structure with regard to the increased investor base as well as the changed geographical distribution.

We plan to continue these activities in the current financial year in order to further strengthen relationships with existing investors and to establish contact with new investors.

Informationen 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 euros
Quantity of shares:	128,061,016
Stock exchanges:	Regulated market/Prime Standard: Frankfurt Open Market: Berlin, Hamburg, Stuttgart, Düsseldorf, Hannover, Munich

Trading parameters

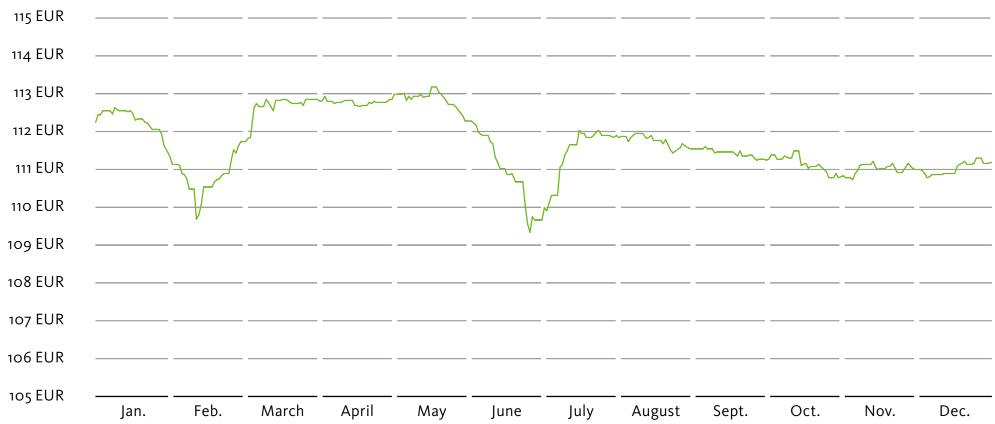
Symbol:	FNTN
Reuters instrument code:	FNTGn.DE
Trading model type:	Continuous trading
Designated sponsors:	Close Brothers Seydler Bank AG, equinet Bank AG

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

Corporate bond

In April 2011, freenet AG replaced its private equity financing, among other things by successfully placing a five-year corporate bond with a volume of 400 million euros on the capital market. The interest coupon is 7.125 percent per annum and it is payable on 20 April 2016. At year-end 2013, the bond was quoted at 111.00 euros.

Figure 5: **Performance of the freenet corporate bond in 2013 (daily closing prices)**



For more information about freenet AG corporate bonds please refer to the following table:

Stock exchanges:	The regulated market of the Luxembourg stock exchange Open Market Frankfurt
Issue volume:	400 million euros
Denomination:	1,000 euros
ISIN:	DE000A1KQXZ0
WKN:	A1KQXZ
Term:	20 April 2011 to 20 April 2016
Coupon:	7.125 percent p. a.
Interest payments:	Annually, starting on 20 April 2012
Repayment price:	100.0 percent
Security:	Non-subordinated corporate bond

Promissory note

In December 2012, freenet AG successfully placed a promissory note totalling 120 million euros, which were broadly marketed by Commerzbank AG, Landesbank Baden-Württemberg and Landesbank Hessen-Thüringen Girozentrale.

The promissory note is divided into a five-year fixed tranche of 44.5 million euros, a five-year variable tranche of 56 million euros, and a seven-year fixed tranche of 19.5 million euros. It was drawn over the entire volume at the lower end of the respective marketing range, with a fixed coupon of 3.27 percent p.a. for the 5-year tranche, a floating coupon of 2.82 percent for the first six months of the variable 5-year tranche, and a fixed coupon of 4.14 percent for the fixed 7-year tranche.

Credit facility

In December 2013, freenet AG signed a new syndicated loan to generally refinance its business activities. Commerzbank AG was once again the coordinating mandated lead arranger. In addition, Bayerische Landesbank, HSH Nordbank, Landesbank Baden-Württemberg, Nord LB and UniCredit acted as mandated lead arrangers.

The newly completed facility replaced the existing credit facility, and makes available a total of 300 million euros to be drawn. Withdrawals are calculated with a margin on EURIBOR, which given the company's current debt ratio (net debt/EBITDA) amounts to 0.95 percent.

The new agreement is based on the usual market warranties as well as obligations of information and rules of conduct. The debt factor was fixed at no more than 2.5x, while the equity ratio must be at least 30 percent.

Detailed financial information available online

Shareholders and interested members of the public can find detailed information about freenet's shares and corporate bond on our website at *www.freenet-group.de/investor-relations*.

In addition to company announcements, financial reports and capital market presentations, the information on offer includes Annual General Meeting documentation and a financial calendar. The website also features a variety of services and dialogue offers, including a contact and order form and an interactive stock analysis tool.

Interested users can also learn more about the company and about freenet AG's press relations at *www.freenet-group.de/en*.


EMPIRE

Group management report

Corporate Profile of the Group

Business model

freenet Group is the biggest network-independent telecommunications provider in Germany. The Group is in the process of establishing itself in the Digital Lifestyle sector as a provider of household/at-home solutions for customers that are not necessarily related to telecommunications.

As a mobile service provider, freenet Group offers customers a comprehensive portfolio of services and products, especially in the field of mobile voice and data services. The freenet Group does not operate its own network, but markets mobile communication services for the mobile network operators Telekom, Vodafone, E-Plus and O_2 in Germany, under its own name and on its own account. Apart from its own network-independent postpaid, no-frills and prepaid services, the company also offers the original network operators' tariffs.

In addition, in its capacity as a digital lifestyle provider with strengths in sales and services, the freenet Group offers a growing range of attractive, mobile Internet-related household products and services for customer. By acquiring Gravis-Computervertriebsgesellschaft mbH ("GRAVIS")—one of Germany's largest independent and authorized distributors of Apple products with today 32 stores—in early 2013, freenet significantly increased its business volume in this area.

An extensive selection of hardware complements the offer.

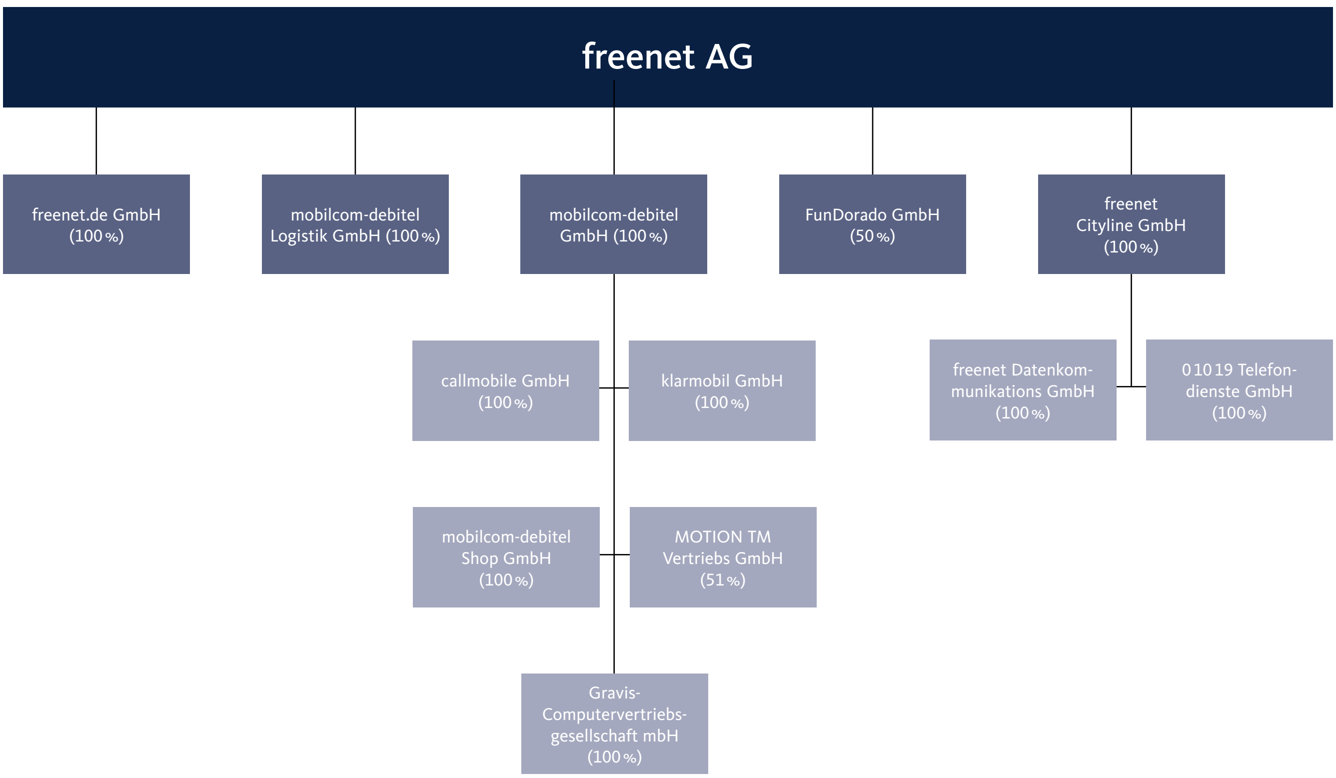
Closeness to the customer across all sales channels is essential to the company's successful competitive positioning as a retail-oriented telecommunications provider with some 553 mobilcom-debitel shops and 32 stores operated under the premium brand GRAVIS and another approx. 5,600 stationary retail points in stores and in 400 major electronics markets (exclusivity agreement with Media-Saturn Deutschland GmbH). That is why the freenet Group's approx. 4,600 employees work continuously to improve the group's sales and service expertise.

The Group mainly focuses its marketing efforts on the retail business with private customers in Germany.

Group structure

In the past financial year, the Group continued the strategic optimisation of its portfolio with two acquisitions. In January 2013, the Group completed the acquisition of GRAVIS, Berlin, thereby strengthening its sales clout in the sector of high-end lifestyle products based around mobile devices. In March 2013, a 51 percent stake in MOTION TM Vertriebs GmbH, Troisdorf, ("MOTION TM") was acquired. This enhanced the Group's distribution power, especially in the online segment, and the systems expertise required to support our retail partners.

Figure 6: **Major Group companies of freenet AG as of 31 December 2013**



Corporate Strategy

In the past year freenet AG held its market position as a service provider measured in Mobile Communications segment revenues in a saturated, declining overall mobile market. The increased trend towards consolidation among European telecommunications companies during the past financial year also affected the German market. In the wake of Telefónica Deutschland's acquisition of E-Plus—antitrust approval of the transaction is expected during financial year 2014—a change in the selling strategy of mobile communications operators can be expected in the medium term.

In this environment, the Executive Board further developed its strategy for freenet AG—as a network-independent provider of mobile communications services—to increase its value-added services through the addition of business activities related to Mobile Communications and Mobile Internet. In particular, this included stabilising the base of valuable customer relationships in the postpaid and no-frills sectors (collectively: customer ownership), while the total number of customers continued to decline due to the ongoing deregistration of inactive prepaid cards. Another strategic focus was on the expansion of stationary retail with a view to increasing profitability. Besides further optimising the location, product portfolio and sales support of shops operated under the main mobilcom-debitel brand, the integration of GRAVIS stores is progressing as planned. The resulting cross-selling potential is to be strategically and systematically exploited. Finally, the Apple product range of the premium brand GRAVIS will be successively expanded with high-quality lifestyle products from the manufacturers Samsung and Sony.

This has laid the groundwork for the company's strategic development into a digital lifestyle provider—which was initiated already in financial year 2012—so as to develop another mainstay of business activities beyond the mobile communications business and the retailing of mobile communications-related products in the midterm. The further development of business in this sector depends very much, however, on the future dynamics of this fledgling market segment. The transformation of societal life into a fully networked lifestyle, which is increasingly gaining public attention under the term "Internet of Things", forms the basis for future value-oriented expansion in this line of business. The first few products such as md MusicFlat, md GameFlat, Norton Mobile Security, md Cloud, SmartHome heating and SmartHome camera were already added to the mobilcom-debitel product range last year, with low start-up costs. At the turn of the year, the strategic acquisition of Jesta Digital, a globally leading provider of digital entertainment content and services for users of digital applications, set the stage for further expansion of digital lifestyle business operations.

In this perspective, the company will continue to pursue and refine its strategic alignment in the next financial years. In addition, it will evaluate additional strategic areas of action within narrowly defined profitability and investment guidelines.

In implementing its strategy freenet AG considers the different needs and expectations of all stakeholders in equal measure. Our shareholders expect a reasonable and reliable overall return on their invested capital. The company's creditors not only want us to pay risk-adjusted interest rates on debt, but also expect us to ensure that we will be able to continue to service our debts. Our customers are interested in attractive services and products as well as expert advice.

Our employees expect long-term, secure jobs in appropriate, modern work environments where they can continue to develop and perform to the best of their ability.

Financial Management and Control System

The company's strategy is supported by a focused financial management system whose key indicators include the capital structure as well as the liquidity performance. A comprehensive treasury management system based on established controlling structures is used.

In managing the capital structure, the debt ratio, the interest cover and the equity ratio are used as the main financial performance indicators.

Table 2: Key figures of financial management

	2012 adjusted	2013	Target 2013	Target 2014/15
Debt ratio	1.3	1.2	1.0—2.5	1.0—2.5
Interest Cover	8.5	8.3	> 5	> 5
Equity ratio	47.5 %	50.0 %	> 50 %	> 50%

The debt ratio indicates how often the current operating result (EBITDA) would have to be generated to pay off net debt (borrowings less cash). Because freenet's business model as a service provider in the mobile communications segment does not require high levels of investment—unlike that of the network operators—and has a stable cash flow, the debt ratio is relatively low within the specified target range of 1 to 2.5. As part of a risk-driven management strategy, the capital structure is optimised on an ongoing basis. At the same time, however, the implementation of the corporate strategy requires an adequate liquidity reserve to be available at all times, which at the company's current business volume is targeted to be about 50 million euros. This also preserves the option of procuring liquidity from raising equity and outside funds. As a low debt ratio is attractive for external investors in particular, this is a good way to further optimise the cost of external capital procurement in future. The development of the interest cover (ratio of EBITDA to net interest) should also be regarded in this perspective. Maintaining an equity ratio of more than 50 percent serves as an additional indicator that a company has an efficient funding structure.

Finally, the Executive Board has defined a dividend policy that allows an attractive dividend yield for freenet's shareholders, and thereby also contributes to a long-term increase in the company's shareholder value without compromising its risk profile.

Table 3: **Key figures of dividend policy**

	2011	2012	2013	Target 2014/15
Payout ratio as percentage of FCF[1]	64 %	66 %	50—75 %	50—75 %
Dividends paid in euros per share	1.20	1.35	n. a.	n. a.
Dividend yield on day of payment	10.6 %	7.7 %	n. a.	n. a.

1 Free cash flow (FCF) is defined as cash flow from operating activities minus investment in property, plant and equipment, plus proceeds from the disposal of property, plant and equipment.

According to the dividend policy adopted by the Executive Board in early 2013 and approved by the Supervisory Board, annual dividend payouts should come to between 50 and 75 percent of free cash flow. By increasing this range for the 2013 financial year onwards, the Executive Board does justice to the value-oriented shareholders' interest in receiving an appropriate share of the company's free cash flow, while the optimised capital structure protects the company's long-term value.

Financial performance indicators

We currently use the following key performance indicators to measure the medium-and long-term success of our strategic course:

- Revenue,
- EBITDA,
- Free cash flow,
- Customer ownership (postpaid and no-frills customers),
- Postpaid ARPU.

The revenue generated through freenet Group's increased Digital Lifestyle business activities have become more important and therefore Group revenue is regarded as an additional performance indicator for the first time. Next to the EBITDA, Digital Lifestyle business activities are primarily reflected in the company's revenue development.

Revenue

freenet Group's core business is provided by products and services related to Mobile Communications and the Mobile Internet. The revenue generated in this line of business is shown in the Mobile Communications segment. The German Mobile Communications market is saturated and characterised by having only a few providers. Therefore, there has long been predatory competition with increasing price pressure, which leads to a declining trend in revenue.

In this environment, the Executive Board's strategy is directed at generating additional revenue sources that are complementary to the core business of Mobile Communications. For instance, the expansion of Digital Lifestyle-related business activities, and the cost-conscious development of our own products and services, are primarily supported by inorganic growth and serve to overcompensate the revenue decline in the core business of Mobile Communications.

EBITDA

EBITDA (earnings before interest, income taxes, depreciation and amortisation) reflect the company's general operational performance. For instance, EBITDA is seen as a key indicator of financial performance, both in assessing business developments across several periods and in comparing several companies in the same market segment.

While the mobile network operators spend a lot of capital each year on expanding and maintaining their networks, freenet has limited itself to about 20 million euros a year in annual investments and interest expense in its corporate planning and control. However, as EBITDA focuses on the operating efficiency as determined from the accounting, this performance indicator also provides for comparability independent of the varying capital costs caused by the respective business model. Accordingly, EBITDA is also used for valuation purposes when buying and selling companies.

Free Cash flow

freenet AG defines free cash flow 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. This liquidity-driven indicator represents an important addition to a company's results-based performance assessment.

Free cash flow is equally significant for raising equity and debt capital. Although the Annual General Meeting decides the amount of the dividend payout as a proportion of freenet AG's profits as determined in accordance with the German Commercial Code, the "payout ratio" of dividend distributions is expressed in relation to the free cash flow. This ensures a direct correlation with the cash inflow actually generated during the respective period. To provide better guidance for the shareholders, the Executive Board has established a payout corridor of currently 50 percent to 75 percent as part of its corporate governance.

At the same time, free cash flow is significant for external investors since it includes all of the company's operational financial obligations and as such is an indicator of the company's ability to pay potential interest and principal payments.

One of the main activities of our Group finance department is to continually control liquidity. The key objective here is to optimise net working capital based on detailed liquidity planning.

Customer Ownership

Customer ownership in the high-value postpaid area and the growing no-frills sector is measured for medium and long-term steering purposes. In Mobile Communications, customer ownership in conjunction with the monthly average revenue generated per user (ARPU) represents a major aspect of the business. Beyond this, customer ownership opens opportunities for individualised customer targeting for purposes of cross- and up-selling. The media discontinuity caused by multi-channel distribution is successfully overcome with a variety of measures. Recent marketing activities such as the payment and collection of online orders at mobilcom-debitel shops should be noted in this perspective.

As part of its strategic business alignment towards becoming a Digital Lifestyle and Mobile Communications provider, freenet AG focuses on valuable customer relationships for its new customers and existing customer relationships.

Postpaid-ARPU

Postpaid ARPU is what we call the average monthly revenue per contract customer. ARPU generally maps consumers' willingness to pay appropriate fees for the mobile communications services; revenue from the sale of mobile phones or smartphones via the mobile-device option is not included in the ARPU. Changes in the German market and competitive situation have a significant impact on the development of ARPU. Given the saturated German market and the resulting strong competition postpaid ARPU is still on a downward trend.

Due to the increasing share of other high-value revenue, the importance of this performance indicator for internal management is expected to decrease in the future.

Other control parameters

Taking into account the further expansion of our digital lifestyle activities in line with our core business strategy, we regularly review the composition of our overall internal financial control and adjust it if necessary during the course of the year.

Non-financial performance indicators

freenet Group's non-financial performance indicators in connection with its multi-channel sales strategy consist of a variety of product brands, new products, and acquisitions and partnerships. In addition, the sales activities and the people employed in the Group are of key significance.

Products brands, new products

In its legacy MOBILE COMMUNICATIONS AND MOBILE INTERNET business, freenet AG relies on a multi-brand strategy to serve all of this market's segments in a target group-specific way. Under its flagship mobilcom-debitel brand, the company markets postpaid and prepaid tariffs for all four German mobile communications networks, with a focus on high-value contract relationships. The brand's key strength is its network-independent advice regarding mobile communications products and services – driven by the customer's needs and requirements, and with maximum closeness to the customer. The latter is provided by 553 shops operated under the main mobilcom-debitel brand and outlets at about 400 major electronics markets and about 5,600 further distribution points.

freenet AG also caters to the “no-frills” area with its “klarmobil”, “freenetMobile”, “callMobile Communications” and “debitel light” discount brands, for customers who are primarily interested in low-cost rates and less in subsidised mobile communications devices or special services. Discount tariffs are mainly sold online.

Mobile data services have been one of the fastest-growing fields of telecommunications for several years, and therefore are a focus for freenet AG in marketing its product and service portfolio. In 2013, the company once again focused on flat rates for smartphones, which are very popular in the market, and on other data plans and upgrades.

Key innovations in 2013 included:

- The **ALLNET SUITE OF RATES**, which with the new “classic Allnet”, “comfort Allnet” and “premium Allnet” tariffs complements the existing “real Allnet” tariff. The package prices initially ranged from 9.90 euros per month to 39.90 euros for the low-cost E-Plus and O_2 networks, and for an extra 10 euros per month customers can also opt for the Vodafone and Deutsche Telekom networks, or for one of the latest smartphones. Depending on the selected version, and as the scope of service increases, the tariffs include unlimited calls to all German landline and mobile networks, a mobile Internet flat rate, an SMS Allnet flat rate and 100 roaming minutes within the EU.
- **SMART SURF** for 14.99 euros a month for customers who primarily use their smartphones for intensive mobile surfing—with 1 GB of data volume included, plus 50 minutes of calls to all domestic mobile networks, and 50 SMS texts included for O_2 contract customers.
- **SURF FLAT 5000** for using tablets and notebooks with a “Surfstick”—for a monthly base price of 6.95 euros for the first twelve months of the two-year contract. The data flatrate includes a volume of 5 Gigabyte at maximum speeds of up to 7.2 Mbits/s.
- The **T@KE-AWAY FLAT UPGRADE** increases the available data volume for existing and new customers by 1 GB for 9.95 euros a month.

During the course of the year, these as well as other tariffs were further enhanced with extra services or discounts as part of various marketing campaigns and seasonal campaigns; many of the special promotions were run on the company’s own online sales platform www.crash-tarife.de.

The same applies for many of the discount subsidiaries’ limited-time special offers. For example, at the end of the year, the klarmobil Allnet flat rate cost just 4.85 euros a month for the first twelve months. The first months of the Allnet-Spar-Flat were reduced by 10 euros per month to 19.85 euros through the end of July, then in the autumn there were four free months as part of a birthday offer. Meanwhile, the Allnet-Starter doubled its services targeted at smartphone newcomers at the monthly price of 9.90 euros.

In the **DIGITAL LIFESTYLE** sector, mobilcom-debitel launched the sale of innovative applications and products in 2013, with a focus on home automation and security, data security, and entertainment:

- The **SMARTHOME** box enables the intelligent control of your home heating via smartphone. The sets—available in various versions from 8.95 euros per month—include radiator thermostats, adapters, control units and window contacts, and can be flexibly extended into a complex SmartHome network by adding components. Users can remote-regulate their individual radiators at home via an app and can turn them all down or off by pressing a single button when leaving their home. At year-end the offer was extended to include a money-back guarantee in the event that the mobile control doesn't cut energy usage by at least 20 percent compared with previous year's costs.

- The **SMARTHOME** camera is also available in several versions, with basic monthly fees starting of 5.49 euros for a 24-month contract. The cameras manufactured by D-Link feature infrared for night footage, very high resolution, and built-in microphones to record sound. The higher-end version can be remotely controlled worldwide using a free app to rotate it 360 degrees, which allows constantsurveillance of your house and grounds while travelling, for instance. The cameras can also be used as a baby monitor—while visiting the neighbours, for example.
- The **MD CLOUD** gives users reliable access to their individual data and applications at any time—even and especially when they change their device, telecommunications provider or network. The "Cloud Basic" version gives each user 25 GB of storage for 1.99 euros a month; "Cloud Pro" includes 50 GB for 3.99 euros per month. The service is available to all new and existing mobilcom-debitel customers and works on all Internet-enabled devices—both web-based and via an app available on Google Play or the iTunes Store. The cloud is hosted and operated in Germany, and therefore provides the best possible privacy and security for emails, contacts, appointments, photos, videos and music.
- The **GAMEFLAT** add-on service offers game lovers a large selection of the latest premium games on Gameloft for 3.99 euros per month without any hidden extra charges or in-game purchases. Customers get to keep the games after the end of the 12- or 24-month contract term.
- The **MD MUSICFLAT** can be booked as an additional option to an existing mobilcom-debitel contract for 8.99 euros per month, or as a complete package with a matching smartphone tariff for 24.99 euros per month. It provides users access to more than 20 million pop, rock, jazz and classical music tunes in the Dolby Pulse format, create favourites and playlists from them, use "MusicFlat" via Wi-Fi, and use the playlists in offline mode.

Acquisitions and partnerships

In January 2013, freenet AG took over GRAVIS. The purchase followed an exclusive corporation under which freenet had initially fitted selected mobilcom-debitel shops with shop-in-shop systems for the Apple world, and then expanded sales of a select range of Apple products in the GRAVIS portfolio to the majority of its own shops. In other words, beyond iPhones and iPads, they now offer the entire range of Apple products, including iPods, Macs and accessories.

By acquiring 51 percent of the share capital in MOTION TM in March 2013, freenet took over a long-time mobilcom-debitel sales partner. Based in Troisdorf, the company is one of Germany's leading online mobile communications and telecommunications retailers, and has its own sales platform for specialist retailers, called MOON. The acquisition increases mobilcom-debitel's sales network in specialist and online retail.

In January 2014, freenet AG acquired all shares in the Jesta Digital Group with offices in Berlin and Los Angeles. Once again this was preceded by a successful corporation of over ten years. With its range of services for ringtones and dial tones, logos, full-track music, mobile games and videos, fun and lifestyle applications, and platforms for dating and online cookbooks, Jesta Digital is one of the world's leading providers of digital entertainment content.

The company currently reaches around 100 million customers in more than 50 countries including Germany, the US, Italy, Austria, Switzerland and Brazil, via its own mobile advertising platform, Motility Ads. Jesta Digital's business model and reach make it an attractive partner for network providers, mobile communications companies, and content providers. It markets mobile communications content to end customers via their billing relationships with more than 60 mobile network operators worldwide, and supports all major mobile communications devices and platforms.

A long-standing partnership also exists with Media-Saturn Deutschland GmbH. As part of this exclusive cooperation, mobilcom-debitel sells its own mobile communications tariffs and products as well as the original tariffs of the network operators T-Mobile, Vodafone and E-Plus in the group's Media and Saturn stores all over Germany. The companies signed an early extension of their successfulcorporation for at least three years with effect from 1 August 2013.

Other sales activities

With the acquisitions made in financial year 2013, freenet AG once again—as described above—strengthened its competitive positioning as the biggest network-independent sales platform in Germany. Its sales network now comprises of:

- 553 shops operated under the main mobilcom-debitel brand and 32 stores operated under the GRAVIS premium brand
- 400 Media-Saturn electronics markets and approximately 5,600 further distribution points and an even wider range of online and direct sales.

In addition, during the course of the year, as in previous years the company worked on continuously improving its sales force through a variety of internal investments and measures. One of the priorities was dovetailing its own shops with those of the GRAVIS retail chain acquired at the beginning of the year. Objectives include the development of the long-standing exclusive Apple dealer into a more broadly based digital lifestyle provider and supplementing the GRAVIS range with more quality products from other hardware manufacturers.

To this end, the GRAVIS corporation with Samsung and Sony was launched at IFA in Berlin in early September. GRAVIS opened two exclusive 20m² "shop-in-shop" concessions for Samsung and Sony on Ernst-Reuter-Platz, Berlin for the two Asian premium manufacturers to present and sell their product lines–including the cutting-edge GALAXY Gear SmartWatch and GALAXY Note 3 by the South Korean manufacturer and the Japanese manufacturer's new top Xperia Z1 smartphone.

As part of this, in spring selected mobilcom-debitel shops tested an internal tablet app for conducting sales advice and promotions more precisely, vividly and efficiently—for both the vendor and the customer. Key elements are the analysis of customers' past usage patterns to create offers based on the main findings. On request, customers are then sent an email or print-out of the consultant's documentation as a basis for a later contract. In turn, the consultant can save their offer and return to it at any time if necessary.

At the same time the Mini Instore TV makes displays of smartphone and tablets clearer. The multimedia info app presents the special features of each device in a uniform, attractive and eye-catching way. The consultant can use the displays as part of their sales pitch, while the customer can try out the real devices with their technical details and their accessories. In addition, mobilcom-debitel can later centrally evaluate the use of the devices and gain valuable data on customer preferences.

Research and development

freenet AG does business as a service provider without its own network infrastructure in the Mobile Communications and Digital Lifestyle areas. In its traditional core business of mobile communications/mobile Internet, the company markets the mobile communications services of Germany's network operators as described, as well as its own mobile communications range, including the associated hardware. The most important new tariffs and products in this area are listed above in more detail.

The company does not maintain an R&D department of its own. However, the rapid technological progress in telecommunications, and in mobile voice and data services, requires to keep a vigilant eye on the latest developments in order to maintain long-term competitiveness in this innovative market environment. With this in mind, in the financial year 2013 freenet AG addressed again the constantly changing market and customer requirements with its own portfolio of product and services related to mobile communications/mobile Internet.

freenet also launched new products in the growing Digital Lifestyle market during 2013. As described in detail in the "Product brands, new products" section they mainly focus on the areas of data security, home automation & security and entertainment. To make these innovative offers as customer-friendly as possible, the company participated in the final stages of their development; this in turn increased the company's value-add in marketing the respective products.

Employees

The motivation and competence of a company's employees are key components for its enduring success. In this perspective, freenet AG has set itself the goal of optimising its staff qualification and development, while continuously improving its attractiveness as an employer internally and externally.

At year-end 2013, freenet Group employed 4,576 people, the year-on-year increase is mainly due to the consolidation of GRAVIS and MOTION TM completed during the year.

As in previous years, freenet AG was a highly sought-after employer in 2013. Over the course of the year the Company received more than 22,500 applications for around 650 jobs. Since 2011, all vacancies in the Group have been advertised on the www.freenet-group.de/karriere online portal. This Group-wide recruitment system ensures a joint, consistent external image as an employer as well as a coordinated selection process, and it leverages potential synergies in finding qualified personnel.

freenet AG offers a wide range of services, activities and incentives to promote employee motivation, responsibility, team spirit and identification with the company:

- Employees are given ergonomically designed workstations, health days, posture training, physiotherapy, various sport offers, and social benefits, which were extended once again in 2013;
- They can play an active part in shaping company processes via flat hierarchies, CEO dialogues, idea competitions and many other initiatives;
- The trainee programmes newly introduced in 2013 target talented people just entering the workforce for careers in sales as well as administrative roles, and support them in qualifying for positions of responsibility;
- The very popular “freenet Talents” programme is targeted at high performers—with the aim of promoting them to project management or executive positions.

Another additional service, which is highly popular alongside the traditional company car is the “employee car model” company car. All full-time employees can receive a vehicle for private and business use on attractive terms by means of a salary concession. Out of consideration for the environment and German business, freenet gives priority to environmentally friendly vehicles and new models by German manufacturers.

freenet AG continually trains its own employees to at least partly cover its urgent requirement for specialists and qualified young people. In doing so, the company also fulfils its social responsibility to the regional employment market at its locations.

During the course of 2013, freenet hired a total of 105 new apprentices, specifically for training as:

- computer science and retail sales staff
- IT specialists
- digital and print media designers
- office management and dialogue marketing staff and
- warehouse logistics professionals.

In addition, the company also offers four different dual-study programmes leading to an accredited Bachelor of Science or Bachelor of Arts degree at vocational colleges.

Employees and managers receivedtailored training on an on-going basis. In 2013 more than 1,000 permanent employees participated in such personnel development measures, which included technical, methodology and team training.

Based on leadership training carried out in previous years, the Group’s further intensified its management culture and tools and prepared upcoming projects. One focus was an extensive set of measures with the aim of unifying and refining the project methodology and culture within the company. Mainly designed by in-house experts, the measures are designed to offer project managers greater transparency and guidance for handling the Group’s challenging projects. In addition, executives were sensitised to relevant health topics and given background information on them.

Economic report

Macroeconomic conditions

According to the International Monetary Fund (IMF) the global economy grew by about 3 percent in the past financial year, while the economy in the euro zone shrank by 0.4 percent. Real-economy activities developed a positive dynamic at global level in the second half of the year.

According to initial calculations by the Federal Statistical Office, the German economy showed only moderate growth of around 0.5 percent in 2013, marking a low point compared to recent years. In 2012 it grew by 0.7 percent, and in 2011 by as much as 3.3 percent. According to the Federal Statistics Office, the slowdown in 2013 is linked to a weak global economic performance and the ongoing recession in some European countries. Even recent increase in domestic demand in Germany failed to sufficiently compensate for this.

Consumer spending did make an important contribution to German economic performance in 2013: private expenditure rose by 0.9 percent, state expenditure by 1.1 percent. However, corporate and state investment fell. Average net exports—the difference between exports and imports—further negatively impacted GDP growth in 2013 to the tune of –0.3 percentage points. The weak foreign trade balance is mainly due to a sharp 1.3-percent increase in imports. At the same time, adjusted for price, exports rose by only 0.6 percent due to the continued difficult export situation.

Development of the Telecommunications market in 2013

Due to the increasing use of smartphones, customer requirements have increased in this competitive environment, leading to increased pressure for consolidation at European level. In Germany, according to the Mergermarket Trend Report 2013 published in January, the Telecommunications sector had the highest M&A activity with a volume of around 19 billion euros and a market share of 26.3 percent.

In the summer, the Dutch company KPN announced it was selling a majority stake in its German subsidiary E-Plus to Telefónica Deutschland. The European regulatory authorities are reviewing the project and are expected to finish their review by May 2014. The acquisition of Kabel Deutschland by Vodafone, however, has already been completed.

The overarching goals of the consolidation efforts in the telecommunications sector are to increase efficiency and leverage cost synergies in the further expansion of the network infrastructure in order to increase competitiveness.

According to the Association of Telecommunication and Value-added Service Providers (“VATM” in the following) and Dialog Consult GmbH (“Dialog Consult” in the following) the market volume of telecommunications services in Germany declined slightly in 2013, despite a slight increase in the Mobile Communications sector.

In their joint “15th Telecommunications Market Analysis Germany 2013” published in October 2013, the VATM and Dialog Consult assume revenues of 59.6 billion euros (prior year: 60.1 billion euros) for 2013.

They state the main driver for the decline is a 1.3 billion euros drop in the market for fixed-network services, to 29.7 billion euros. Meanwhile, cable operators saw strong growth of over nine percent to around 4.8 billion euros (prior year: 4.4 billion euros). In the mobile communications sector, a slight increase in revenues (+1.2 percent) to a total of 25.1 billion euros is expected (previous year: 24.8 billion euros). The Federal Network Agency’s prediction is of a similar magnitude—it expects a market volume of 26.1 billion euros in 2013. On the basis of European Information Technology Observatory (“EITO”) forecasts, the high-tech association BITKOM projects significantly higher telecommunications revenues for 2013, at around 66 billion euros. As in 2012, it says booming smartphone sales are the main revenue driver in telecommunications. According to the market research institute IDC, out of a total of 1.8 billion mobile phones sold around the world in 2013, for the first time over a billion of them were smartphones. For Germany, BITKOM forecast 26.4 million units sold and a revenue increase of 7.5 to 8.4 billion euros in 2013. A 48-percent increase in revenues from tablet sales in Germany, to 2.8 billion euros, is expected.

According to market researchers, mobile data services continue to become more and more important. VATM and Dialog Consult expect them to account for more than two thirds of “non-voice” revenues in 2013, which are predicted to increase year-on-year from 8.0 billion euros to 8.8 billion euros. Compared to 2012, the volume of data transfer per user will grow by around 15 percent from 227 megabytes to 261 megabytes; this increases the total data volume from 140.6 million gigabytes to an estimated 170.1 million gigabytes. Despite strong competition from messaging apps, SMS texts continue to account for around a third of non-voice revenues continue. The number of texts sent has increased once again, rising from 159.7 million by an estimated 8.6 million to 168.3 million per day in 2013.

VATM and Dialog Consult report that compared to the previous year, more calls were made from mobile phones due to the increasing use of flat-rates. This is reflected in the continued growth in outgoing mobile call minutes per day, which have risen from 300 million minutes per day in 2012 to an estimated 309 million minutes per day in 2013—roughly 65 percent of the volume of calls made from landlines. The market researchers expect that landline telephony will shrink by two percent in 2013 to 478 million minutes per day (prior year: 488 million minutes per day).

Business performance

The Group can draw a positive conclusion for 2013: all the major targets set at the beginning of the financial year in February 2013 were achieved or exceeded.

Revenue growth was predicted and achieved, with revenues increasing 3.5 percent from 3,084.8 million euros to 3,193.3 million euros.

Consolidated EBITDA for 2013 came to 357.4 million euros, on par with the previous year (357.4 million euros) and slightly above our target (355 million euros). The other key financial indicators increased significantly year-on-year during the reporting period: after deduction of depreciation and amortisation, EBIT was up by around 44 percent to 301.3 million euros (prior year: 208.8 million euros). At 258.4 million euros, pre-tax earnings (EBT) were more than 55 percent above prior year (166.7 million euros). Group net income for the financial year 2013 was 238.9 million euros, a year-on-year increase of approximately 38 percent.

In the reporting period, free cash flow, one of the group's most important performance indicators, was 256.2 million euros (prior year: 259.7 million euros), and thus exceeds the predicted value of 255 million euros. Consequently, net financial debt decreased from 451.9 million euros at year-end 2012 to currently 427.2 million euros.

The customer base in the key area of contract customers (postpaid) increased as envisioned: Compared to year-end 2012 it increased by nearly 80,000 to 5.86 million customers. Together with the substantial increase in the no-frills customer base, this results in a customer ownership base of 8.76 million at the end of 2013, representing a year-on-year increase of around 260,000. At 22.3 euros, the monthly average revenue per contract customer (postpaid ARPU) declined from the level of the previous year (23.4 euros), but proved relatively resistant in relation to the overall market.

Table 4: **Key financials 2013**

In EUR million/as indicated	Forecast 2013 (February 2013)	2013
Revenue	Increase	3,193.3
EBITDA	355.0	357.4
Free cash flow	255.0	256.2
Postpaid customers in million	Slight increase	5.86
Postpaid-ARPU in EUR	Stable in the area of 23	22.3

These results confirm the Group's strategic orientation as a provider of Digital Lifestyle services related to its core business of mobile communications and mobile Internet, and form a good basis for continuing freenet AG's successful course in the next few months and years.

Key drivers of the business development

Customer development

Table 5: **Customer development in the Mobile Communications segment**

In million	31.12.2013	31.12.2012
Mobile Communication customers	13.29	14.08
Thereof customer ownership	8.76	8.50
Thereof postpaid customers	5.86	5.79
Thereof no-frills customers	2.90	2.71
Thereof prepaid customers	4.53	5.58

The 2013 financial year saw another increase in the number of contract customers, to 5.86 million at year-end (prior year: 5.79 million). This puts the increase compared to 31 December 2012 at close to 80,000 customers, a near-doubling of year-on-year growth since the previous year. In financial year 2013, more new contract customers were won because of the attractive offers. At the same time, the number of customers who cancelled their contract ("churn rate") decreased. This development was supported through systematic and overall further improved customer management.

freenet AG increased its pool of no-frills customers by over 180,000, chiefly due to the increased demand for data and flat-rate products in connection to increased smartphone use. No-frills contracts tend to be concluded online and have become more and more important over the past few years. At year-end, the customer base in this sector was 2.90 million, versus 2.71 million the previous year.

Customer ownership, the sum of contract and no-frills customers, has therefore grown by about 260,000 customers, from 8.50 million to 8.76 million, meaning that this important parameter for the company increased again in 2013.

In contrast, in 2013 the number of prepaid customers fell markedly by a million from 5.58 million to 4.53 million. This development is related to the ongoing deregistration of inactive SIM cards by the network operators.

As a result, the total number of customers at the end of December 2013 was 13.29 million as compared to 14.08 million at the end of 2012, representing a decrease of 790,000 customers.

Monthly average revenue per user (ARPU) in the Mobile Communications segment

The monthly average revenue per contract customer ("postpaid ARPU") fell by 1.1 euros to 22.3 euros in 2013. The primary reason for this was the increased willingness of existing customers to switch to more attractive rates within freenet Group, triggered by factors including pre-Christmas promotions. Meanwhile, new customer ARPU remained relatively stable.

No-frills ARPU decreased by 0.5 euros year on year, to 3.4 euros for 2013. The price pressure in the discount market segment, where we primarily reach no-frills customers through our online sales, increased further during the reporting period. In this connection, we also stepped up our sales promotion activities in the fourth quarter. At 3.0 euros, the monthly average revenue per prepaid customer ("prepaid ARPU") for 2013 was on par with that of the previous year.

Table 6: **Average monthly revenue per user (ARPU)**

In EUR	2013	2012
Postpaid customers	22.3	23.4
No-frills customers	3.4	3.9
Prepaid customers	3.0	3.0

Digital Lifestyle

As well as optimising its core business of Mobile Communications, freenet AG has focused on the Digital Lifestyle growth market since 2012. The digital lifestyle strategy concentrates on resolutely drawing on existing strengths and competencies to develop and expand the current portfolio of products and services to eventually cover the entire digital lifestyle sector. freenet is positioning itself in this growth market by means of partnerships, without having to do any development work itself. At the same time the company is increasing and optimising its Digital Lifestyle sales network, for example with the purchase of GRAVIS, the leading digital lifestyle provider for Apple products in Germany, and the acquisition of the Jesta Digital Group, which develops and markets contemporary digital entertainment content and services.

freenet's existing Digital Lifestyle range covers the Telecommunications, the Internet and Energy sectors and includes content, services, applications and devices that are connected to mobile devices or can be controlled or used via another intelligent device.

Extension of the Media-Saturn collaboration

In August 2013, freenet extended its successful collaboration with Media-Saturn Deutschland ahead of time by at least three years.

As part of the exclusive collaboration, mobilcom-debitel GmbH sells its own tariffs and the original tariffs of the network operators T-Mobile, Vodafone and E-Plus, as well as its own mobile communications and services, in the Media and Saturn stores all over Germany. As before, Telefónica Deutschland AG (formerly Telefónica O_2 Germany) products are excluded from this collaboration.

By renewing the contract, freenet has strengthened stationary retail as a strategically relevant complement to its own retail business, other sales cooperations, and the online business.

Net assets, financial position and results of operations

Revenue and results

Table 7: **Key financial figures of the Group**

In EUR '000s	2013	2012 adjustesd	Change
Revenue	3,193,329	3,084,784	108,545
Gross profit	731,246	719,842	11,404
EBITDA	357,399	357,360	39
EBIT	301,307	208,765	92,542
EBT	258,443	166,677	91,766
Group result	238,940	173,189	65,751

Compared to the previous year, **GROUP REVENUE** increased from 3,084.8 million euros by 3.5 percent to 3,193.3 million euros. This increase is mainly due to the companies GRAVIS and MOTION TM, which have been included in the consolidation for the first time this year, and is also due to the increase in the average customer ownership numbers. Compared with the previous year, revenue has due to a reduction in post-paid ARPU and also lower revenue generated by low-margin business (mainly hardware sales to distribution partners and distributors and also in the prepaid field).

The **GROSS PROFIT MARGIN** declined by 0.4 percentage points to 22.9 percent. This decline is mainly due to the fact that the newly acquired companies GRAVIS and MOTION TM operate business models with comparatively lower gross profit margins. The absolute increase of 11.4 million euros in gross profit was mainly attributable to GRAVIS and MOTION TM.

Compared to the previous year 2012, **OTHER OPERATING INCOME** increased by 10.9 million euros to 69.8 million euros, primarily as a result of the proceeds from the sale of freeXmedia and of the derecognition of a contingent purchase price liability in connection with the acquisition of GRAVIS.

As was the case in the previous year, the **OTHER CAPITALISED OWN WORK** was mainly attributable to self-created software, and increased by 3.7 million euros to 10.8 million euros. The increase of 13.9 million euros in **PERSONNEL EXPENSES**, to 174.1 million euros, is mainly due to the increase in the average number of persons employed in the Group from 3,917 in 2012 to 4,492 in 2013, primarily as a result of the acquisition of GRAVIS.

The increase of 5.9 million euros in the **other operating expenses**, namely to 280.5 million euros, compared with the previous year, adjusted by the initial integration of GRAVIS and MOTION TM, represents a considerable reduction in overheads. This is mainly due to lower marketing costs as well as further efficiency gains in overhead management.

As a result of the above mentioned effects, **group ebitda** of 357.4 million euros is unchanged compared with the previous year figure of 357.4 million euros.

The **depreciation and amortisation** decreased by 92.5 million euros to 56.1 million euros, compared with the previous year. In the previous year, the depreciation was mainly attributable to intangible assets, such as customer relationships and trademarks resulting from the debitel purchase price allocation (102.0 million euros). As a result of the expiry of the planned service life of most of the assets resulting from the debitel purchase price allocation, a figure of only 7.0 million euros was written down in 2013 in this respect; this is the main explanation for the decline.

net interest income, which is the total of all interest income and interest expenses, has remained roughly unchanged, with 42.1 million euros in 2012 to –42.9 million euros in 2013, in line with the annual average level of net financial debt which has remained roughly constant compared with the corresponding previous year figure.

Thus, in 2013, **pre-tax group earnings** attributable exclusively to continued operations in the amount of 258.4 million euros were generated—an increase of 91.8 million euros or 55.1 percent compared with the previous year (166.7 million euros); this was mainly due to the lower level of depreciation.

Compared with 2012, **income from taxes on income** declined by 26.0 million euros; whereas income from taxes of 6.5 million euros had been reported in the previous year, tax expenses of 19.5 million euros were incurred in the past financial year. The current tax expenses increased by 1.6 million euros compared with the previous year, to 34.2 million euros. Income from deferred taxes declined by 24.4 million euros to 14.7 million euros mainly due to the lower temporary differences resulting from the debitel purchase price allocation in connection with the much lower depreciation relating to the corresponding customer relations and trade marks with a scheduled useful life.

In consequence, **after-tax group earnings** increased by 65.8 million euros from 173.2 million euros in 2012 to 238.9 million euros in 2013; this is equivalent to an increase of 38.0 percent.

Assets and financial position

Table 8: **Consolidated balance sheet figures**

Assets

In EUR million	31.12.2013
Non-current assets	1,836.1
Current assets	641.1
Total assets	**2,477.2**

In EUR million	31.12.2012 adjusted
Non-current assets	1,756.0
Current assets	722.7
Total assets	**2,478.7**

Liabilities

In EUR million	31.12.2013
Shareholders' equity	1,239.6
Non-current and current liabilities	1,237.6
Total equity and liabilities	**2,477.2**

In EUR million	31.12.2012 adjusted
Shareholders' equity	1,177.6
Non-current and current liabilities	1,301.1
Total equity and liabilities	**2,478.7**

As of 31 December 2013, the **TOTAL ASSETS** of the Group amounted to 2,477.2 million euros, and were thus 0.1 percent lower than the corresponding figure reported at the end of the previous year (31 December 2012: 2,478.7 million euros).

The **NON-CURRENT ASSETS** increased by 80.2 million euros to 1,836.1 million euros (31 December 2012: 1,756.0 million euros).

As in the previous year, they are dominated by intangible assets and goodwill. The increase in non-current assets is mainly attributable to the increase of 40.8 million euros reported for intangible assets, primarily as a result of the extension of the exclusive distribution co-operation with Media-Saturn Deutschland GmbH in the past financial year and the related distribution rights.

Compared with the previous year, goodwill has increased by 5.5 million euros to 1,122.1 million euros.

As of 31 December 2013, property, plant and equipment are reported as 33.8 million euros, reflecting an increase of 5.4 million euros compared with the previous year.

The increases in goodwill and property, plant and equipment are mainly attributable to the acquisitions of GRAVIS as well as MOTION TM.

The increase of 11.4 million euros in deferred tax assets compared with the previous year reference date, namely to 186.9 million euros, is mainly attributable to write-ups recognised in relation to deferred tax assets for loss carry forwards. In addition, this item also includes the net figure of deferred tax liabilities relating to temporary differences between the tax values and the carrying amounts of the assets and liabilities. There was only a minor change compared with the previous year due to the temporary differences relating to customer relations and trademarks from the debitel purchase price allocation had been virtually completely reversed as of 31 December 2012.

The increase in the non-current part of the trade accounts receivable is mainly attributable to the fact that increasing numbers of our end customers make use of our offer to select higher quality end user devices for an additional monthly fee. These receivables reflect claims for payment arising from the mobile phone contract that are attributed to the "higher end mobile phone" component and paid by the customer over the term of the contract.

The **current assets** declined by 81.6 million euros to 641.1 million euros (31 December 2012: 722.7 million euros). Particular mention has to be made in this respect of the decline of 93.9 million euros in liquid assets to 110.8 million euros, mainly in relation to the cash flow from financing activities. Whereas the Group reported a cash inflow from operating activities of 278.4 million in 2013 and a cash outflow of 35.4 million euros for investing activities, this decline is mainly attributable to the outflow of cash of 339.6 million euros from financing activity; of this figure, 172.8 million euros is attributable to dividend payments and 161.7 million euros is attributable to repayments of principal and interest payments in relation to financial debt. Compared with the previous year, inventories have increased by 13.2 million euros as a result of the initial consolidation of GRAVIS and MOTION TM. As has been the case in recent years, trade accounts receivable were again the predominant balance sheet item within current assets. The trade accounts receivable are due mainly from end customers, network operators and dealers as well as distributors, and amounted to 423.1 million euros as of 31 December 2013, roughly in line with the corresponding previous year level. In the previous year, the assets of freeXmedia GmbH which was sold in December 2012 with effect from 1 January 2013, had been shown in the separate balance sheet item "available-for-sale non-current assets" in the amount of 7.4 million euros.

On the liabilities and equity side, **shareholders' equity** increased: As of 31 December 2013, the shareholders' equity amounted to 1,239.6 million euros (31 December 2012: 1,177.6 million euros). Of this increase of 62.0 million euros, the 2013 Group net profit accounted for 238.9 million euros and the dividend payment made in 2013 for the financial year 2012 accounted for –172.8 million euros.

The equity ratio accordingly increased 2.5 percentage points to 50.0 percent compared with 47.5 percent at the end of the previous year.

With regard to the **non-current and current liabilities**, which in total declined by 63.5 million euros from 1,301.1 million euros as of 31 December 2012 to 1,237.6 million euros as of 31 December 2013, particular mention has to be made of the reduction of 118.5 million euros in borrowings to 538.0 million euros, mainly as a result of repayments of principal.

As a result, in the course of the financial year 2013, the **net debt** of the Group declined by 24.7 million euros to 427.2 million euros (2012: 451.9 million euros). Accordingly, the debt ratio, expressed as the ratio between net debt and EBITDA, declined from 1.26 in 2012 to 1.20 in 2013.

Trade accounts payable, other liabilities and accruals as well as other liabilities are shown as a total amount of 611.8 million euros as of 31 December 2013 (31 December 2012: 563.0 million euros), and have thus increased by 48.8 million euros compared with the previous year. This is mainly due to the liabilities resulting from the extension agreed out in 2013 to the exclusive distribution co-operation with Media-Saturn Deutschland GmbH.

As of 31 December 2012, the liabilities attributable to freeXmedia GmbH which had been sold were shown as liabilities in connection with the disposal of certain non-current assets as of 31 December 2012.

Cashflow

Table 9: **Important cash flow figures of the Group**

In EUR milllion	2013	2012 adjusted	Change
Cash flow from operating activities	278.4	280.1	–1.7
Cash flow from investing activities	–35.4	–9.0	–26.4
Cash flow from financing activities	–339.6	–149.1	–190.4
Change in cash and cash equivalents	**–96.6**	**122.0**	**–218.6**
Free cash flow [1]	256.2	259.7	–3.5

1 Free cash flow is defined as cash flow from operating activities less investments in property, plant and equipment and intangible assets, plus inflows from the disposals of intangible assets and property, plant and equipment.

Compared with the corresponding previous year period, **cash flow from operating activities** has declined by 1.7 million euros to 278.4 million euros. Compared with the previous year, EBITDA, adjusted by the relevant proceeds of the sale of subsidiaries and also the sale of associated companies (the cash inflows from the sale of subsidiaries and associated companies are shown under cash flow from investing activities) has increased by 1.5 million euros. In 2013, the net working capital (net current assets) reported an increase of 50.1 million euros in 2013, equivalent to the figure reported for the previous year (an increase of 46.3 million euros). The increase of 50.1 million euros in net working capital in 2013 is mainly due to the planned reduction of liabilities and accruals relating to distribution partners arising from distribution rights and also liabilities and accruals relating to a mobile network operator and the further increase in sales of high-end hardware to end customers and the associated increase in receivables related to hardware sales. In addition in the financial year 2013, 23.5 million euros (previous year: 24.6 million euros) in net outgoing payments resulted from income tax payments and refunds.

Compared with the previous year, the **cash flow from investing activities** declined from −9.0 million euros to −35.4 million euros in the financial year 2013. This was mainly attributable to the cash outflows of 13.2 million euros reported for 2013 for the acquisition of the subsidiaries GRAVIS and MOTION TM. Please refer to our comments in item 36 (“Acquisitions”) in the notes to the consolidated financial statements. On the other hand, cash inflows totalling 8.2 million euros were reported in relation to the sales of subsidiaries, associated companies and other investments.

The cash outflow for investments in intangible assets and property, plant and equipment, set off against cash inflows from the disposal of such assets, are reported as 22.2 million euros, roughly in line with the corresponding previous year figure (20.4 million euros). The investments in intangible assets and property, plant and equipment were shown at 93.1 million euros in the consolidated statement of movements in non-current assets for 2013; of this figure, 70.8 million euros was non-cash-effective. This figure relates to the investment in the extension of at least a further 36 of months for the distribution rights with Media-Saturn Deutschland GmbH starting 1 August 2013. The extension of these distribution rights has resulted in an increase in intangible assets as well as liabilities—however, as a transaction which was not cash-effective in the financial year, the extension did not have any impact on the cash flow statement; it was not disclosed under the cash flow from investing activities or as a change in net working capital under cash flow from operating activities. The cash-effective investments were financed completely out of the company's own funds, and mainly related to internally-generated software in connection with the further development of our IT systems, the renewal and extension of the equipment of our mobile communications shops and investments in EDP hardware. In the previous year 2012, investments in intangible assets and property, plant and equipment disclosed in the consolidated statement of movements in non-current assets were fully cash-effective.

Compared with the previous year, the inflow of interest reported under cash flow from investing activities declined by 0.8 million euros to 1.3 million euros.

Compared with the corresponding previous year period, the **cash flow from financing activities** declined by 190.4 million euros from –149.1 million euros to –339.6 million euros. In the previous year, the Group received a figure of 119.3 million euros from the promissory note taken out in December 2012. Compared with the previous year, the repayments of principal in relation to debt increased by 44.8 million euros to 125.0 million euros mainly as a result of the complete repayment of the amortising loan ahead of schedule within the framework of the extension of the revolving credit line.

In the past financial year, dividend payment of 172.8 million euros were reflected in the cash flow from financing activities (previous year 153.6 million euros).

In addition, there were also interest payments of 36.7 million euros in 2013, mainly in relation to long-term bank loans; this represents an increase of 2.2 million euros compared with the previous year. And the Group reported a cash outflow of 5.0 million euros in the financial year 2013 in relation to the acquisition of the remaining 49 percent of shares in MFE Energie GmbH.

In the financial year 2013, the **free cash flow**, which is defined as cash flow from operating activities less investments in property, plant and equipment and intangible assets plus inflow from disposals of intangible assets and property, plant and equipment, amounted to 256.2 million euros. Compared with 2012, it has declined by 3.5 million euros.

Events after the reporting date

On 16 December 2013, the Group signed a contract to purchase all shares and voting rights in Jesta Digital GmbH, Berlin; Jesta Digital Holdings, Inc. in the US; and Jesta Digital Group U.S. Holdings, Inc., US (these companies and their subsidiaries to be collectively referred to as the "Jesta Digital Group" in the following). Following approval by the antitrust authorities and the fulfilment of further conditions, the takeover was finalised with effect from 15 January 2014, giving the Group control over this subsidiary. With offices in Berlin and Los Angeles and approx. 300 employees, the Jesta Digital Group is one of the world's leading providers of modern, digital entertainment formats and of services for users of digital applications. Based on the most recent balance sheet available to the Group, the Jesta Digital Group's balance sheet total is around 40 million euros. The assets are dominated by trade receivables, the liabilities by trade payables and accruals. The Group expects the Jesta Digital Group to make a positive contribution to earnings in 2014.

On January 24, 2014, LSV ASSET MANAGEMENT, Wilmington, DE, USA informed us pursuant to § 21 paragraph 1 WpHG that on 14 September 2012 its share of voting rights in freenet AG, Büdelsdorf, Germany had exceeded the 3-percent reporting threshold and on that day amounted to 3.04 percent (3,897,259 voting rights). 0.22 percent of the voting rights (281,387 voting rights) are to be attributed to the company pursuant to section 22 paragraph 1, sentence 1, No. 6 WpHG. 2.82 percent of the voting rights (3,615,872 voting rights) are to be attributed to the company pursuant to section 22, paragraph 1, sentence 1, No. 6 WpHG.

On 4 February 2014, BlackRock Holdco 4, LLC, Wilmington, DE, USA informed us pursuant to section 21 paragraph 1 WpHG that on 31 January 2014 its share of voting rights in freenet AG, Büdelsdorf, Germany had exceeded the 3-percent reporting threshold and on that day amounted to 3.01 percent (3,860,680 voting rights). 3.01 percent of the voting rights (3,860,680 voting rights) are to be attributed to the company pursuant to section 22 paragraph 1, sentence 1, No. 6 WpHG in conjunction with section 22 paragraph 1 sentence 2.

On 4 February 2014, BlackRock Holdco 6, LLC, Wilmington, DE, USA informed us pursuant to section 21 paragraph 1 WpHG that on 31 January 2014 its share of voting rights in freenet AG, Büdelsdorf, Germany had exceeded the 3-percent reporting threshold and on that day amounted to 3.01 percent (3,860,680 voting rights). 3.01 percent of the voting rights (3,860,680 voting rights) are to be attributed to the company pursuant to section 22 paragraph 1, sentence 1, No. 6 WpHG in conjunction with section 22 paragraph 1 sentence 2.

On 4 February 2014, BlackRock Delaware Holdings Inc., Wilmington, DE, USA informed us pursuant to section 21 paragraph 1 WpHG that on 31 January 2014 its share of voting rights in freenet AG, Büdelsdorf, Germany had exceeded the 3-percent reporting threshold and on that day amounted to 3.01 percent (3,860,680 voting rights). 3.01 percent of the voting rights (3,860,680 voting rights) are to be attributed to the company pursuant to section 22 paragraph 1, sentence 1, No. 6 WpHG in conjunction with section 22 paragraph 1 sentence 2.

On 6 February 2014, BlackRock, Inc., New York, NY, USA informed us pursuant to section 21 paragraph 1 WpHG that on 4 February 2014 its share of voting rights in freenet AG, Büdelsdorf, Germany had exceeded the 5-percent reporting threshold and on that day amounted to 5.05 percent (6,465,114 voting rights). 5.05 percent of the voting rights (6,465,114 voting rights) are to be attributed to the company pursuant to section 22 paragraph 1, sentence 1, No. 6 WpHG in conjunction with section 22 paragraph 1 sentence 2.

On 6 February 2014, BlackRock Holdco 2, Inc., Wilmington, DE, USA informed us pursuant to section 21 paragraph 1 WpHG that on 4 February 2014 its share of voting rights in freenet AG, Büdelsdorf, Germany had exceeded the 5-percent reporting threshold and on that day amounted to 5.05 percent (6,462,636 voting rights). 5.05 percent of the voting rights (6,462,636 Voting Rights). 5.05 percent of the voting rights (6,462,636 voting rights) are to be attributed to the company pursuant to section 22 paragraph 1, sentence 1, No. 6 WpHG in conjunction with section 22 paragraph 1 sentence 2.

On 6 February 2014, BlackRock Financial Management, Inc., New York, NY, USA informed us pursuant to section 21 paragraph 1 WpHG that on 4 February 2014 its share of voting rights in freenet AG, Büdelsdorf, Germany had exceeded the 5-percent reporting threshold and on that day amounted to 5.05 percent (6,462,636 voting rights). 5.05 percent of the voting rights (6,462,636 Voting Rights). 5.05 percent of the voting rights (6,462,636 voting rights) are to be attributed to the company pursuant to section 22 paragraph 1, sentence 1, No. 6 WpHG in conjunction with section 22 paragraph 1 sentence 2.

In its meeting on 21 February 2014, the Supervisory Board of the company resolved an early extension to the employment contracts of the company's Executive Board members. Christoph Vilanek has been reappointed as chairman of the Executive Board and as Chief Executive Officer until 31. December 2018. Joachim Preisig was reappointed as Chief Financial Officer until 31. December 2019, and Stephan Esch was reappointed as Chief Technology Officer until 31. December 2019.

Opportunities and Risk report

Opportunities

freenet AG resolutely maintained its focus on mobile voice and data services in 2013. Activities to market smartphones and flat-rate tariffs focused on customer quality and on stabilising the contract customer base. The Digital Lifestyle business was another priority: in addition to the acquisition of GRAVIS, the Group significantly stepped up its marketing of SmartHome products and Digital Lifestyle options such as md Cloud and Norton Mobile Security. The company sees external opportunities in the following market developments in particular:

- Increased willingness of customers to pay for mobile devices,
- Trend toward mobile Internet usage on smartphones and tablets,
- Trend towards more expensive devices (smartphones) and by extension, to higher usage or rather the associated sale of flat-rate products,
- Trend toward connecting products in the home into a network (“Internet of Things”).

Given the trend towards paying for mobile communications devices, and increased mobile Internet usage due to the further proliferation of smartphones and the networking of products in the home, this could have a positive impact on revenues and cash flow.

Further internal opportunities for the company could arise from:

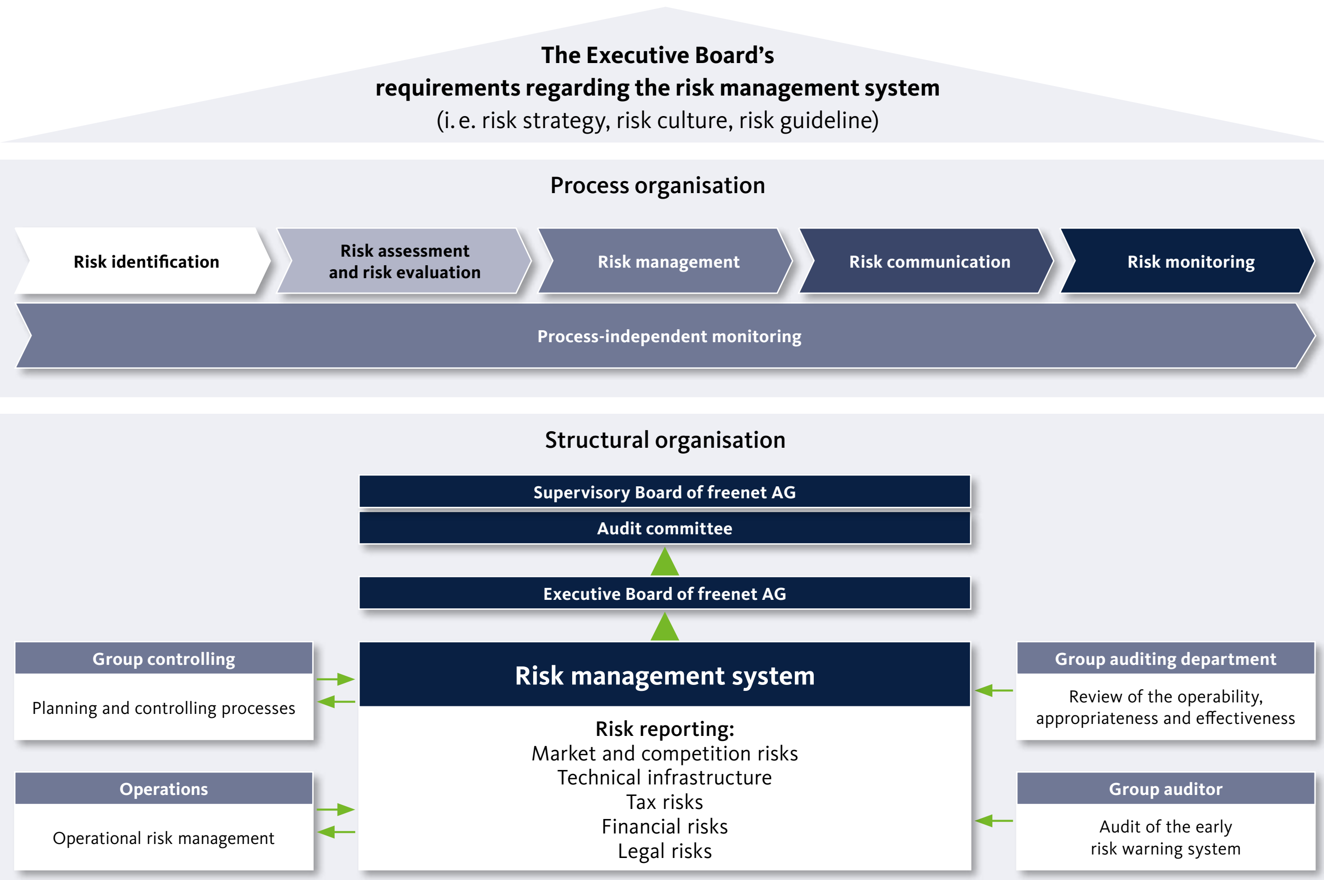
- The steady intensification of business relations with suppliers to stabilise existing models for terms and conditions and develop new ones;
- The consolidation and development of IT systems to further increase customer satisfaction;
- The review and implementation of strategic options in the Mobile Communications and Digital Lifestyle sectors;
- Ongoing process and quality improvements to effectively reduce cost structures long-term;
- Expanded selling power through expansion of existing revenue channels and leveraging of new distribution partnerships;
- Further improvement in the shops’ performance by marketing additional products (among other things);
- The implementation and marketing of new Digital Lifestyle products;
- A merger of network operators (especially the announced merger of O_2 and E-Plus) with the concomitant improvements in terms and conditions;
- The increased establishment of the klarmobil, freenetmobile, callmobile and debitel light brands in the steadily growing discount market, to be able to participate even more in this growth market.

Risk management system

An effective risk management system is essential to safeguarding the long-term continuity of freenet AG. The freenet AG risk management system is applied exclusively to risks, not opportunities. The risk management system is intended to ensure that risks to the company’s future development are detected by each of our executives at an early stage and communicated in a systematic, understandable manner to the appropriate decision-makers in the company. The timely communication of risks to the responsible decision-makers is designed to ensure that appropriate measures are taken to deal with the identified risks, thereby averting damage to our company, our employees and customers.

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

Figure 8: **Process and structural organisation of the risk management system of freenet AG**



At least every six months, freenet's individual departments and subsidiaries identify or update existing and new risks that exceed a defined materiality threshold in formalised risk reports. Risks are also recorded and managed between the regular reporting dates immediately after being identified and—if of a sufficient magnitude—are reported directly to the Executive Board and the Supervisory Board. The risk reports describe specific risks and examine the probability of their occurrence, and their implications for the company should they occur. The individual risk reports are combined into a risk report for the whole Group, which is presented to the Executive Board.

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

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

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

Besides the risk management system, the management has set up a comprehensive monthly reporting system to manage and monitor the day-to-day business operations. It covers both the financial and the non-financial performance indicators of the Group. The Executive Board is kept informed about operational developments in a timely manner at regular 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 in constant communication with the Executive Board, ensuring timely notification of risks to the appropriate decision makers at all times.

Major risks

The regular monitoring of risks via the risk management system and monthly reporting system gives the Executive Board an overview of overall risk. Individual risks have changed slightly compared to the previous year in terms of their probability of occurrence or impact. Overall, it can be assumed that the risks have no implications for the continued existence of the Group. The Executive Board will continue to monitor existing risks in the future.

Of all of the risks identified for freenet Group, in the following we report on the individual risks or risk areas that, from our current perspective, could significantly affect freenet AG's assets, financial position or results.

Market and competition risks
Mobile Communications is by far the most important sector for 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 characterised by intensive competition and high customer willingness to switch plans and tariffs. This can lead to shortfalls in revenue, to loss of market share and pressure on margins in any given operation and/or can make it more difficult to gain market share.

Strong competition could also lead to higher costs for new customer acquisition, while revenue continues to fall and customers are very ready to switch. 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 inordinate cost, this will have a negative impact on the company's assets, financial position and results.

Margins in the mobile service provider business are largely dependent on how the network operators structure their tariffs. Apart from this, mobile network operators are increasingly marketing their products themselves and forcing mobile communications service providers out of the market. Also, due to their business structure, mobile network operators are sometimes able to offer better rates than the mobile communications service providers. This in turn can lead to a loss of distribution channels and customers.

If the Federal Network Agency further lowers the "termination charges", this will reduce revenue per customer in the market. Based on past reductions of these charges, the expected risk is low despite a moderate probability of occurrence.

A potential merger of the two mobile communications operators O_2 and E-Plus could lead to restrictions in competition between the remaining operators. This could lead to a weakening of the service provider model and have a negative impact on freenet AG's revenues and earnings.

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

There are price risks attendant on expanding the business with mobile devices. A reduction of carrier premiums in this area could also result in a higher capital commitment and marketing risk.

Consumers may now be contacted by phone for advertising purposes only after explicit prior agreement (known as "OPT-IN"). Consumers have to explicitly agree to their information being used for promotional purposes. Apart from new customer acquisition, this new regulation considerably impacts the management of existing customers, as many existing customers did not explicitly give their agreement—so it is now no longer possible to phone these customers for purely promotional purposes.

The loss of revenue channels and cooperation partners could result in gross activations at other existing or new partners having to be realised at higher terms, or that they cannot be replaced.

Legislative changes, interventions by regulators, or even judicial policy decisions can result in repercussions for the tariff structure and the possibility of claiming receivables from customers. This can impact revenue and cash flows levels. The effects of individual decisions or legislative changes cannot be significant in themselves. freenet counters risks by regularly monitoring regulator-side developments and following the outcome of legal judgments. The probability of such risks occurring can be classified as medium, so that the overall risk of a negative impact on earnings of the company is classified as moderate.

Technical Infrastructure

The operational availability and efficiency of the technical infrastructure, including data centres and billing systems, is of major importance for the company's successful operation and continuity. Network outages or service problems caused by system defaults or failures can lead to customer loss. Apart from the decline in revenues and earning associated with the loss of customers, system outages mean that freenet AG cannot provide any services and therefore cannot generate revenue. This risk adversely impacts revenue and cash flow.

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 financial authorities come to different interpretations of tax regulations or to different assessments of underlying circumstances during their tax audit. The same is true for types of taxes that may not yet have even been audited, in particular since they are not usually subject to external tax audits.

The risk of divergent interpretations and valuations applies in particular to any restructuring under corporate law. Therefore it cannot be ruled out that the corporation and trade tax loss carryforwards declared by freenet Group companies, and also thus assessed by the financial authorities to date, could wholly or partially be lost through contributions, other transactions involving changes of corporate form, capital inflows and changes in the shareholder structure.

If within five years 25 percent or more of the shares or voting rights in the company came 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 (perhaps partial) elimination of any negative income (corporation and trade tax loss carryforwards) not settled or deducted by the time of the harmful acquisition is brought about by measures and transactions at shareholder level. Against this backdrop, it cannot be ruled out that as the result of a sale or additional purchase of shares by the company's shareholders, 25 percent or more of the shares could be united under a single shareholder. The same risk exists if 25 percent or more of the shares or voting rights are first united through other measures under a single shareholder or several shareholders with parallel interests. The above-described legal consequences apply accordingly.

In the Mobile Communications business, there exists the possibility of external sales partners mediate mobile communications contracts between mobile service providers (such as freenet AG) and end users while simultaneously providing end customers with free mobile phones in their own name and on their own account. There are sales tax-related problems in relation to the provision of such phones, which have not yet been clarified by the highest court. The financial courts have been inconsistent in their past rulings on the provision of free mobile phones by sales partners. In two judgments, the Finance Courts of Saarland and Baden-Württemberg took the view that the provision of free mobile phones is a provision against payment to the end customer by the sales partner; and that the component of the commission paid by the mobile service provider to the sales partner that triggers the free provision of mobile phones constitutes a third-party payment for the sales partner's delivery to the end customer, within the meaning of § 10 section 1 sentence 3 of the German Turnover Tax Act (UStG). The Baden-Württemberg Financial Court's ruling was appealed to the German Federal Finance Court ("BFH" in the following), which resulted in a BFH judgment on 16 October 2013 that the judgement of the Baden-Württemberg Financial Court was not objectionable in this particular pending case. The company believes that this BFH judgment will most likely have no negative sales tax legislation-related implications for freenet AG. However, there remains a risk that in such a case, freenet AG would have to partly reimburse tax already deducted to the fiscal authorities, which could have a considerable adverse effect on the company's assets, financial and earnings position.

Financial risks

We use a variety of financing instruments to reduce the liquidity risk. The liabilities to banks shown under borrowings stem from a fixed-rate corporate bond (shown on the books at 31 December 2013: 417.4 million euros), issued as part of the refinancing in April 2011, and from the promissory note signed in December 2012 (shown on the books at 31 December 2013 as totalling 119.8 million euros—a 56 million-euro variable-interest tranche and 63.8 million euros in two separate fixed-interest tranches). The Group also has a revolving credit line totalling 300 million euros, which had not been drawn at the end of the year. The provisions of the credit agreements restrict the company's financial leeway.

In each case, freenet AG is the borrower and mobilcom-debitel GmbH the guarantor; in the case of the revolving credit line, mobilcom-debitel GmbH can also draw money directly. There are stringent restrictions on the company raising loans beyond these credit agreements, e. g. in order to finance future strategic investments.

Furthermore, freenet AG's financial and operating leeway is limited by certain contractual restrictions (undertakings and covenants), to which freenet AG agreed in view of continuing the credit agreements. For example, the company is subject to restrictions regarding changes to the Group's business operations, the implementation of measures to change the Group's structure under corporate law, the provision of collateral, and any acquisitions or revenue of assets, especially shareholdings.

The above-mentioned restrictions can—on their own or in interaction with other factors, such as a deteriorating economy—have a negative impact on freenet AG's assets, financial position and results.

With regard to variable-interest financial debt, our company is largely subject to EURIBOR-related interest rate risks. The company counters these risks by having a mix of fixed- and variable-interest financial debt. The interest rate risks are not explicitly secured; however the cash holdings (which are mainly invested at variable interest rates based on EONIA or EURIBOR) serve as a natural hedge and accordingly mitigate the interest rate risks arising from the variable-interest financial debt.

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

The freenet Group consolidated balance sheet shows significant 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 receivables and other assets shown on the balance sheet. The non-payment risk consists of any unexpected loss of currency or income due to the partial or complete default of receivables. 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.

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

The company feels that other financial risks such as those relating to foreign currency or exchange rate changes can be classified as immaterial and therefore do not require separate mention in this Group management report.

Legal risks

Former shareholders of mobilcom AG and freenet.de AG have applied for a court review according to section 15 UmwG (Reorganisation Act) of the share exchange ratio applied in the 2007 merger of mobilcom AG and freenet.de AG into what is now freenet AG. If the court decrees that the exchange ratio was inappropriate, the difference will be settled in cash. The cash settlement will have to be paid to all shareholders affected, even if they were not among the plaintiffs in the compensation proceedings.

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

The company sees its assessment validated by the Kiel district court, which rejected the lawsuits filed by both groups of shareholders. Some applicants have appealed this decision to the Schleswig-Holstein Higher Regional Court ("OLG").

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

The company considers the agreement to be valid and has not received any indication that France Telecom does not feel bound by it. However, were the view of these shareholders to be legally upheld, it should be anticipated that France Telecom will claim from the company the sum of 7.1 billion euros, which it waived as part of the agreement, and will contest the grounds and amounts of any counterclaims the company may make.

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

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 freenet Group's internal control system

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

The Executive Board of freenet AG has mandated all of the Group's divisions to manage their monitoring & control processes according to common principles.

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

The key elements in freenet Group's internal control system are based on automated IT control processes with alert thresholds on the one hand, and on manual process controls to check the plausibility of the automatically aggregated results on the other hand. As part of the internal control system, the risk management system includes not only operative 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 financial statements of freenet AG's subsidiaries are essentially recorded using local accounting system by the manufacturer SAP. freenet AG uses SAP's "EC-CS" module as its consolidation system at the Group top level. When preparing the consolidated balance sheet, the consolidated income statement, the consolidation cash flow statement, the consolidation entries etc., the data reported by the subsidiaries is entered into the consolidating system in various ways—mostly automatically via the SAP module "FI" and sometimes manually by entering reported data. The notes to the Group management report and the consolidated financial statements are each generated from standardised reporting packages that are managed in MS Excel, inter alia, as well as institutionalised coordination processes as part of the internal control system. The consolidation of these notes information is also carried out in MS Excel.

freenet AG's Group internal 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 reconciliation from the subsidiaries' standardised reporting packages to freenet AG's consolidated financial statements.

Key regulatory and controlling 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.

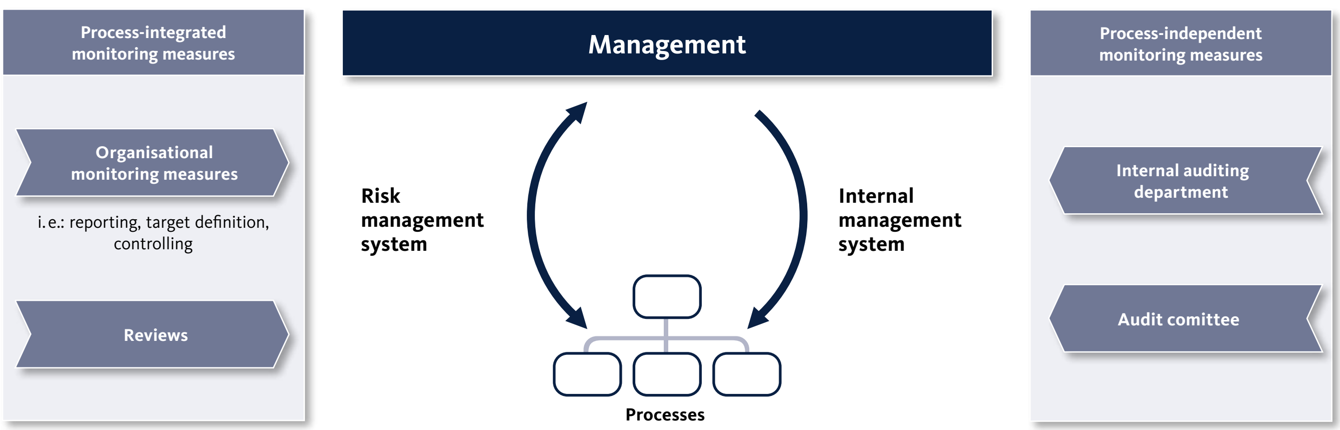
The regular elements in the Group's internal control system are aimed at extensive automation of the formation and crosschecking of all relevant data, from accounting-relevant data, to invoicing of customers, to value adjustments, accruals and depreciation. These automated controls are supplemented by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

The Group internal audit department's annual review of the internal control system in 2013 showed that potential improvements detected in the audited departments in previous years have been implemented. The internal audit department continued to expand tests and increased the frequency of internal audits, and furthermore the level of automation within the control activities. The results are used to systematically derive measures and monitor their success.

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

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

Figure 9: **freenet AG's internal control system**



Corporate Governance

In this section the Executive Board reports—also on behalf of the Supervisory Board—on Corporate Governance in the freenet Group in accordance with section 3.10 of the German Corporate Governance Code. This section also contains the corporate management statement in accordance with § 289a HGB (German Commercial Code).

freenet AG and its management and supervisory bodies are committed to the principles of good and responsible corporate governance; they 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 the freenet Group are committed to these objectives.

At its meeting on 5 December 2013, the Supervisory Board discussed the provisions of the German Corporate Governance Code. The discussion focused on the recommendations newly included in the Code in 2013 by the Government Commission on the German Corporate Governance Code. In particular, the Supervisory Board examined the revised recommendations for Executive Board compensation for changes requiring explanation.

The Supervisory Board explained and justified an exception to Code recommendation 5.1.2, paragraph 1 in its annual declaration of compliance, regarding the composition of the Executive Board. The exception was based on the Supervisory Board's view that upon expiry of current Executive Board appointments, continuity on the Executive Board should take precedence over a selection of new Executive Board members according to the criteria set out in section 5.1.2. Exceptions to the recommendations in Section 5.4.1 and Section 5.4.2 of the Code on matters that relate to the composition of the Supervisory Board were already explained and justified in 2012. In the 2013 Statement of Compliance, the Supervisory Board summarised and standardised its justification and explanation of these exceptions. The other declared exceptions and their justifications were carried forward from previous years. The Statement of Compliance dated 5 December 2013 is included in the following corporate management statement and may be accessed at any time on the company's website.

Corporate management statement

In accordance with § 289a HGB, freenet AG's corporate management statement presents its current statement of compliance according to § 161 AktG and explains the relevant details relating to corporate management practices applied on and above the legal provisions. Furthermore, the functioning of the Executive Board and Supervisory Board is described and of the composition and functioning of the Supervisory Board's committees is presented. freenet AG made the following corporate management statement in accordance with § 289a HGB, which is also part of the company's management report for the financial year 2013.

Statement on the Corporate Governance Code in accordance with § 161 AktG

Since issuing its last statement of compliance on 21 December 2012, freenet AG has, with the exceptions listed below, complied with the recommendations contained in the version of the German Corporate Governance Code ("Code") as issued on 15 May 2012 up until 10 June 2013, and since 10 June 2013 in the version of the Code as issued on 13 May 2013. The group is also going to comply with the recommendations of the Code (as issued on 13 May 2013) in the future, except in cases where there is a declaration of exception from the company below.

1. The company has taken out D&O insurance for its Board members. For the members of the Supervisory Board, an agreement of a retention is not included, as the company can see no benefit associated with this. Acting responsibly is a duty and a matter of course for all members of the Supervisory Board. Moreover, a retention would have to be set uniformly on account of the equality principle, although the personal circumstances of the Supervisory Board members vary. A retention would therefore have a varying impact on the Supervisory Board members. Given that their duties are the same, this seems inappropriate. (Clause 3.8, paragraph 3 of the Code)
2. The Supervisory Board regards the current composition of the Executive Board as successful and therefore strives for continuity on the Executive Board. The Supervisory Board therefore feels that a selection based on the criteria for the composition of an Executive Board as set out in Clause 5.1.2, paragraph 1 of the Code is secondary. (Clause 5.1.2, paragraph 1 of the Code)
3. 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 extensive professional and personal experience should not be considered as candidates solely based on their age. (Clause 5.1.2, sentence 6 and clause 5.4.1, sentence 2 of the Code)
4. The Supervisory Board does not specify definite targets for its composition as set out in Clause 5.4.1, paragraph 2 and Clause 5.4.2, paragraph 2, sentence 1 of the Code. As a result, it cannot comply with the recommendations in Clause 5.4.1 paragraph 3, which are based on the above. The Supervisory Board has been guided solely by the qualification of the candidate when selecting nominees for the Supervisory Board to date, and believes that this has worked out very well. Therefore, it sees no need to change this practice. (Clause 5.4.1, paragraph 2 and paragraph 3 of the Code)
5. Clause 5.4.6, paragraph 2 of the Code recommends that a variable remuneration of the Supervisory Board should be focused on sustainable business development. According to clause 11 paragraph 5 of the Articles of Association, the variable remuneration of the Supervisory Board is calculated based on the dividend for the past financial year. The Supervisory Board is of the view that this form of variable compensation has worked well in the past. The Supervisory Board also believes that the Company's dividend policy as communicated to the capital market, which is linked to free cash flow, is geared towards sustainable business development. In its view, therefore, the linking of the variable remuneration to the dividend policy also serves to promote sustainable corporate development. For this reason, an adjustment of the Supervisory Board's variable remuneration is not planned. (Clause 5.4.6, paragraph 2 of the Code)

Relevant information on corporate management practices

freenet AG has a Group-wide compliance function that is continuously expanding and evolving. The freenet Group's Chief Compliance Officer reports directly to the Executive Board. He supports the Executive Board in identifying the legal requirements relevant to freenet AG and putting them into practice accordingly within freenet Group, as well as in adapting the compliance system to changing requirements. The Chief Compliance Officer also reports regularly to the Supervisory Board's audit committee. The Chief Compliance Officer also notifies the Supervisory Board in the event of risks that endanger the existence of the freenet Group.

The freenet Group is fully committed to compliance with the law. For the freenet Group compliance means that legal requirements are met, self-imposed regulations and internal company policies are observed, and offences are avoided. The company does everything in its power to prevent compliance violations such as fraud, corruption and competition violations from. However, should wrongdoing or violations of compliance occur, these incidents are comprehensively resolved.

freenet Group executives represent compliance in their own conduct, and ensure that in their area of responsibility the relevant actions are in accordance with all applicable laws and our own values and rules.

The compliance department is available to all for advice on specific questions.

In financial year 2013, the Compliance department developed and introduced a whistleblower tool at freenet Group. It enables whistleblowers to anonymously give notification should they become aware of compliance violations.

All information provided through the whistleblowing tool will be investigated in a timely manner and using a transparent and accountable process that takes into account the interests of the whistleblower, the people affected by the allegations, and the company.

The idea is to give the company the opportunity to immediately take resolute and appropriate action in case of compliance violations in order to prevent damage to freenet AG. To ensure proper and expeditious processing of evidence in the whistleblower process, freenet Group has set up a whistleblower committee. Permanent members of the whistleblower committee are the Chief Compliance Officer, the Head of Internal Audit, and the Head of Fraud Management. The whistleblower committee is responsible for the operational implementation of the whistleblower process.

A central Fraud Management system was also established in 2013. In addition to coordination between the individual freenet Group fraud departments is charged in particular with introducing and improving effective fraud-prevention measures and processes to avert fraud-related damage.

The importance of data protection has increased steadily in recent years. freenet Group is aware of its special responsibility with regard to handling the personal data of our customers, suppliers, contractors and employees. It is therefore important for us to protect this data from unauthorised access and to transparently report on how we handle the data entrusted to us. The Compliance department has operational responsibility for data protection.

The compliance organisation has run various training sessions to explain the relevant statutory regulations and the internal company guidelines it has developed; giving all employees the necessary security on key issues for the freenet Group; and established the appropriate transparency. To complement the in-person training sessions, we are developing e-learning programs to efficiently provide information and training regarding key compliance topics to a large number of employees.

Functioning of the Executive Board and Supervisory Board

freenet AG's Executive Board and Supervisory Board cooperate closely and in a spirit of mutual trust to control and monitor the company's business.

As the management body of the Group's parent company, the Executive Board is bound by the company's best interests and currently has three members. The work of the Executive Board is regulated by its rules of procedure. The members of the Executive Board have joint responsibility for the overall management of the company. They work together as a team and keep each other informed on a continuous basis at regular Board meetings about events and developments in their business areas. Furthermore, the members of the Executive Board participate in regular specialist meetings. The Supervisory Board establishes, within the framework of a company schedule of responsibilities, the areas of responsibilities of the individual members of the Executive Board.

The Supervisory Board is convened at least twice per calendar half-year. It normally passes resolutions in session, in exceptional cases also by way of conventional means of communication. The Supervisory Board regularly advises the Executive Board in its decision-making regarding the management of the company and oversees it in its management of the company. The Executive Board involves the Supervisory Board in all fundamental decisions on the management of the company and reports regularly about the business development, corporate planning, strategic development and the company's situation. The Supervisory Board examines any deviations of business development from what has been planned and targeted, on a case-by-case basis, and discusses them with the Executive Board. Moreover, the Supervisory Board examines business transactions that are significant for the company in detail on the basis of Executive Board reports, discusses them and, if required, passes resolutions. The Supervisory Board members are also kept informed about the current business development outside of meetings by the Executive Board.

Composition and functioning of committees
The Executive Board has not established any committees.

The Supervisory Board has established a total of one executive committee and four committees. These committees prepare topics to be addressed in plenary session and resolutions to be passed by the Supervisory Board. The committees meet personal; in exceptional cases, the meetings can also be carried out by telephone. The committees discuss the agenda items and pass resolutions where necessary. The chairpersons of the committees report 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.

Members: Dr Hartmut Schenk (Chair), Prof Dr Helmut Thoma, Birgit Geffke (since 23 May 2013), Knut Mackeprang (since 23 May 2013)

Members who left the committee in 2013: Nicole Engenhardt-Gillé, Claudia Anderleit (each until 23 May 2013)

Personnel committee/HR 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.

Members: Dr Hartmut Schenk (Chair), Thorsten Kraemer, Claudia Anderleit, Birgit Geffke (since 23 May 2013)

Members who left the committee in 2013: Joachim Halefeld (until 23 May 2013)

Audit committee
The audit committee is concerned with monitoring of the accounting process, the effectiveness of the internal control system, risk management system, and internal audit function as well as the annual audit, in particular the auditors' independence and the auditors' additional services. The committee also deals with questions of compliance.

Members: Robert Weidinger (Chair), Marc Tüngler, Ronny Minak (since 23 May 2013), Michael Stephan (since 23 May 2013)

Members who left the committee in 2013: Steffen Vodel, Joachim Halefeld (each until 23 May 2013)

Mediation committee
The mediation committee is established in accordance with § 27 (3) MitbestG with the purpose of achieving the task described in § 31 (3) sentence 1 MitbestG.

Members: Dr Hartmut Schenk (Chair), Thorsten Kraemer, Knut Mackeprang (since 23 May 2013), Gesine Thomas (since 23 May 2013)

Members who left the committee in 2013: Nicole Engenhardt-Gillé, Claudia Anderleit (each until 23 May 2013)

Nominations committee
The nominations committee is charged with the task of proposing suitable candidates for upcoming elections to the Supervisory Board for recommendation to the Annual General Meeting.

Members: Dr Hartmut Schenk (Chair), Marc Tüngler, Achim Weiss

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
As at 31 December 2013, there were no shareholdings exceeding 10 percent of the voting rights in freenet AG.

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 and buy back shares

The Annual General Meeting of 6 July 2010 authorised the Executive Board to buy back shares up to 10 percent of the current share capital on or before 5 July 2015. This authorisation may be exercised by the company or its subsidiaries or by third parties on account of the company 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 out by the freenet Group under the syndicated loan contract may be terminated 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 applies in particular for the right to cancel 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.

Indemnity agreement of the company

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

Corporate management statement in accordance with § 289a HGB

The corporate management statement in accordance with § 289a HGB was published on the company's website in the area Company/Corporate Governance.

Compensation report for the Executive Board and Supervisory Board

Executive Board compensation

The compensation for members of the company's Executive Board is composed as follows; the table below provides details of the Board members' Compensation in accordance with Art. 314 sect. 1 No. 6a of the Commercial Code. It includes compensation paid in the financial year. Changes in the value of the stock appreciation programme or LTIP programme that are not based on a change in the vesting conditions are not included, in accordance with Art. 314 Sect. 1 No. 6a of the Commercial Code.

Table 10: **Executive Board compensation for financial year 2013 according to HGB**

In EUR '000s	Fixed compensation	Variable cash compensation	Total cash compensation	Compensation with long-term incentive effect	Total compensation
Christoph Vilanek	621	504	1,125	0	1,125
Joachim Preisig	440	504	944	0	944
Stephan Esch	444	151	595	0	595
	1,505	**1,159**	**2,664**	**0**	**2,664**

Table 11: **Executive Board compensation for financial year 2012 according to HGB**

In EUR '000s	Fixed compensation	Variable cash compensation	Total cash compensation	Compensation with long-term incentive effect	Total compensation
Christoph Vilanek	625	480	1,105	0	1,105
Joachim Preisig	444	480	924	0	924
Stephan Esch	445	144	589	0	589
	1,514	**1,104**	**2,618**	**0**	**2,618**

No new stock appreciation rights, stock options or any other compensation components with a long-term incentive effect were granted to the Members of the Executive Board in the financial year 2013. In the 2013 financial year the Executive Board compensation in accordance with Art. 314 Sect. 1 No. 6a of the Commercial Code amounted to 2,664 thousand euros (prior year: 2,618 thousand euros.)

The Executive Board and former Executive Board members do not hold stock appreciation rights as at the same date of the previous year.

In financial year 2013 cash payments were issued under the LTIP programme for the first time, namely the sum of 405 thousand euros to Mr Vilanek, 270 thousand euros to Mr Preisig and 122 thousand euros to Mr Esch. As of 31 December 2013, the value of the provision for the LTIP programme for Mr Vilanek was 1,853 thousand euros (prior year: 1,286 thousand euros); the value for Mr Preisig was 1,236 thousand euros (prior year: 857 thousand euros); and the value for Mr Esch was 556 thousand euros (prior year: 386 thousand euros).

In November 2004 an indirect pension commitment was granted to Mr Esch. In the 2009 financial year, an indirect pension commitment was granted for Mr Vilanek when he was appointed as Chief Executive Officer on 1 May 2009. On 31 December 2013 the Defined Benefit Obligations (DBO) were as follows: 1,165 thousand euros (prior year: 974 thousand euros) and for Mr Esch 1,627 thousand euros (prior year: 1,531 thousand euros). As of 1 September 2008 freenet AG took over the pension commitment granted to Mr Preisig by debitel AG. On 31 December 2013 the DBO for Mr Preisig amounted to 893 thousand euros (prior year: 751 thousand euros). The DBOs for Mr Spoerr, Mr Krieger and Mr Berger as former members of the Executive Board, totalled 6,236 thousand euros as of 31 December 2013 (prior year: 6,520 thousand euros).

Total current and post-service time expenses of 549 thousand euros (prior year: 357 thousand euros) were recognised in personnel expenses for the members of the Executive Board as a result of the pension commitments. For 2013, this figure was spread over the following persons: Mr Vilanek 250 thousand euros, Mr Preisig 125 thousand euros and Mr Esch 174 thousand euros; for 2012 the breakdown was as follows: Mr Vilanek 157 thousand euros, Mr Preisig 92 thousand euros, Mr Esch 108 thousand euros.

No loans were given 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

Compensation provisions in the event of premature termination of employment contracts and pension plans are as follows:

Arrangements for the former Executive Board members Eckhard Spoerr, Axel Krieger and Eric Berger:

- From their 60th birthday, the above-mentioned 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 final pension paid.
- Stock appreciation rights which have already become exercisable due to the expiry of the relevant vesting period and the respective objectives being achieved, remained in place.

For the Chief Executive Officer Christoph Vilanek, the following rules apply from 1 June 2011:

- 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 their schooling or vocational training, terminating at the latest when they reach the age of 27, to a maximum total amount of the final pension paid or the value of pension entitlements Mr Vilanek would obtain if he were to die.
- A four-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the Board is revoked, Mr Vilanek can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to § 626 BGB, or that the revocation of his appointment to the Board does not form part of the termination of the service contract on the part of the company, for which there is good cause under § 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

For the member of the Executive Board Stephan Esch, the following rules apply from 1 January 2011:

- From his 60th birthday, Mr Esch 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 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.
- In the event of Mr Esch terminating his service contract for any 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.
- A four-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the Board is revoked, Mr Esch can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to § 626 BGB, or that the revocation of his appointment to the Board does not form part of the termination of the service contract on the part of the company, for which there is good cause under § 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

For the member of the Executive Board Joachim Preisig, the following rules apply from 1 June 2011:

- 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.
- A four-year target agreement was signed. If the service contract ends due to expiry of term, termination, cancellation or otherwise, or his appointment to the Board is revoked, Mr Preisig can claim for payout of the Long-Term Incentive Account at the time of termination, provided it shows a positive balance. Provided that the termination of the service contract on the part of the company is not for good cause pursuant to § 626 BGB, or that the revocation of his appointment to the Board does not form part of the termination of the service contract on the part of the company, for which there is good cause under § 626 BGB, the number of virtual shares in the Long Term Incentive Account is added to the number of shares that result from the Group EBITDA for the current financial year.

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

Please also refer to item 35 in the notes to the consolidated financial statements 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 and
- 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.

In addition, every Supervisory Board member receives 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 voluntarily imposed restrictions, starting from the third quarter of 2010, the Supervisory Board decided to waive the payment of attendance fees for conference-calls meetings of the Supervisory Board and its committees, and for phone participation in actual meetings.

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 that is distributed to the shareholders for the previous financial year. The extent of the compensation is limited to the amount payable as fixed 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 2013, the members of the Supervisory Board of the company received fixed compensation of 405.3 thousand euros and attendance fees of 86.0 thousand euros. Performance-based compensation of 405.4 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 2013. The total compensation for Supervisory Board was thus 896.7 thousand euros.

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

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

Forecast

The market in 2014

At the beginning of 2014 the International Monetary Fund (IMF) raised its global economic growth forecast for this year slightly from 3.6 percent to 3.7 percent. In 2013, global economic output, measured in global gross domestic product (GDP), was still growing at 3.0 percent. According to current estimates in 2015 this will increase to 3.9 percent. According to the IMF this positive development during the current year is supported in particular by an expected economic recovery in the industrialized countries, and accelerated economic growth in the United States.

According to the IMF, the euro zone has weathered the worst of the recession, with further development in Europe expected to be uneven. In the EU countries that are directly affected by the impact of the financial crisis, recovery should be comparatively weaker. For the euro zone, GDP is forecast to grow by one percent in 2014 and by 1.4 percent in 2015.

Although economic growth in Germany was only moderate for the full year 2013, the German economy picked up momentum again towards the end of the year. With foreign trade weak of late, the domestic economy in particular was seen as a growth driver for the incipient recovery. In its monthly report of December 2013, the Bundesbank (German Federal Bank) therefore predicts a return to stronger growth in the German economy: 1.7 percent and 2.0 percent for 2014 and 2015.

According to the VATM, the German telecommunications market will see a 1 to 1.5 percent dip in the current year. The expected growth in mobile communications, especially in the area of mobile data usage, is likely to be cancelled out by declining fees for termination and EU-wide roaming.

Despite ongoing problems and delays in the approval of the point-to-point radio links needed for the new LTE network, the VATM reports that noticeable progress was made on expanding the network last year. This year will see a continued focus on the LTE rollout and on building awareness of LTE. Other expected industry trends for 2014 include the launch of the vectoring supply grid, increased smartphone penetration and the associated increase in the share of mobile Internet usage.

According to the “Sizing the EU App Economy” report published by the European Commission in mid-February, sales of applications for mobile devices (“apps”) generated around 17 billion euros of revenues within the European Union in 2013, with the number of apps installed on mobile devices globally estimated at 94 billion in the past financial year. According to the report, by 2018 the volume of this currently still very fragmented fledgling market will rise to about 63 billion euros in Europe alone. The dynamic technological developments will give rise to new sources of value creation, of which the report highlights the long-term use of apps in return for payment in the business-to-consumer (B2C) sector as well as target group-specific advertising on installed apps in the business-to-business (B2B) sector.

freenet Group

In its core business of mobile communications, freenet Group operates in a saturated market characterized by intense competition. The declining market volume is leading to consolidation on the supply side and declining total numbers of users on the consumer side. In addition, by offering Digital Lifestyle products and services, freenet Group is also positioning itself in emerging markets with high growth potential.

The Executive Board currently expects to see the following developments in 2014 and 2015:

The company will continue to focus on retaining and acquiring customers who can be signed up for valuable contracts. To do this, existing customer loyalty initiatives will be further developed and aligned for additional quality improvements, reflecting the further development of customer requirements. In the past this strategic orientation has led to a decline in the overall customer base, driven in particular by shrinking of the prepaid sector.

Table 12: **Development of key financial performance indicators**

In EUR million/as indicated	Target 2013/14[1]	2013	Target 2014	Target 2015
Customer base	Slight increase	+260 thousand	Slight increase	Slight increase
Postpaid ARPU	Approx. 23 EUR	22.3 Euro	Slight decline	Stable above
Group revenue	Increase/ slight increase	+109	Slight increase	Slight increase
Group EBITDA	355/360	357	365	370
Free cash flow	255/260	256	265	280

1 As per the Group Management Report for the 2012 Consolidated Financial Statements.

For 2014 and 2015, the company expects a slight increase in the number of customers in the important customer ownership sector (postpaid and no-frills). The company continues to counter the persistent price deterioration in the mobile communications market and the associated decline in ARPUs by striving to improve the quality of its customer base and increase the marketing of data tariffs in conjunction with the increased demand for smartphones and mobile applications.

From this perspective, the company expects a slight decline year-on-year in postpaid ARPU in the current financial year, and a further stabilization for financial year 2015.

Taking into account the acquisition of Jesta Digital Group completed in January 2014, the company expects a slight increase in Group revenue in both financial year 2014 and financial year 2015. Apart from the above-described expectations regarding customer ownership and post-paid ARPU in the core business of mobile communications, the main factor here is the increasing development of revenue streams from the sale of devices, accessories and services for mobile applications in the Digital Lifestyle sector.

In accordance with the developments described above, the company is aiming for Group EBITDA of approximately 365 million euros for financial year 2014 and of around 370 million euros for 2015.

Furthermore, the company's target free cash flow for the freenet Group, defined as cash flow from operating activities minus investment in property, plant and equipment, plus proceeds from the disposal of property, plant and equipment, is around 265 million euros for the 2014 financial year and about 280 million euros for the financial year 2015.

Overall guidance of the Group's expected development

Based on the stabilization of the customer ownership base the valuable postpaid customer and no-frills segments that was initiated in 2011, as well as the further expansion of the Digital Lifestyle range over the course of the past financial year, the freenet AG Executive Board expects a positive overall development for the company. The company will continue its basic focus on valuable customer relationships in all business fields in order to further secure its established market position in the mobile communications market, while also capitalizing on growth potential in the young and rapidly growing Digital Lifestyle market segments.

The key elements in this business strategy are safeguarding and enhancing long-term profitability, and strong cash flow. Beyond this, we will strive to further open up, organically and through acquisitions, other action areas involving portfolio enhancement and the expansion of sales channels, always remaining close to the core business and in compliance with strict profitability and investment requirements.

Büdelsdorf, 3 March 2014
The Executive Board

Christoph Vilanek | Joachim Preisig | Stephan Esch

Consolidated financial statements

Notes to the consolidated financial statements: overview of notes

Consolidated income statement

for the period from 1 January to 31 December 2013

In EUR '000s or as indicated	Note	1.1.2013 —31.12.2013	1.1.2012 —31.12.2012 adjusted
Revenue	4	3,193,329	3,084,784
Other operating income	5	69,785	58,919
Other own work capitalised	6	10,752	7,049
Cost of materials	7	–2,462,083	–2,364,942
Personnel expenses	8	–174,127	–160,187
Depreciation and impairment write-downs	9	–56,092	–148,595
Other operating expenses	10	–280,477	–274,566
Operating result		**301,087**	**202,462**
Share of results of associates	17	220	6,303
Interest receivable and similar income	11	1,769	2,695
Interest payable and similar expenses	12	–44,633	–44,783
Result before taxes on income		**258,443**	**166,677**
Taxes on income	13	–19,503	6,512
Group result from continued operations		**238,940**	**173,189**
Group result from discontinued operations		**0**	**0**
Group result		**238,940**	**173,189**
Group result attributable to shareholders of freenet AG		238,943	173,098
Group result attributable to non-controlling interest		–3	91
Earnings per share in EUR (undiluted)	14.1	**1.87**	**1.35**
Earnings per share in EUR (diluted)	14.2	**1.87**	**1.35**
Earnings per share from continued operations in EUR (undiluted)	14.1	1.87	1.35
Earnings per share from continued operations in EUR (diluted)	14.2	1.87	1.35
Earnings per share from discontinued operations in EUR (undiluted)	14.1	0.00	0.00
Earnings per share from discontinued operations in EUR (diluted)	14.2	0.00	0.00
Weighted average of shares outstanding in thousand (undiluted)		128,011	128,011
Weighted average of shares outstanding in thousand (diluted)		128,011	128,011

Consolidated statement of comprehensive income

for the period from 1 January to 31 December 2013

In EUR '000s	1.1.2013 —31.12.2013	1.1.2012 —31.12.2012 adjusted
Group result	**238,940**	**173,189**
Change in fair value of held-for-sale financial instruments	–80	–45
Taxes on income recognised directly in equity	24	13
Other comprehensive income (not recognised in profit or loss)/ to be reclassified to the income statement in the following periods	–56	–32
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. IAS 19 (2011)	809	–12,312
Taxes on income recognised directly in equity	–242	3,601
Other comprehensive income (not recognised in profit or loss)/ not to be reclassified to the income statement in the following periods	567	–8,711
Change in value recognised directly in equity	**511**	**–8,743**
Consolidated comprehensive income	**239,451**	**164,446**
Consolidated comprehensive income attributable to shareholders of freenet AG	239,454	164,355
Consolidated comprehensive income attributable to non-controlling interest	–3	91

Consolidated balance sheet

as of 31 December 2013

Assets

In EUR '000s	Note	31.12.2013	31.12.2012 adjusted	1.1.2012 adjusted
Non-current assets				
Intangible assets	15,16	397,331	356,533	484,280
Goodwill	15,16	1,122,112	1,116,616	1,116,622
Property, plant and equipment	15,16	33,752	28,316	29,227
Investments in associates	17	1,395	1,425	4,047
Other investments	18	1,540	1,529	1,775
Deferred income tax assets	19	186,947	175,528	132,842
Trade accounts receivable	21	78,508	67,822	43,039
Other receivables and other assets	21	14,549	8,192	12,460
		1,836,134	**1,755,961**	**1,824,292**
Current assets				
Inventories	20	69,802	56,586	51,537
Current income tax assets	23	2,326	2,470	3,243
Trade accounts receivable	21	423,121	424,524	428,212
Other receivables and other assets	21	35,049	27,140	36,256
Cash and cash equivalents	22	110,766	204,621	185,368
Assets of disposal group classified as held-for-sale	24	0	7,350	0
		641,064	**722,691**	**704,616**
		2,477,198	**2,478,652**	**2,528,908**

Shareholders' equity and liabilities

In EUR '000s	Note	31.12.2013	31.12.2012 adjusted	1.1.2012 adjusted
Shareholders' equity				
Share capital	25.1	128,061	128,061	128,061
Capital reserve	25.2	737,536	737,536	737,536
Cumulative other comprehensive income		–12,786	–13,297	–4,554
Retained earnings	25.3	383,776	324,883	305,398
Capital and reserves attributable to shareholders of freenet AG		**1,236,587**	**1,177,183**	**1,166,441**
Capital and reserves attributable to non-controlling interest		2,995	370	279
		1,239,582	**1,177,553**	**1,166,720**
Non-current liabilities				
Trade accounts payable	27	0	272	407
Other payables	27	65,894	49	36,608
Borrowings	29	517,599	556,105	514,777
Deferred income tax liabilities	19	157	0	0
Pension provisions	30	44,369	44,986	31,905
Other provisions	31	9,512	9,872	11,173
		637,531	**611,284**	**594,870**
Current liabilities				
Trade accounts payable	27	401,970	412,626	398,892
Other payables	27	113,520	117,699	123,833
Current income tax liabilities	28	43,276	29,258	22,103
Borrowings	29	20,413	100,449	200,302
Other provisions	31	20,906	22,458	22,188
Liabilities of disposal group classified as held-for-sale	24	0	7,325	0
		600,085	**689,815**	**767,318**
		2,477,198	**2,478,652**	**2,528,908**

Schedule of changes in equity

for the period from 1 January to 31 December 2013

In EUR '000s adjusted	Share capital	Capital reserve	Cumulative other comprehensive income: Revaluation reserve	Cumulative other comprehensive income: Actuarial valuation reserve in accordance	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**	**1,166,411**	**279**	**1,166,720**
Dividend payment	0	0	0	0	–153,613	–153,613	0	–153,613
Group result	0	0	0	0	173,098	173,098	91	173,189
Change in fair value of held-for-sale financial instruments	0	0	–32	0	0	–32	0	–32
Detection of actuarial losses acc. IAS 19 (2011)	0	0	0	–8,711	0	–8,711	0	–8,711
Sub-total: Consolidated comprehensive income	0	0	–32	–8,711	173,098	164,355	91	164,446
As of 31. 12. 2012	**128,061**	**737,536**	**–13**	**–13,284**	**324,883**	**1,177,183**	**370**	**1,177,553**
As of 1. 1. 2013	**128,061**	**737,536**	**–13**	**–13,284**	**324,883**	**1,177,183**	**370**	**1,177,553**
Initial consolidation of subsidiaries	0	0	0	0	0	0	2,994	2,994
Dividend payment	0	0	0	0	–172,815	–172,815	0	–172,815
Acquisition of additional shares in subsidiaries	0	0	0	0	366	366	–366	0
Recognition of stock option liabilities connected to company acquisitions	0	0	0	0	–7,601	–7,601	0	–7,601
Group result	0	0	0	0	238,943	238,943	–3	238,940
Recognition of actuarial gains and losses acc. IAS 19 (2011)	0	0	0	567	0	567	0	567
Change in fair value of held-for-sale financial instruments	0	0	–56	0	0	–56	0	–56
Sub-total: Consolidated comprehensive income	0	0	–56	567	238,943	239,454	–3	239,451
As of 31. 12. 2013	**128,061**	**737,536**	**–69**	**–12,717**	**383,776**	**1,236,587**	**2,995**	**1,239,582**

Consolidated statement of cash flows

for the period from 1 January to 31 December 2013

In EUR '000s	Note	1.1.2013 —31.12.2013	1.1.2012 —31.12.2012 adjusted
Result from continued and discontinued operations before interest and taxes (EBIT)		**301,307**	**208,765**
Adjustments			
Depreciation and impairment on items of fixed assets	9	56,092	148,595
Share of results of associates	17	–220	–6,303
Income from the sale of subsidiaries	24	–4,009	–333
Loss on disposals of fixed assets		–1,131	331
Increase in net working capital not attributed to investing or financing activities	20, 21, 30, 31, 33.1	–50,096	–46,295
Other non-cash components		0	–24
Income taxes paid	13, 19	–23,545	–24,645
Cash flow from operating activities	33.1	**278,398**	**280,091**
Investments in property, plant and equipment and intangible assets		–22,323	–21,019
Proceeds from the disposal of property, plant and equipment and intangible assets		90	595
Purchase of subsidiaries	36.1, 36.2	–13,176	0
Proceeds from the sale of subsidiaries	24	1,140	382
Outflow of funds from deconsolidation		–2,734	0
Return of capital from associates	17	250	1,156
Proceeds from the sale of associates		0	7,669
Proceeds from the sale of other investments		0	152
Interest received		1,318	2,079
Cash flow from investing activities	33.2	**–35,435**	**–8,986**
Dividend payment		–172,815	–153,613
Payments for the acquisition of minority interests	36.3	–5,000	0
Proceeds from new borrowings	29	0	119,280
Cash repayments of borrowings	29	–125,020	–80,239
Interest paid		–36,715	–34,548
Cash flow from financing activities	33.3	**–339,550**	**–149,120**
Cash-effective change in cash and cash equivalents		**–96,587**	**121,985**
Cash and cash equivalents 1.1.		**207,353**	**85,368**
Cash and cash equivalents 31.12.		**110,766**	**207,353**

Composition of cash and cash equivalents Figures in EUR '000s	**31.12.2013**	**31.12.2012**
Cash and cash equivalents of continued operations	110,766	207,353[1]
	110,766	**207,353**

Composition of free cash flow Figures in EUR '000s	**31.12.2013**	**31.12.2012**
Cash flow from operating activities	278,398	280,091
Investments in property, plant and equipment and intangible assets	–22,323	–21,019
Proceeds from the disposal of property, plant and equipment and intangible assets	90	595
Free cash flow (FCF)	**256,165**	**259,667**

1 204,621 thousand euros are attributable to cash and cash equivalents, 2,732 thousand euros are attributable to non-current assets held-for-sale.

Notes to the consolidated financial statements of freenet AG for the financial year 2013

1 General Information

1.1 Business activity and accounting standards

freenet AG ("the Company"), the Group's parent company ("freenet"), is registered in Büdelsdorf, Germany. The Company was originally founded in 2005 and was registered at the Amtsgericht (local court) Kiel under HRB 7306. The Group provides telecommunication services in Germany focussing on mobile communications/mobile internet and digital lifestyle.

The consolidated financial statements for the financial year 2013 were prepared in accordance with the IFRS of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC), as applied in the European Union as of 31 December 2013. The regulations of commercial law applicable in accordance with clause 315a HGB have additionally been taken into consideration.

The consolidated financial statements have been prepared in euros, the Company's functional currency. All figures are stated in thousand euros (€'000s) or million euros (m€).

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 consolidated financial statements are submitted to the electronic Federal Gazette.

The following table shows the new or modified standards (IAS/IFRS) or interpretations (IFRIC), which are the subject of mandatory adoption with effect from 1 January 2013, or which have been the subject of early voluntary adoption since 1 January 2013, and their related impact on the Group:

Standard/interpretation		Mandatory application	Adoption by EU Commission	Effects
IFRS 1	Amendments to IFRS 1, First-Time Adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	1.1.2013[1]	11.12.2012	None
IAS 12	Amendment to IAS 12, Realisation of Underlying Assets	1.1.2013[1]	11.12.2012	No material effects
IAS 19	Amendment to IAS 19, Employee Benefits	1.1.2013	5.6.2012	See notes to the consolidated financial statements, item 2.18
IAS 1	Presentation of Financial Statements—Presentation of Individual Items of Other Result	1.7.2012	5.6.2012	Presentation of consolidated statement of comprehensive income
IFRS 10	Consolidated Financial Statements	1.1.2014[1]	11.12.2012	Depending on the nature and type of future transactions
IFRS 11	Joint Arrangements	1.1.2014[1]	11.12.2012	Equity method mandatory for joint ventures; minor reduction of balance sheet
IFRS 12	Disclosures of Interests in Other Entities	1.1.2014[1]	11.12.2012	Disclosures in notes for interests in companies, incl. subsidiaries
IFRS 13	Fair Value Measurement	1.1.2013	11.12.2012	No material effects
IAS 27	Separate Financial Statements	1.1.2014[1]	11.12.2012	None
IAS 28	Investments in Associates and Joint Ventures	1.1.2014[1]	11.12.2012	No material effects
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1.1.2013	11.12.2012	None
IFRS 7	Amendment to IFRS 7, Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities	1.1.2013	13.12.2012	No material effects
IFRS 1	Amendment to IFRS 1: Government Loans	1.1.2013	4.3.2013	None
Various	Annual Improvements Project 2009 to 2011—Improvements of the IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34)	1.1.2013	27.3.2013	No material effects
IFRS 10, IFRS 11 and IFRS 12	Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guideance for the Adoption of the Standards	1.1.2014[1]	4.4.2013	No material effects

1 Mandatory adoption in the EU detailed at this point differs from the IASB requirements.

The following table shows the new or modified standards (IAS/IFRS) or interpretations (IFRIC) which are not yet the subject of mandatory adoption in the financial year 2013 and their impact on the Group:

Standard/interpretation		Mandatory application	Adoption by EU Commission	Effects
IAS 32	Amendment to IAS 32, Financial Instruments Presentation: Offsetting Financial Assets and Financial Liabilities	1. 1. 2014	13. 12. 2012	No material effects
IAS 36	Amendment to IAS 36, Impairment of Assets: Measurement of Recoverable Amount	1. 1. 2014	20. 12. 2013	Disclosures in notes on recoverable amount
IAS 39	Amendment to IAS 39, Financial Instruments: Recognition of Measurement: Novation of Derivatives and Continuation of Hedge Relationships	1. 1. 2014	20. 12. 2013	No material effects
IFRS 9	Financial Instruments: Classification and Measurement of Financial Assets and Liabilities	1. 1. 2015	Pending	Subject to audit by management
IFRS 9 and IFRS 7	Amendment to IFRS 9 and IFRS 7: Mandatory Time of Adoption and Information Regarding Transition	1. 1. 2015	Pending	No material effects
IFRIC 21	Levies: Recognition of Obligations for Paying Public Levies	1. 1. 2014	Pending	None
Various	Annual Improvements Project 2010 to 2012 - Improvements of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38)	1. 7. 2014	Pending	Subject to audit by management
Various	Annual Improvements Project 2011 to 2013— Improvements of IFRS (IFRS 1, IFRS 3, IFRS 13, IAS 40)	1. 7. 2014	Pending	Subject to audit by management
IAS19	Amendment to IAS 19; Employee Benefit	1. 7. 2014	Pending	Subject to audit by management
IFRS 10, IFRS 12 and IAS 27	Amendments to IFRS 10, IFRS 12 and IAS 27: Exception from the Obligation to Consolidate Investment Entities	1. 1. 2014	21. 11. 2013	None

The new and amended standards and interpretations which are explained in the following and which were applied for the first time in 2013 in line with the relevant transitional regulations have a not insignificant impact on the Group.

The amendments to IAS 19 (Employee Benefits) has resulted in more extensive disclosure obligations in the notes with regard to employee benefits and also in particular the changes described in the following. Previously there has been an option with regard to how unexpected fluctuations in the pension obligations, the so-called actuarial profits and losses, were able to be presented in the financial statements. It was possible for such fluctuations to be recognised either (a) in the income statement, (b) in other comprehensive income or (c) after a delay using the so-called corridor method. freenet AG had used the corridor method. The new version of IAS 19 has abolished this option, which means that such fluctuations can now only be directly and fully recognised in other comprehensive income. In addition, past service cost now has to be recognised directly in profit or loss in the year under review in which such cost was incurred. In addition, in the past, the expected income generated by plan assets was calculated at the beginning of the accounting period on the basis of the expectations of management regarding the development in the value of the investment portfolio. Following the application of the amended IAS 19, it is now only possible for a typified return on plan assets based on the discount rate of the pension obligations at the beginning of the period to be recognised. In addition, the income generated by the plan assets and the costs arising from the pension obligation now have to be shown as a net amount on the basis of the typified return. With regard to the amendment entries to be carried out as of 1 January 2012 and also as of 31 December 2012 and the corresponding impact on these consolidated financial statements, please refer to item 2.18 of these notes regarding comparison figures.

As a result of the amendment to IAS 1 (Presentation of Financial Statements), the main change for freenet AG relates to the presentation of that part of the consolidated income statement which reconciles the Group result with the consolidated comprehensive income. The change means that the other comprehensive income now has to be broken down to indicate whether the changes in value recognised in other comprehensive income might have to be subsequently reclassified to the income statement (so-called recycling). No change has been made to the option of presenting the items of other comprehensive income on a pre-tax basis or on a post-tax basis. The taxes have to be distinguished in order to indicate whether they relate to items which will or will not be reclassified to the income statement in future.

Since 1 January 2013, the Group has voluntarily exercised the option of early adoption of IFRS 11 (Joint Arrangements). In this connection, the Group has also exercised the option of early adoption for the following standards: IAS 27 (Separate Financial Statements; no impact on the Group), IAS 28 (Investments in Associates and Joint Ventures; no material impact on the Group), IFRS 10 (Consolidated Financial Statements; no impact so far; the effects depend on the nature and extent of future transactions) as well as IFRS 12 (Information regarding shares in other companies; effect: change to disclosures in notes) also subject to early adoption. FunDorado GmbH, its 50 percent holding in NetCon Media s. r. o. as well as its 100% holding in siXXup new Media GmbH, which previously had been included in the consolidated financial statements using the pro-rata consolidation method, are now measured using the equity method. This means that the corresponding interests of the Group in the assets, liabilities, income and expenses are no longer disclosed in the corresponding items in the consolidated financial statements. Instead, the interest of the Group in FunDorado GmbH as of 31 December 2013 is now shown in the balance sheet item “Companies included using the equity method”. With regard to the retrospective adjustments to the balance sheet and income statement, please refer to item 2.18 of these notes for comparison figures.

There are no plans for voluntary early adoption of the standard which is the subject of mandatory adoption as of 1 January 2015.

1.2 Consolidated companies

The consolidated financial statements include all companies as subsidiaries which are controlled by the Group. The Company is said to control another company if it is able to exercise control over the company in which it holds an equity interest, if it is exposed to fluctuating returns from the holding and if the Company is able to influence the extent of the returns as a result of its control. freenet AG carries out a reassessment if there are indications that there have been changes to one or more of the criteria of control. For a complete list of all companies included in freenet AG’s consolidated financial statements, please consult our disclosures in accordance with clause 315a HGB in item 37.

In accordance with IFRS 11, there are two forms of joint arrangements depending on the form of the rights and obligations resulting from the joint arrangement, namely joint activities and joint ventures. freenet AG has reviewed its joint arrangements and identified them as joint ventures.

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, 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 Shop GmbH, Stanniol GmbH für IT & PR, Gravis—Computervertriebsgesellschaften mbH, klarmobil GmbH as well as callmobile GmbH will take advantage of the exemption regulations specified in clause 264 paragraph 3 HGB for the annual financial statements for the period ending 31 December 2013.

1.3 Consolidation principles

Companies are included for the first time in the consolidated financial statements (full consolidation) with effect from the date on which the possibility of control over the subsidiary is transferred to the Group. They are deconsolidated at the time at which such control is terminated. Control is normally associated with a share in voting rights of more than 50 percent. However, for the purpose of assessing whether a situation of control exists, due consideration is given to the existence and impact of potential voting rights, rights resulting from other contractual agreements and any other facts and circumstances which point to the possibility of control. The Group therefore also carries out an assessment to determine whether there is an instance of control if the parent company holds fewer than 50 percent of the voting rights, but is able to manage the main activities of the company. A situation of control may for instance exist in the case of voting right agreements or enhanced minority rights.

Non-controlling interests are disclosed separately on the balance sheet.

The purchase method was applied to the capital consolidation.

Cost of purchase of a business combination is determined by the sum of the fair values of the rendered assets, the liabilities acquired and any equity instruments issued for acquisition purposes. In addition, the costs of purchase comprise the fair values of all recognised assets and liabilities which result from an agreement regarding a contingent consideration.

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 non-controlling interests. For each company acquisition, the Group decides on an individual basis whether the non-controlling shares in the acquired company which are not controllable are recognised at fair value or on the basis of the percentage of net assets attributable to the acquired company.

Acquisition-related costs are recognised in the income statement when they are incurred.

When options are granted to enable non-controlling shareholders to serve further shares on group companies, the way in which the options are recognised depends on the way in which opportunities and risks arising from these shares are attributed. If the opportunities and risks are transferred to the freenet Group, this is reflected in a corresponding reduction in the equity of the Group which is attributable to the non-controlling shareholders. In such cases, only a financial liability in relation to the option obligation is recognised. If the opportunities and risks are retained by the non-controlling shareholder, the equity which is attributable to the non-controlling shareholders is recognised. In this case, the financial liability relating to the option obligation is recognised against the equity attributable to the shareholders of freenet AG. The financial liability is initially valued at the present value of the estimated repurchase amount at the expected time of exercising, and the financial liability is subsequently measured at amortised cost of purchase by means of the effective interest rate method and taking into account the possible changes in the repurchase amount.

Transactions with non-controlling interests without loss of control are treated as transactions with equity providers of the Group. If the acquisition of a non-controlling interest results in a difference between the amount which is paid and the corresponding interest in the carrying amount of the net assets of the subsidiary, such difference is recognised in equity. Profits and losses which occur upon the disposal of non-controlling interests are also recognised in equity.

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.

Investments in associates as well as joint ventures 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 equity capital of the respective company which is attributable to the freenet Group. The percentage interest of the Group in profits and losses of associates and joint ventures is recognised in the income statement from the point at which the associate is acquired. Goodwill arising from the acquisition of associates and joint ventures is not disclosed separately. If the interest of the Group in the losses of an associate or a joint venture is equal to or higher than the value of its holding in that company, the Group does not recognise any further proportionate losses. After the amount recognised for the holding has been reduced to zero, additional losses are only recognised as a liability to the extent that the company has entered into legal or constructive obligations or has made payments for the associate or joint venture.

If the Group loses control over a company, the remaining interest is revalued at fair value, and the resultant difference is recognised as a profit or loss. In addition, all amounts shown under other result relating to that company are recognised as if the parent company had directly disposed of the corresponding assets and liabilities. This means that a profit or loss which had previously been recognised in other result is no longer recognised in equity, and instead is shown under result.

Internal profits and losses, revenue, expenses and income as well as intercompany receivables and liabilities are eliminated. The elimination of intercompany profits is also applicable for joint ventures and 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 in principle consistently applied compared with the previous year. With regard to changes, please refer to items 1.1 and 2.18 of these notes.

2.1 Recognition of revenue and expenses

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 revenue of the Group is generated with a large number of end users; the remaining revenue is attributable to business clients.

Supplementary notes on revenue recognition:

Revenue in the Mobile Communications segment is 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 revenue (voice communication as well as data transmission) comprises 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. Revenue from the sale of mobile devices and accessories products is recognised when the products are delivered to the customer or the distributor.

The costs of signing up customers, which consist mainly of the costs of acquiring the mobile devices as well as the dealer commissions, are normally recognised immediately as expenses when customers are signed up. In the case of certain agency services of dealers for whom the amount of dealer commission depends on the new customers who have been acquired remaining in the client base of the Group and also on the extent of future revenues of the Group generated with the newly acquired customers, the purchased services are not recognised in full at the point at which the customers are acquired, and instead are recognised partially in the income statement. The remaining costs are recognised over the life of the contract of each new customer. The amount recognised immediately in the income statement at the point at which the customer is acquired depends on the extent of the service rendered by the dealer at the point at which the customer is acquired expressed as a percentage of the total service of the dealer over the contractual life of 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 ASC 605-25 (formerly 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 by the network operators 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.

2.2 Borrowing costs, interest expenses and interest income

Borrowing costs are capitalised if a qualified asset exists. In the financial year 2013, no borrowing costs capable of being capitalised were incurred. Other borrowing costs are recognised as expense. The effective interest rate method is used for interest expenses and interest income.

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 15, Intangible assets, property, plant and equipment and goodwill as well as item 16, Impairment test for non-monetary assets.

One trademark 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.

The other trademarks, on the contrary, have a definable maturity. These trademarks are carried at their historical cost and are depreciated over their expected useful economic life of 12 to 90 months on a straight-line basis. On the balance sheet date 31 December 2013, the remaining useful life of these trademarks was between one and 51 months.

Licences and software are shown at historical 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. Costs that clearly relate to a definable software product which can be used by the Company, and if the product’s expected overall economic benefit is greater than the costs incurred, are capitalised as intangible assets under the category

"Internally produced software". For example, these costs include the personnel costs of the software development team as well as expenses on services and fees incurred in creating the asset. Development costs are not capitalised until the point in time when the product's 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 36 to 66 months using the straight-line method. On the balance sheet date 31 December 2013, the remaining useful life of capitalized customer relations was between one and 33 months.

Distribution rights are 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 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.

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	5 to 8 years
IT equipment	3 to 3 years
Telecommunications equipment and hardware	2 to 5 years
Leasehold improvements	2 to 14 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.

Impairment has to be carried out if triggering events indicate that the value of the asset might be impaired. Goodwill and intangible assets with indefinite useful lives must be tested once a year in accordance with the provisions of IAS 36 (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, as no write-up is permissible.

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 accordance with IAS 17, the leased assets which are attributable to the Group as the beneficial owner under finance leases are capitalised with the lower of fair value of the leased asset and the present value of the minimum lease payments, and are depreciated over the shorter of their normal useful life and the term of the lease. 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 reporting date 31 December 2013, one agreement was classified as a finance lease—this agreement relates to the leasing of various items of software and hardware for our shops.

2.6.2 Finance 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 recognised 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 31 December 2013, there are no contracts in which the Group is classified as the lessor in finance leases.

2.7 Investments in associates and joint venture

Equity investments in associates and joint ventures continue to be recognised via an individual financial statement prepared for the various associates or joint ventures 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 purposes of measurement, financial assets and financial liabilities 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
- Financial liabilities

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

2.8.2 Financial assets measured at fair value through profit or loss

This category comprises two sub-categories: Financial assets which are classified as held-for-trading right from the start, and financial assets which are classified as "measured at fair value through profit or loss" right from the very beginning. 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.

There are no financial assets measured at fair value through profit or loss on the balance sheet date.

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 twelve months after the balance sheet date. The latter are shown under non-current assets. Loans and receivables are shown in the balance sheet under trade accounts receivable, in other receivables and other assets as well as in cash and cash equivalents.

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

Loans and receivables 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 correspondingly are shown 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, investments and securities 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 Financial liabilities

Financial liabilities are based on contractual agreements regarding the payment of liquid assets or the rendering of other financial assets to a third party. A financial liability is recognised when freenet becomes contractual partner.

The financial liabilities as of the balance sheet date are disclosed in the trade accounts payable, financial debt and the other liabilities and deferred items.

2.8.7 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. 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 other result, under the revaluation reserve. 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, in so far as 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.

When initially recognised, financial liabilities measured at amortised costs of purchase 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 twelve 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.

2.8.8 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 that are classified as available-for-sale financial assets, a significant and 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 in relation to available-for-sale assets, the cumulative loss—measured as the difference between the carrying amount and the present value of the estimated future cash flows—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.

Unlisted shares which are classified as available-for-sale, are an example of the equity instruments described in the previous paragraph. In the case of unlisted shares, any significant or continuing reduction in the fair value of the securities to a level below the cost of purchase of the shares has to be 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, for establishing any impairment requirement.

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 are 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.

2.8.9 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 associated with ownership of the assets to a third party.

2.8.10 Netting of financial instruments

Financial assets and liabilities are only netted and shown as a net figure in the balance sheet if there is a legal entitlement to such treatment and if it is intended that the position will be settled on a net basis or if it is intended that the sale of the respective asset will be used to settle the corresponding liability.

2.9 Inventories

Inventories are shown at the lower of purchase and production 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.

2.10 Foreign currency transactions

The items included in the annual financial statements of each Group company are valued on the basis of the currency corresponding to the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statements are prepared in euros, which form the reporting currency of freenet AG.

Foreign currency transactions are translated into the functional currency using the exchange rates applicable on the date of the transaction. Profits and losses which result from the fulfilment of such transactions and also from the process of converting monetary assets and liabilities denominated in foreign currency as of the reference date are recognised in the income statement. Negligible volumes of foreign currency transactions occurred in the financial year 2013.

The results and balance sheet items of all Group companies which have a functional currency other than the euro are converted into euros using the modified reference date rate method. In the financial year 2013, no Group company had a functional currency which differed from the euro.

2.11 Shareholders' equity

Ordinary shares, capital reserves, revaluation reserves, Group cumulative profit as well as non-controlling interests are shown as shareholders' equity. After the deduction of related current taxes, costs of capital increases are recognised directly in shareholders' equity in capital reserves.

2.12 Pension provisions

Pension provisions are measured and recognised in accordance with IAS 19 (2011). 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. 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 equity under the other result in the period in which they incur.

Past service cost is recognised immediately in the income statement. 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 and/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 essentially comprise severance payments to employees. Provisions for contingent losses primarily relate to vacancy costs, negative-margin tariffs and payments for the premature termination of rental agreements.

According to IAS 16, the purchase costs of leasehold improvements include costs expected for obligations restoration. 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 leasehold improvements (upper limit: recoverable amount; lower limit: zero).

2.14 Employee participation programmes

The following employee participation programmes existed (or still exist) in the Group in the financial year 2013:

- Stock appreciation rights of freenet AG
- Long Term Incentive Programme of freenet AG ("LTIP programme")

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 26.1, Stock appreciation rights of freenet AG.

2.14.2 LTIP programme

In the financial year 2011, a new compensation programme with a long-term incentive effect, the so-called "LTIP programme", was set up for members of the Executive Board.

For this purpose, a separate LTIP account is maintained for every member of the Executive Board; this account is used for recording a debit or credit in the form of virtual shares for each financial year, depending on the degree of success in attaining certain objectives defined for the specific financial year. For each financial year, cash payments, less taxes and charges, are then made at a defined time, depending on the balance on the LTIP account. The extent of these payments depends on various factors, including the share price applicable at the time of the payment. The provision is measured at the fair value of the virtual shares which will probably become vested. For details, please refer to our explanations to item 26.2, LTIP programme of freenet AG.

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 results expected for the future are based on the Company's forecast for pre-tax result applicable as of the balance sheet date.

Deferred tax liabilities which result from temporary differences in connection with holdings in subsidiaries and associates are recognised, unless the time at which the temporary differences are reversed can be determined by the Group and it is likely that the temporary differences will not reverse in the foreseeable future as a result of this influence.

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. Management regularly reviews tax declarations, particularly with regard to issues which are subject to interpretation and, when appropriate, create provisions based on the likely amounts which will have to be paid to the fiscal authorities.

2.16 Discretionary decisions, based on future events and uncertainties in estimates

The presentation of net assets, financial position and results of operations in the consolidated financial statements depends on the recognition and valuation methods as well as assumptions based on future events and uncertainties in estimates. The actual amounts which occur may differ from the original estimates. The major estimates and related assumptions set out in the following as well as the uncertainty associated with the chosen accounting policies are of crucial importance for a correct understanding of the underlying risks of financial reporting as well as the impact which these estimates, assumptions and uncertainty might have on the consolidated financial statements.

The valuation of property, plant and equipment and intangible assets is based on estimates for determining the fair value at the time of acquisition if the assets are acquired as part of a business combination. The anticipated useful life of such assets also has to be estimated.

With regard to the forward-looking assumptions made within the framework of the tests relating to potential goodwill impairments (book value as of 31 December 2013: 1,122.1 million euros; previous year: 1,116.9 million euros) as well as impairments of intangible assets with an indefinite useful economic life (book value as of 31 December 2013: 293.2 million euros, previous year: 293.3 million euros), please refer to item 16, Test for impairment of non-monetary assets. A sensitivity assessment regarding the impairment test for the assets allocated to the cash-generating unit ("CGU") "Mobile Communications" has established that the fair value less costs to sell would decline by approx. 234 million euros if the WACC were increased by 0.5 percentage points and would increase by approx. 277 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 551 million euros (if the WACC were to be increased by 0.5 percentage points) or increase by 653 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.

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.

With regard to the trade accounts receivable that are attributable to multiple-component agreements relating to the facility for end customers to select more valuable mobile units in return for an additional monthly payment (mobile option), and in order to determine the fair value of these receivables, assumptions have been made regarding the interest rate applicable for commensurate terms and levels of risk in order to determine the present value of the expected future cash flows arising from these agreements. This interest rate takes account of the maturity as well as the default risk of these receivables. A sensitivity analysis in relation to this interest rate has established that these receivables would have been 0.9 million euros lower if the interest rate had increased by 0.5 percentage points and would have been 1.0 million euros higher if the interest rate had declined by 0.5 percentage points.

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.

In the case of certain agency services of dealers for whom the amount of dealer commission depends on the new customers who have been acquired remaining in the client base of the Group and also on the extent of future revenues of the Group generated with the newly acquired customers, the purchased services are not recognised in full at the point at which the customers are acquired, and instead are recognised partially in the income statement. The remaining costs are recognised over the life of the contract of each new customer. The amount recognised immediately in the income statement at the point at which the customer is acquired depends on the extent of the service rendered by the dealer at the point at which the customer is acquired expressed as a percentage of the total service of the dealer over the contractual life of the customer. The amount which is recognised in this way is essentially an assessment of the future average revenue of the Group generated with the end users gained by this dealer and also on the basis of cost estimates of the value of that part of the consideration of the dealer which is only provided over the contractual life of the customer gained by the dealer.

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

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 for to the remaining terms of certain rental agreement and thus the extent of future losses in this field. With regard to the creation of provisions for contingent losses relating to expected losses of negative-margin tariffs, assumptions have primarily been made regarding the length of time that users are retained in these tariffs in future.

With regard to the assumptions and estimates made in the valuation model used for determining the provisions for outstanding stock appreciation rights as well as the valuation model for establishing the provision for the LTIP programme as of 31 December 2013, 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 the beneficiary's life expectancy. The result of a sensitivity assessment is that, if the discount rate increases by 1.00 percentage points, the present value of the funded and unfunded obligations declines by 8,339 thousand euros and, if the discount rate declines by 1.00 percentage points, the present value of the funded and unfunded obligations would be 11,051 thousand euros higher. With regard to further sensitivity analyses relating to the pension obligations, please refer to item 30 of these notes to the consolidated financial statements.

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.

The deferred tax assets relating to losses carried forward are based on corporate planning for the subsequent four financial years 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 analysis carried out in relation to the deferred tax assets has established that the deferred tax assets would increase by approx. 18.4 million euros if the trade income or corporation tax income were to increase by 10 percent in the relevant planning period, and that they would decline by approx. 18.4 million euros if the trade income or the corporation tax income were to decline by 10 percent in the relevant planning period.

2.17 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 according to IFRS 5, are shown at the lower of 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.

2.18 Comparable figures

In these consolidated financial statements, the previous year comparison figures have been retrospectively adjusted compared with the consolidated financial statements for the period ending 31 December 2012.

This relates to the early voluntary adoption of IFRS 11 (Joint Arrangements). Please also refer to our comments on item 1.1 of these notes to the consolidated financial statements. Instead of, as previously, being published in the individual items of the balance sheet and the income statement, the joint ventures, after being retrospectively adjusted, are shown in the balance sheet only in the position “Companies included using the equity method” and in the income statement only in the item “Result of companies included using the equity method”. The retrospective adjustment has not had any impact on the Group result after taxes for the financial year 2012. An overview of the precise effects of the retrospective adjustments is set out in the following.

Joint Ventures: Retrospective adjustment of the income statement

In EUR '000s	2012 as published	2012 retrospectively adjusted
Revenue	4,248	–
Other operating income	23	–
Cost of materials	–861	–
Personnel expenses	–835	–
Depreciation	–228	–
Other operating expenses	–1,569	–
Result of companies included using the equity method	–	537
Taxes on income	–241	–
Total	**537**	**537**

Joint ventures: Retrospective adjustment of the balance sheet

In EUR '000s	31.12.2012 as published	31.12.2012 retrospectively adjusted	31.12.2011 as published	1.1.2012 retrospectively adjusted
Intangible assets	874	–	1,045	–
Goodwill	246	–	246	–
Property, plant and equipment	111	–	53	–
Companies included using the equity method	–	1,425	–	987
Other financial assets	76	–	140	–
Non-current other receivables and other assets	140	–	22	–
Current income tax assets	–	–	35	–
Current trade accounts receivable	328	–	259	–
Current other receivables and other assets	160	–	345	–
Liquid assets	603	–	305	–
Deferred income tax liabilities	–38	–	–38	–
Current trade accounts payable	–155	–	–478	–
Current other liabilities and deferred items	–800	–	–942	–
Current income tax liabilities	–120	–	–5	–
Summe	**1,425**	1,425	987	987

A retrospective adjustment has also been carried out with regard to the mandatory first-time adoption of IAS 19 (2011). We also refer to item 1.1 of the notes to the consolidated financial statements. The retrospectively adjusted balance sheet as of 31 December 2012, compared with the balance sheet published as of that date, shows an increase of 18,789 thousand euros in the pension provisions as a result of the complete disclosure of the cumulative actuarial losses (from 26,197 thousand euros to 44,986 thousand euros), an increase of 5,505 thousand euros in deferred tax assets and a reduction of 13,284 thousand euros in equity (cumulative other comprehensive income). The retrospectively adjusted balance sheet as of 1 January 2012, compared with the balance sheet published as of 31 December 2011, shows an increase of 6,477 thousand euros in the pension provisions, an increase of 1,904 thousand euros in deferred tax assets and a reduction of 4,573 thousand euros in equity (cumulative other comprehensive income).

We also wish to point out that the individual items of the balance sheet and income statement for 2013 and 2012 are comparable, subject to the following restriction: Unlike the situation in the previous year, GRAVIS and MOTION TM were included in the consolidated financial statements for 2013 (for 11 months and for more than 9 months respectively). Unlike the situation in 2013, 4Players as well as freeXmedia were included in the income statement for 2012. In addition, the balance sheet as of 31 December 2012, unlike the balance sheet as of 31 December 2013, still showed the assets and liabilities of freeXmedia.

3 Segment 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 as main decision maker 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 2013:

- 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/distribution of mobile communications devices as well as additional services for mobile data communications and digital lifestyle
  - Rendering of sales services

- Other/Holding:
  - 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
  - Development of communication solutions, EDP services and other services for business customers
  - Range of narrowband voice services (call-by-call, pre-selection) and data services.
  - Rendering of sales services

The “Other/Holding” segment contains not only the above-mentioned operating activities but also other business activities. This mainly comprises the holding activities of freenet AG (with the rendering of services within the Group in central areas, such as legal, human resources and finance) as well as entries which cannot be clearly allocated. Of the figure of 48.7 million euros (previous year: 72.5 million euros) reported for segment revenue in the “Other/Holding” segment for 2013, 44.6 million euros (previous year: 67.9 million euros) is attributable to the operating activities and 4.1 million euros (previous year: 4.6 million euros) is attributable to the other business activities. Of the figure of 25.9 million euros (previous year: 35.6 million euros) reported for gross profit for the “Other/Holding” segment in 2013, 26.1 million euros (previous year: 36.6 million euros) is attributable to the operating activities and –0.2 million euros (previous year: –1.0 million euros) is attributable to the other business activities. Of the figure of –7.7 million euros (previous year: 0.9 million euros) reported for EBITDA for the “Other/Holding” segment in 2013, 11.1 million euros (previous year: 22.4 million euros) is attributable to the operating activities and –18.8 million euros (previous year: –21.5 million euros) is attributable to the other business activities. Of the figure of –11.4 million euros (previous year: –3.5 million euros) reported for EBIT for the “Other/Holding” segment for 2013, 8.2 million euros (previous year: 20.5 million euros) is attributable to the operating activities and –19.6 million euros (previous year: –24.0 million euros) is attributable to the other business activities.

Each of the two segments also provides (or used to provide) services to the other segment. These services are charged on the basis of transaction prices which are usual on the market.

Income and expenses are allocated to the segments on the basis of selected criteria and economic relevance. 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 as was the case last year.

A breakdown of third-party revenue by individual products or services is detailed in item 4. A more extensive breakdown of individual products or services is not available.

The freenet Group operates mass business which focuses primarily on private customers. The Group is accordingly not dependent on individual customers.

Segment report 1 January to 31 December 2013

In EUR '000s	Mobile Communications	Other	Elimination of intersegment revenue and costs	Total
Third-party revenue	**3,154,949**	**38,380**	**0**	**3,193,329**
Intersegment revenue	5,439	10,274	–15,713	0
Revenue, total	3,160,388	48,654	–15,713	3,193,329
Cost of materials, third party	**–2,444,618**	**–17,465**	**0**	**–2,462,083**
Intersegment cost of materials	–4,923	–5,322	10,245	0
Cost of materials, total	–2,449,541	–22,787	10,245	–2,462,083
Segment gross profit	**710,847**	**25,867**	**–5,468**	**731,246**
Other operating income	63,823	9,727	–3,765	69,785
Other own work capitalised	10,045	707	0	10,752
Personnel expenses	–150,707	–23,420	0	–174,127
Other operating expenses	–268,894	–20,816	9,233	–280,477
Share of result in associates	0	220	0	220
Segment EBITDA	**365,114**	**–7,715**	**0**	**357,399**
Depreciation and impairment write-downs	–52,367	–3,725	0	–56,092
Segment EBIT	**312,747**	**–11,440**	**0**	**301,307**
Group financial result				–42,864
Taxes on income				–19,503
Group result from continued operations				**238,940**
Group result from discontinued operations				**0**
Group result				**238,940**
Group result attributable to shareholders of freenet AG				238,943
Group result attributable to non-controlling interest				–3
Investments in continued operations	**19,078**	**3,245**		**22,323**

Segment report 1 January to 31 December 2012

In EUR '000s adjusted	Mobile Communications	Other	Elimination of intersegment revenue and costs	Total
Third-party revenue	**3,021,103**	**63,681**	**0**	**3,084,784**
Intersegment revenue	4,836	8,855	–13,691	0
Revenue, total	3,025,939	72,536	–13,691	3,084,784
Cost of materials, third party	**–2,332,790**	**–32,152**	**0**	**–2,364,942**
Intersegment cost of materials	–4,527	–4,744	9,271	0
Cost of materials, total	–2,337,317	–36,896	9,271	–2,364,942
Segment gross profit	**688,622**	**35,640**	**–4,420**	**719,842**
Other operating income	53,583	9,667	–4,331	58,919
Other own work capitalised	6,320	729	0	7,049
Personnel expenses	–131,986	–28,201	0	–160,187
Other operating expenses	–260,069	–23,248	8,751	–274,566
Share of result in associates	0	6,303	0	6,303
Segment EBITDA	**356,470**	**890**	**0**	**357,360**
Depreciation and impairment write-downs	–144,235	–4,360	0	–148,595
Segment EBIT	**212,235**	**–3,470**	**0**	**208,765**
Group financial result				–42,088
Taxes on income				6,512
Group result from continued operations				**173,189**
Group result from discontinued operations				**0**
Group result				**173,189**
Group result attributable to shareholders of freenet AG				173,098
Group result attributable to non-controlling interest				91
Investments in continued operations	**14,707**	**6,312**		**21,019**

4 Revenue

A breakdown of revenue of 3,193 million euros (previous year: 3,085 million euros) over the segments is set out under item 3, Segment reporting.

Of external revenue generated in the Mobile Communications segment, 1,812 million euros (previous year: 1,923 million euros) relates to rentals and fees, 555 million euros (previous year: 525 million euros) relates to fees for premiums and commissions, and 750 million euros (previous year: 552 million euros) relates to the sale of mobile communications devices, computers/IT products 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 (insofar as not linked to new customer activation), income from charging fees to employees for the use of company cars. In addition, the figure shown for the other operating income of 2013 includes an amount of 5.5 million euros in relation to the derecognition of a contingent purchase price liability arising from the acquisition of GRAVIS (please refer to text 36.1 of these notes), and an amount of 4.0 million euros relates to profit from the sale of freeXmedia (please refer to item 24 of these notes).

6 Other capitalised own work

The other capitalised own work relates essentially to the development of software in the mobile communications field. These are almost exclusively due to strategic projects.

The capitalised costs comprise the directly attributable individual costs (mainly relating to consultancy fees and personnel expenses) as well as proportionate overheads.

7 Cost of materials

The cost of materials is broken down as follows:

In EUR '000s	2013	2012 adjusted
Costs of purchased goods	792,732	560,487
Costs of purchased services	1,669,351	1,804,455
	2,462,083	**2,364,942**

Costs of purchased goods principally comprise the purchase costs of mobile telephones and computers/IT products and also bundles from prepaid business.

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

8 Personnel expenses

Personnel expenses are broken down as follows:

In EUR '000s	2013	2012 adjusted
Wages and salaries	147,807	136,440
Social contributions and expenses for retirement pensions	26,320	23,747
	174,127	**160,187**

On average, 4,492 persons were employed in the Group in the financial year 2013 (previous year: 3,917). At the end of the financial year, the Group employed 4,576 persons (previous year: 3,865 persons).

The stock appreciation programme of the Company has resulted 2,538 thousand euros in personnel expenses in accordance with IFRS 2 (previous year: 2,520 thousand euros).

With regard to an explanation of the employee participation programme, please refer to our comments to items 2.14 and 26, Employee participation programmes.

Personnel expenses also comprise an expense of 646 thousand euros for defined benefit plans (previous year: 513 thousand euros), see also item 30, Pension provisions and similar obligations.

Personnel expenses include a figure of 12,338 thousand euros as the employer's social insurance contribution as costs of defined contribution benefit plans (previous year: 11,284 thousand euros).

9 Depreciation and impairments

The following table sets out the depreciation and impairments:

In EUR '000s	2013	2012 adjusted
Amortisation on intangible assets	46,491	138,254
Impairment write-downs on intangible assets	0	920
Depreciation on property, plant and equipment	9,601	9,156
Impairment write-downs on property, plant and equipment	0	113
Impairment write-downs on financial assets	0	152
	56,092	**148,595**

The decline in depreciation relating to intangible assets is mainly due to the fact that the useful life of most of the assets recognised within the framework of the debitel purchase price allocation has expired as a result of depreciation at the end of the previous year.

The impairments recognised in relation to intangible assets in the previous year relate to a distribution right which will no longer be used.

The impairment write-downs shown in the previous year for financial assets relate to the investment in libri.de GmbH, Hamburg.

10 Other operating expenses

Other operating expenses mainly comprise marketing costs (91.3 million euros in 2013 compared with 111.2 million euros in 2012), legal and consultancy costs, administration costs (e. g. rents and ancillary costs of the shops and administration building), costs of impairments and the default of receivables, costs of billing, outsourcing and postage.

In the financial year, costs of allowances and the write-off of receivables totalling 33,885 thousand euros (previous year: 30,018 thousand euros) were incurred. These costs were almost exclusively attributable to trade accounts receivable.

An amount of 33,734 thousand euros (previous year: 26,865 thousand euros) was recognised in the income statement for rental and leasing contracts.

11 Other interest and similar income

Other interest and similar income consists of the following items:

In EUR '000s	2013	2012
Interest receivable from banks, debt collection and similar income	1,769	2,596
Interest of tax refund	0	99
	1,769	**2,695**

12 Interest and similar expenses

Interest and similar expenses are broken down as follows:

In EUR '000s	2013	2012
Interest payable and similar costs	37,855	36,489
Compounding of liabilities	4,777	6,248
Interest on pension obligations	1,302	1,551
Expense of market valuation of derivative financial instruments	0	12
Interest expense of additional tax payments	492	110
Other	207	373
	44,633	**44,783**

Of the figure for interest expenses shown for 2013 as a result of the compounding of liabilities, 4,586 thousand euros is attributable to the compounding of trade accounts payable, other liabilities and current income tax liabilities, and 191 thousand euros is attributable to the compounding of other provisions.

13 Taxes on income

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

In EUR '000s	2013	2012 adjusted
Current tax expenses for the financial year	–31,805	–32,737
Tax income for previous years	–2,394	165
Deferred tax income due to the write-up of deferred tax assets	10,831	8,917
Deferred tax income due to temporary differences	1,136	30,790
Deferred tax expenses attributable to tax rate changes	2,729	–623
	–19,503	**6,512**

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 Group result before taxes on income would result in expected tax expenses of 77.1 million euros (previous year: 48.8 million euros). The difference between this amount and the actual tax expense of 19.5 million euros (previous year: tax income of 6.5 million euros) is shown in the following reconciliation.

In EUR '000s	2013	2012 adjusted
Results from continued and discontinued operations before taxes on income	258,443	166,677
Expected tax expense applying a tax rate of 29.85 percent (previous year: 29.30 percent)	–77,145	–48,836
Change in the allowance for deferred tax assets and non-recognised deferred tax assets in relation to losses carried forward	59,118	57,805
Tax effect of non-deductible expenses and tax-free income	–1,811	–1,999
Effects due to changes in tax rate	2,729	–623
Tax expense from previous years	–2,394	165
Actual tax income	**–19,503**	**6,512**
Effective tax rate in percent	7.55	–3.91

For the Group companies, a corporation tax rate of 15 percent (previous year: 15 percent) was used in the financial year 2013 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 400.70 percent (previous year: 384.81 percent) were also used. The deferred taxes in the financial year 2013 were calculated with an average rate of 29.85 percent (previous year: 29.3 percent).

14 Earnings per share

14.1 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. For information purposes, please refer to our comments under point 26.5 “Contingent capital”.

	2013	2012
Group result attributable to shareholders of freenet AG in EUR'000s	238,943	173,098
Weighted average of shares outstanding	128,011,016	128,011,016
Earnings per share in EUR (undiluted)	**1,87**	**1,35**
Thereof from continued operations in EUR	1,87	1,35
Thereof from discontinued operations in EUR	0,00	0,00

14.2 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.

As of 31 December 2013, there are neither dilution effects nor potential dilution effects.

	2013	2012
Group result attributable to shareholders of freenet AG in EUR'000s	238,943	173,098
Weighted average of shares outstanding	128,011,016	128,011,016
Weighted average of shares outstanding plus number of diluting shares	128,011,016	128,011,016
Earnings per share in EUR (diluted)	**1.87**	**1.35**
Thereof from continued operations in EUR	1.87	1.35
Thereof from discontinued operations in EUR	0.00	0.00

15 Intangible assets, property, plant and equipment and goodwill

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

The main book value of intangible assets relates to trademarks 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 trademarks and customer relation:

In EUR '000s	31.12.2013	31.12.2012
Trademarks	302,444	307,286
Customer relations	11	2,123
	302,455	**309,409**

In addition to the trademarks and customer relations from the debitel acquisition, further intangible assets of 94.8 million euros are shown as of 31 December 2013 (31 December 2012: 47.1 million euros), including distribution rights of 61.9 million euros (previous year: 22.5 million euros).

The extension of the exclusive distribution right with Media Saturn Deutschland GmbH which became effective as of 1 August 2013 resulted in the re-capitalisation of a distribution right, which was shown as 60.9 million euros as of 31 December 2013. At the same time, the Media Saturn distribution right which had existed up to that point and also the related liabilities were discontinued in this connection. This resulted in other operating income of 1.2 million euros.

Impaired intangible assets existed as of 31 December 2013. Software is impaired as a result of the reduction of network technology, and rights to use software are impaired as a result of the intended limited use.

The goodwill recognised in relation to CGU is broken down in the following:

In EUR '000s	31.12.2013	31.12.2012 adjusted
Mobile Communications	1,117,372	1,111,830
Other	4,740	4,786
	1,122,112	**1,116,616**

The increase for Mobile Communications is attributable to the purchase price allocations resulting from the acquisition of shares in Gravis – Computervertriebsgesellschaft mbH (3,594 thousand euros) and the acquisition of 51 percent of shares in MOTION TM Vertriebs GmbH (1,948 thousand euros). Please refer also to our comments in item 36 of these notes to the consolidated financial statements.

The decrease of 46 thousand euros shown under "Other" relates to the deconsolidationof freeXmedia GmbH, Hamburg ("freeXmedia GmbH"). Please refer also to item 25 of these notes to the consolidated financial statements.

No research and development costs were recognised in the income statement.

16 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 1,117,372 thousand euros was allocated to the CGU "Mobile Communications" (previous year: 1,111,830 thousand euros) and an intangible asset with an undefined service life of 293,204 thousand euros was allocated to a trademark (previous year: 293,204 thousand euros).

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 2017 and which was approved by management was used for calculating the fair value. The detailed planning phase was extrapolated in the perpetual yield. This is equivalent to level 3 of the fair value hierarchy according to IFRS 13.

Planning is based on detailed assumptions derived from previous experience and future expectations in relation to the main result 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, slightly higher customer retention costs as well as Postpaid ARPUs in the range of 21 euros and 22 euros in the planning period as well as slightly lower overheads. Furthermore, for 2014 and 2015 the Company expects a slightly increasing customer base in the customer ownership sector (postpaid and no-frills). For 2014 and 2015, freenet aims to generate Group EBITDA of 365 million euros and 370 million euros respectively; it also aims to generate free cash flow of 265 million euros in 2014 and 280 million euros in 2015. The Group EBITDA as well as the free cash flow will mainly be generated within the CGU Mobile Communications.

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 6.35 percent (previous year: 6.4 percent). With regard to the capitalisation rate in the subsequent phase (starting 2018), a discount of 0.5 percent has been assumed as a result of growth assumptions (previous year: 0.5 percent).

The impairment test 2013 carried out in relation to the CGU Mobile Communications confirmed that no impairment has to be recognised in relation to the allocated goodwill as well as the trademark with an indefinite useful life.

In the financial year 2013, no impairments (previous year: impairments of 1,185 thousand euros) were recognised in relation to non-monetary assets for the continued operations—please refer to item 9, Depreciation and impairments.

17 Companies included using the equity method

No associates are included in the consolidated financial statements for the period ending 31 December 2013. In 2012, KielNET GmbH Gesellschaft für Kommunikation, Kiel (referred to in the following as "KielNET") had been included as an associate in the consolidated financial statements up to the point at which the company was deconsolidated as a result of the sale which was completed on 25 October 2012. The Group owned a 50 percent stake in this company, which offered telecommunications services within the licensed territory in the greater region of Kiel. Of the figure reported for the result of companies included using the equity method, 5,766 thousand euros is attributable to KielNET for the previous year, including a figure of 1,002 thousand euros for the current annual result 2012 as well as 4,764 thousand euros as profit from the disposal.

In the consolidated financial statements for 2013, FunDorado GmbH, GmbH ("FunDorado"), including its subsidiaries and investments, is included as a joint venture. The freenet Group holds 50.0 percent of the shares in FunDorado (previous year: 50.0 percent). FunDorado operates a fee-based internet portal. In 2006, FunDorado acquired a 50 percent stake in NetCon Media s. r. o. based in Hlucin, the Czech Republic ("NetCon"). The Company produces content which is designed to be used primarily in the fee-based internet portal of FunDorado. NetCon in turn holds 100 percent of its distribution company siXXup new Media GmbH, Pulheim ("siXXup").

In 2013, FunDorado acquired a 50 percent stake in Funview GmbH, Hamburg.

FunDorado is included in the consolidated financial statements using the equity method. In 2013, FunDorado including its subsidiaries and investments generated results of 220 thousand euros for the companies included using the equity method (previous year: 537 thousand euros). These are exclusively results of continued operations recognised in the income statement; the companies thus did not generate any other results from changes in value recognised directly in equity.

The carrying amount of the Group's holding in FunDorado (including its subsidiaries and investments) was 1,395 thousand euros as of 31 December 2013 (previous year: 1,425 thousand euros). With profit shares reported as 220 thousand euros, the reduction of 30 thousand euros is due to the fact that a dividend payment of 250 thousand euros was received from FunDorado in 2013; this amount had to be treated as a reduction in carrying amount.

As of 31 December 2013, there were no contingent liabilities or capital commitments in connection with the Group interest in these joint ventures.

18 Other financial assets

The other financial assets recognised as of the balance sheet date mainly comprise fixed-income bonds with long-term maturities of 1,037 thousand euros (previous year: 1,027 thousand euros); these serve as rental collateral for shops and are measured at fair value. In addition, there is also a dormant holding with an unchanged carrying amount of 500 thousand euros which has been measured at cost of purchase.

An impairment of 100 percent was recognised in the financial year 2011 in relation to the investment in Pocketfilm Media Entertainment GmbH, Frechen, in view of the significantly poor prospects for earnings—this assessment had not changed as of 31 December 2013. The historical acquisition costs of this holding are stated as 398 thousand euros.

As of the balance sheet date, with the exception of the impairment in relation to Pocketfilm Media Entertainment GmbH in 2011, no impairments had been created in relation to the other financial assets.

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 29.85 percent (previous year: 29.3 percent).

The following amounts are shown in the consolidated balance sheet:

In EUR '000s	31.12.2013	31.12.2012 adjusted
Deferred tax assets	186.947	175.528
Deferred tax liabilities	–157	0
	186.790	**175.528**

The overhang of deferred tax assets for the corporation tax and trade tax group of freenet AG which are recognised (186.8 million euros; previous year: 175.5 million euros) is classified as short-term (42.1 million euros; previous year: 41.1 million euros) and long-term (144.7 million euros; previous year: 134.4 million euros) as a result of the anticipated use of tax loss carry-forwards.

Change in the deferred tax assets and liabilities for the financial year 2013 are shown in the following table:

Changes in deferred tax assets and liabilities in 2013

In EUR '000s	1.1.2013	Change in group of consolidated companies	Shown directly in other result	Income and expenses from taxes on income	31.12.2013
Property, plant and equipment	1,670	0	0	76	1,746
Intangible assets	–107,116	–3,192	0	–1,498	–111,806
Financial assets	5	0	0	–14	–9
Loss carry-forwards	256,711	0	0	14,901	271,612
Provisions	11,750	0	–242	–791	10,717
Other liabilities	–134	0	0	87	–47
Borrowings	–872	0	0	302	–570
Other assets and liabilities	13,514	0	0	1,633	15,147
	175,528	**–3,192**	**–242**	**14,696**	**186,790**

The expenses and income from income tax amounting to 14,696 thousand euros (previous year: 39,085 thousand euros) are shown in the consolidated income statement as follows:

In EUR '000s	2013	2012
Taxes on income	14,696	39,085
Group result from discontinued operations	0	0
	14,696	**39,085**

The income tax expenses and income correspond to the sum of the deferred taxes on income attributable to continued and discontinued operations. As was the case in the previous year, the income tax expenses and income in 2013 were attributable solely to continued operations.

The deferred tax assets and deferred tax liabilities developed as follows in the financial year 2012:

Changes in deferred tax assets and liabilities in 2012

In EUR '000s	1.1.2012 adjusted	Change in group of consolidated companies	Shown directly in other result	Income and expenses from taxes on income	31.12.2012 adjusted
Property, plant and equipment	1,615	0	0	55	1,670
Intangible assets	–135,631	0	0	28,515	–107,116
Financial assets	–3	0	0	8	5
Loss carry-forwards	247,794	0	0	8,917	256,711
Provisions	9,247	0	3,601	–1,098	11,750
Other liabilities	–322	0	0	188	–134
Borrowings	–1,216	0	0	344	–872
Other assets and liabilities	11,358	0	0	2,156	13,514
	132,842	**0**	**3,601**	**39,085**	**175,528**

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

In EUR '000s	2013	2012 adjusted
As of 1.1.	**175,528**	**132,842**
Change in group of consolidated companies	–3,192	0
Shown directly in other result	–242	3,601
Tax income	14,696	39,085
	186,790	**175,528**

The existing tax loss carry-forwards that can be carried forward without any restriction exceed the sum of the forecast cumulative result of the following four 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 relevant forecast for pre-tax result applicable as of the balance sheet date. As of 31 December 2013, deferred taxes of 271,612 thousand euros had been created in relation to loss carry-forwards (previous year: 256,711 thousand euros). Of this figure, 141,425 thousand euros (previous year: 133,965 thousand euros) is attributable to corporation tax loss carry-forwards and 130,187 thousand euros (previous year: 122,746 thousand euros) is attributable to trade tax loss carry-forwards. Of the figure shown for other loss carry-forwards, for which no deferred tax assets had been created in the consolidated balance sheet, 1.6 billion euros relate to corporation tax and 1.1 billion euros relate to trade tax (previous year: 1.9 billion euros corporation tax and 1.4 billion euros trade tax). As was the case on the previous year balance sheet date, there were no unreported interest carry-forwards in accordance with clause 4h paragraph 1 clause 2 of the German Income Tax Act (Einkommensteuergesetz).

As of 31 December 2013, there are temporary outside basis differences (net shareholders' equity according to IFRS is higher than the corresponding carrying amounts of investments shown for tax purposes) of approximately 36.6 million euros (previous year: approximately 40.7 million euros). No deferred taxes have been recorded in relation to these differences in view of the fact that they are not expected to reverse in the near future.

20 Inventories

Inventories are broken down as follows:

In EUR '000s	31.12.2013	31.12.2012 adjusted
Mobile devices/accessories	36,801	42,895
Computers/IT products	19,460	2,469
SIM cards	9,344	8,559
Bundles and vouchers	1,101	2,663
Other	3,096	0
	69,802	**56,586**

An impairment of 3,668 thousand euros (previous year: 3,714 thousand euros) has been recognised in relation to year-end stocks of inventories.

21 Receivables and other assets

Receivables and other assets are broken down as follows:

In EUR '000s	2013	2012 adjusted
Trade accounts receivable	501,629	492,346
Other assets	37,811	22,173
Advance payments	11,787	13,159
	551,227	**527,678**

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 allowances which had been recognised, amounted to 528,091 thousand euros as of 31 December 2013 (previous year: 509,828 thousand euros). For further information, please refer to our comments under point 34, Additional information concerning financial instruments. 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. Other assets and advance payments of 23,136 thousand euros (previous year: 17,850 thousand euros) consist of other assets or non-financial assets held for sale as of 31 December 2013.

Invoices in the Mobile Communications segment are issued by the Group itself. In the segment Other/Holding, some invoices are partially 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.

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

As of 31 December 2013, trade accounts receivable and other non-derivative financial assets of 463,959 thousand euros (31 December 2012: 432,248 thousand euros) are neither impaired nor overdue.

Trade accounts receivable and other non-derivative financial assets of 8,087 thousand euros (31 December 2012: 13,670 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 course of the financial year, income of 1,449 thousand euros was generated from the sale of receivables (previous year: income of 1,279 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.

In EUR '000s	Carrying amount 31.12.2013	Thereof: On closing date neither impaired nor overdue	Thereof: On closing date not impaired and overdue by		
			less than 90 days	between 91 and 180 days	more than 180 days
Trade accounts receivable	501,629	438,464	5,535	939	1,272
Other non-derivative financial assets	26,462	25,495	308	7	26
Total	**528,091**	**463,959**	**5,843**	**946**	**1,298**

In EUR '000s adjusted	Carrying amount 31.12.2012	Thereof: On closing date neither impaired nor overdue	Thereof: On closing date not impaired and overdue by		
			less than 90 days	between 91 and 180 days	more than 180 days
Trade accounts receivable	492,346	415,121	13,004	246	130
Other non-derivative financial assets	17,482	17,127	234	56	0
Total	**509,828**	**432,248**	**13,238**	**302**	**130**

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:

In EUR '000s	
Allowances recorded as of 31 December 2012	132,645
Allowances recorded as of 31 December 2013	102,082
Net reductions to impairments	**–30,563**

In EUR '000s adjusted	
Allowances recorded as of 31 December 2011	135,865
Allowances recorded as of 31 December 2012	132,645
Net allocations to impairments	**–3,220**

The allowances created as of the balance sheet date were attributable to the following categories of receivables:

In EUR '000s	31.12.2013	31.12.2012
Global individual allowances according to time buckets		
Thereof for receivables not past due	1,278	1,268
Thereof for receivables past due for <90 days	5,211	6,468
Thereof for receivables past due between 90 and 180 days	6,231	6,622
Thereof for receivables past due for 180 days	85,560	113,537
	98,280	**127,895**
Individual allowances	**3,802**	**4,750**
Total allowances	**102,082**	**132,645**

As of the two reference dates, the global individual allowances related to receivables due from end users, whereas most of the individual allowances were created in relation to receivables due from business users, mainly distribution partners.

The following overview shows the development in individual allowances.

In EUR '000s	2013	2012
Development in individual allowances relating to trade accounts receivable		
As of 1.1.	4,422	4,533
Additions, initial consolidation	88	0
Allocation	484	1,425
Utilisation	1,193	1,332
Reversal	343	204
As of 31.12.	**3,458**	**4,422**
Development in individual allowances relating to other non-derivative assets		
As of 1.1.	328	328
Allocation	16	0
Utilisation	0	0
Reversal	0	0
As of 31.12.	**344**	**328**
Total individual allowances	**3,802**	**4,750**

Compared with the previous year reference date, the end user receivables past due for more than 180 days have declined considerably mainly due to sales of old receivables. Accordingly, with unchanged percentages for allowances, the allowances created in relation to this category also declined significantly.

22 Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

In EUR '000s	31.12.2013	31.12.2012 adjusted
Cash in hand and cash at banks	110,766	204,621
	110,766	**204,621**

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:

In EUR '000s	31.12.2013	31.12.2012 adjusted
Liquid assets of continued operations	110,766	207,353
Liabilities as part of current finance scheduling due to banks	0	0
	110,766	**207,353**

Of the figure shown for liquid assets in cash and cash equivalents, 204,621 thousand euros are attributable to liquid assets, and 2,732 thousand euros are attributable to non-current assets held-for-sale.

23 Current tax assets

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

24 Non-current assets held-for-sale, discontinued operations and sale of subsidiaries

There were no discontinued operations in the Group as of 31 December 2013—as was also the case as of the previous year reference date.

With the purchase agreement of 3 December 2012 and with effect from 31 December 2012, the Group had sold its 100 percent holding in 4Players GmbH, Hamburg ("4Players") to Computec Media AG, Fürth. 4Players operates editorial games web sites and provides server services. A figure of 400 thousand euros was agreed as the purchase price (which is not subject to any subsequent adjustments); of this figure, 100 thousand euros paid in the financial year 2012. In the financial year 2013, the Group also received a figure 100 thousand euros. The remaining 200 thousand euros will be paid (and recognised in cash flow) in the financial years 2014 and 2015. 4Players was deconsolidated as of 31 December 2012. In segment reporting, this company was included in the previous year in the segment "Other/Holding".

With the purchase agreement of 4 December 2012 and with effect from 1 January 2013, the Group sold its 100 percent holding in freeXmedia GmbH, Hamburg (referred to in the following as "freeXmedia GmbH") to Media Ventures GmbH, Cologne. In the field of online marketing, freeXmedia focused on the issues of automotive, digital entertainment, sport and active living as well as the general interest portal freenet.de and social media. In segment reporting, this company is included in the "Other/Holding" segment. A figure of 4,080 thousand euros was agreed as the purchase price (which is not subject to any subsequent adjustments); of this figure, 500 thousand euros paid in the financial year 2012. In the financial year 2013, the Group received a total of 1,040 thousand euros; a figure of 1,000 thousand euros was recognised as non-cash-effective and netted with liabilities due to the purchaser. In the financial year 2014, a further 540 thousand euros were received and 1,000 thousand euros were netted (non-cash-effective). freeXmedia was deconsolidated as of 1 January 2013. The assets and liabilities of freeXmedia were disclosed in the consolidated balance sheet as of 31 December 2012 in the balance sheet items "Non-current assets held-for-sale" as well as "Liabilities in connection with the disposal of non-current assets". The following table sets out a breakdown of the individual assets and liabilities of freeXmedia as of 31 December 2012.

Assets and liabilities of freeXmedia GmbH as of 31 December 2012

Assets

In EUR '000s	31.12.2012
Non-current assets	
Property, plant and equipment	21
	21
Current assets	
Trade accounts receivable	4,598
Liquid assets	2,731
	7,329
	7,350

Equity and liabilities

In EUR '000s	31.12.2012
Current liabilities	
Trade accounts payable	6,839
Other liabilities and deferred items	486
	7,325
	7,325

The deconsolidation of the company resulted in a profit of 4,009 thousand euros for the financial year 2013, which is shown under the other operating income.

4Players and freeXmedia were sold as part of the policy of continuing the strategic portfolio streamlining process and as a result of the decision to concentrate on our core areas of business mobile communications/ mobile internet in conjunction with digital lifestyle.

The deconsolidations carried out in the financial year 2013 of CLAROMOVIL S.L., DEG Logistik GmbH, Klarcall Dritte Beteiligungs GMbH, MIDRAY GmbH as well as debitel go GmbH involved liquidations and mergers of companies without any operations. The deconsolidations had no material effects on the presentation of the assets, earnings and financial situation for the group.

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. 50,000 thousand of these shares are held by mobilcom-debitel Logistik GmbH, Schleswig, which in turn is wholly owned by the company. The own shares were deducted from the capital reserve at their acquisition costs of 50 thousand euros.

Pursuant to clause 71 paragraph 1 no. 8 AktG, the Executive Board was authorised by the Annual General Meeting on 6 July 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. The authorisation is valid until 5 July 2015.

In addition to the authorisation pursuant to clause 71 paragraph 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 Additional paid-in capital

Major components of the additional paid-in capital reported as of 31 December 2013 comprised the capital increase in 2008 due to the acquisition of the debitel Group (349.8 million euros) as well as the merger between mobilcom AG and freenet.de AG to form freenet AG (which became effective in 2007) and the related acquisition of the minority shares in the former freenet.de AG (134.7 million euros).

25.3 Retained earnings

The retained earnings consist mainly of the cumulative group results attributable to the shareholders of freenet AG less the dividend payments. In 2013, a dividend of 1.35 euros per share (a total of 172.8 million euros) was paid for the financial year 2012. In the financial year 2013, the Group results were additionally reduced by 7,601 thousand euros as a result of the recognition of a liability relating to a put option for the acquisition of the remaining shares in MOTION TM, and were increased by 366 thousand euros as a result of the acquisition of the remaining shares in MFE Energie GmbH. Please refer in this context to our comments under item 36 of these notes, Company acquisitions.

25.4 Authorised capital

No authorised capital existed as of 31 December 2012. New authorised capital was created at the annual general meeting of 23 May 2013 (authorised capital 2013). The Executive Board is authorised, with the approval of the supervisory board, to increase the share capital up to 6 June 2018 by way of issuing new shares in return for cash and/or non-cash contributions on one or more occasions; the increase however, is limited to 12,800 thousand euros. The complete wording of the authorisation of the Executive Board has been published under agenda item 6 in the invitation to the annual general meeting 2013 in the Federal Gazette.

25.5 Contingent capital

According to a resolution of the Annual General Meeting of 7 July 2009, a contingent capital increase of up to 15,000 thousand 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 clause 4 paragraph 7 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
- LTIP programme of freenet 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 of 5,145,000 stock appreciation rights (SARs) (Aktienwertsteigerungsrechte; AWRs) to senior executives, including former members of the Executive Board ("programme 1"). Two further SAR programmes were issued in 2008: In a programme 720,000 SARs were issued to senior executives as of 1 April 2008; 400,000 SARs were granted to Mr. Joachim Preisig as of 30 September 2008 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 1 May 2009 on the occasion of his appointment to the Executive Board. In the financial year 2011, and with effect from 1 January 2011, the life of the still outstanding 300,000 SARs that had been granted to Mr. Stephan Esch as part of programme 1 was extended until 31 December 2014. For the sake of simplicity, these SARs have been reclassified from programme 1 to a separate programme 5.

As of the previous year reference date 31 December 2012, all units from the programmes 1, 3, 4 and 5 had either been exercised, disposed of or had expired, so that only stock appreciation rights from programme 2 existed.

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 the exercise price and a base price, whereby a cap is imposed on the exercise price in the individual programmes. The exercise price is the average share price of the company for the last 30 trading days prior to the exercise. The individual caps and the base 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 with regard to programme 2 for 20 percent of the stock appreciation rights to which the beneficiary is entitled ends on 1 April of each year starting with 1 April 2009 for the first tranche providing that certain targets have been attained.

For the first tranche of programme 2, the relevant target is that the price of the company's shares must exceed the base price (under the total-shareholder-return approach) by at least ten percent at least on one occasion in the period starting immediately when the corresponding stock appreciation rights become exercisable and ending with the expiry of program 2 (on 1 April 2014). For the stock appreciation rights of the tranches two to five, the percentage increases by ten percentage points per tranche, up to a 50 percent increase in relation to the base price for tranche 5.

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.

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.

Details of stock appreciation rights during the financial year 2013 are set out in the following table:

Programme 2	Strike price EUR	Target price EUR	Cap EUR	Maturity	Balance SARs 31.12.2013	Issued	Exercised	Disposals	Expiry	Balance SARs 31.12.2013	Provisions 31.12.2013 in EUR '000s
Tranche 1	7.78	8.56	21.00	1.4.2014	18,250	0	13,365	1,885	0	3,000	
Tranche 2	7.78	9.34	21.00	1.4.2014	18,250	0	13,000	1,250	0	4,000	
Tranche 3	7.78	10.11	21.00	1.4.2014	20,250	0	12,250	0	0	8,000	
Tranche 4	7.78	10.89	21.00	1.4.2014	20,250	0	11,750	0	0	8,500	
Tranche 5	7.78	11.67	21.00	1.4.2014	23,817	0	5,817	5,000	0	13,000	
					100,817	0	56,182	8,135	0	**36,500**	483

The obligation arising from the stock appreciation rights programme as of 31 December 2013 was calculated by multiplying the outstanding units by the difference between the base price and the cap because, as of the balance sheet date, it was extremely likely that the outstanding units would be exercised at the maximum price, namely the cap. The option price for the programme 2 at the balance sheet date is 13.22 euros per stock appreciation right.

In the financial year 2013, programme 2 resulted in personnel expenses of 625 thousand euros, 612 thousand euros of which is attributable to payments in the course of the financial year 2013, plus an increase of 13 thousand euros in the provision compared with 31 December 2012. The payments made in 2013 as a result of the exercisings were based on an average exercise price of 17.89 euros.

No new stock appreciation rights were awarded in 2013. A provision of 483 thousand euros (exclusively of a short-term nature) were shown for the outstanding stock appreciation rights from programme 2 as of 31 December 2013. As of 31 December 2013, all still existing stock appreciation rights of programme 2 are exercisable.

26.2 LTIP programme of freenet AG

In the financial year 2011, agreements granting long-term variable salary components (so-called LTIPs) were concluded in relation to the employment agreements with the members of the Executive Board. In addition to the annual target agreement, this involved a four-year target agreement with Group EBITDA of the next four financial years on the basis of the business plan, starting with the financial year 2011, as the target parameter. In the event of acquisitions which are financed by issues of new shares, the earnings targets are adjusted proportionately to the effective net dilution effect on the date on which the new shares are issued. A basic amount has been defined in the employment agreement of each beneficiary for this component of compensation; as described in the following, and in accordance with the target attainment in each financial year, this basic amount is recorded as a positive or negative amount in a virtual account of the respective member of the Executive Board, and is paid out in annual instalments, depending on the future development in value, assuming that a credit balance is shown. Basic amounts totalling 590 thousand euros in each case have been defined for each financial year for the beneficiaries.

If the Group EBITDA target is attained in a financial year, 100 percent of the basic amount is credited to the virtual account. If the Group EBITDA defined for 120 percent target attainment is achieved, 200 percent of the basic amount is credited to the virtual account. If the 120 percent target is exceeded, only 200 percent of the basic amount is credited to the virtual account. If the target attainment for the defined Group EBITDA is between the fixed 90 percent target and 100 percent, a percentage of the basic amount which is reduced on a linear basis is credited to the virtual account; if only 90 percent of the target is attained, a figure of 0 is created to the virtual account for the respective financial year. If Group EBITDA fails to meet the 90 percent target, a negative amount of up to a maximum of 200 percent of the basic amount (if Group EBITDA is 80 percent of the target or less) is debited to the virtual account. The respective amount in the virtual account is converted into virtual shares. The basis for this calculation is the average Xetra closing price of the 20 exchange trading days after the day on which the consolidated financial statements for the relevant financial year are approved. Starting with the end of the second financial year after the introduction of this component of compensation, in relation to the crediting of a positive or debiting of a negative amount in the virtual account for the respective financial year, 25 percent of the account balance is paid out annually if the account shows a credit balance. For this purpose, the respective balance of virtual shares is in turn converted into cash on the basis of the average Xetra closing price of the 20 market trading days after the day on which the consolidated financial statements for the relevant financial year are approved. The share price increase is only recognised up to a share price of 25.00 euros (cap). For the purpose of conversion into virtual shares, dividend payments as well as circumstances for which dilution protection stipulations are applicable in the event of marketable financial instruments which depend on the share value have to be included in the calculation. If the virtual account shows a negative balance at the point at which a payment is due to be made, the member of the Executive Board will only receive a (further) payment when the negative amount has been cancelled out by success in attaining the corresponding target parameters for the subsequent year or the subsequent years.

The obligation arising from the LTIP programme has been determined at fair value in accordance with IFRS 2 in line with a recognised valuation model. The main parameters included in this valuation model are the share price of freenet AG as of the balance sheet date, the estimate of the percentage of target attainment for the respective financial year, the estimate of future share prices, the estimate of future payments out of the virtual accounts (derived from the two previous estimates) as well as the estimate of the discount rate.

The actual target attainment established for 2012 is 120 percent, so that 200 percent of the basic amount, equivalent to a total of 1,180 thousand euros, have been paid into the virtual accounts for the members of the Executive Board. After the consolidated financial statements 2012 had been approved, this amount was converted into virtual shares for the financial year 2012 based on an average share price of 18.07 euros. For 2012, this resulted in the contribution of 33,204 virtual shares for Mr. Vilanek, 22,137 virtual shares for Mr. Preisig and 9,961 virtual shares for Mr. Esch. In 2013, payments resulted in 20,959 virtual shares for Mr. Vilanek (leading to a payment of 405 thousand euros), 13,973 virtual shares for Mr. Preisig (leading to a payment of 270 thousand euros) and 6,288 virtual shares for Mr. Esch (leading to a payment of 122 thousand euros). As of 31 December 2013, the portfolio comprised 62,878 virtual shares for Mr. Vilanek, 41,919 for Mr. Preisig and 18,863 for Mr. Esch.

Target attainment will also be 120 percent for the financial year 2013.

The LTIP programme has resulted in personnel expenses of 1,913 thousand euros in the financial year 2013 consisting of payments amounting to 797 thousand euros and an increase of 1,116 thousand euros of the provision compared with 31 December 2012 amounting to 3,645 thousand euros.

27 Trade accounts payable, other liabilities and accruals

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

In EUR '000s	31.12.2013	31.12.2012 adjusted
Trade accounts payable	401,970	412,898
Advance payments received	68,116	72,127
Other liabilities and accruals	111,298	45,621
	581,384	**530,646**

For the purposes of the above table, the balance sheet item "Sundry liabilities and accruals" has been broken down into "Advance payments received" as well as "Other liabilities and accruals". Of the figure shown as of 31 December 2013, there are no liabilities (previous year: 701 thousand euros) attributable to related parties; please refer to item 35, Transactions with related parties.

Of the figure shown for liabilities, 515,490 thousand euros (previous year: 530,325 thousand euros) are due within the next twelve months. Liabilities of 57,882 thousand euros (previous year: 288 thousand euros) have a maturity of between one year and five years. Liabilities of 8,012 thousand euros (previous year: 33 thousand euros) have a maturity of more than five years. The advance payments received are shown in the balance sheet under the sundry liabilities and accruals.

For long-term other liabilities and accruals, the market value is approximately equivalent to the recognised book value due to the discounting.

The maturities of those liabilities which are shown in the categories trade accounts payable and non-derivative financial other liabilities and accruals are as follows: 445,488 thousand euros (previous year: 456,967 thousand euros) is due within one year, 57,882 thousand euros (previous year: 288 thousand euros) is due between one year and five years, and 8,012 thousand euros (previous year: 33 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:

In EUR '000s	31.12.2013	31.12.2012
Non-current		
Liabilities from corporate bonds	397,483	396,525
Liabilities from promissory notes	119,680	119,280
Liabilities due to banks	255	39,887
Liabilities from finance leasing	181	413
	517,599	**556,105**
Current		
Liabilities from corporate bonds	19,911	19,988
Liabilities from promissory notes	139	138
Liabilities due to banks	131	80,101
Liabilities from finance leasing	232	222
	20,413	100,449

In December 2013, the Group signed a new syndicate loan agreement with a bank syndicate headed by Commerzbank AG as the mandated lead arranger. This comprised the premature repayment of the outstanding final instalment of 40.0 million euros for the amortising loan with an original nominal amount of 240.0 million euros falling due in 2014. The previous revolving credit line for 100.0 million euros has been replaced by a new revolving credit line for 300.0 million euros raised for a period of five years subject to more favourable conditions.

Of the figure shown for long-term financial debt in the Group as of 31 December 2013, 397.5 million euros (previous year: 396.5 million euros) is attributable to the five-year corporate bond issued in April 2011 with a nominal value of 400.0 million euros. The difference of 2.5 million euros between the nominal value and the carrying amount is attributable to the one-off charges (amounting to 3.5 million euros as of 31 December 2012) which were incurred when the bond was issued, which are deducted from the debt and compounded over the life of the bond using the effective interest rate method. The promissory note which was taken out in December 2012 with a nominal amount of 120.0 million euros is shown in long-term debt on 31 December 2012 as 119.7 million euros after the deduction of one-off costs of 0.3 million euros (previous year: 0.7 million euros). The promissory note loan is a financing instrument which falls due upon maturity; it comprises a five-year fixed tranche for 44.5 million euros, a five-year variable tranche for 56.0 million euros as well as a seven-year fixed tranche for 19.5 million euros. As of the previous year reference date, the long-term financial debt essentially also contained an amount of 39.9 million euros from the amortising loan of originally 240.0 million euros.

Of the figure shown as short-term financial debt as of 31 December 2013, a total of 19.9 million euros (previous year: 20.0 million euros) relates to the cumulative interest for the corporate bond which had not become cash-effective last year. As of 31 December 2012, this item essentially contained an additional figure of 80.1 million euros from the amortising loan of originally 240.0 million euros. The revolving credit line had not been drawn down as of 31 December 2012, and had only been drawn down to a limited extent of 58 thousand euros as of 31 December 2013.

Netted with liquid assets, net financial debt of 427.2 million euros is shown in the Group as of 31 December 2013 (previous year: 451.9 million euros).

The finance lease liabilities shown as of the balance sheet date relate to a leasing-purchase agreement for various items of hardware and software for equipping our shop chain.

As of 31 December 2013, the carrying amounts of fixed assets under finance leasing amounted to 172 thousand euros (previous year: 270 thousand euros) for software and 223 thousand euros (previous year: 349 thousand euros) for hardware.

The minimum lease payments become due as follows:

Minimum lease payments

In EUR ’000s	2013	2012
Within one year	245	246
Between one and five years	184	430
More than five years	0	0
	429	**676**
Interest component of future leasing payments		
Within one year	–13	–23
Between one and five years	–3	–17
More than five years	0	0
Present values of the total liabilities from finance leasing	**413**	**636**

The maturities of the overall finance lease liabilities are shown in the following:

In EUR ’000s	31.12.2013	31.12.2012
Within one year	232	223
Between one and five years	181	413
More than five years	0	0
	413	**636**

The balance sheet figure is equivalent to the present value of the contractual minimum lease payments. The interest rate for recognising the resulting finance lease liabilities is 4.4 percent.

30 Pension provisions

The pension obligations are a consequence of 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:

In EUR '000s	31.12.2013	31.12.2012 adjusted
Present value of funded obligations	9,920	9,777
Present value of unfunded obligations	38,751	39,103
Sub-total present value of obligations	48,671	48,880
Fair value of plan assets	–4,302	–3,894
Provision shown in balance sheet	**44,369**	**44,986**

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:

In EUR '000s	2013	2012 adjusted
As of 1.1.	**48,880**	**34,922**
Current and past service costs	646	426
Interest expense	1,446	1,552
Employees' contributions	28	44
Actuarial losses		
Thereof due to changes in inventories	95	72
Thereof due to changes in demographic parameters	0	0
Thereof due to changes in financial parameters	–1,289	12,553
Sub-total actuarial losses	–1,194	12,625
Payments made	–1,135	–689
As of 31.12.	**48,671**	**48,880**

The weighted average remaining term of the obligations as of 31 December 2013 amounted to 12.0 years for the freenet programme (previous year: 12.9 years) and 18.0 years for the debitel programmes (previous year: 18.5 years).

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

In EUR '000s	2013	2012 adjusted	2011	2010	2009
Present value of funded obligations	9,920	9,777	5,768	4,642	3,700
Present value of unfunded obligations	38,751	39,103	29,154	27,187	26,457
Fair value of plan assets	–4,302	–3,894	–3,017	–2,294	–1,389
Net loss for the plan	**44,369**	**44,986**	31,905	29,535	28,768
Experience-based adjustments of the liabilities of the plan	7	35	25	9	–79
Experience-based adjustments of the assets of the plan	–383	51	–21	230	–214

The plan assets consist of several reinsurance policies concluded by the benefit fund set up for this purpose, with a total fair value of 4,302 thousand euros (31 December 2012: 3,894 thousand euros), and are invested in equity funds or shares for which there is an active market. The following table sets out the development in fair value:

In EUR '000s	2013	2012 adjusted
As of 1. 1.	**3,894**	**3,017**
Expected income from plan assets	126	166
Difference between expected and actual income from plan assets	–383	51
Employer's contribution to plan assets	665	660
As of 31. 12.	**4,302**	**3,894**

The actual income from the plan assets amount to –257 thousand euros (2012: 217 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 2014, freenet is expecting payments into the plan assets of 665 thousand euros as well as payments out of the plan assets for pensions of 793 thousand euros.

The following items are recognised in the consolidated income statement:

In EUR '000s	2013	2012 adjusted
Current and past service cost	646	426
Interest expense	1,319	1,639
Total cost of defined benefit plans	**1,965**	**2,065**
Thereof recognised in personnel expenses	646	513
Thereof recognised in interest and similar expenses	1,319	1,552

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

In EUR '000s	2013	2012 adjusted
As of 1. 1.	**44,986**	**31,905**
Total cost recognised in the consolidated income statement	1,965	2,065
Reclassifications, recongnised in equity (valuation reserve)	–809	12,312
Payments made	–1,801	–1,340
Employees' contributions	28	44
As of 31. 12.	**44,369**	**44,986**

The main actuarial assumptions are as follows:

In percent	31. 12. 2013	31. 12. 2012
Discount rate	3.00	3.00
Expected income from plan assets	3.00	3.00
Future salary increases (programme debitel)	1.50	1.50
Future salary increases (programme freenet)	0.00	0.00
Future pension increases (programme debitel)	1.50	1.75
Future pension increases (programme freenet)	1.50	2.00

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

We have commented as follows regarding the sensitivity of the present value of the funded and unfunded obligations.

	Change in present value of obligations	
In EUR '000s	Increase	Decrease
Increase of 1.0 percentage points in discount rate		8,339
Reduction of 1.0 percentage points in discount rate	11,051	
Increase of 0.5 percentage points in future salary increases	226	
Increase of 0.25 percentage points in future pension increases	932	
Reduction of 0.25 percentage points in future pension increases		888
Life expectancy: Age shift +2 years	2,454	

31 Other provisions

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

In EUR '000s	1.1.2013	Addition initial consideration	Consumption	Reversal	Compounding	Allocation	31.12.2013
Contingent losses	16,601	0	1,937	2,297	191	250	12,808
Litigation risks	8,616	48	594	3,162	0	2,810	7,718
Dismantling obligations	2,472	85	90	77	0	74	2,464
Employee incentive programmes	2,999	0	898	36	0	2,064	4,129
Service anniversaries	0	10	3	0	0	1,341	1,348
Warranty/guarantee	549	486	202	154	0	725	1,404
Storage costs	368	0	3	0	0	36	401
Other	725	0	0	725	0	146	146
	32,330	**629**	**3,727**	**6,451**	**191**	**7,446**	**30,418**

The provisions for contingent losses relate to pending services in connection with the landline activities of the Group (1,188 thousand euros), whereby the outflow of assets is expected to take place in 2014 (278 thousand euros) and in the years 2015 to 2018 (1,089 thousand euros). A rate of 1.20 percent—as in the previous year—has been used for compounding purposes in this respect.

Provisions for contingent losses have also been created for vacancy costs of rented shops and office buildings (5,038 thousand euros); the outflow of assets is expected in 2014 (1,599 thousand euros) as well as in the period 2015 to 2018 (3,439 thousand euros)—a rate of 1.20 percent—as in the previous year—has been used for compounding purposes in this respect. And finally, the provisions for contingent losses include a figure of 6,582 thousand euros for losses expected from negative-margin tariffs; the probable outflow of assets is expected in 2014.

The figure stated for the provision for dismantling obligations relates to obligations for the dismantling of leasehold improvements and various technical and administration locations of the Group. Following the probable expiry of the underlying rental agreements, the outflow of funds is expected to be 1,303 thousand euros in 2014 and 1,161 thousand euros in the years 2015 to 2024.

Provisions for service anniversaries have been created; the outflow of assets for 2014 is expected to be 257 thousand euros, and the corresponding outflow of assets for the years 2015 to 2033 is expected to be 1,091 thousand euros for this purpose. A discount rate of 1.8 percent and an average period of eight years between the balance sheet date and the actual payment have been assumed as the basis for calculating the service anniversary provisions.

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 2014. 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 employee participation programmes 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:

In EUR '000s	31.12.2013	31.12.2012 adjusted
Rent and leasing obligations		
Due within one year	34,419	34,797
Due within one and five years	68,375	73,740
Due term greater than five years	3,653	4,212
	106,447	**112,749**
Thereof already recognised as provision for contingent losses	5,038	7,220
	101,409	**105,529**
Maintenance, support and other obligations		
Due within one year	5,357	7,541
Due within one and five years	446	1,076
Due term greater than five years	0	0
	5,803	**8,617**
Order commitments		
Regarding intangible assets	117	86
Regarding property, plant and equipment	1,316	130
Regarding inventories, expenses and services	6,105	7,560
	7,538	**7,776**
	114,750	**121,922**

The obligations from rental and leasing agreements relate mainly to the rental of office buildings and shops as well as hardware leasing. This is opposed by expected revenues of 11,700 thousand euros from subletting arrangements. 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 order commitment at the end of the financial year amounted to 7,538 thousand euros (previous year: 7,776 thousand euros). Of this figure, 1,433 thousand euros (previous year: 216 thousand euros) is attributable to the procurement of fixed assets. Further purchase obligations of 6,105 thousand euros (previous year: 7,560 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.

Other liability obligations exist as a result of letters of comfort and guarantees for rents and amounted to 17,322 thousand euros (previous year: 16,416 thousand euros) as of the balance sheet date.

There were the following major contingent liabilities: In the Mobile Communications field, there is the situation that external sales partners arrange mobile agreements between the mobile provider (such as freenet AG) and the end user, and simultaneously provide mobile phones free of charge to the end user in their own name and for their own account. There are as yet unresolved problems at the level of the Supreme Court regarding the VAT treatment of this arrangement. Previous fiscal court verdicts have not been based on a uniform appraisal of the arrangement involving such treatment of mobile phones by the sales partners. The fiscal courts in the Saarland and Baden-Württemberg were of the opinion, in two judgements, that the act of providing the mobile telephones free-of-charge constitutes a delivery, in return for payment, of the sales partner to the end user, and that those elements of the commission which the mobile provider pays to the sales partner as a result of the mobile phone being provided to the end user free-of-charge constitute a third-party payment for the delivery of the sales partner to the end user in accordance with clause 10 paragraph 1 sentence 3 UStG. An appeal against the verdict of the Fiscal Court Baden-Württemberg has been lodged with the Bundesfinanzhof (BFH; Federal Fiscal Court). With regard to these appeal proceedings, the BFH judgement of 16 October 2013 decided that there are no objections to the appraisal of the Fiscal Court Baden-Württemberg in the pending individual case. From the perspective of the company, it is more likely than not that the above-mentioned BFH judgement will not have any negative impact under VAT law for freenet AG. However, there is a risk that freenet AG might have to repay some corresponding input tax to the revenue authorities; this might have a significantly negative impact on the net assets, financial position and results of operations of the company. This effect which mainly consists of the volume of any input tax which may have to be refunded less any claims against business partners, is not reliably quantifiable.

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). In 2013, as was also the case in 2012, the cash flows were exclusively attributable to continued 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. As was the case in the previous year, cash and cash equivalents do not include any cash and cash equivalents from discontinued operations. However, the cash and cash equivalents as of 31 December 2012 included a figure of 2.7 million euros for liquid assets which are attributable to held-for-sale non-current assets (in this case: freeXmedia GmbH which was sold as of 1 January 2013).

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

33.1 Cash flow from operating activities

With respect to the comparison period, the cash flow from operating activities declined slightly by 1.7 million euros to 278.4 million euros. Compared with the previous year, EBITDA increased by 1.5 million euros, adjusted by the revenues included from the sale of subsidiaries as well as the sale of associated companies (the inflows from the sale of subsidiaries and associated companies are shown under cash flow from investing activities). The development in net working capital in 2013 was comparable with the corresponding figure for 2012 (with an increase of 50.1 million euros, compared with an increase of 45.7 million euros in 2011). The increase of 50.1 million euros in net working capital in 2013 is mainly attributable to the planned reduction of liabilities and accruals with regard to contractual partners resulting from distribution rights as well as with regard to a mobile communications network operator and the further increased sales of valuable hardware to end customers and the related increase in receivables arising from hardware sales. In 2013, there were also net outflows of 23.5 million euros (previous year: 24.6 million euros) due to tax payments and refunds.

33.2 Cash flow from investing activities

In 2013, the cash inflow from investing activities declined from −9.0 million euros in the previous year to −35.4 million euros. This development was mainly attributable to the cash outflows of 13.2 million euros in the last financial year regarding the acquisition of the subsidiaries GRAVIS and MOTION TM. Please refer to our comments in item 36 of these notes to the consolidated financial statements ("Company acquisitions"). On the other hand, cash inflows totalling 8.2 million euros were generated in the previous year from the sales of subsidiaries, associates and other investments.

The cash outflows for investments in intangible assets and also in property, plant and equipment, netted with the proceeds from the disposal of such assets, are shown as 22,2 million euros; they are thus roughly equivalent to the corresponding previous year figure (20.6 million euros). Of the figure of 93.1 million euros shown in the consolidated statement of movements in non-current assets for 2013 for investments in intangible assets and property, plant and equipment, 70.8 million euros was not cash-effective—the latter figure related to the extension of exclusive distribution right with Media-Saturn Deutschland GmbH for a further period of at least 36 months starting 1 August 2013. The extension of this distribution right has resulted in an increase in the intangible assets and liabilities; however, because this transaction was not cash-effective in the financial year, the extension did not have any impact on the cash flow statement. It was not disclosed in the cash flow of investing activities, nor was there any change in net working capital in operating activity. The future outflows of cash arising from this distribution right are shown in the cash flow of operating activities in the change in net working capital.

The cash-effective investments were financed entirely out of own funds, and mainly related to self-created software in connection with the further development of our IT systems, the renewal and extension of the fittings of our mobile communications shops as well as investments in EDP hardware. The investments shown in the consolidated statement of movements in non-current assets for 2012 for investments in intangible assets and property, plant and equipment were fully cash-effective.

The inflows from interest payments shown in the cash flow from investing activities declined by 0.8 million euros compared with the previous year, namely to 1.3 million euros.

33.3 Cash flow from financing activities

Compared with the corresponding period of the previous year, the cash flow from financing activities declined by 190.4 million euros, namely from –149.1 million euros to –339.6 million euros. In the previous year, the Group received proceeds of 119.3 million euros from the promissory note loan raised in December 2012. The repayments of principal in relation to financial debt increased by 44.8 million euros compared with the previous year, namely to 125.0 million euros mainly as a result of the premature full repayment of the amortising loan within the framework of extending the revolving credit line.

Dividend payments of 172.8 million euros depressed cash flow from financing activities in 2013 (previous year: 153.6 million euros).

In addition, interest payments of 36.7 million euros were reported in 2013, mainly in relation to long-term bank loans resulting in an increase of 2.2 million euros compared with the prior year. The Group reported an outflow of 5.0 million euros in the financial year 2013 as a result of the remaining 49 percent of shares in MFE Energie GmbH.

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

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 calculation of this result from the consolidated income statement :

In EUR '000s	1.1.2013 —31.12.2013	1.1.2012 —31.12.2012 adjusted
Earnings before taxes of continued operations	258,443	166,677
Interest payable and similar expenses of continued operations	44,633	44,783
Interest payable and similar income of continued operations	–1,769	–2,695
Earnings before interest and taxes (EBIT) of continued and discontinued operations	**301,307**	**208,765**

34 Additional information concerning financial instrumenets

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 31 December 2013 and as of 31 December 2012, the related allocation to classes and reconciliation with the corresponding valuation categories under IAS 39 (see tables on next pages):

Financial instruments according to classes as of 31 December 2013

In EUR '000s	Valuation category according to IAS 39	Carrying amount	Approach				Fair value 31.12.2013
			Amortised cost of purchase	Cost of purchase	Fair value in income statement	Fair value in equity	
Assets							
Cash and cash equivalents	LR	110,766	110,766				110,766
Total cash and cash equivalents		**110,766**	**110,766**				**110,766**
Other financial assets (measured at cost of purchase)	HFS	503		503			–
Other financial assets (measured at fair value)	HFS	1,037				1,037	1,037
Total other financial assets		**1,540**					
Trade accounts receivable	LR	**501,629**	**501,629**				**501,781**
Other non-derivative financial assets	LR	26,462	26,462				26,462
Held-for-sale other assets	HFS	2,897				2,897	2,897
Derivative financial assets	FIPL	0			0		0
Non-financial assets		20,239					
Sum of receivables and other assets		**49,598**					
Liabilities							
Trade accounts payable	FLAC	401,970	401,970				401,970
Financial debt (liabilities due to banks and shareholders)	FLAC	537,599	537,599				586,594
Derivative financial liabilities	FIPL	0			0		0
Sum of financial liabilities within the scope of IFRS 7		**537,599**					**586,594**
Other non-derivative financial liabilities measured at cost of purchase	FLAC	109,412	109,412				109,412
Non-financial liabilities		70,002					
Sum of liabilities and deferrals		**179,414**					
Financial instruments not covered by the scope of IFRS 7							
Present values of liabilities from finance lease according to IAS 17		413					413
Pension provisions according to IAS 19		44,369					44,369
Provisions for employee participation programmes according to IFRS 2		4,129					4,129
Sum of financial instruments not covered by the scope of IFRS 7		**48,911**					
Thereof aggregated by valuation categories according to IAS 39							
Held-for-sale financial instruments	HFS	4,437		503		3,934	3,934
Loans and receivables	LR	638,857	638,857				639,009
Financial liabilities measured at amortised cost of purchase	FLAC	–1,048,981	–1,048,981				–1,097,976

Financial instruments according to classes as of 31 December 2012 adjusted

In EUR '000s	Valuation category according to IAS 39	Carrying amount 31.12.2012 adjusted	Approach: Amortised cost of purchase	Approach: Cost of purchase	Approach: Fair value in income statement	Approach: Fair value in equity	Fair value 31.12.2012 adjusted
Assets							
Cash and cash equivalents	LR	204,621	204,621				204,621
Total cash and cash equivalents		**204,621**	**204,621**				**204,621**
Other financial assets (measured at cost of purchase)	HFS	502		502			
Other financial assets (measured at fair value)	HFS	1,027				1,027	1,027
Total other financial assets		**1,529**					
Trade accounts receivable	LR	**492,346**	**492,346**				**492,417**
Other non-derivative financial assets	LR	17,482	17,482				17,482
Held-for-sale other assets	HFS	3,696				3,696	3,696
Derivative financial assets	FIPL	0			0		0
Non-financial assets		14,154					
Sum of receivables and other assets		**35,332**					
Liabilities							
Trade accounts payable	FLAC	412,898	412,898				412,898
Financial debt (liabilities due to banks and shareholders)	FLAC	655,918	655,918				708,350
Derivative financial liabilities	FIPL	0			0		0
Sum of financial liabilities within the scope of IFRS 7		**655,918**					**708,350**
Other non-derivative financial liabilities measured at cost of purchase	FLAC	44,561	44,561				44,561
Non-financial liabilities		73,187					
Sum of liabilities and deferrals		**117,748**					
Financial instruments not covered by the scope of IFRS 7							
Present values of liabilities from finance lease according to IAS 17		636	636				636
Pension provisions according to IAS 19		44,986			44,986		44,986
Provisions for employee participation programmes according to IFRS 2		2,999			2,999		2,999
Sum of financial instruments not covered by the scope of IFRS 7		**48,621**					
Thereof aggregated by valuation categories according to IAS 39							
Held-for-sale financial instruments (HFS)	HFS	5,225		502		4,723	4,723
Loans and receivables (LR)	LR	714,449	714,449				714,520
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	–1,113,377	–1,113,377				–1,165,809

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 fair 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 fair value of the non-current receivables and other financial assets with remaining terms of more than one year correspond to the present values of the payments associated with the assets, with due consideration being given to the relevant interest parameters. As a result of discounting using the effective interest method, there are only minor differences between the carrying amounts of these financial instruments and the fair values.

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

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

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

Because of the maturity involved, the fair value of the current financial debt corresponds to the carrying amount. The fair value of the long-term financial debt exceeded the carrying amount by 48,995 thousand euros as of 31 December 2013. This difference is attributable in the amount of 47,740 thousand euros to the valuation of the corporate bond, and was established on the basis of the market price of this corporate bond as of the balance sheet date. Furthermore, a difference in the amount of 1,255 thousand euros resulted from the measurement of the promissory notes at fair value, which was determined a the valuation date based on the latest estimates of the company’s credit risk and the interest rates.

The fair 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. The Group had no derivative financial instruments as of 31 December 2013.

Trade accounts payable and other financial liabilities and accruals normally have short remaining terms; the recognised figures are thus approximately equivalent to the fair value.

The following overview shows the major parameters on which the valuation of the fair value of financial instruments, and the valuation of the financial instruments reported at fair value in accordance with IFRS 7, are based. The individual levels are defined in accordance with IFRS 13 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 input 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 2013

In EUR '000s	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	2,897	2,897	0	0
Other financial assets	1,037	1,037	0	0
Trade accounts receivable	77,987	0	0	77,987
Borrowings	566,159	445,224		120,935
Total	**–484,238**	**–441,290**	**0**	**–42,948**

Fair value hierarchy 2012

In EUR '000s	Total	Level 1	Level 2	Level 3
Held-for-sale other assets	3.696	3.696	0	0
Other financial assets	1.027	1.027	0	0
Total	**4.723**	**4.723**	**0**	**0**

For the individual categories of financial instruments in accordance with IAS 39, the following net results were shown in the financial year 2013 and in the previous year:

Net result by valuation categories 2013

		From subsequent measurement				
In EUR '000s	From Interest	At fair value (income statement)	At fair value (equity)	Impairment/ receivables losses	From disposals	Net result
Held-for-sale financial instruments (HFS)	0	0	–80	0	0	–80
Loans and receivables (LR)	1.769	0	0	–35.334	1.449	–32.116
Financial instruments measured at fair value through profit or loss (FIPL)	0	7.601	0	0	0	7.601
Financial liabilities measured at amortised cost (FLAC)	–37.855	0	0	0	0	–37.855
Total	**–36.086**	**7.601**	**–80**	**–35.334**	**1.449**	**–62.450**

Net result by valuation categories 2012 (adjusted)

		Aus der Folgebewertung				
In EUR '000s	From Interest	At fair value (income statement)	At fair value (equity)	Impairment/ receivables losses	From disposals	Net result
Held-for-sale financial instruments (HFS)	0	0	–45	0	0	–45
Loans and receivables (LR)	2.596	0	0	–31.378	1.279	–27.503
Financial instruments measured at fair value through profit or loss (FIPL)	0	–12	0	0	0	–12
Financial liabilities measured at amortised cost (FLAC)	–36.489	0	0	0	0	–36.489
Total	**–33.893**	**–12**	**–45**	**–31.378**	**1.279**	**–64.049**

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

Net profits or losses attributable to the category of financial instruments measured at fair value through profit or loss comprise the income and expenses from the measurement of the financial liability of the put option in connection with the acquisition of MOTION TM (previous year: comprise the income and expenses from the market valuation of the interest cap).

Net gains and losses from the category of held-for-sale financial instruments comprise impairments.

Net gains and losses from financial liabilities measured at amortised cost of purchase consist of interest expenses.

Information concerning interest income and interest expenses of the financial assets and financial liabilities not measured at fair value through profit or loss are based on the application of 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 with its components explained in the following section 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 cash and cash equivalents, 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 capital risk management of the Group is related to shareholders' equity shown in the consolidated balance sheet and derived key figures.

The primary objective of the Group's capital risk management is to monitor the financial covenants specified in the loan agreements, 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 Group EBITDA and Group net interest income), the equity ratio of the Group as well as the debt factor (ratio between net debt of the Group and Group EBITDA). For further information, please refer to our comments in the chapter "Financial management" in the group management report. All covenants are met as of the balance sheet date.

The ratio between Group net debt and Group equity (gearing) is another relevant parameter of capital risk management. Gearing was 0.34 as of the closing date (previous year: 0.38).

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.

The following information concerning the specific risks is based on information presented to the Executive Board.

34.3 Market risk

The activities of our Group are primarily exposed to financial risks attributable to changes in interest rates and currency exchange rates.

34.3.1 Interest rate risk

The liabilities shown under the financial debt are attributable to a fixed-income corporate bond (recognised as 417.4 million euros as of 31 December 2013) which was raised as part of the refinancing process in April 2011 and also resulting from the promissory note loan concluded in December 2012 (shown with a total balance of 119.8 million euros as of 31 December 2013—of this figure, 56.1 million euros are attributable to a variable-interest tranche and 63.8 million euros are attributable to two fixed-interest tranches). The Group also has a revolving credit line totalling 300 million euros, which had not been utilised at the end of the year. The Group has reported variable-interest financial liabilities of –56.1 million euros as of 31 December 2013. In this respect, the Group is exposed to interest rate risks. The interest rate risks have not been explicitly hedged; however, cash in hand (which is mainly invested in variable-interest instruments on the basis of EONIA or EURIBOR) acts as a natural hedge, and reduces the interest rate risk arising from the variable-interest financial debt accordingly.

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. Changes in market interest rates could have an impact on net interest income on originally variable-interest financial instruments 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 changes in interest rates 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 of 538.0 million euros are shown under the short-term and long-term borrowings as of 31 December 2013, of this figure, 56.1 million euros relate to variable interest borrowings. Interest of 2.9 percent was applied to the variable interest bank liabilities as of the reference date. The corporate bond comes with a coupon of 7.1 percent.

Of the total figure shown for financial debt as of 31 December 2013, 20.4 thousand euros are shown as current debt. There is no mandatory repayment of principal for 2014—on the contrary, the figure of 20.4 million euros relates to expected payments of cumulative interest. On the basis of market estimates, the expected interest for variable-interest loans for 2014 lies in a range between 2.9 and 3.6 percent. This means that the outflows for the entire financial debt in 2014 would amount to 32,459 thousand euros. Based on the net position of variable-interest assets and liabilities (measured at fair value), a parallel upward shift of 50 basis points in the interest rate curve would have an impact of 84 thousand euros on results after tax (previous year: 201 thousand euros), and a parallel downward shift of 50 basis points in the interest rate curve would have an impact of –84 thousand euros on the results after tax (previous year: –201 thousand euros).

Money market funds are subject to marginal interest rate fluctuations so that there is always a possibility of price losses. However, there is no significant risk as the money has 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 the sundry receivables and other assets as well as under other financial assets, an upward shift 5 percent in the price of the acquired shares would have an impact of 138 thousand euros on shareholders' equity (previous year: 166 thousand euros), and a downward shift of 5 percent in the price would have an impact of –138 thousand euros on shareholders' equity (previous year: –166 thousand euros).

The risk of interest rate changes is negligible for the other interest-bearing assets and liabilities.

Changes in interest rates have an impact on fixed-income financial instruments only if they are recognised at fair value. The financial liabilities of freenet are therefore not exposed to an interest rate risk because they are recognised at amortised cost of purchase.

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 uses a wide range of different financing instruments in order to reduce the liquidity risk.

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 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 balance sheet date, the Group had not utilised the revolving credit line of 300.0 million euros which has been provided. Within narrow limits, the Company is permitted to raise debt outside the loan agreements for instance in order to finance future strategic investments.

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.

The financial and operational scope of the Group is restricted by certain regulations of the loan agreements. These for instance impose restrictions on the Company in relation to changes in the operations of the Group, the conduct of internal structural measures under company law, the provision of collateral as well as any acquisitions and disposals of assets, and in particular shareholdings. 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 2013 and 2012:

Financial liabilities

		Cash flows 2014			Cash flows 2015			Cash flows 2016 and later		
In EUR '000s	Carrying amount 31.12.2013	Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Zins variable	Repayment
Trade accounts payable	401,970			401,970						
Debt (liabilities due to banks)	538,012	30,788	1,671	20,413	30,775	1,680	254	34,579	3,861	517,345
Other non-derivative financial liabilities	109,412			43,518			36,557			29,337

Financial liabilities

		Cash flows 2013			Cash flows 2014			Cash flows 2015 and later		
In EUR '000s	Carrying amount 31.12.2012 adjustet	Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment	Interest (fixed)	Interest (variable)	Repayment
Trade accounts payable	412,898			412,626			272			
Debt (liabilities due to banks)	656,554	30,674	3,250	100,449	30,664	1,923	40,119	65,337	5,063	515,986
Other non-derivative financial liabilities	44,561			44,512			16			33

34.5 Credit default risk

A credit risk consists of the unexpected loss of cash and cash equivalents or income attributable to the partial or complete default of receivables. This risk materialises if the contractual partner 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. For further information, please refer to our comments under item 21, Receivables and other assets. 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 regarding key accounts (dealers and distributors in mobile communications) are covered by way of commercial credit insurance. In order to minimise the credit risk, the Group has insured a certain percentage of sales with these key accounts. 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 accounts which are not insured are limited by means of an internal limit system—in general, accounts with a poor rating have to pay in advance, or the business is not established. Default risks with regard to end users have not been hedged.

In order to determine the intrinsic value 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 irrecoverable.

Securities and liquid assets are mainly invested at major German banks. The default risk has been significantly limited as a result of the risk being spread over various banks. 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 financial 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:

In EUR '000s	2013	2012
Sales and income attributable to services		
Joint ventures		
FunDorado GmbH, Hamburg	446	273
Companies with a major influence on freenet AG		
SIMply Communication GmbH, Maintal (Drillisch AG Group)	0	222
b2c.de GmbH, Munich (Drillisch AG Group)	286	1,005
	732	**1,500**
Purchased services and onward charging		
Associated companies		
KielNET GmbH Gesellschaft für Kommunikation, Kiel	n.a.	27
Joint ventures		
siXXup new Media GmbH, Pulheim	0	65
Unternehmen mit maßgeblichem Einfluss auf freenet AG		
eteleon e-solutions AG, Munich (Drillisch AG Group)	24	0
b2c.de GmbH, Munich (Drillisch AG Group)	3,029	14,782
	3,053	**14,874**

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

In EUR '000s	31.12.2013	31.12.2012
Receivables from regular transactions		
Joint ventures		
FunDorado GmbH, Hamburg	63	28
Companies with a major influence on freenet AG		
SIMply Communication GmbH, Maintal (Drillisch AG Group)	n.a.	11
b2c.de GmbH, Munich (Drillisch AG Group)	n.a.	208
	63	**247**
Liabilities from regular transactions		
Companies with a major influence on freenet AG		
b2c.de GmbH, München (Drillisch AG Group)	n.a.	701
	0	**701**

All transactions were based on market prices. There are no securities.

If the companies and persons were not to be classified as related parties in accordance with IAS 24, no information was provided (n.a.).

According to the voting rights notification of 25 March 2013, Drillisch AG held 10.43 percent of voting rights on 20 March 2013 (incl. the shares of MSP Holding GmbH). Since 20 March 2013, Drillisch AG has not been able to exercise a controlling influence on the freenet Group; this means that, since that time, Drillisch AG and the companies affiliated companies with Drillisch AG have no longer been classified as related parties. Consequently, in the reporting period 2013, transactions with companies in the Drillisch Group were only reported as transactions with related parties if they were carried out before 20 March 2013. According to the most recent voting rights notification for Drillisch AG of 1 October 2013, Drillisch AG holds voting rights of 0.39 percent (incl. the shares of MSP Holding GmbH).

35.2 Executive Board compensation

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

Executive Board compensation 2013

In EUR '000s	Fixed compensation	Variable compensation	Sub-total cash compensation	Variable compensation with long-term incentive effect[1]	Total compensation
Christoph Vilanek	621	504	1,125	972	2,097
Joachim Preisig	440	504	944	649	1,593
Stephan Esch	444	151	595	292	887
	1,505	**1,159**	**2,664**	**1,913**	**4,577**

1 This is variable compensation from the SAR programme as well as the LTIP programme, including payments which were not cash-effective in the financial year and which were measured in accordance with IFRS 2.

Executive Board compensation 2012

In EUR '000s	Fixed compensation	Variable compensation	Sub-total cash compensation	Variable compensation with long-term incentive effect[1]	Total compensation
Christoph Vilanek	625	480	1,105	1,044	2,149
Joachim Preisig	444	480	924	720	1,644
Stephan Esch	445	144	589	616	1,205
	1,514	**1,104**	**2,618**	**2,380**	**4,998**

1 This is variable compensation from the SAR programme as well as the LTIP programme, including payments which were not cash-effective in the financial year and which were measured in accordance with IFRS 2.

The following shows the breakdown of variable compensation with a long-term incentive effect:

Variable compensation with long-term incentive effect 2013

In EUR '000s	SAR programme compensation from change in the provision under IFRS 2 (non-cash-effective)	SAR programme compensation from actual payments	LTIP programme compensation from change in provision (non-cash-effective)	LTIP programme compensation from actual payments	Total variable compensation with long-term incentive effect
Christoph Vilanek	0	0	567	405	972
Joachim Preisig	0	0	379	270	649
Stephan Esch	0	0	170	122	292
	0	**0**	**1,116**	**797**	**1,913**

Variable compensation with long-term incentive effect 2012

In EUR '000s	SAR programme compensation from change in the provision under IFRS 2 (non-cash-effective)	SAR programme compensation from actual payments	LTIP programme compensation from change in provision (non-cash-effective)	LTIP programme compensation from actual payments	Total variable compensation with long-term incentive effect
Christoph Vilanek	–332	571	805	0	1,044
Joachim Preisig	–191	375	536	0	720
Stephan Esch	–419	793	242	0	616
	–942	**1,739**	**1,583**	**0**	**2,380**

In the financial year 2013, no new stock appreciation rights, stock options or other compensation instruments with a long-term incentive effect were granted to the members of the Executive Board of the Company.

The members of the Executive Board as well as former members of the Executive Board did not hold any stock appreciation rights as of the previous year reference date.

In 2011, new variable salary components with a long-term incentive effect were awarded to the members of the Executive Board via the so-called "LTIP programme"; please refer to item 26.2 of these notes, LTIP programme of freenet AG. The financial year 2013 saw the first cash payments out of the LTIP programme, namely 405 thousand euros to Mr. Vilanek, 270 thousand euros to Mr. Preisig and 122 thousand euros to Mr. Esch. As of 31 December 2013, the value of the provision for the LTIP programme for Mr. Vilanek was 1,853 thousand euros (previous year: 1,286 thousand euros); the value for Mr. Preisig was 1,236 thousand euros (previous year: 857 thousand euros), and the value for Mr. Esch was 556 thousand euros (previous year: 386 thousand euros).

In total, Executive Board emoluments in 2013 amounted to 2,664 thousand euros in accordance with clause 314 paragraph 1 no. 6a HGB (previous year: 2,618 thousand euros). As was the case in the previous year, this year's figure does not include any variable compensation with a long-term incentive effect, as such elements had already been disclosed in the financial years in which the compensation instruments had been granted in accordance with HGB.

An indirect pension commitment was granted to Mr. Esch in November 2004. In the financial year 2009, an indirect pension commitment was granted to Mr. Vilanek on the occasion of his appointment as Chairman of the Executive Board as of 1 May 2009. As of 31 December 2013, the defined benefit obligation (DBO) for Mr. Vilanek amounted to 1,165 thousand euros (previous year: 974 thousand euros); the corresponding figure for Mr. Esch was 1,627 thousand euros (previous year: 1,531 thousand euros). As of 1 September 2008, freenet AG took over the pension commitment granted to Mr. Preisig by the former debitel AG. As of 31 December 2013, the DBO for Mr. Preisig was 893 thousand euros (previous year: 751 thousand euros). The DBOs for Messrs. Spoerr, Krieger and Berger as former members of the Executive Board totalled 6,236 thousand euros as of 31 December 2013 (previous year: 6,520 thousand euros).

Current service time expenses of 549 thousand euros (previous year: 357 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. This figure was spread over the following persons in 2013: Mr. Vilanek 250 thousand euros, Mr. Preising 125 thousand euros, Mr. Esch 174 thousand euros; for 2012, the breakdown was as follows: Mr. Vilanek 157 thousand euros, Mr. Preisig 92 thousand euros and Mr. Esch 108 thousand euros.

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 Compensation for the Supervisory Board

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

- Basic compensation
- Attendance fees
- Performance-linked compensation

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

In addition, every Supervisory Board member receives 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 clause 27 paragraph 3 of the German Codetermination Act (Mitbestimmungsgesetz)—receive in addition an attendance fee of 1,000 euros for each attended meeting of the committee. The committee chairperson receives double this amount.

Within the framework of a voluntary restriction imposed on its own activities, the Supervisory Board has decided that, starting in the third quarter of 2010, no remuneration will be payable for attendance allowances for telephone meetings of the Supervisory Board and its committees, and no remuneration will be payable for participation by telephone in physical attendance meetings.

The Supervisory Board members also receive, after the end of each financial year, variable 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 stock which are 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 2013, the members of the Supervisory Board of the Company received fixed compensation of 405.3 euros thousand as well as attendance fees of 86.0 thousand euros. In addition, profit-linked compensation of 405.4 thousand euros was also recorded as a cost. Whether this performance-based compensation will indeed be paid out depends on the profit appropriation resolution for the financial year 2013. The total compensation paid for Supervisory Board activities was thus 896.7 thousand euros.

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

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

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 2013

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr. Hartmut Schenk	60.0	12.0	60.0	132.0
Knut Mackeprang[1]	27.3	4.0	27.5	58.8
Claudia Anderleit[1]	30.0	5.0	30.0	65.0
Birgit Geffke[1]	18.2	6.0	18.3	42.5
Thorsten Kraemer	30.0	7.0	30.0	67.0
Ronny Minak[1]	18.2	5.0	18.3	41.5
Michael Stephan[1]	18.2	5.0	18.3	41.5
Prof. Dr. Helmut Thoma	30.0	5.0	30.0	65.0
Gesine Thomas[1]	30.0	4.0	30.0	64.0
Marc Tüngler	30.0	8.0	30.0	68.0
Robert Weidinger	30.0	12.0	30.0	72.0
Achim Weiss	30.0	4.0	30.0	64.0
	351.9	**77.0**	**352.4**	**781.3**
Former members				
Nicole Engenhardt-Gillé[1]	17.7	1.0	17.6	36.3
Joachim Halefeld[1]	11.9	4.0	11.8	27.7
Steffen Vodel[1]	11.9	3.0	11.8	26.7
Angela Witzmann[1]	11.9	1.0	11.8	24.7
	53.4	**9.0**	**53.0**	**115.4**
	405.3	**86.0**	**405.4**	**896.7**

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

Compensation for the financial year 2012

In EUR '000s	Basic compensation	Attendance fee	Performance-based compensation	Total
Active members				
Dr. Hartmut Schenk[1]	49.2	14.0	49.4	112.6
Nicole Engenhardt-Gillé[3]	45.0	8.0	45.1	98.1
Claudia Anderleit[3]	30.0	7.0	30.1	67.1
Joachim Halefeld[3]	30.0	9.0	30.1	69.1
Thorsten Kraemer	19.3	5.0	19.5	43.8
Prof. Dr. Helmut Thoma	19.3	5.0	19.5	43.8
Gesine Thomas[3]	19.3	4.0	19.5	42.8
Marc Tüngler	19.3	6.0	19.5	44.8
Steffen Vodel[3]	30.0	10.0	30.1	70.1
Robert Weidinger	19.3	8.0	19.5	46.8
Achim Weiss	30.0	5.0	30.1	65.1
Angela Witzmann[3]	10.0	2.0	10.0	22.0
	320.7	**83.0**	**322.4**	**726.1**
Former members				
Maarten Henderson[2]	21.4	12.0	21.3	54.7
Dr. Christof Aha	10.7	4.0	10.7	25.4
Dr. Arnold Bahlmann	10.7	2.0	10.7	23.4
Hans-Jürgen Klempau[3]	10.7	2.0	10.7	23.4
Niclas Rauscher	10.7	2.0	10.7	23.4
Matthias Schneider[3]	20.1	8.0	20.0	48.1
	84.3	**30.0**	**84.1**	**198.4**
	405.0	**113.0**	**406.5**	**924.5**

1 Chairman of the Supervisory Board since 10 May 2012.
2 Chairman of the Supervisory Board until 9 May 2012.
3 Employee representative in accordance with section 7 (1) clause 1 no. 1 MitbestG of 4 May 1976.

36 Company Acquisitions

36.1 On Acquisition of GRAVIS

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

A figure of 12,250 thousand euros was agreed as the cash purchase price. The cash purchase price was subject to adjustments, depending on the net current assets as well as the cash and financial liabilities of the acquired company. The purchase price adjustments which are relevant in this respect have been defined in 2013 in a binding manner, resulting in a final cash purchase price after purchase price adjustments of 10,078 thousand euros; this was paid in the last financial year 2013.

In addition, there may also be earn-outs within a range of 0 euros and 6.25 million euros; the precise amount is related to EBITDA under commercial law for the calendar year 2013 of GRAVIS. The separate financial statements under commercial year for GRAVIS as of 31 December 2013 had not yet been adopted at the point at which these consolidated financial statements were prepared; however, on the basis of the separate financial statements which have been prepared, it can be assumed that the figure was lower than the bottom end of the range and that no earn-out is therefore payable. The liability from the earn-out of 5,164 thousand euros at the time of initial consolidation, which was compounded to 5,454 thousand euros during the financial year 2013, was therefore derecognised from the income statement as of 31 December 2013.

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

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

Assets and liabilities of GRAVIS as of 31 January 2013

Assets

In EUR '000s	31.1.2013
Non-current assets	
Intangible assets	7,662
Goodwill	3,588
Property, plant and equipment	5,682
	16,932
Current assets	
Inventories	18,842
Trade accounts receivable	3,791
Other receivables and other assets	1,485
Liquid assets	2,044
	26,162
	43,094

Liabilities

In EUR '000s	31.1.2013
Non-current liabilities	
Debt	1,933
	1,933
Current liabilities	
Trade accounts payable	15,328
Other liabilities and deferrals	4,435
Current income tax liabilities	173
Debt	5,409
Other provisions	574
	25,919
	27,852

The anticipated total purchase price (final cash purchase price of 10,078 thousand euros plus the anticipated earn-outs of 5,164 thousand euros) represent the difference between the assets and liabilities of 15,242 thousand euros at the time of initial consolidation. The purchase price allocation has resulted in goodwill of 3,588 thousand euros, which is mainly attributable to the competence of GRAVIS to continue to acquire new customers in future, the distribution organisation of GRAVIS and also the workforce of GRAVIS. 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 purchase price allocation. As a result of subsequent depreciation of the intangible assets recognised in the course of purchase price allocation, depreciation of 474 thousand euros has to be recognised in each quarter of the following financial years. No contingent liabilities have been recognised in the purchase price allocation. The fair value of the acquired receivables is stated as 5,276 thousand euros; this figure had been received almost in full as of 31 December 2013. Impairments of 73 thousand euros had been created in relation to gross receivables of 3,864 thousand euros as of the date of acquisition. The Company has not identified any transactions which have to be disclosed separately from the acquisition of the assets and transfer of liabilities. The purchase price allocation was based on a valuation-relevant planning calculation based on the DCF method. This covered a detailed period of one year with analytical extrapolation over a further period of five years with a constant EBITDA margin as well as declining revenue growth. The license-price analogy method was used for determining the fair value of the brand right. The fair value of the customer relations was established using a capital-value-oriented method on the basis of the residual-value method.

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 is allocated to the segment "Mobile Communications".

In the financial year 2013, GRAVIS contributed a total of 131.3 million euros to the Group revenue with third parties after the time of its initial consolidation. If the transaction had taken place as of 1 January 2013, the contribution of GRAVIS to the consolidated revenue in the financial year 2013 would have been 148.9 million euros. GRAVIS contributed an almost balanced result after tax to Group result for 2013—this would also have been applicable if the transaction had taken place as of 1 January 2013.

36.2 Acquisition of MOTION TM

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

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

A figure of 4.0 million euros was agreed as the cash purchase price. The cash purchase price is subject to adjustments, depending on the net current assets as well as the cash and financial liabilities of the acquired company. The purchase price adjustments which are relevant in this respect have been defined in the financial year 2013 in a binding manner, resulting in a final cash purchase price after purchase price adjustments of 5,065 thousand euros; this was also paid in 2013.

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

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

Assets and liabilities of MOTION TM as of 20 March at fair value

Assets

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

Liabilities

In EUR '000s	20.3.2013
Non-controlling interests in equity	**2,994**
Non-current liabilities	
Debt	337
Deferred tax liabilities	1,259
Other provisions	55
	1,651
Current liabilities	
Trade account payable	6,430
Other liabilities and deferrals	3,765
Current tax liabilities	878
Debt	38
	11,111
	15,756

The purchase price is the difference between the assets and liabilities of 5,065 thousand euros. Goodwill of 1,948 thousand euros has been calculated using the proportionate method. The goodwill is essentially attributable to future earnings opportunities in connection with strengthening our sales capability particularly with regard to online activities. The goodwill was attributed to the cash-generating unit "Mobile communications". The acquired intangible assets mainly comprise customer relations of 3,193 thousand euros as well as trademark rights of 1,105 thousand euros which were recognised as a result of the purchase price allocation. As a result of subsequent depreciation of the intangible assets recognised in the course of purchase price allocation, depreciation of 288 thousand euros has to be recognised in each quarter of the following financial years. No contingent liabilities have been recognised in the purchase price allocation. The fair value of the acquired receivables amounts to 9,894 thousand euros. Impairments of 15 thousand euros had been created in relation to trade accounts receivable with a gross value of 9,070 thousand euros as of the date of the acquisition. The purchase price allocation was based on a valuation-relevant planning calculation using the DCF method. This covered a detailed period of two years. A growth rate of 1.0 percent was planned for the following period. The license-price analogy method was used for determining the fair value of the brand right. The fair value of the customer relations was established using a capital-value-oriented method on the basis of the residual-value method.

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

In connection with the acquisition of MOTION TM, various options have been agreed with regard to a future acquisition of the remaining 49 percent of shares. Among other things, the minority shareholders own options for serving the remaining shares which exist at the time of exercising. A long-term other liability of 7,979 thousand euros was recognised for these options as of 31 December 2013. This liability was recognised for the first time in the second quarter of 2013 against the consolidated cumulative profit of 7,601 thousand euros.

In the financial year 2013, MOTION TM contributed a total of 107.6 million euros to the Group revenue with third parties after the time of its initial consolidation. If the transaction had taken place as of 1 January 2013, the contribution of MOTION TM to the consolidated revenue in the financial year 2013 would have been 130.8 million euros. MOTION TM contributed a balanced result after tax to Group result for 2013—this would also have been applicable if the transaction had taken place as of 1 January 2013.

36.3 Acquisition of remaining shares in MFE

With effect from 30 April 2013, the Group acquired the remaining 49 percent of shares in MFE Energie GmbH by exercising an existing option for serving the shares, for a purchase price of 5,000 thousand euros. This figure was paid in the last financial year 2013. This acquisition of remaining shares had an impact on the consolidated balance sheet by way of reclassification within equity—the consolidated result has thus not been affected.

36.4 Acquisition of the Jesta Digital Group

On 16 December 2013, the Group signed a purchase agreement for the acquisition of all shares and voting rights in Jesta Digital GmbH with registered offices in Berlin, Jesta Digital Holdings, Inc. with registered offices in the USA as well as Jesta Digital Group U.S. Holdings, Inc. with registered offices in the USA (these companies, together with their subsidiaries, are described as the "Jesta Digital Group" in the following). Following cartel law approval and the fulfilment of further conditions, the takeover was completed as of 15 January 2014, which enabled the Group to acquire control over this subsidiary. With locations in Berlin and Los Angeles and also with approximately 300 employees, the Jesta Digital Group is one of the leading providers in the world of modern, digital entertainment formats and services for users of digital applications.

A figure of 72.18 million US dollars was agreed as the cash purchase price. The cash purchase price is still subject to adjustments depending on the net working capital as well as the cash and financial liabilities of the acquired group—these purchase price adjustments will be definitively fixed on the basis of reference date financial statements of Jesta Digital Group as of 31 December 2013; however, these financial statements had not been prepared at the time at which these consolidated financial statements were approved. In addition, there may also be an "earn-out 1" in a range of between 0 US dollars and 10.0 million US dollars; the precise amount depends on the gross profit for the calendar year 2014 of the Jesta Digital Group. In addition, there may also be an "earn-out 2". This amount depends on whether the Jesta Digital Group or significant parts of the Group are sold within the first 60 months after the acquisition or if certain EBITDAs are attained within the first 96 months of the acquisition. Under certain conditions, a defined percentage of the sales proceeds would fall due as an additional purchase price; no maximum amount has been agreed in this respect.

The continuous dissemination of smartphones and tablet PCs as well as data-friendly mobile tariffs are leading to dynamically increasing demand for mobile digital lifestyle applications. With the acquisition of the Jesta Digital Group, freenet plans to consistently continue its growth in the digital lifestyle field.

Because the acquisition of Jesta Digital Group occurred before these consolidated financial statements were approved for publication, although the initial accounting for the business combination is not complete at the time of this approval, the freenet Group takes advantage of the exemption regulation of IFRS 3.B66. In particular, in view of the absence of data material at the time of acquisition, it is not possible to provide the information with regard to acquired receivables, amounts recognised at the time of acquisition for every primary group of acquired assets and acquired liabilities, with regard to contingent liabilities, with regard to the total amount of goodwill and also with regard to transactions which had to be disclosed separately from the acquisition and the transfer of liabilities.

We expect to see goodwill which is essentially attributable to future earnings opportunities in connection with the expansion of our range of services as well as the development of new, including international, markets in the field of digital lifestyle. No decision has yet been taken with regard to the allocation of the expected goodwill to a cash generating unit and to a segment for our segment reporting.

The most recent consolidated balance sheet of the Jesta Digital Group which is in the possession of the Group and which has been subject to an audit review performed by an auditing company is dated 30 June 2013, prepared in accordance with HGB. These are broken down as follows:

Balance sheet of the Jesta Group according to HGB as of 30 June 2013 at carrying amounts

Assets

In EUR '000s	30.6.2013
Non-current assets	
Intangible assets	1,233
Property, plant and equipment	646
	1,879
Current assets	
Trade accounts receivable	27,813
Other receivables and other assets	3,384
Liquid assets	6,626
	37,823
	39,702

Equity and Liabilities

In EUR '000s	30.6.2013
Equity	**5,976**
Current liabilities	
Trade accounts payable	6,811
Other liabilities and deferrals	777
Current income tax liabilities	8,633
Other provisions	17,505
	33,726
	39,702

37 Disclosures in accordance with clause 315a HGB

The average number of employees in the Group (clause 314 paragraph 1 no. 4 HGB) has been shown in item 8, Personnel expenses, in these notes.

With regard to the disclosures concerning compensation of the executive bodies of the Company (clause 314 paragraph 1 no. 6 HGB), please refer to item 35, Transactions with related parties.

In accordance with clause 314 paragraph 1 no. 8 HGB, we hereby declare that the declaration of conformity in accordance with clause 161 AktG was submitted by the Executive Board and Supervisory Board of the Company in December 2012. It has been made permanently available to shareholders in the Internet at the following address: *www.freenet-group.de/unternehmen/corporate-governance/entsprechenserklaerung*

A total of 915 thousand euros in fees was paid to the auditor in accordance with clause 314 paragraph 1 no. 9 HGB during the financial year; of this figure, 906 thousand euros relates to audit services and 9 thousand euros relates to other certification services.

In accordance with clause 313 paragraphs 2 and 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 %
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, Büdelsdorf	100 %
mobilcom-debitel Logistik GmbH, Schleswig	100 %
MobilCom Multimedia GmbH, Schleswig	100 %
klarmobil GmbH, Hamburg	100 %
new directions GmbH, Hamburg	100 %
freenet Direkt GmbH, Hamburg	100 %
MFE Energie GmbH, Berlin	100 %
Stanniol GmbH für IT & PR, Oberkrämer	100 %
mobilcom-debitel Shop GmbH, Oberkrämer	100 %
callmobile GmbH, Hamburg	100 %
Gravis – Computervertriebsgesellschaft mbH, Berlin	100 %
MOTION TM Vertriebs GmbH, Troisdorf	51 %
At equity valued companies	
FunDorado GmbH, Hamburg	50 %

38 Major events after the balance sheet date

On 16 December 2013, the Group signed a purchase agreement for the acquisition of all shares and voting rights in Jesta Digital GmbH with registered offices in Berlin, Jesta Digital Holdings, Inc. with registered offices in the USA as well as Jesta Digital Group U.S. Holdings, Inc. with registered offices in the USA. Following cartel law approval and the fulfilment of further conditions, the takeover was completed as of 15 January 2014, which enabled the Group to acquire control over this subsidiary. Please refer to our comments in item 36.4 of these notes to the consolidated financial statements.

At its meeting on 21 February 2014, the Company's Supervisory Board signed early extensions to the contracts of the current Executive Board members. Christoph Vilanek has been appointed as chairman of the Executive Board again until 31 December 2018, and again appointed as Chief Executive Officer (CEO). Joachim Preisig has again been appointed as Executive Board member in charge of Finance & Controlling/Chief Financial Officer (CFO) until 31 December 2019, and Stephan Esch has again been appointed as the Executive Board member in charge of IT/Chief Technical Officer (CTO) until 31 December 2019.

Other events of major significance have not occurred after the balance sheet date.

Consolidated movements in non-current assets as of 31 December 2013

	Cost of purchase or production					
In EUR '000s	1.1.2013	Change in companies included in consolidation	Additions	Transfers	Disposals	31.12.2013
Intangible assets						
Internally-generated software	62,221	0	9,931	0	15	72,137
Software and licenses	223,481	1,110	74,395	52	132,102	166,936
Trademarks	334,906	3,367	0	0	0	338,273
Customer relationships	485,960	7,527	0	0	–878	494,365
Goodwill	1,116,616	5,497	0	0	1	1,122,112
	2,223,184	**17,501**	**84,326**	**52**	**131,240**	**2,193,823**
Property, plant and equipment						
Land, facilities on land and buildings	15,299	560	106	0	0	15,965
Switches and networks	49,593	0	259	0	45,346	4,506
Technical equipment and machinery	18,917	0	1,943	0	240	20,620
Other office equipment	87,774	5,803	5,701	621	3,251	96,648
Payments on account and assets under construction	290	0	767	–673	0	384
	171,873	**6,363**	**8,776**	**–52**	**48,837**	**138,123**
	2,395,057	**23,864**	**93,102**	**0**	**180,077**	**2,331,946**

Consolidated movements in non-current assets as of 31 December 2012 (adjusted)

	Cost of purchase or production					
In EUR '000s	1.1.2012	Change in companies included in consolidation	Additions	Transfers	Disposals	31.12.2012
Intangible assets						
Internally-generated software	55,637	0	6,805	0	221	62,221
Software and licenses	227,292	–410	4,373	41	7,815	223,481
Trademarks	334,906	0	0	0	0	334,906
Customer relationships	486,310	0	528	0	878	485,960
Goodwill	1,116,622	–6	0	0	0	1,116,616
	2,220,767	**–416**	**11,706**	**41**	**8,914**	**2,223,184**
Property, plant and equipment						
Land, facilities on land and buildings	15,123	0	77	99	0	15,299
Switches and networks	109,037	0	0	–55,743	3,701	49,593
Technical equipment and machinery	20,815	–49	3,909	–4,439	1,319	18,917
Other office equipment	94,866	–259	5,008	–504	11,337	87,774
Payments on account and assets under construction	137	0	329	–173	3	290
	239,978	**–308**	**9,323**	**–60,760**	**16,360**	**171,873**
	2,460,745	**–724**	**21,029**	**–60,719**	**25,274**	**2,395,057**

Depreciation and impairment write-downs					Net book amounts	
1.1.2013	Additions	Transfers	Disposals	31.12.2013	31.12.2013	1.1.2013
43,618	10,308	0	15	53,911	18,226	18,603
195,477	26,391	48	123,057	99,859	68,077	28,004
27,551	5,444	0	0	32,995	305,278	307,355
483,389	4,348	0	–878	488,615	5,750	2,571
0	0	0	0	0	1,122,112	1,116,616
750,035	**46,491**	**48**	**122,194**	**674,380**	**1,519,443**	**1,473,149**
7,533	624	0	0	8,157	7,808	7,766
49,585	36	0	45,346	4,275	231	8
14,301	1,328	0	241	15,388	5,232	4,616
72,138	7,613	–48	3,152	76,551	20,097	15,636
0	0	0	0	0	384	290
143,557	**9,601**	**–48**	**48,739**	**104,371**	**33,752**	**28,316**
893,592	**56,092**	**0**	**170,933**	**778,751**	**1,553,195**	**1,501,465**

Depreciation and impairment write-downs							Net book amounts	
1.1.2012	Change in companies included in consolidation	Additions	Impairment write-downs	Transfers	Disposals	31.12.2012	31.12.2012	1.1.2012
34,653	0	8,965	0	0	0	43,618	18,603	20,984
175,544	–349	27,139	920	17	7,794	195,477	28,004	51,748
22,700	0	4,851	0	0	0	27,551	307,355	312,206
386,968	0	97,299	0	0	878	483,389	2,571	99,342
0	0	0	0	0	0	0	1,116,616	1,116,622
619,865	**–349**	**138,254**	**920**	**17**	**8,672**	**750,035**	**1,473,149**	**1,600,902**
6,954	0	579	0	0	0	7,533	7,766	8,169
108,635	0	25	0	–55,502	3,573	49,585	8	402
18,729	–49	1,346	0	–4,406	1,319	14,301	4,616	2,086
76,431	–249	7,206	113	–535	10,828	72,138	15,636	18,435
2	0	0	0	0	2	0	290	135
210,751	**–298**	**9,156**	**113**	**–60,443**	**15,722**	**143,557**	**28,316**	**29,227**
830,616	**–647**	**147,410**	**1,033**	**–60,426**	**24,394**	**893,592**	**1,501,465**	**1,630,129**

Büdelsdorf, 3 March 2014
freenet AG
The Executive Board

Christoph Vilanek	Joachim Preisig	Stephan Esch

Auditor's Report

We have audited the consolidated financial statements prepared by the freenet AG, Büdelsdorf, comprising the statement of income and the statement of comprehensive income, the statement of financial position, 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 to December 31, 2013. The preparation of the consolidated financial statements and the group management report in accordance with 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) are 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 entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, 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 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, 4 March 2014

RBS RoeverBroennerSusat GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft

Driesch (Wirtschaftsprüfer) Nommensen (Wirtschaftsprüfer)

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, 3 March 2014
freenet AG
The Executive Board

Christoph Vilanek | Joachim Preisig | Stephan Esch


PHILIPS

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) .

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 .

Cloud computing Describes the dynamic, demand-oriented offering, using and billing of IT services via a network . The services offered as part of cloud computing cover the entire range of information technology and include among others infrastructure (i . e . computing power, storage space), platforms and software .

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 corpo- rate governance .

Customer ownership Includes the postpaid and no-frills segments .

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 inter- national project experience in the areas of corporate, competitive and market entry strategy; Industry focus on telecommunication among others .

Digital lifestyle Describes simplification of everyday life via technical equipment based on internet and/or smartphones .

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 out- standing 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) .

DTAG Deutsche Telekom AG .

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 .

EBIT Earnings before interest and taxes .

EBITDA Earnings before interest, taxes, depreciation and amortisation .

EBT Earnings before taxes .

EPS Earnings per share .

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 .

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 .

KStG German: Körperschaftsteuergesetz; English: German Corporation Tax Act .

Long-Term Incentive Account See also LTIP.

LR Loans and receivables .

LTE Long Term Evolution; a new mobile communications standard and future successor of UMTS providing significantly higher transfer speeds in mobile communications with up to 300 megabit per second .

LTIP Long Term Incentive Programme; compensation programme with long-term incentive effect .

Merger & Acquisitions (M&A) Describes all processes concerning the transfer and the encumbrance of ownership in a company .

MitbestG German: Mitbestimmungsgesetz; English: German Codetermination Act .

Mobile service provider Provider of mobile communications services without their own mobile network; they sell mobile telephony minutes, SIM cards and mobile tele- phones as well as value added services, such as SMS, in their own name and for their own account .

Mystery shopping A procedure to assess service quality, in which trained observers, so-called mystery shoppers, act like normal customers and perceive real customers situations .

Narrowband Analogue or digital data transmission with a speed of up to 128 kbps .

NFC Near field communication; Wireless transfer of data between two devices held a few centimeters from each other.

No frills Basic services and necessities without any additional features

Pay services Pay 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 .

Prime standard Stock market segment of the Frankfurt stock exchange with particularly high transparency requirements .

Roaming A feature in wireless telecommunications, which ensures the extension of connectivity service in a location different from the home location . Roaming can also reach to similar networks of various network operators (national roaming) as well as to international network operators (international roaming) .

SAR Stock appreciation rights .

SIM card Subscriber Identity Module; chip card with a processor and memory for mobile devices, storing various information, including the user number allocated by the network operator, and which identifies the user in the mobile network .

Social Media Websites and other online means of communication that are used by large groups of people to share information and to develop social and professional contacts

Smart home Automatization and interconnection of inhouse electricity (light, shutters etc .), electric appliances (washing machines, fridges etc .) and entertainment electronics (TV, radio and audio system etc .) .

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 .

Termination fee The charge which a telecommunications operator pays when it terminates a call in another operator's network .

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 outstanding during the financial year .

Unique user Describes the number of individual visitors to a website within a certain period of time, with several visits of the same user only being taken into account once .

VATM German: Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e . V .; English: The association of telecommunications and value added service providers .

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 calender

26 March 2014[1]
Publication of Consolidated Financial Statements/Annual Report 2013

8 May 2014[1]
Publication of interim report I/2014

13 May 2014[1]
Annual General Meeting

7 August 2014[1]
Publication of interim report II/2014

7 November 2014[1]
Publication of interim report III/2014

1 Probable dates.

Imprint, contact, publications

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

The English version of the 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.