Annual Report 2004

Group account of mobilcom AG

mobilcom

Overview of key group figures

Results	2004	2003 adjusted[1]	2003
Revenues in € millions	1,897.3	1,837.6	1,837.6
EBITDA in € millions	166.6	103.6	335.4
EBIT in € millions	94.3	22.3	254.0
EBT in € millions	102.3	20.7	167.7
Group net result in € millions	46.7	160.4	160.4
Earnings per share in €	0.71	2.44	2.44
As a percentage of revenues			
EBITDA	8.8	5.6	18.3
EBIT	5.0	1.2	13.8
EBT	5.4	1.1	9.1
Group net result	2.5	8.7	8.7
Balance sheet			
Balance sheet total in € millions	867.3	885.3	885.3
Shareholder's equity in € millions	506.5	520.3	520.3
Equity ratio in percent	58.4	58.8	58.8
Return on equity in percent	9.0	49.9	49.9
Total return on investment in percent	5.5	2.0	2.0
Finances and investments			
Cash flow from operating activities in € millions	199.3	31.3	31.3
Cash and cash equivalents at balance sheet date in € millions	367.1	262.3	262.3
Working capital in € millions	57.5	116.1	116.1
Depreciation and amortisation (excluding goodwill amortisation) in € millions	60.5	70.8	70.8
Investments in € millions	29.7	43.8	43.8
Net financial assets in € millions	365.1	252.1	252.1
Customers			
Mobile service provider customers in millions	4.56	4.15	4.15
Active internet-access customers in millions	3.8	3.9	3.9
Revenue per mobile service provider customer in €	20.3	21.7	21.7
thereof per contract customer in €	31.1	30.0	30.0
thereof per prepaid customer in €	6.9	6.8	6.8
EBITDA per mobile service provider customer in €	9.3	3.2	3.2
EBIT per mobile service provider customer in €	2.1	-4.3	-4.3
Employees			
As at 31 December	3,072	2,693	2,693

[1] EBITDA, EBIT & EBT have been adjusted by non-recurring effects and a figure of € 2.0 million attributable to the disposal of UMTS infrastructure (for further details, please refer to "Analysis of the earnings situation", page 52).

New perspectives

An annual report is not just a look back over past events but also presents an opportunity to look to the future. Following mobilcom's crisis year of 2002 and the successful completion of our restructuring in 2003, the past year has seen the Company achieve profitable growth – and a record result. The outlook is clearly positive.

It is for this reason that our theme is "new perspectives" – in designing the annual report, we have looked far ahead. The pictures appearing throughout the report offer unusual and surprising views of both present and future.

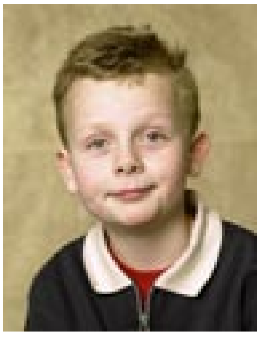
"Büdelsdorf goes Multimedia", a project supported by the town of Büdelsdorf and by mobilcom, which provides local children not just with computer hardware, but also with intensive educational support, held a painting competition in summer 2004. Children and teenagers between the ages of 6 and 16 took part, submitting around 350 works on the subject, "What does multimedia mean to you?" A jury selected 13 entries for use in a calendar, and some of these images set the tone of our 2004 annual report.

We were amazed to see that almost all of the entries dealt with the subject of mobile communications. To see this – our everyday business – through children's eyes brought one thing home to us: communication connects. The mobile has become an integral part of daily life – and in a positive way. On the beach, driving a combine harvester, at the South Pole, even in outer space. Just as important is another oft-addressed aspect, that of using the medium not excessively, but with intelligence. For us, the task is to use the benefits of mobile communications in a responsible way.

Cover image

Matthias Röckendorf, age 10

I wanted to make the picture really original. It's so empty on this beach, you need a mobile to talk to anybody.



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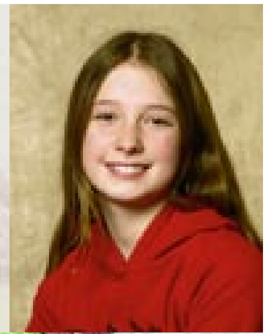
In case of doubt or disagreement the original German version of this annual report prevails.


Hilfe ein ufo
Hallo

Lisa Wohlgehagen, age 10

Why shouldn't aliens be able to phone each other or chat on the internet, when we can?



1. To the shareholders

1.1 Letter to the shareholders

Dear shareholders,

We look back on a successful 2004 financial year: With the best operating result in the Company's history, we have again proven that we are on the right track. Your Company is generating profitable and sustainable growth: Revenues and above all earnings increased significantly. With € 94.3 million, the profit before interest and taxes alone exceeded the previous year's level of € 22.3 million by more than four times. This improvement is even more remarkable taking into consideration the substantial costs of acquiring new customers in both segments, which represent an investment in the future development of the business.

Growth in customer numbers stronger than expected

With 2004 revenues of € 1,428.5 million in the Mobile Service Provider segment, we have not only exceeded the previous year's level by 5.3 percent, which more than compensated for the slight revenue decline in the Fixed Network/Internet segment, but also substantially expanded our customer base. We have strongly exceeded our already ambitious original forecast of 4.40 million customers for 2004. Our customer base rose by 0.41 million to a total of 4.56 million, and comprised 2.46 million contract customers and 2.10 million prepaid customers. This strong growth is on the one hand attributable to substantial new customer acquisitions: With 1.73 million gross new customers, mobilcom has acquired almost twice as many new customers as in the previous year. In 2004 nearly one out of every ten new customers in the German mobile telephony market chose mobilcom. On the other hand, further improved Customer Relationship Management contributed to the net growth of the new customer base. With increasing success, we are implementing the concepts for reinforced customer retention and thus securing our customer base for the long term. The integration of Customer Lifecycle Management, which implies a thorough analysis of the customers, has contributed a major part to this success. This becomes particularly evident in the development of the contract customer base. After losing a total of 0.71 million contract customers in the previous year, this figure declined to only 0.28 million in the first half of 2004 on a net basis. We reversed this trend in the second half of 2004 and expanded our customer base by 0.19 million. Contrary to the market trend, our monthly average revenue per contract customer increased by 3.6 percent to € 31.1. The prepaid ARPU of € 6.9 was also slightly higher than in the previous year.

Cost control and profit-oriented growth

In the 2004 financial year we managed to lower costs. Operating costs are more than 30 percent below the previous year's level. The Mobile Service Provider only expended a share of 9.8 percent of revenues for operating costs in 2004. mobilcom's advances in terms of an efficient allocation of capital employed have been outstanding. The operating capital employed (net working capital) declined sharply by € 35.6 million to € 54.0 million compared to 31 December 2003. The EBITDA of the Mobile Service Provider segment of € 40.6 million almost tripled from the previous year thanks to the excellent cost position. EBIT rose by € 28.5 million to € 9.2 million. This, as compared with our crisis year 2002 when we suffered an EBITDA loss of € 148.2 million and an even higher loss of € 372.4 million on an EBIT level (due to depreciation) in the Mobile Service Provider segment, shows the progress we have made so far. What we have learned from this crisis is that strict cost control and orientation towards profitable growth represent the cornerstones of our strategy. We want to seize opportunities but will not expose ourselves to incalculable risks.

Expansion of the sales network

An essential part of our profit-oriented growth strategy is the expansion of our sales network, which already forms a broad foundation for 2005. With 219 mobilcom shops, including four flagship stores that offer a particularly extensive and attractive product range, and around 1,000 retail points-of-sale in specialist stores, we have reached a strong presence in the market. In the 2005 financial year, we aim to further enhance the number of retail partners and aim to open approximately 30 new mobilcom shops. We are highly convinced that excellent customer advice and qualified on-site service are the major keys to success. These classic sales channels are complemented by our new online shop, which holds a comparatively strong position in relation to competitors. With this, we can take advantage of the online medium and offer the user an intuitive experience which is clearly oriented towards customer demands. At the same time, our online shop represents a platform for our shops and retail partners. Together with an innovative product portfolio which has its own distinct profile and real value-enhancing attributes for our customers compared to competing products, we are in an excellent position for the upcoming financial year.

Business segment Fixed Network/Internet confirms positive development

The segment Fixed Network/Internet, which is led by freenet.de AG, Hamburg, expanded in all essential business fields and has confirmed its positive trend as the leading supplier of internet telecommunication services during the financial year 2004. Particularly in the future DSL market, freenet.de AG has advanced its position with 350,000 customers as compared to the 80,000 customers it had at the end of 2003, and in the meantime has become the fourth largest DSL provider. Despite the costs which this involved, the segment improved its operating profit (EBITDA) by more than 40 percent to € 126.0 million, an outstanding performance.

High return for mobilcom shareholders: Share price increase of 30 percent, share buy-back and dividend

mobilcom's share price rose by 30 percent in 2004. Your Company showed a market capitalisation of € 1.1 billion at the end of 2004. The positive performance of the share price in 2004 can be attributed almost entirely to the enhanced value of the Mobile Service Provider segment. The highly volatile market capitalisation of freenet.de AG remained unchanged. Given our operating performance in the past financial year, investors regained confidence in the future development of the larger segment. By the end of 2004, the Mobile Service Provider segment had a valuation of € 530 million against approximately € 300 million the year before. This has led a growing number of long-term-oriented institutional investors to invest in the mobilcom share. The response of individual investors to our decision to transfer excess funds back to our shareholders via share buy-backs was also positive. This measure has also had a positive impact on the return on shareholders' equity and earnings per share. In the last week of January 2005 we completed our share buy-back program of initially 5 percent of the share capital and returned a total of € 51.3 million to our shareholders. As was previously announced, we will also propose a dividend payment for the financial year 2004 to the Annual General Meeting. At € 0.25 per share, the dividend proposed is 25 percent higher than that of 2003.

mobilcom Group remains on track

As you can see, we remain on track. For 2005 we expect to slightly exceed 2004's record level of profits. This assumes a significant increase in the profits of the Mobile Service Provider segment and a contribution to earnings by our subsidiary freenet.de AG at previous year level. Both segments will continue to grow. Within the Mobile Service Provider segment, this implies an expansion of the customer base to around 4.8 million in addition to a significant rise in profits. In 2004 mobilcom proved that the Company is able to combine profitability and growth. However, our potential for improvement is by no means exhausted. In the medium term, we are aiming for an EBITDA margin of 6 percent, implying a substantial improvement compared to the margin of 2.8 percent achieved in 2004.

You, as a mobilcom shareholder, can count on our full commitment to continuing the increase in your Company's value.

Dr. Thorsten Grenz
Chairman of the Executive Board

Michael Grodd
Member of the Executive Board

1.2 Supervisory Board Report

Dear shareholders,

After the successful reorganisation in the previous year, mobilcom Group considerably increased its profitability in 2004 and also established a basis for future growth.

The Supervisory Board monitored and advised the Executive Board in accordance with legal requirements and the provisions of the Articles of Association during the 2004 financial year. Accordingly, the Supervisory Board was involved in all decisions of fundamental importance to the Company. We have discussed these significant decisions both in the relevant committees and in plenum. As necessary, we have also documented our resolutions in written form. Six meetings of the Supervisory Board took place during the 2004 financial year. Between the meetings, the Supervisory Board received regular written reports from the Executive Board on the further development of strategy, the development of the business, the Company's net assets, financial position and results of operations, as well as exposure to risks and the system of risk management. Furthermore, the Chairman of the Supervisory Board kept in regular contact with the Executive Board, particularly the Chairman of the Executive Board, regarding business developments and significant transactions.

Work of committees

Aside from the mediation committee (in accordance with § 27 Para. 3 German Co-Determination Act, MitbestG), the Supervisory Board has established a main committee and an audit committee. The Chairman of the Supervisory Board presides over the main committee and the mediation committee, and Ulf Gänger presides over the audit committee. The composition of the different committees is shown on page 64.

The main committee, which held three meetings in 2004, concerned itself with the variable component of remuneration of the Executive Board, the extension of Dr. Thorsten Grenz's contract and the efficiency review of the Supervisory Board's work. The audit committee met twice in 2004. The main topics of the reporting year were the annual financial statements of the individual companies, mobilcom AG's consolidated financial statements and the further development of the system of risk management. The committee also prepared the assignment of the audit engagement to the statutory auditors by the Supervisory Board, established areas of focus for the audit and approved the audit fee. It was not necessary to call a meeting of the mediation committee in the reporting year. The Chairmen of the committees gave detailed information in plenum regarding the committees' work.

Main focus of discussions in plenum

Beyond the usual discussion of business developments and the economic position of the Group, the Company's strategy was a main focus of the meetings. The profit and growth-oriented strengthening of core businesses and a possible response to potential new competitors in the mobile market, as well as control, supervision and reduction of risks were central issues. Another important issue was the question of a possible claim in respect of a reimbursement of the value added tax relating to the purchase of the UMTS licence. After thoroughly weighing risks and rewards, the Supervisory and Executive Boards resolved to take legal action in order to enforce the claims, which in our opinion are valid.

Moreover, the Supervisory Board debated a complaint by the Company against a decision made by the European Commission and endorses the proposal of the Executive Board to take legal action. After approving a first tranche as a rescue package, the EU Commission approved guarantees granted in connection with the restructuring as financial aid, subject, however, to the provision that the online shop is closed for seven months. The Supervisory Board shares the opinion of the Executive Board that the EU Commission has no authority in the matter of these guarantees, which were extinguished in September 2003.

Moreover, the Supervisory Board conferred and reached a decision on the share buy-back program proposed by the Executive Board. The Supervisory Board supports the Executive Board's proposal to propose a dividend of € 0.25 for the 2004 financial year to the Annual General Meeting in 2005. This is equivalent to a 25 per cent increase compared with the previous year's dividend (without taking the 2003 bonus dividend into consideration).

Preparation of the annual financial statements

The annual financial statements for the year ended 31 December 2004 and the management report of mobilcom AG were prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (Aktiengesetz). The consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and the consolidated management report for the year ended 31 December 2004 comply with the provisions of § 292a HGB. The audit firm PwC Deutsche Revision AG, Kiel, was selected by the AGM on 19 May 2004 and engaged by the Supervisory Board to audit the individual and consolidated financial statements of mobilcom AG as well as the management reports of mobilcom AG and the Group for the 2004 financial year. The auditor has audited the mobilcom AG annual financial statements as submitted by the Executive Board and the management report of mobilcom AG as well as the financial statements and management report of the Group and has issued an unqualified audit opinion. The financial statements of mobilcom AG, the consolidated financial statements, the management reports and the long-form audit reports of PwC Deutsche Revision AG were made available to all members of the Supervisory Board. These were reviewed in advance by the audit committee before being discussed in detail in the presence of the auditor at the financial statements meeting on 4 March 2005. The Supervisory Board has approved the financial statements prepared by the Executive Board. The statements are thereby adopted.

Composition of the Supervisory Board

The Annual General Meeting of 19 May 2004 elected Klaus Thiemann (member since 29 August 2003) and Dr. Hans Peter Kohlhammer (member since 18 December 2003) to the Supervisory Board, both having been appointed by the register court. At the same time, the Annual General Meeting elected Dr. Thomas Ingelmann as replacement member for Klaus Thiemann and Dr. Hans Peter Kohlhammer.

The Supervisory Board gives credit to the members of the Executive Board for its commitment and successful work in the year under review. Moreover, the Supervisory Board would like to thank the Company's management and all employees, including the employees' representatives from mobilcom and its affiliated companies, for their active dedication in the 2004 financial year.

The Supervisory Board

Prof. Dr.-Ing. Dieter H. Vogel

Chairman
Büdelsdorf, 4 March 2005

1.3 Corporate Governance

1.3.1 Corporate Governance declaration

The Executive Board and Supervisory Board of mobilcom AG guarantee responsible, long-term value-enhancing leadership and control of the mobilcom Group through good and transparent Corporate Governance. The Executive and Supervisory Boards are working closely together for the good of the Company and are committed to a sustainable improvement in the Company's value. Against this background, the efforts of both Boards – in the interests of transparent management – lie in the implementation of the recommendations of the "German Corporate Governance Code". With a few well-founded exceptions, which are explained below, mobilcom AG has complied and continues to comply with these recommendations. During the course of 2004, Corporate Governance was further developed at mobilcom. Details of the current status of implementation of the German Corporate Governance Code are set out in the following declaration of compliance, submitted in December 2004 by the Executive and Supervisory Boards according to Article 161 of the German Stock Corporation Act (AktG).

1.3.2 Declaration of compliance according to § 161 AktG

The Supervisory and Executive Boards hereby declare that, since the issue of its previous declaration of compliance in December 2003, mobilcom AG has with the exceptions named below complied with the recommendations of the German Corporate Governance Code in the version published on 21 May 2003, and that the Company intends with the following exceptions to continue to comply.

1. The Company has taken out a Directors' & Officers' liability insurance (D & O insurance) for the members of the Executive and Supervisory Boards. This insurance includes a reasonable deductible for the Executive Board members, while no such deductible has been agreed for the Supervisory Board members (Section 3.8 sentence 3 of the Code). The Executive and Supervisory Boards consider the stipulation of a deductible for the D & O insurance for Supervisory Board members to be unreasonable as it places a hindrance on finding individuals suitable for the guidance and control of the Executive Board.

2. Deliberations on and reviews of the remuneration of the Executive Board took place in the main committee of the Supervisory Board, not in the Board's plenum (Section 4.2.2 sentence 1 of the Code). According to the Articles of the Supervisory Board, the main committee is responsible for fixing the remuneration of the Executive Board.

3. As a long-term incentive within the framework of employee participation programmes, the Company has granted Executive Board members share options as

part of their compensation. In the event of exceptionally positive performances, neither the share options of the Executive Board nor of other employees are subject to a limit (cap). The specific design of the share option programmes is set out in the general annual reports, which are made available on the Company's website. A more detailed statement of the Executive Board's remuneration and the value of its share options is not prepared (Section 4.2.3 sentences 7 to 9 of the Code). The option rights currently held by the Executive Board and employees of the Company were developed before the inclusion of these recommendations in the German Corporate Governance Code and therefore do not fully comply with these recommendations. Upon the issue of further tranches, the recommendation will be complied with.

4. In previous periods, the Company has refrained from disclosing details of remuneration of the Executive and Supervisory Boards by individual Board member (Sections 4.2.4 sentence 2 and 5.4.5 sentence 6 of the Code). This will change in the future. In the consolidated financial statements of 2004, the remuneration of Executive and Supervisory Board members will be displayed individually.

5. No limit is currently set on the age of Executive Board members (Section 5.1.2 sentence 6 of the Code). The Executive and Supervisory Boards do not wish to impose general limitations on the Supervisory Board in its selection of suitable members of the Executive Board.

6. In the annual report, the Company has published a list of companies in which the Company holds a significant investment. This list contains only the name and location of the respective Company and the stake held. The amount of shareholders' equity and the company's profits from the most recent financial year are not provided (Section 7.1.4 sentence 3 of the Code). The Company publishes financial figures of the Group and the business segments in accordance with International Financial Reporting Standards (IFRS). The shareholders' equity and the profit from the most recent financial year of the affiliated companies are calculated on the basis of the rules of the German Commercial Code (HGB). The Executive and Supervisory Boards consider that it would not be meaningful to present these figures calculated on the basis of different accounting standards.

1.3.3 Further information in compliance with the German Corporate Governance Code

Exercise of shareholders' rights

The Company will facilitate the exercise by shareholders of their rights. At the Annual General Meeting and in the period leading up to the meeting, the presence of a voting rights representative ensures that the shareholders are supported during voting. The voting rights representative attends the Annual General Meeting and is accessible to the shareholders.

Control of the Executive Board through the Supervisory Board

The Executive Board, which manages the Company and the Group, is supervised and advised by the Supervisory Board. The Executive Board informs the Supervisory Board on a regular and timely basis of relevant strategic and planning issues for the whole Group as well as of business developments, the financial position and results of operations and managerial risks. Certain decisions by the Executive Board require the consent of the Supervisory Board in accordance with the Articles of Association.

The individual and consolidated financial statements require the approval of the Supervisory Board. Within the Supervisory Board, an audit committee has been established, which prepares the approval through the Supervisory Board's plenum.

Remuneration of the Executive Board

The remuneration of the Executive Board consists of fixed and variable components, with the latter depending on the achievement of targets. Detailed information on the remuneration of members of the Executive Board for the 2004 financial year is provided on page 29 of the notes to the consolidated financial statements. In addition to this, Executive Board members receive share options under the same share option programme which benefits mobilcom's employees. The main committee regularly deliberates on and reviews the remuneration system for the Executive Board. The compensation is oriented primarily according to the functions of the respective board members and the performance of the collective Executive Board as well as the economic situation, the success and future prospects of the Company.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is subject to the Articles of Association and consists of fixed and variable components, with the latter depending on the dividend. The Chairman of the Supervisory Board receives double, his deputy one and a half times this amount. Moreover, Supervisory Board members each receive an attendance fee of € 1,000 for each meeting of the Supervisory Board or its committees. The Chairmen of the committees receive double that amount. Detailed information on the remuneration of our Supervisory Board members are provided on page 30 of the notes to the consolidated financial statements.

Identify risks and optimise risk exposures

Systematic risk management ensures that risks are identified and positions optimised with respect to risk. The risk management system of mobilcom AG, which was audited by the statutory auditors, as well as individual risks, total risk and risk management are described in detail in the section "Risk report" (page 77).

High transparency

To fulfil the goal of mobilcom's corporate communications to inform all target groups simultaneously, the Company reports comprehensively on current developments on its website. On the home page www.mobilcom.de, both institutional and individual investors will find not only all ad-hoc announcements of mobilcom AG, but also the Articles of Association. Regular information on the share buy-back program is published as is the prospectus published on 22 October 2004 in connection with the stock-exchange listing of the 18,6000,000 Company shares held by Wirefree Services Belgium S. A., Brussels (an indirect subsidiary of France Télécom S. A.). Moreover, shareholders and other interested parties can subscribe to receive all press releases via e-mail.

According to § 15a of the Securities Trade Act (Wertpapierhandelsgesetz), persons who perform a management function at mobilcom AG and related persons are obliged to disclose the purchase and sale of mobilcom shares or any derivative financial instruments based thereon. This obligation primarily applies to members of the Executive and Supervisory Boards. The holdings of shares and share options of the Executive and Supervisory Boards are individually disclosed in the notes on page 133.

The mandates of Executive and Supervisory Board members are provided on page 60. Transactions with related companies and persons are disclosed in the notes to the consolidated financial accounts on page 128.

Statutory audit by PwC

It has been agreed with the auditor, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Kiel, that the audit committee is to be informed without delay of any findings and occurrences arising from the statutory audit which are relevant for the work of the Supervisory Board. Moreover, if the auditor determines during the statutory audit that the financial statements are not consistent with the Executive and Supervisory Boards' declaration of compliance pursuant to § 161 AktG, he must inform the Supervisory Board of this and report this finding in the long-form audit report.

1.4 The mobilcom share

Basic data concerning the mobilcom share

ISIN	DE0006622400 DE000A0A8F89		
Designated Sponsor	DZ Bank AG, Frankfurt		
Code			
	Reuters	Börse Frankfurt	MOBG.F
		XETRA-Handel	MOBG.DE
	Bloomberg		MOB

Key data concerning the mobilcom share at the balance sheet date

	2004	2003
Number of outstanding shares	63,865,424	65,701,800
Share capital in €	65,701,800	65,701,800
Market capitalisation at 31 December in € millions	1,066	841
Average turnover of the share per trading day in XETRA (number)	479,928	426,761
Order book turnover in XETRA in thousands	1,826	1,039
Earnings per share [1]	0.71	2.44
High in €	19.55	13.25
Low in €	8.90	3.05
Price at 31 December in €	16.70	12.80

[1] Earnings per share is the result of dividing the net income attributable to the shareholders by the weighted average number of outstanding shares during the financial year.

The year 2004 on the stock exchange

The DAX showed a positive performance in 2004 and completed the year with an increase of 7 percent, at 4,256 points. In contrast, the TecDAX completed the year with a decline of 4 percent, to 519 points. One reason for this was the weak performance of some shares with a heavy weighting in the index. However, the absence of consistency in the index composition, which inhibited the performance of TecDAX shares, also proved a substantial uncertainty factor for index-oriented investors. Though the numerous adjustments in holdings were based on the weak performance of individual shares, they caused continuous uncertainty within the entire segment.

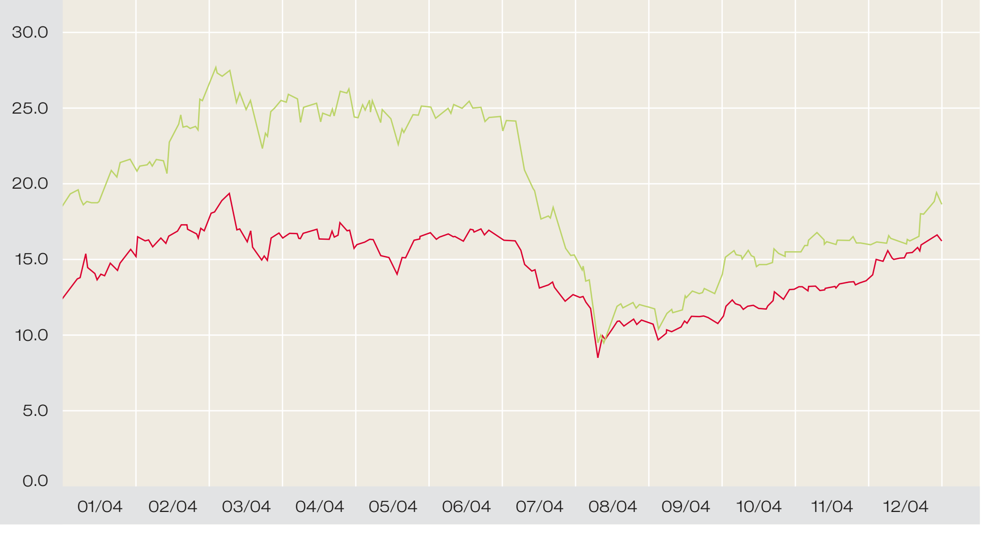
Performance of the mobilcom share in 2004

The mobilcom share concluded the past year with another noteworthy increase in value. Starting at a price of € 12.80 on 31 December 2003, the mobilcom share rose more than 30 percent and was trading at € 16.70 by 31 December 2004, which is equal to a market capitalisation of € 1.1 billion (compared to € 841 million on 31 December 2003). With this, the mobilcom share performed significantly better than both the DAX and TecDAX.

Valuation of mobile business substantially increased

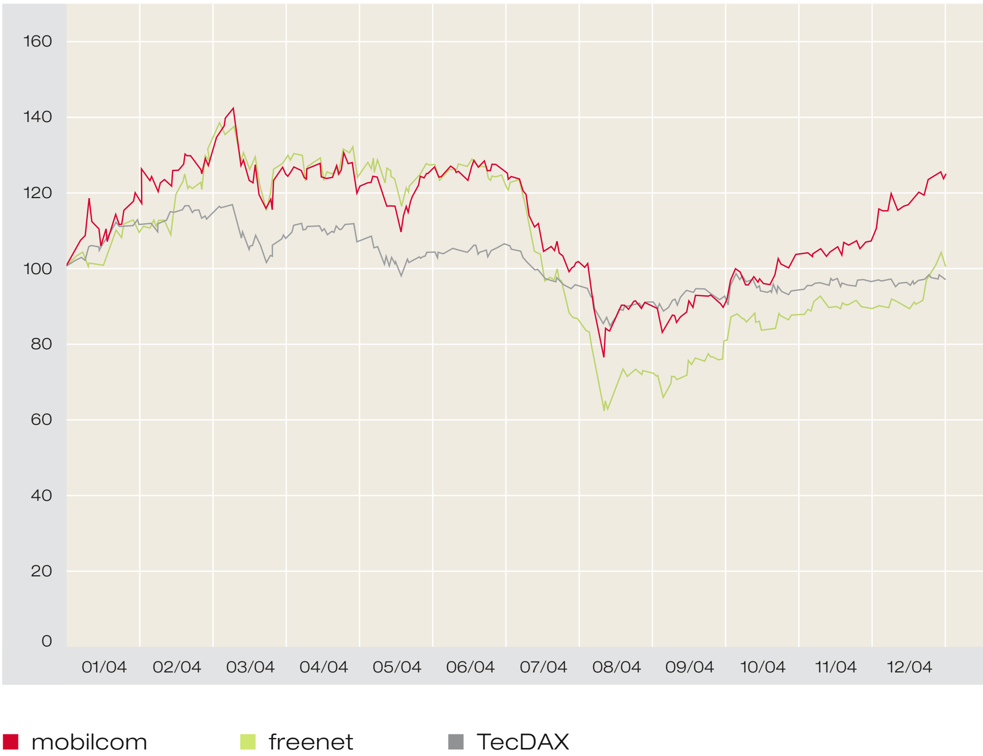
The price increase of the mobilcom share was primarily attributable to the mobile telephony business. At 31 December 2003, the share of the Mobile Service Provider segment in the total market capitalisation amounted to roughly € 300 million. Thanks to the strong operating improvement in the past year, the Mobile Service Provider segment had a valuation of nearly € 530 million at the end of 2004. The market placed positive value on the successfull advances in operating improvement in particular. The share buy-back program was well accepted by the market. The regained confidence of investors should also be emphasised. This has led to a growing number of long-term-oriented institutional investors.

Share price performance: mobilcom and freenet (absolute)



■ mobilcom ■ freenet

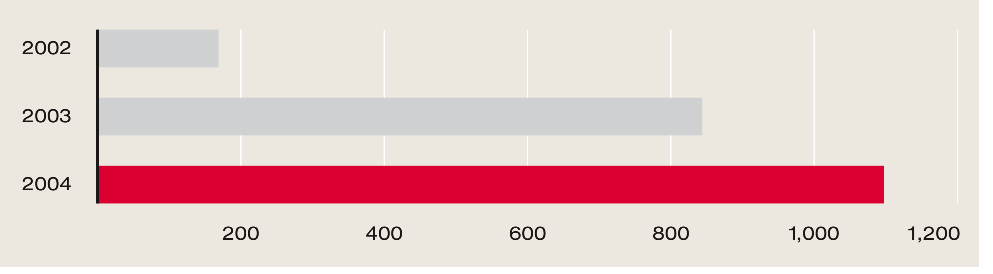
Share price performance: mobilcom and freenet (indexed)



Strong weight in technology index "TecDAX"

mobilcom AG is among the five largest TecDAX companies. Based on the free float weighted market capitalisation, mobilcom was ranked fifth with a weight of 6.73 percent by the year-end 2004 (previous year: rank 7). With € 1,974 million, the mobilcom share reached the third-highest order book turnover (previous year: rank 3). The mobilcom subsidiary freenet.de AG ranked at position 9 based on market capitalisation. With € 1,656 million, freenet.de AG reached the fourth-highest order book turnover in the TecDAX after ranking in sixth place in the previous year with € 676 million.

Development of the market capitalisation of mobilcom AG (in million €)



Share buy-back

On 12 November 2004, the Executive Board of mobilcom Aktiengesellschaft resolved to buy back shares in the Company – initially up to 5 percent of the share capital – by the end of the first quarter 2005. The Executive Board hereby made use of the authorisation, valid until 31 October 2005, granted by the Annual General Meeting on 19 May 2004. By the end of 2004, around 1.9 million shares had been bought back at a volume-weighted average price of € 14.93. mobilcom concluded the share buy-back program on 31 January 2005. The Company has bought back a total of 3,285,000 shares (5 percent of the share capital) at an average price of € 15.62 (total volume: € 51.3 million). With the completion of the share buy-back, the shares should be redeemed without reducing the share capital. With the purchase of our own shares, we are contributing to the optimisation of the balance sheet structure and the use of internal funds. This measure will enhance the return on shareholders' equity and the earnings per share.

	Number of shares	Gross price (€)	Actual amount (€)
November 2004	548,000	13.7323	7,525,287
December 2004	1,288,376	15.4389	19,891,172
January 2005	1,342,296	16.5405	22,202,295
February 2005	106,418	16.0580	1,708,862
Total	**3,285,090**	**15.6244**	**51,327,616**

Investor relations activities in 2004

In the year under review, mobilcom considerably expanded its investor relations activities compared with the previous year. mobilcom offers all capital market participants prompt and reliable information on the Group. Through analyst and telephone conferences, mobilcom ensures that all investors have the same information. In the year under review, the mobilcom management arranged five road shows in Germany, the US and the UK as well as more than 70 one-on-one interviews and telephone conferences with institutional investors. The purpose of this was to inform investors about the current business situation, the economic state of affairs, the corporate strategy and future perspectives. At appropriate times, such as on the release of interim reports or the 2003 financial statements, analysts' and telephone conferences were held. The Annual General Meeting on 19 May 2004 in Hamburg was the most important event for communication with the shareholders. Attendance reached 43.44 percent, after 73.10 percent in the previous year. The agenda, speeches and voting results are available on mobilcom's web-site www.mobilcom.de under the Investor Relations section.

To inform shareholders comprehensively and promptly, mobilcom redesigned its homepage to reflect a more user-friendly style. Aside from quarterly and annual reports and direct contact with the Investor Relations department, the website provides interested parties with information on the share buy-back program, on Corporate Governance, on the Annual General Meeting and with a share price overview which can be adjusted to meet the requirements of the individual user. Moreover, the entire spectrum of analyst's comments on the mobilcom share has been made available.

Analyst recommendations

During the financial year 2004, twelve banks and research institutes released regular reports on the mobilcom share. Investors can use these reports as information supplementary to their investment decision.

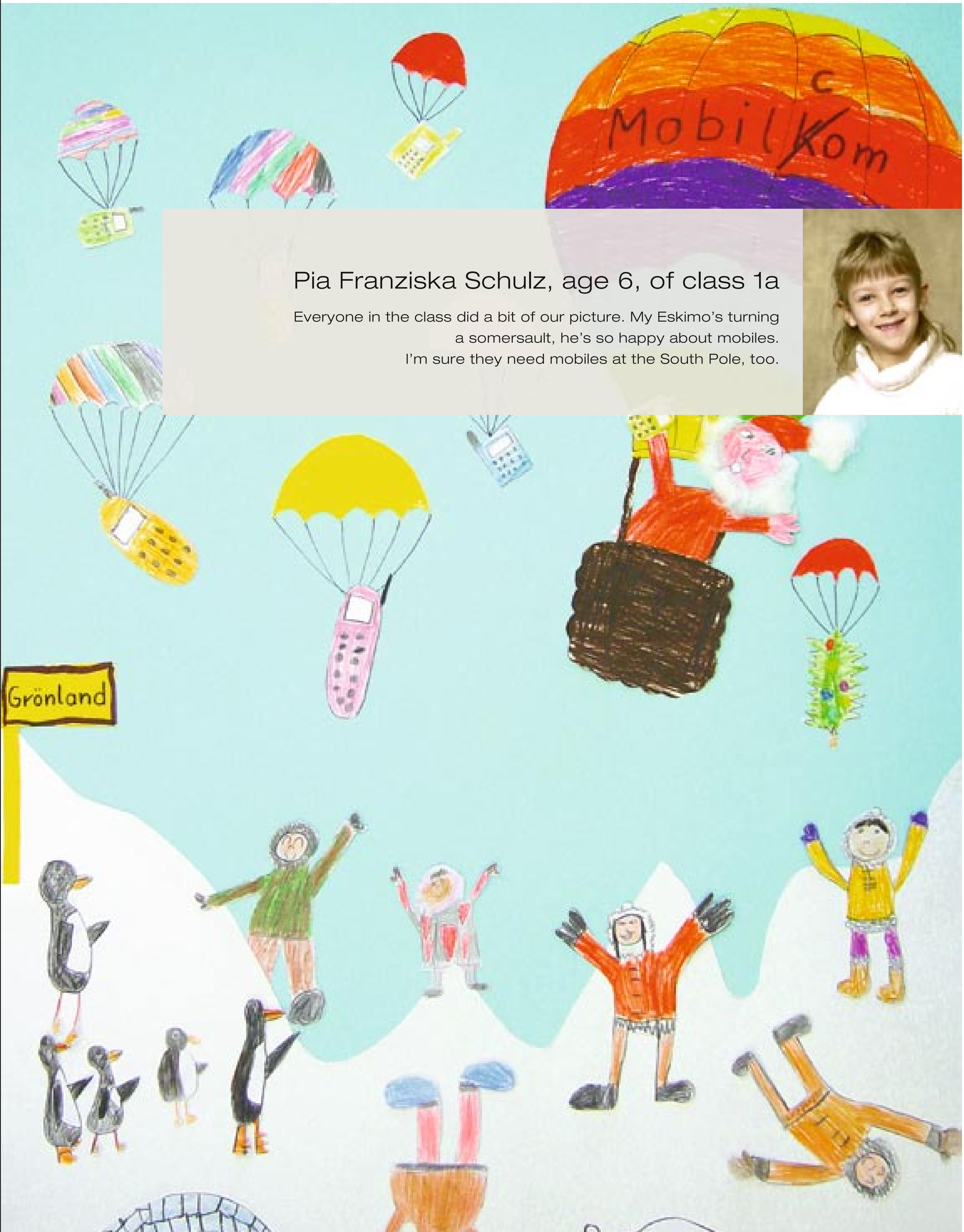
Bank/Broker	Recommendation		Previous Recommendation	
Berenberg Bank	"Buy"	10 Jan. 2005	"Buy"	13 Sep. 2004
Deutsche Bank	"Buy"	29 Oct. 2004	"Buy"	10 Aug. 2004
Dresdner Kleinwort Wasserstein	"Buy"	31 Jan. 2005	"Buy"	12 Nov. 2004
DZ Bank AG	"Buy"	8 Feb. 2005	"Buy"	17 Nov. 2004
BHF Bank AG	"Buy"	29 Nov. 2004	"Buy"	5 Mar. 2004
Kepler Equities	"Buy"	21 May 2004	"Buy"	6 Feb. 2004
Landesbank Baden-Württemberg	"Buy"	14 May 2004	"Hold"	17 Mar. 2004
Sal. Oppenheim	"Buy"	17 Nov. 2004	"Neutral"	1 Jun. 2004
SES Research	"Market performer"	14 Feb. 2005	"Market performer"	20 Dec. 2004
UBS	"Buy"	14 Feb. 2005	"Buy"	26 Jan. 2005
Cheuvreux	"Outperform"	26 Jan. 2005	"Outperform"	8 Dec. 2004
West LB	"Neutral"	11 Jan. 2005	"Neutral"	24 Nov. 2005

Shareholder structure

In the year under review, the free float remained virtually unchanged. France Télécom (indirectly through its subsidiary Wirefree Services Belgium S. A., Brussels) remained the major shareholder of mobilcom in 2004. For these shares, mobilcom AG received authorisation for an exchange trading by the German Stock Exchange in November 2004. France Télécom has undertaken a contractual obligation in respect of all 18.6 million shares to observe a blocking period of six months for sales on the exchange. Transactions which are reportable in accordance with § 21 Securities

Trading Act (Wertpapierhandelsgesetz) were announced by Gartmore Investment Management and Henderson Global Investors. Gartmore's share in mobilcom's share capital was reduced to less than 5 percent, while Henderson announced a share of 5.7 percent in mobilcom AG's share capital. According to the assessment of the Imvestor Relations department, the share of institutional investors amounted to 60 to 70 percent at the end of the 2004 financial year (individual investors: 30 to 40 percent). The share of foreign investors in the share capital reached an estimated 60 percent by the end of 2004 (German investors: around 40 percent).

Shareholder structure



Pia Franziska Schulz, age 6, of class 1a

Everyone in the class did a bit of our picture. My Eskimo's turning a somersault, he's so happy about mobiles. I'm sure they need mobiles at the South Pole, too.

2. Management report: economic report

2.1 General conditions

2.1.1 Macro-economic development

The world economy expanded in 2004 more strongly than originally anticipated: Whereas consensus forecasts at the beginning of the year were running at 3 percent, the actual figure came in at 4.8 percent. The chairmen of the central banks in the G10 countries are also expecting similar growth for the global economy in 2005 (4 percent).

Growth in Germany is lagging a long way behind the above figures. According to data of the German Central Statistical Office (Statistisches Bundesamt; 13 January 2005), real GDP growth was only 1.7 percent (2003: - 0.1 percent). The real increase in the export surplus accounted for a significant proportion of this growth (1.2 percent), whereas domestic growth amounted to only 0.5 percent. Exports achieved a strong performance in 2004 as a result of the global economy (+ 8.2 percent), and imports increased by 5.7 percent. However, because according to the German Central Statistical Office only 45 percent of exports resulted in additional domestic added value, the relevant impact was weak. A further factor was that gross capital spending and private consumption declined by 0.7 percent and 0.3 percent respectively, and only state consumer spending rose by 0.4 percent. On the other hand, growth on the mobile telephone market proved to be quite robust – even in Germany – and was not affected by the currently sluggish consumer spending climate.

2.1.2 Sector situation

Mobile telephony responsible for growth in the overall telecommunications market

According to the Verband der Anbieter von Telekommunikations- und Mehrwertdiensten (VATM = Association of Providers of Telecommunications and Added-Value Services), the overall telecommunications market in Germany expanded to € 62.9 billion (2003: € 60.9 billion). The growth of 3.3 percent is based on the strong performance in the mobile telephone market, which expanded by almost 8 percent from € 25.6 billion (VATM) to € 27.6 billion. On the other hand, the fixed network market stagnated at around € 35.3 billion.

German mobile telephone market: Number of customers up by 10 percent

In mid-2004, every fifth person in the world owned a mobile telephone – according to expert estimates, the barrier of 1.5 billion mobile phones was broken in June 2004. According to data of the American market research institution IDC, 664.5 million mobile telephones were delivered throughout the world in 2004 alone, 29.3 percent more than was the case in 2003. The dynamic growth of the mobile telephone sector also continued in Germany: The number of customers expanded by 10 percent throughout Germany in 2004. Whereas the sector reported 64.8 million customers at the end of 2003, this figure had risen to 71.6 million at the end of 2004. 49.7 percent of these customers had taken out contracts, whereas 50.3 percent used prepaid cards. Although net growth in Germany amounted to 6.8 million customers, the number of gross new customers was stated as around 18.7 million in 2004. This figure is due to a large extent to customers who moved to a new service provider. Because a high proportion of mobile telephone customers are prepared to change provider, even stronger customer retention continues to be the overriding objective of all players on the market.

However, not only the number of users is increasing; revenues are also expanding at almost the same rate: A current study prepared by Dialog Consult GmbH on behalf of VATM is indicating almost 8 percent growth in revenues. For the full year in 2004, the study has established revenues of € 27.6 billion for the mobile service market (2003: € 25.6 billion), although prices for mobile services fell by 1.1 percent compared with 2003 according to the Central Statistical Office. The year 2004 saw a continuation of the trend whereby data revenues increased as a percentage of overall revenues; according to an estimate of the VATM, data revenues probably accounted for 19.2 percent of overall revenues in 2004 (2003: 17.3 percent). SMS text messaging still accounts for by far the most significant proportion of this figure (85 percentage points). Pure data traffic accounted for 11 percent of data revenues in 2004, and the corresponding figure for the MMS service was 4 percent.

mobilcom – now accounts for 9.3 percent of new customers

With 4.56 million customers, mobilcom is the second largest German mobile service provider after debitel (8.29 million customers as of 30 June 2004) and ahead of Talkline (2.5 million customers as of 31 December 2004). In 2004, mobilcom particularly increased its share of the new customer market: At 9.3 percent, this figure was almost twice as high as was the case last year. A particularly impressive aspect is that the Company now accounts for 9.5 percent of new contract customers: In the second half alone, mobilcom improved to 10.9 percent in this particular field. This is the highest figure seen since Q2 2002, and is considerably higher than the Company's 6.9 percent share of the contract customer market. mobilcom's 9.1 percent share of all gross new prepaid customers (9.1 percent) also exceeds its share of existing customers in the prepaid market (5.8 percent).

German fixed network market

According to the VATM, revenues in the German fixed network market including Internet (only narrowband) amounted to € 35.3 billion, and were accordingly unchanged compared with the previous year. The competitors of Deutsche Telekom AG (DTAG) have slightly expanded their share of the market from 25.8 percent to 27.8 percent

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[1] Revenues including Internet, Internet services, intercarriers, leased lines as well as data services, and are thus not comparable with the figures stated by the RegTP's annual report for the fixed network market.

with probable revenues of € 9.8 billion (2003: € 9.1 billion). The number of connection minutes per day has increased from 924 million to 927 million.

The market volume of voice telephony in 2004 was around 608 million connection minutes per day, compared with 586 million in 2003. Competition introduced into the local-call market in the summer of 2003 has increased the market share of DTAG competitors in this segment: Since 24 April 2003, DTAG customers have been able to use an alternative provider on a call-by-call basis for local calls. Since 9 July 2003, preselection of a DTAG competitor has also been available as an alternative. According to the VATM, of the 222 million connection minutes per day for local calls, approx. 32.4 percent (72 million) were routed on average in 2004 via alternative providers – a figure which is almost twice as high as the corresponding figure in the previous year (37 million). This means that the market share of DTAG competitors in the local network is gradually approaching the level seen in the overall fixed network market, where telephone customers used the alternative providers for approx. 181 million minutes out of the total volume of 386 million minutes per day (46.9 percent). In 2003, the market share of the competitors of DTAG was 43.5 percent of a total volume of 375 million minutes per day.

The VATM expects to see a slight decline in the volume of the market volume of fixed network services excluding voice telephony (Internet access, Internet services, directory enquiries, etc.), namely from 338 million connection minutes per day in the previous year to 319 million in 2004. On the basis of this estimate, the market share of DTAG competitors has declined slightly: With 175 connection minutes per day (2003: 190 million), the competitors accounted for 54.9 percent of the overall market (2003: 56.2 percent). The decline is attributable to lower use of narrowband Internet access, which is being replaced by DSL connections.

According to the VATM, the market for DSL connections has been expanding strongly: Whereas these high-speed connections had only been installed in 161,000 households at the end of 2000, the corresponding figure at the end of 2003 was 4.4 million, and this had risen to 6.6 million by the end of 2004. The market share of the DTAG competitors has risen from 6.8 percent at the end of 2000 to 9.1 percent at the end of 2003 and 13.6 percent at the end of 2004. The development in the overall volume of DSL data has confirmed the growth trend: Compared with a volume of 21.5 million GB in 2000, the data volume rose to 395 million GB in 2003 and to 532 million GB in 2004 (according to a VATM estimate). Accordingly, the DSL segment is expanding more rapidly than the narrowband segment is declining.

The Company’s main competitors in the telephony market are providers of direct lines such as DTAG, Arcor as well as the main local and regional network operators such as EWE TEL, HanseNet, ISIS, M-Net and NetCologne. Tele2 and Arcor are relevant players in the preselection segment, and 01051, Arcor, 3U and 01058 are relevant players in the call-by-call segment. In the Internet access market, freenet competes mainly with T-Online, AOL, Tiscali and Arcor; in the broadband segment, United Internet (1&1) is also a major competitor. In the portal services segment, freenet also competes with Google, Lycos, MSN, Web.de and Yahoo!.

2.2 Company situation and business development

2.2.1 Group operating developments

Result	2004	2003 adjusted[1]	2003
Revenues in million €	1,897.3	1,837.6	1,837.6
EBITDA in million €	166.6	103.6	335.4
EBIT in million €	94.3	22.3	254.0
EBT in million €	102.3	20.7	167.7
Consolidated net income in million €	46.7	160.4	160.4
Earnings per share in €	**0.71**	**2.44**	2.44

In financial 2004, the mobilcom Group achieved the best operating result in its history. Both segments exceeded their original growth targets for 2004.

Best result in the Company's history

The Group has reported revenue growth to € 1,897.3 million, a gain of 3.3 percent compared with the corresponding prior-year period (€ 1,837.6 million). Growth in the Group is attributable to revenue growth of 5.3 percent in the Mobile Service Provider segment, which accounts for around three-quarters of overall Group sales and which has compensated for the slight downturn in the Fixed Network/Internet segment. A particularly impressive aspect is the strong improvement of major financials; this becomes evident if the prior-year figures are adjusted by neutral items. With EBITDA of € 166.6 million (2003: € 103.61 million), the mobilcom Group has generated the best operating result in its history. EBIT of € 94.3 million was considerably higher then the corresponding prior-year figure of € 22.31 million. Consolidated net income amounted to € 46.7 million (2003: € 160.4 million). Earnings per share came in at € 0.71 (2003: € 2.44).

Further improvement in revenue and cost structure

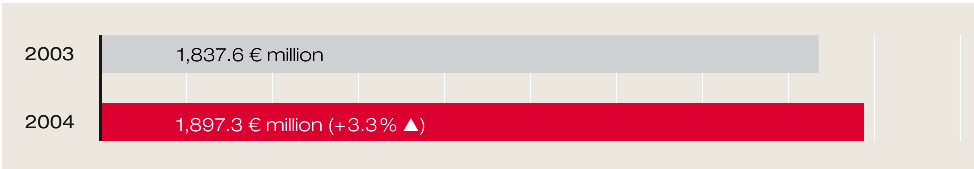
Apart from growth in revenues, the improved cost structure has also been a major factor behind the Company's earnings: The gross profit margin of 22.1 percent was higher than the corresponding prior-year figure of 20.6 percent. The positive development in productivity also continued: The personnel expenses ratio declined slightly to 5.4 percent compared with 5.7 percent in the prior year. In terms of the number of employees, an increase in the Fixed Network/Internet segment is opposed to a decline in the Mobile Service Provider segment. At the end of financial 2004, 3,072 employees were working for the mobilcom Group – 379 more than the figure at the end of 2003.

[1] EBITDA, EBIT & EBT have been adjusted by non-recurring effects and a figure of € 2.0 million attributable to the disposal of UMTS infrastructure (for further details, please refer to "Analysis of the earnings situation", page 52).

Strong financial position

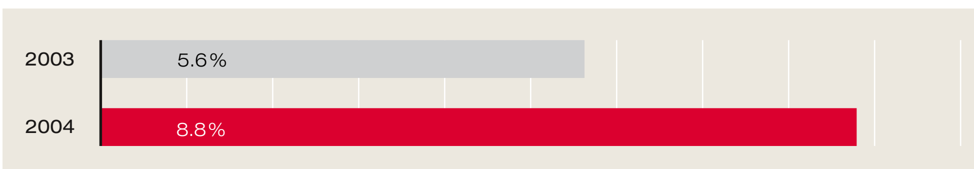
A strong financial position continues to be a major feature of the mobilcom Group. As a result of disposal proceeds in the previous year, the release of liquidity from working capital and further strong cash flow of € 199.3 million from ongoing operations, the mobilcom Group had a strong cushion of liquid assets of € 367.1 million as of 31 December 2004 (31 December 2003: € 262.3 million) – although the Company has paid a dividend of € 26.3 million to its shareholders and also spent a figure of € 27.4 million for buying back its own shares up to the end of the year. The Group has reduced its working capital by € 58.5 million since the beginning of the year – the Mobile Service Provider segment accounted for € 35.6 million of this improvement. The net financial assets of the Group amounted to € 365.1 million at the end of the financial year (31 December 2003: € 252.1 million). The equity ratio amounted to 58.4 percent despite the payment of a dividend and the costs of the share buy-back programme (31 December 2003: 58.8 percent).

Revenues Group

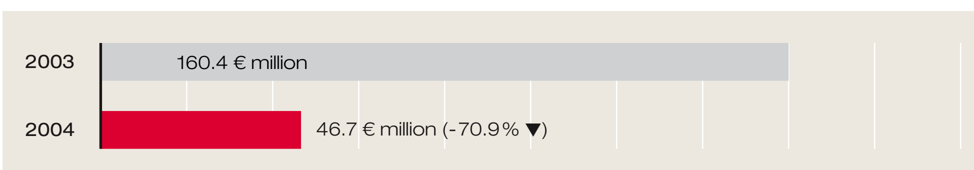


EBITDA Group

EBITDA as percentage of revenue



Group net income



[1] EBITDA, EBIT & EBT have been adjusted by non-recurring effects and a figure of € 2.0 million attributable to the disposal of UMTS infrastructure (for further details, please refer to “Analysis of the earnings situation”, page 52).

2.2.2 Operating development Mobile Service Provider

Result	2004	2003
Revenues in million €	1,428.5	1,356.8
EBITDA in million €	40.6	14.5
EBITDA, as percent of revenues	2.8	1.1
EBIT in million €	9.2	-19.3
EBIT as percent of revenues	0.6	-1.4
Mobile telephone customers in million	4.56	4.15
thereof contract customers in million	2.46	2.56
thereof prepaid customers in million	2.10	1.59
Gross new customers in million	1.73	0.90
Monthly revenues per customer in €	20.3	21.7
thereof contract customers in €	31.1	30.0
thereof prepaid customers in €	6.9	6.8
EBITDA per mobile telephone customer in €	9.3	3.2
EBIT per mobile telephone customer in €	2.1	-4.3

Customer base is expanding – major turnaround in earnings

The Mobile Service Provider segment continued its positive development in 2004 and is increasingly gaining momentum. Revenues and earnings have improved considerably compared with the previous year. New customer business was considerably stronger than was the case last year. Contract extensions have increased in the course of the year. The success in expanding the sales network as well as new products have given additional impetus to the business. The higher number of customers and the simultaneous increase in revenues will form the basis for growth and profitability in financial 2005.

Revenues up 5.3 percent

Revenues in financial 2004 came in at € 1,428.5 million, 5.3 percent higher than the corresponding prior-year figure of € 1,356.8 million. This revenue growth is attributable to strong new customer business, the positive development in monthly average revenues per user (ARPU) as well as the stronger customer base combined with the focus on value. Compared with 2003, there was a considerable increase in contract customer ARPU, namely by 3.7 percent to € 31.1 (2003: € 30.0). Prepaid ARPU was stated as € 6.9, which was slightly higher than the corresponding prior-year figure (€ 6.8). Because the prepaid customer base expanded more strongly than the contract customer base, ARPU based on all customers amounted to € 20.3 (2003: € 21.7).

Earnings sharply higher despite strong new business

All earnings figures are documenting the improving profitability of the Mobile Service Provider segment. This is an impressive performance within the context of additional investments in new customers and stronger customer retention: In 2004, mobilcom signed up almost twice as many new customers (1.73 million) as in the same prior-year period (0.90 million). As a result of this strong sales performance and the associated costs of signing up customers which have a direct impact on earnings, gross profit of € 181.2 million was € 35.7 million lower than the corresponding figure in the prior-year period. It has to be borne in mind that the costs of signing up new contract customers, which increase considerably when volumes are higher, are investments which in conjunction with streamlined costs create stronger future earnings potential. The gross profit margin was 12.7 percent compared with 16.0 percent last year. The good cost position which has been established was one of the major reasons behind the improvement in mobilcom results: At € 140.6 million (2003: € 202.4 million), overhead costs were down 30.5 percent compared with the previous year. This meant that overhead costs at the mobile service provider in 2004 amounted to only 9.8 percent of overall revenues (2003: 14.9 percent). There was a further positive development in the ratio of allowances to receivables. Whereas mobilcom had to write off 2.9 percent last year, the corresponding figure in 2004 – adjusted by one-off items – was only around 1.4 percent. mobilcom has made impressive progress in terms of the efficiency of capital employed: Net working capital declined by € 35.6 million compared with 31 December 2003 to € 54.0 million. Compared with last year, EBITDA has almost tripled to € 40.6 million as a result of the excellent cost situation (2003: € 14.5 million). EBIT has improved by € 28.5 million to € 9.2 million after mobilcom last year reported a loss (€ -19.3 million) with its mobile service provider activities as a result of restructuring costs. EBITDA and EBIT margins amounted to 2.8 percent and 0.6 percent respectively in 2004, compared with the corresponding figures of 1.1 percent and -1.4 percent respectively in 2003.

New customers have almost doubled

In 2004, the Company's customer base increased by 0.41 million to 4.56 million. Of this figure, contract customers accounted for 2.46 million and prepaid customers accounted for 2.10 million at the end of 2004. In addition to improved customer retention, this strong growth is due to new customer business which has almost doubled: With 1.73 million gross new customers (2003: 0.90 million), mobilcom has more than compensated for fluctuation losses (-1.33 million customers). Almost one in every ten new customers (9.3 percent) in the market decided to sign up with mobilcom in 2004 (2003: 5.4 percent). This meant that mobilcom's performance in terms of new customers was much stronger than its corresponding performance with regard to existing customers (6.4 percent of the market). These figures underline the strength of the sales activities of the mobile service provider – particularly as mobilcom has achieved this impressive success in conjunction with stringent requirements relating to yield expectations for new business.

Turnaround in contract customer business

In addition to the growth in the number of prepaid customers (from 1.59 million to 2.10 million), the growth seen in the number of contract customers has also been impressive: Whereas mobilcom lost 0.71 million contract customers (net) in 2003, the number of such customers in 2004 declined only slightly from 2.56 million to 2.46 million. mobilcom succeeded in turning round the situation in the course of the year: In H1 2004, net contract customer losses at mobilcom amounted to 0.28 million, whereas the Company saw its contract customer base increase by 0.19 million in the second half. This is due not only to strong new customer business but also a stronger performance in terms of customer retention in the course of the year; this resulted in an impressive reduction in the fluctuation rate. In the first half of the year, the Company lost 0.80 million customers, whereas this figure declined to 0.52 million in the second half. The further emphasis placed on Customer Relationship Management has demonstrated its worth. The concept designed to assure the customer base in the long term are being implemented with increasing success. The success in integrating Customer Life Cycle Management, involving a comprehensive assessment of the customer, has made a major contribution in this respect.

Positive impetus from product innovations

In addition to its own tariffs, mobilcom also offers tariffs of the network operators T-Mobile, Vodafone and E-Plus. mobilcom has also been a partner for prepaid products of O_2 since November 2004. Innovative products have noticeably supported the positive development in new business and customer retention over the course of the year: One example of a new product which has been developed and successfully launched by mobilcom is “m-limit”. This tariff, which was presented at the CeBIT in March 2004, complies with the demand for better transparency of and control over mobile telephone statements, which has justifiably been raised by consumer protection associations: “m-limit” offers the advantages of a contract with a low basic charge with the complete cost control of a prepaid contract – with an attractive mobile phone. A fixed monthly limit of € 15, 30 or 50 cannot be exceeded – after the limit has been reached, it is of course still possible for incoming calls to be collected. The purpose of the tariff is to protect mainly young customers against unexpectedly high mobile telephone bills. mobilcom has accordingly created an attractive product for customers who are interested in consistent cost control, and has also made a major contribution to consumer protection.

Sales network has been strengthened

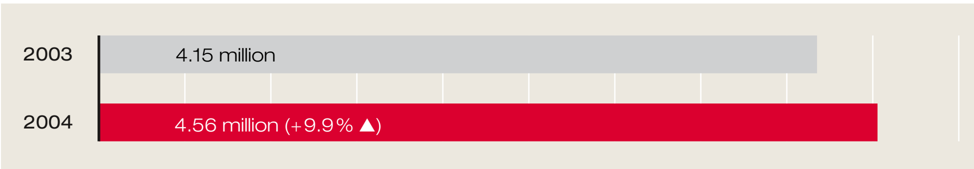
At the end of financial 2004, the mobile telephone service provider had 219 shops spread throughout the country (2003: 200 shops) as well as 1,000 points of sale owned by retail partners (2003: 700 points of sale). 2004 saw 30 new shops opened, including four flagship stores, compared with eleven closures. The chain of mobilcom shops is supported by a regionally-organised field team, which is mainly responsible for ensuring continuous training with suitable qualifications for shop staff and the franchise partners and also for providing support for carrying out measures designed to secure sales. The purpose is to further boost the efficiency of the shops with a score card, an individual evaluation system and regular benchmarking (a comparison based on selected criteria) in relation to the best shops.

Retail business is managed by regional managers, key account executives and area managers. Retail sales complement the network of shops and are one of the major factors in enabling the Company to provide nationwide coverage. mobilcom has set up a service partner system to provide differentiated incentives for retail partners with the aim of boosting controllability and performance. For instance, the positive experience made with the score card and benchmarking approach will be gradually transferred to the retail business.

Particularly attractive customers signed up by the Company's own sales channels

Customers signed up by mobilcom via the shop and retail partner sales channels tend to telephone on average more than customers who are signed up via other sales channels. For instance, a contract customer who has been signed up in a mobilcom shop spends almost twice as much per month as a customer who has been signed up via direct marketing channels. This is the reason why mobilcom will further expand its shop and retail partner sales channels. Pioneering work is being carried out by the flagship stores in Berlin, Düsseldorf, Cologne and Stuttgart, which were opened in 2004. A comprehensive range of products is presented in a particularly attractive manner to the customer in these shops in prime locations. Product information is automatically projected on a flat screen when the customer picks up a model on the test bench. mobilcom in this way quickly and clearly demonstrates the characteristics of the mobile telephones. All models and services can be tested. Seating areas to enable individual advice to be provided as well as several competent contacts in the shop define a new standard for the mobile telephone market which is increasingly focusing on the needs of customers. A representative study of the market research institute forsa commissioned by mobilcom in July 2004 indicated that 93 percent of mobile telephone customers appreciate competent advice and 86 percent appreciate sales staff who have time for the customer. 78 percent expect to be able to test products and services on site, and also expect to receive competent information on tariffs. These customer needs have been used as the basis for the concept of the flagship stores. The aim is to gradually transfer the findings of the flagship stores to the entire chain of mobilcom shops. mobilcom has also identified further potential in online sales. In November 2004, the Company accordingly opened a new and much more user-friendly online shop (www.mobilcom-direkt.de; see page 77, Risk Report).

Number of users Mobile Service Provider

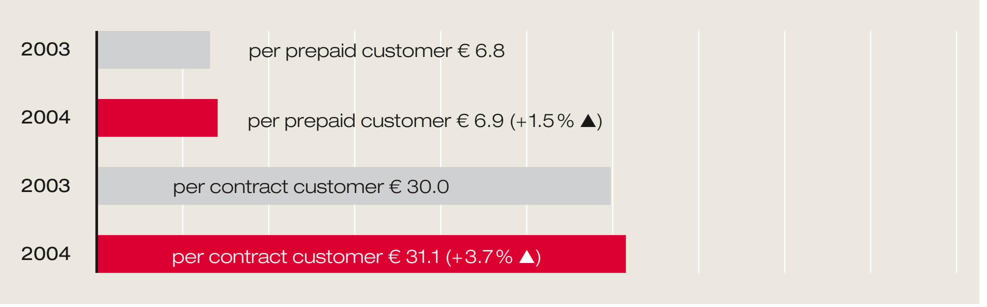


Revenues Mobile Service Provider

EBITDA Mobile Service Provider

EBITDA as a percentage of revenues

Revenues per customer per month



EBITDA per customer

2.2.3 Operating development Fixed Network/Internet

Financial figures	2004	2003
Revenues in million €	468.8	480.8
EBITDA in million €	126.0	89.1
EBITDA, as percentage of revenues	26.9	18.5
EBIT in million €	85.0	41.6
EBIT, as percentage of revenues	18.1	8.6
Fixed network customers in million	4.6	3.0
Active Internet access customers in million	3.8	3.9
Fixed network minutes sold, incl. Internet in billion	25.3	27.2

Strong growth in earnings and market share

In financial 2004, the Fixed Network/Internet segment which is managed by freenet.de AG, Hamburg, achieved the best result in its history and also considerably expanded its share of the market in several fields. freenet operates in the following segments: Internet access, telephony, portal business and B2B services.

Record result on the back of slightly lower revenues

In financial 2004, the Fixed Network/Internet segment confirmed its positive development as a leading alternative telecommunications provider. Revenues in the Fixed Network/Internet segment declined slightly from € 480.8 million to € 468.8 million, whereas gross profit increased from € 162.4 million to € 237.6 million. Operating costs increased from € 73.4 million to € 111.6 million. Operating result (EBITDA) increased by more than 40 percent to € 126 million (2003: € 89.1 million). EBIT more than doubled to € 85 million (2003: € 41.6 million). The EBITDA margin came in at an impressive 26.9 percent, compared with the previous year figure of 18.5 percent. The EBIT margin amounted to 18.1 percent. This performance is even more impressive when viewed within the context of the investments made for the planned growth of the segment involving a significant increase in the customer base and the necessary increase in sales and marketing expenses. freenet is holding up well in an extremely competitive market, which is resulting in aggressively priced tariffs in all segments. This is confirmed by the margin quality which has improved compared with last year, whereas the overall volume of fixed network minutes which have been sold (incl. Internet) has declined by 1.9 billion to 25.3 billion.

Number of DSL customers has increased to 350,000

A particularly positive aspect is that the Company has now established itself as the fourth largest DSL provider; the number of customers in the strategically important

DSL business increased to 350,000 as of 31 December 2004 compared with 80,000 at the end of 2003. The number of Internet users in Germany is expanding only gradually, and DSL market growth is being achieved at the expense of the market for narrowband Internet access. The number of active narrowband customers declined by approx. 8.4 percent to 3.45 million, and freenet was also not able to escape the effect of this market trend.

Increase in the number of telephony customers

In the telephony segment, freenet has increased the number of customers by more than 50 percent to 4.57 million. Preselection business saw a continuous improvement in the number of customers starting in the second quarter following optimisation in sales and the implementation of new processes. In November 2003, the Company started to revitalise its call-by-call business, and the Company has accordingly also considerably boosted the number of customers and usage figures in this segment compared with 2003.

More intensive portal usage

Portal business has also reported rising usage figures. Accordingly, the number of page impressions in 2004 increased to 11.61 billion, representing growth of 42 percent compared with the previous year. The number of active and registered members increased in 2004 by almost a million to a final figure of 6.92 million.

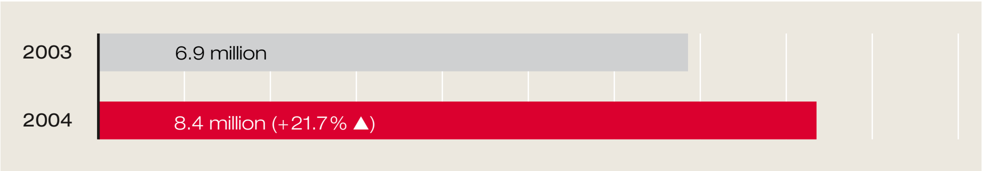
Integration of the mobilcom fixed network concluded

The process of integrating the fixed network business transferred from mobilcom in April 2003 was completed during 2004 with the introduction of a new IT system architecture and the change-over to a new billing system. The Company now has a powerful and low-cost network which is used jointly by the various units of the freenet Group. This is one of the main reasons why the Company has achieved a record result despite the competitive environment characterised by aggressive pricing.

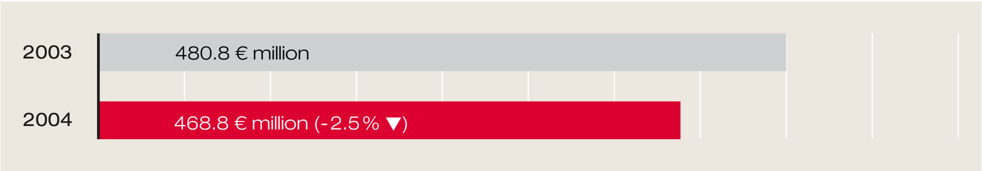
Core business expanded by acquisitions

In December 2004, the Company acquired 100 percent of the shares of TECT-TELES eCommerce Track AG, Berlin (together with the subsidiaries STRATO Medien AG, Berlin and Cronon AG, Berlin) and STRATO Rechenzentrum AG (these two companies are referred to in the following as the STRATO Group). In December 2004, the Company also acquired 100 percent of the shares in the value added service provider Talkline ID GmbH, Bonn, as well as the call-by-call and network business of the Talkline Group by way of an asset deal (referred to in the following as Talkline-ID). These two acquisitions have laid the foundation for the Group's further development in 2005. As a result of the acquisition of the STRATO Group which was completed in January 2005, freenet has obtained an excellent position in the web-hosting market. There are plans for STRATO to be established as a second DSL brand of the Group, and it is also expected that synergy with the existing web-hosting activities of the Group will be used. The acquisition of Talkline ID, which is also expected to be completed in the first quarter of 2005, will considerably strengthen B2B activities which have previously been underrepresented within the Group. A significant amount of integration work will be necessary in this segment in order to ensure that a competitive cost structure can be achieved; this work will take several months.

Number of customer Fixed Network/Internet



Revenues Fixed Network/Internet



EBITDA Fixed Network/Internet

EBITDA as a percentage of revenue

2.2.4 Major events of 2004

January

- Meeting of mobilcom franchisees in Cologne with 300 participants: The event marks the beginning of a new era. The chain of mobilcom shops is an integral part of the growth strategy. The new performance and success campaign "leo" offers additional incentives to shops and sales partners.
- Stated aim for 2004: 4.4 million existing customers.

February

- A new and modern office complex for the approx. 700 employees in Thuringia opens its doors in Erfurt. Dr. Thorsten Grenz opens the new mobilcom branch in Erfurt together with the Minister President of the Free State of Thuringia Dieter Althaus. mobilcom is one of the most important employers in the state capital of Thuringia.

March

- mobilcom presents innovations such as the unique tariff model m-limit at the CeBIT in Hanover. At the accounts press conference, mobilcom reports on the successful completion of restructuring in the year 2003.
- The Executive Board and Supervisory Board decide to submit a proposal to the shareholders' meeting for a dividend of € 0.20 as well as a bonus dividend of € 0.20 per share.

April

- Competence at the point-of-sale by way of information technology: mobilcom provides its shops and sales partners with a facility for better customer support with a new activation and information system. The benefit for the customers: New SIM cards can be activated much more quickly.

May

- With its specially developed tariff model, mobilcom is the first mobile service provider to meet the demand of Federal Consumer Minister Renate Künast for special mobile contracts to be made available for youngsters: With m-limit, monthly spending for a mobile telephone can be limited and unpaid bills can be avoided.
- For the first quarter, mobilcom reports the best result for more than five years. Operating result (EBITDA) for Q1 2004 is stated as € 53.1 million (Q1 2003: € 18.8 million)[1], EBIT was reported as € 36.5 million (Q1 2003: € 0.1 million)[1], and Group net income was reported as € 16.1 million (Q1 2003: € 0.5 million)[1].

[1] Adjusted by one-off items.

June

- UMTS business starts to pick up pace: With a four-week money-back guarantee, mobilcom initially convinces business customers of the advantages of a UMTS data card for a notebook. With success: Anybody who has tried out the lightning-quick Internet access via a mobile telephone network is no longer interested in any other solution. The first UMTS mobile telephones for end customers arrive on the market and are added to the mobilcom range.

July

- Creative action for the sponsoring partner FC St. Pauli: "Pauli is looking for pitch sponsors" ("Pauli sucht Rasenpaten") is the name of the campaign whereby the club's fans are able to "buy" pieces of the playing surface in the Am Millerntor stadium via an online shop. Numerous well-known persons and the main sponsor mobilcom support the action and support the local club on its way back into professional football.
- freenet.de AG carries out the capital increase of € 37,532,536 which had been adopted at the shareholders' meeting on 9 June 2004. This capital increase was carried out by way of issuing new shares to all freenet shareholders. As a result of the capital increase, the share capital has risen from € 18,766,268 to the current figure of € 56,298,804. freenet.de AG has financed this measure by converting an appropriate amount of the additional paid-in capital.

August

- mobilcom again presents impressive figures for the second quarter, producing a surprise by raising its forecast for 2004 to 4.5 million existing customers and an EBIT of € 8 to 10 million for the Mobile Service Provider segment.
- The first mobilcom flagship store opens in Berlin. The new concept focuses consistently on customer wishes. A study specially prepared by the market research institute forsa forms the basis of the new concept. mobilcom strengthens the profile of its brand and continues to develop its corporate design.
- The Executive Board of freenet.de AG decides to take advantage of the authorisation granted by the shareholders' meeting on 9 June 2004 to buy back the Company's own shares up to 5 percent of the share capital (equivalent to up to 2,814,940 shares). The shares are bought back via the stock market.

September

- In the third quarter, mobilcom considerably expanded its presence in the retail market with around 200 additional points-of-sale. Key milestonres in this respect are the new partnerships with additional powerful retail and branch chains with more than 170 outlets in total. mobilcom is now represented in more than 100 points-of-sale in the area of greater Berlin alone.
- freenet.de AG rapidly implements its resale offer after details of the contract with Deutsche Telekom are announced, and starts to offer attractive products for DSL newcomers and also for DSL users who are looking to change to a new provider. A significant gap in the Company's range of products is closed by the resale offer, which enables freenet.de AG for the first time to sell DSL as a complete package from initial access right through to the access tariff.

October

- Major shop and retail partner meeting in Berlin with more than 400 participants.
- mobilcom AG receives approval from Deutsche Börse for trading the mobilcom shares held by France Télécom S. A. France Télécom S. A. had given a contractual commitment to observe a lock-up period for the 18.6 million shares for a period of six months after the original admission.

November

- mobilcom commences a share buy-back programme: The initial plan is for the Company to buy back up to five percent of its share capital (equivalent to up to 3,285,090 shares). When the programme has been completed, the shares are to be withdrawn without any reduction in the Company's share capital.
- Right on schedule for Christmas trading: The "Volksnavigation", a mobile phone with GPS accessories and advanced software, takes car drivers as well as mobile telephone users by surprise. A small module and powerful software as well as the digital map of the Falk publishing company turn the mobile phone into a navigation system for everybody.
- The Deutsche Franchise-Verband (DFV – German Franchise Association) awards mobilcom the certificate "approved member" for the franchise system. In addition to McDonald's, mobilcom is the first company to have passed the system check of the association.
- The mobilcom customer magazine "easy mobile" now notifies customers of services, products and mobile telephone functions, and handles service subjects in an entertaining and readily understandable manner.
- mobilcom announces the best nine-month results in its history, and simultaneously expands its customer base: The number of customers increases to 4.3 million, and the Company accounts for an impressive 10.2 percent of all new contract customers in the third quarter of 2004 – compared with 4.2 percent in the equivalent prior year quarter.

December

- As a mobile telephone service provider, mobilcom has also been co-operating with O_2 since December, and its portfolio accordingly comprises all four German mobile telephone networks. The start of the co-operation is marked by attractive prepaid mobile telephone packages.
- mobilcom draws attention to itself via the Internet with a new online shop: The TÜV quality seal “S@fer Shopping” guarantees the customer ease of handling, security for the entered data and reliability of the ordering and delivery processes.
- mobilcom defends itself against an ordinance of the EU Commission which in its opinion is wrong and arbitrary. After approving an initial tranche as rescue aid, the Commission had approved the guarantees provided in connection with the restructuring process as restructuring assistance; however, it had provided its approval on condition that the online shop had to close for seven months.
- The number of customers breaks through the barrier of 4.5 million. At 4.56 million, the mobile telephone service provider increased the number of its customers by more than 400,000 in the course of financial 2004.
- The subsidiary freenet.de AG acquires the STRATO Group and Talkline ID, and reports around 350,000 DSL customers at the end of 2004.
- On 16 December, the Executive Board and Supervisory Boards of mobilcom AG decided to take court action with regard to claims for refunding value added tax in connection with the acquisition of the UMTS license – similar to the action which has already been taken by the licensees in Great Britain and Austria in the same situation. MobilCom Multimedia GmbH (MCM) had purchased a UMTS license for € 8.43 billion in August 2000. Value added tax was not stated on the notification concerning the Company’s successful bid nor on the final request for payment. MCM had requested a correct invoice to be issued in 2003. The Regulatory Authority for Posts and Telecommunications (RegTP) refused to do so. All attempts to reach agreement with the RegTP with regard to a reliable and commercially acceptable waiver of the limitation period have failed.

2.2.5 Analysis of the net worth and financial position

	31 Dec. 2004		31 Dec. 2003		Year-on-year change	
	In thousand €	%	In thousand €	%	In thousand €	%
Assets						
Long and medium-term assets						
Fixed assets	143,596	16.6	185,692	21.0	-42,096	-22.7
Deferred tax assets	36,226	4.2	45,453	5.1	-9,227	-20.3
	179,822	20.8	231,145	26.1	-51,323	-22.2
Short-term assets						
Inventories	25,802	3.0	29,639	3.4	-3,837	-12.9
Accounts receivable and other assets	294,621	34.0	362,248	40.9	-67,627	-18.7
Liquid assets	367,062	42.3	262,287	29.6	104,775	39.9
	687,485	79.2	654,174	73.9	33,311	5.1
Total	**867,307**	**100.0**	**885,319**	**100.0**	**-18,012**	**-2.0**
Liabilities and shareholders' equity						
Long and medium-term funds						
Shareholders' equity	506,511	58.4	520,319	58.8	-13,808	-2.7
Minority interests	86,743	10.0	62,713	7.1	24,030	38.3
Debt						
Provisions	894	0.1	25	0.0	869	3476.0
Liabilities	0	0.0	1,555	0.0	-1,555	-100.0
Deferred taxes	9,611	1.1	16,372	2.0	-6,761	-41.3
	603,759	69.6	600,984	67.9	2,775	0.5
Short-term funds						
Provisions	38,757	4.5	21,720	2.4	17,037	78.4
Liabilities and other obligations	224,791	25.9	262,615	29.7	-37,824	-14.4
	263,548	30.4	284,335	32.1	-20,787	-7.3
Total	**867,307**	**100.0**	**885,319**	**100.0**	**-18,012**	**-2.0**

Total assets of the mobilcom Group declined by € 18.0 million (2.0 percent) to € 867.3 million during the year (2003: € 885.3 million).

Under the heading of assets, fixed assets declined by € 42.1 million (22.7 percent), primarily as a result of scheduled and non-scheduled depreciation. The changes are detailed in the statement of movements in non-current assets (pages 90 to 91).

The deferred tax assets declined by € 9.2 million (20.3 percent) due to the Company taking advantage of tax losses carried forward.

Inventories were reduced by € 3.8 million (12.9 percent) to € 25.8 million as a result of a more efficient purchasing policy. Overall, inventories are of minor significance in relation to total assets, namely 3.0 percent (2003: 3.4 percent).

Accounts receivable and other assets also declined, namely by € 67.6 million (18.7 percent). Apart from factors attributable to reference date factors, this was due mainly to much better receivables management. Shorter demand note cycles and co-operation with new debt collection companies have ensured that outstanding receivables from end customers were reduced considerably (to € 13.3 million, compared with € 40.0 million in 2003).

The positive cash flow is the main factor behind the increase in liquid assets, which improved by € 104.8 million (39.9 percent) to € 367.1 million. This is equivalent to 42.3 percent of total assets, compared with 29.6 percent in the previous year (2003: € 262.3 million). This was due to the lower level of receivables on the balance sheet date and also the positive net income in conjunction with a lower level of investment activity.

There have been minor changes in the structure of assets. Long-term and medium-term assets now account for 20.8 percent (€ 179.8 million) of total assets (compared with 26.1 percent or € 231.1 million in 2003); short-term assets accordingly accounted for 79.2 percent (€ 687.5 million) of total assets. The corresponding figures in 2003 were 73.9 percent (€ 654.2 million). On the liabilities' side of the balance sheet, shareholders' equity has declined by €13.8 million (2.7 percent) to € 506.5 million (2003: € 520.3 million) despite the Group net income of € 46.7 million. This was due to the dividend payments for financial 2003 (€ 26.3 million) and the netting of expenses incurred for purchasing the Company's own shares against shareholders' equity (€ 27.4 million) as well as the withdrawal of € 6.8 million from additional paid-in capital due to the acquisition of freenet shares by freenet.de AG. The equity ratio declined from 58.8 percent to 58.4 percent.

Although shareholders' equity declined, the structure of the liabilities' side of the balance sheet remained virtually unchanged. The percentage of long-term and medium-term funds in relation to the balance sheet total increased by 1.7 percent to 69.6 percent (2003: 67.9 percent) due to the fact that minority interests increased by € 24.0 (38.3 percent) to € 86.7 million mainly as a result of the performance in earnings (2003: € 62.7 million) and also due to the fact that long-term and medium-term debt declined by € 7.5 million to € 10.5 million.

Accordingly, as was the case last year, long-term and medium-term funds provide considerable surplus cover (335.8 percent) for long-term and medium-term assets. Similarly, 71.8 percent of existing short-term liquid assets would be sufficient to settle all short-term obligations.

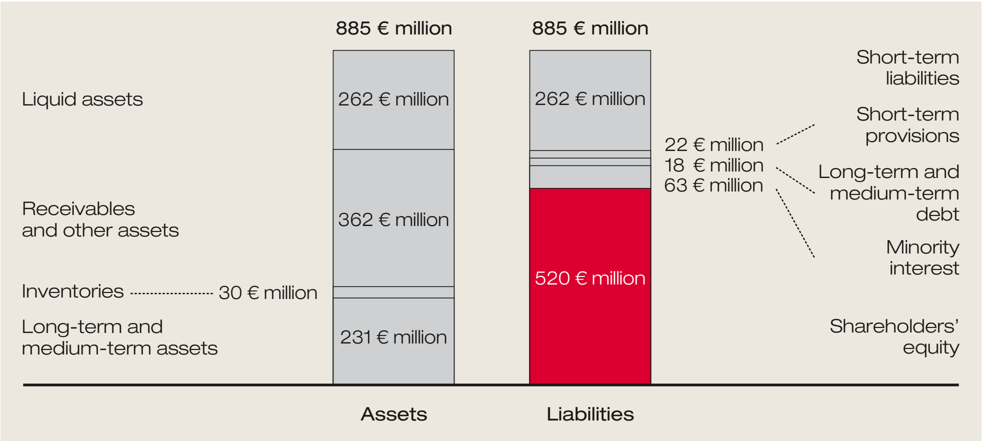
Short-term funds declined by € 20.8 million (7.3 percent) to € 263.5 million (2003: € 284.3 million). The increase of € 17.0 million (78.4 percent) in provisions to € 38.8 million was opposed by a moderate decline of € 37.8 million (14.4 percent) in liabilities to € 224.8 million (2003: € 262.6 million).

The increase in short-term provisions is attributable exclusively to tax provisions. Of this increase, € 23.8 million (2003: € 0.5 million) was attributable to the introduction of minimum taxation in 2004. The tax provisions also became necessary as a result of the positive situation in earnings at the freenet sub-group. The profits of the freenet sub-group in 2004 are considerably higher than the tax losses carried forward at freenet.de AG. Other provisions (€ 15.4 million; 2003: € 21.2 million) have been set aside mainly to cover litigation risks.

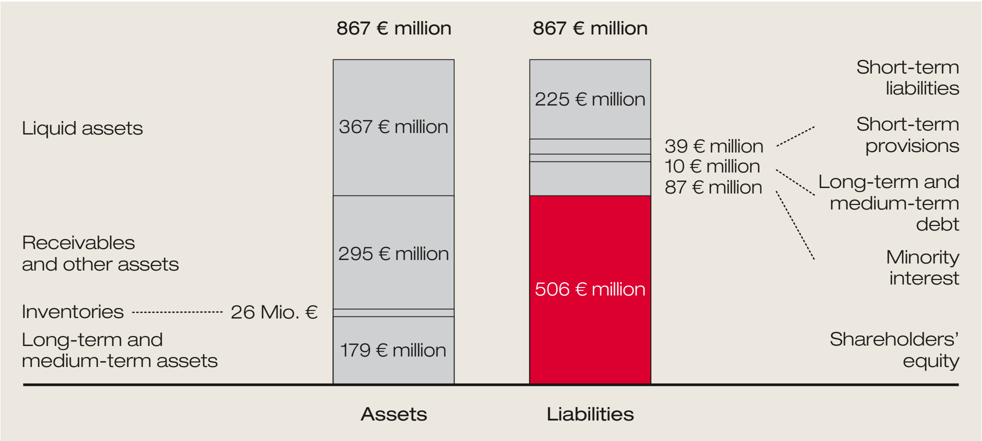
Accounts payable management became much more efficient in 2004 as a result of the merger of the mobile service provider companies which took place at the end of 2003. This is the main reason behind the reduction in liabilities at the end of the year.

The very low level of debt (€ 1.6 million) means that net financial assets of € 365.1 million (2003: € 252.1 million) are almost identical to liquid assets (€ 367.1 million). Net current assets declined by € 58.5 million (50.4 percent) to € 57.5 million (2003: € 116.1 million).

Balance sheet structure as of 31 Dec. 2003



Balance sheet structure as of 31 Dec. 2004



2.2.6 Analysis of the earnings situation

	2004		2003[1]		2003	
	In thousand €	%	In thousand €	%	In thousand €	%
Total output	1,897,323	100.0	1,837,587	100.0	1,837,587	100.0
Gross profit	418,856	22.1	379,240	20.6	379,240	20.6
EBITDA	**166,605**	**8.8**	**103,611**	**5.7**	335,387	18.3
EBIT	**94,260**	**5.0**	**22,253**	**1.3**	254,029	13.8
EBT	**102,298**	**5.4**	**20,669**	**1.2**	167,661	9.1
Result from ordinary activities	**102,298**	**5.4**	**167,661**	**9.1**	167,661	9.1
Group net income before minority interests	71,337	3.8	168,035	9.1	168,035	9.1
Group net income	**46,740**	**2.5**	**160,435**	**8.7**	160,435	8.7
Group retained earnings	180,894	9.5	160,435	8.7	160,435	8.7

Operating earnings of the mobilcom Group improved strongly in 2004. Compared with adjusted EBITDA1 reported for 2003, EBITDA improved from € 103.6 million by 58.9 percent to € 166.6 million. This results in an EBITDA margin of 8.8 percent (2003: 5.6 percent) of revenues. This positive development in earnings is due mainly to the following factors:

- Organic growth of € 59.7 million in revenues (+3.3 percent) to € 1,897.3 million due to growth in the Mobile Service Provider segment in conjunction with virtually unchanged revenues in the Fixed Network/Internet segment.
- Interconnection costs declined further due to the further expansion of the fixed network. The gross margin improved by 1.5 percentage points to 22.1 percent due to these savings and improved purchasing conditions as well as lower commission expenses in new customer business. This means that gross profit increased by € 39.6 million. Overall, growth in revenues was not matched by growth in cost of materials, which increased by only 1.4 percent to € 1,478.5 million (2003: € 1,458.3 million).
- The restructuring of mobile telephone activities carried out in financial 2002 and 2003 resulted in personnel savings of € 10.0 million compared with the previous year. Because the growth-related increase in personnel expenses in the Fixed Network/Internet segment amounted to only € 7.6 million, total personnel expenses declined by € 2.4 million to € 102.7 million (compared with € 105.1 million in 2003).

[1] The adjustment which took place in the previous year relates to the pro-rata purchase price of € 2.0 million due to the disposal of the UMTS infrastructure. These activities were discontinued at the end of financial 2003. The adjustment also takes account of the capital gain generated by the sale of 3.75 million freenet shares (€ 145.0 million), the release of a provision for carrying out the freeze-down plan (€ 135.4 million) and the reimbursement of interest costs for UMTS loans by France Télécom S.A. (€ 84.7 million). These are opposed by corresponding costs (€ 220.1 million) due to the elimination of a claim for a refund against France Télécom S.A. equivalent to the released provision (€ 135.4 million) and interest expenses for UMTS loans (€ 84.7 million).

- Accounts receivable management made the main contribution to savings in terms of overhead costs. Costs of allowances for and eliminations of accounts receivable declined by € 36.4 million to € 21.6 million compared with the corresponding previous year figure (€ 58.0 million). Consistent cost and process management in the other overhead cost areas of the Mobile Service Provider segment almost completely compensated for the growth-related additional expenses incurred in the Fixed Network/Internet segment. Other operating income including capitalised own work and investment result was reported as € 89.1 million, only € 7.0 million down compared with the previous year figure (€ 96.1 million). The balance of other expenses and income was a factor behind the improvement in EBITDA.

As a further positive effect of the restructuring process in the Mobile Service Provider segment in 2002/2003, the cost of fixed asset depreciation declined by € 9.0 million to € 72.3 million despite an investment-related increase in the Fixed Network/ Internet segment. EBIT in financial 2004 accordingly improved by € 72.0 million to € 94.3 million.

Whereas the financial result was depressed by bridging loans in 2003, it improved in 2004 by € 9.6 million to € 8.0 million. Overall, for the first time in the Company's history, operations generated positive earnings before taxes (EBT) running into nine figures (€ 102.3 million, 2003: € 20.7 million).

Result from ordinary activities in 2003 was € 65.4 million higher than this year's figure (€ 167.7 million compared with € 102.3 million) mainly due to the positive one-off items of € 145.0 million (adjusted by the neutral result).

After taxes on income of € 31.0 million (2003: € 0.4 million), net profit in 2004 was stated as € 71.3 million (2003: € 168.0 million). The increase in taxes on income is due to the introduction of minimum taxation in Germany on 1 January 2004 and the fact that the profit of freenet.AG was higher than the remaining tax losses carried forward. On the other hand, Group net income comprises an amount of € 10.6 million for the increase in deferred tax assets due to a reassessment of the tax loss carry forwards which can still be utilised.

Because mobilcom sold around 20 percent of freenet shares in 2003, there was a considerable increase in minority interests. In conjunction with much higher profits in the Fixed Network/Internet segment compared with the previous year, minority interest in net profit is much higher, namely € 24.6 million compared with € 7.6 million in 2003. Group net income amounted to € 46.7 million (2003: € 160.4 million).

2.2.7 Dividend

The Executive Board and Supervisory Board will propose to the next ordinary shareholders' meeting due to be held on 22 April 2005 that a resolution be adopted for paying a dividend of € 0.25 per ordinary share – a 25 percent increase in the regular dividend compared with last year. In 2003, mobilcom had additionally paid out a bonus dividend of 0.20 per ordinary share in order to enable shareholders to promptly participate in the proceeds of the successful placing of a 20 percent stake in freenet.de AG. The distribution ratio is 34.2 percent of net income (2003: 16.4 percent).

Dividend payments of mobilcom AG in € for financial years							
2004	2003	2002	2001	2000	1999	1998	1997
0,25 €**	0,20 €*	None	None	None	0,25 €	0,50 €	2,56 €

* Plus € 0.20 bonus dividend.
** Proposal for the shareholders' meeting.

2.2.8 Purchasing

The purchasing volume of the mobilcom Group in 2004 was € 1,478 million compared with € 1,458 million last year. Because savings in purchasing have a directly positive impact on liquidity and earnings, mobilcom has established a specialist purchasing facility at the mobile service provider. Purchasing at freenet is organised on an independent basis.

Purchasing of the mobile service provider takes part in the contract negotiations and target agreements with the network operators and is also responsible for initial procurement and replacement of mobile phones and accessories. Range analyses and analyses of turnover frequencies are used for establishing demand. The specialist departments use purchasing experts for procuring printed products, advertising material, advertisements and ad spots as well as information technology, office equipment and vehicles and building fittings.

The mobile service provider was able to reduce its net working capital by € 35.6 million compared with 31 December 2003 to € 54.0 million as a result of more efficient purchasing and optimised logistics. Despite the 5.3 percent increase in revenues, inventories declined from € 29.6 million to € 25.8 million.

Secure arrangements are in place for the Company for future procurement. Service provider contracts have been signed with the network operators; these permit non-discriminatory purchasing of network services. mobilcom has signed frame agreements with manufacturers of mobile phones; these should guarantee delivery of all models at short notice. This aspect is necessary to enable the Company to respond quickly to changing demand. At the same time, the risks involved for mobilcom are limited because the Company only has to maintain a low level of inventories due to optimised logistics – and also receives a certain amount of stock value compensation from the manufacturers.

2.2.9 Investments

2003 In million €	Mobile Service Provider	Fixed Network/ Internet	Group
Intangible assets	2.4	27.1	29.5
Property, plant and equipment	3.4	10.9	14.3
Total	**5.8**	**38.0**	**43.8**

2004 In million €	Mobile Service Provider	Fixed Network/ Internet	Group
Intangible assets	9.0	7.3	16.3
Property, plant and equipment	4.7	8.7	13.4
Total	**13.7**	**16.0**	**29.7**

In financial 2004, the mobilcom Group invested € 29.7 million in property, plant and equipment and intangible assets (2003: € 43.8 million). As was the case last year, most of these investments were channelled into intangible assets, although at a lower level than in the previous year, namely € 16.3 million compared with € 29.5 million in 2003. The Group invested € 13.4 million in property, plant and equipment (2003: € 14.3 million). Investments represented 1.6 percent of revenues, compared with 2.4 percent last year.

In 2004, the amount invested by the Fixed Network/Internet segment declined to € 16 million, compared with a figure of € 38.0 million in the previous year – one of the main items of investment in 2003 was the process of optimising network infrastructure. In total, 473 points of interconnection (POI) were installed with Deutsche Telekom AG in order to improve the margin situation. Further key investments comprised provision fees for network operators and leasing redemptions for network technology. In 2004, the Fixed Network/Internet segment invested mainly in billing systems and broadband transportation networks. The mobile service provider again demonstrated in 2004 that the business model is not capital-intensive: The figure of € 13.7 million was used by the segment mainly for replacement investments, as was the case last year, and also for introducing an SAP system.

The Group financed all investments (excl. acquisitions) out of current cash flow: In financial 2004, current cash flow exceeded investments (excl. acquisitions) by € 171.6 million (619.5 percent). In the previous year, current cash flow fell short of investments excl. acquisitions by € 12.5 million (28.5 percent).

2.2.10 Employees

		2004	2003
Employees as of 31. December (incl. temporary staff)		3.072	2.693
Mobile Service Provider		1.569	1.603
Fixed Network/Internet		1.503	1.087
Other		0	3
Average number of employees		2.911	2.920
Mobile Service Provider		1.578	1.863
Fixed Network/Internet		1.333	958
Other		0	99
Trainees		104	93
thereof, new recruits		38	38
Mobile Service Provider		94	86
Fixed Network/Internet		10	7
Personnel expenses/ratio	in million €	102.72	105.07
	in percent	5.4	5.7
Mobile Service Provider	in million €	61.89	71.32
	in percent	4.3	5.3
Fixed Network/Internet	in million €	40.83	33.20
	in percent	8.7	6.9
Other	in million €	0.00	0.55

Group: Lower personnel expenses

Despite the higher number of persons employed at freenet.de AG, personnel expenses in the mobilcom Group declined slightly in 2004 to € 102.7 million (2003: € 105.1 million). The personnel expense ratio in relation to revenues also declined from 5.7 percent (average for previous year) to 5.4 percent. This reflects the Company's higher productivity. As a result of the increase in the number of employees in the Fixed Network/Internet segment, the Group employed 3,072 at the end of financial 2004, an increase of 379 compared with 2003.

Mobile Service Provider: Strong productivity gain

In the Mobile Service Provider segment, the process improvement with more efficient procedures has resulted in higher productivity and lower demand for manpower. As of 31 December 2004, the Mobile Service Provider segment employed 1,569 persons – 34 fewer than one year previously. On an annual average basis, 1,578 persons worked for the Mobile Service Provider segment – 285 fewer than in the equivalent previous year period. Accordingly, personnel expenses in the segment were much lower than was the case last year, namely € 61.9 million compared with € 71.3 million. As a result of productivity gains, the personnel expense ratio declined from 5.3 to 4.3 percent, whereas revenues increased by 5.3 percent. mobilcom aims to stabilise the personnel expense ratio in the Mobile Service Provider segment at the current level.

Fixed Network/Internet: New employees for stronger growth

The freenet Group has reported a sharp increase in the number of persons which it employs: As of 31 December 2004, the sub-group employed 1,503 persons, 416 more than the corresponding figure on 31 December 2003. On an annual average basis, 1,333 employees worked in this segment – 375 more than in the previous year. Personnel expenses increased accordingly in 2004 to € 40.8 million (2003: € 33.2 million). The personnel expense ratio increased from 6.9 to 8.7 percent on the back of a 2.5 percent downturn in revenues. The previous year figure as well as the current figure are both depressed by provisions set aside for the stock option scheme and the premiums and bonuses paid to employees. The growth in the number of employees was attributable mainly to additional service employees in sales, mostly temporary staff, who were recruited for DSL, which is perceived to be the business of the future.

Group: Increase in number of trainees

Staff encouragement right from the very first day is extremely important for mobilcom: Whereas the Company in the previous year had virtually doubled the number of newly recruited trainees to 38, it again took on 38 trainees in 2004. mobilcom provides training in nine different professions, and also offers two study courses at the vocational college. Trainees who show special commitment can be awarded the „Training Oscar“, which qualifies them for attractive further education courses. The courses are tailored to suit the individual skills of the young employees as well as the specific needs of the positions. For instance, IT specialists can study IT Project Management, and the best advertising specialists can obtain qualifications in a course providing training for advertising and communication. Overall, mobilcom employed 104 trainees on 31 December 2004 (31 December 2003: 93).

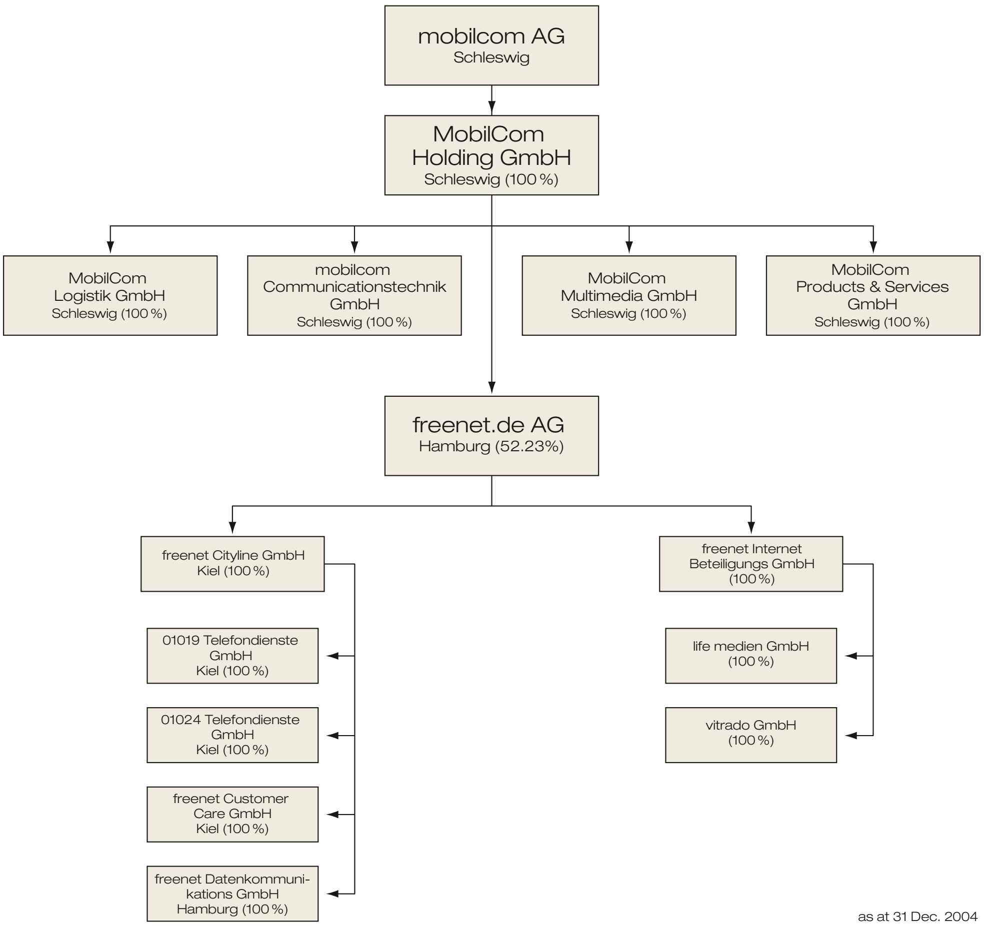
Bursaries for junior staff

The Company continued to support the Multimedia Campus Kiel in 2004 in various ways, including 15 bursaries, and still perceives this arrangement to be an ideal partnership for developing junior staff. The Multimedia Campus Kiel – International Graduate School of Digital Media and Management – combines in an exemplary manner international theory with practical research and application development, and also provides further vocational training in the fields of multimedia, Internet, management, e-business, financial management and media IT. Originally established in the year 2001, the MMC is now providing training for the fourth year running. In order to be accepted for a masters course, students have to provide evidence of above-average university degrees as well as two years of professional experience. The tuition and training concept is closely related to practise and of an international nature, and encourages students to graduate as quickly as possible in small groups with the latest equipment. Some of the courses involve training at well-known American universities. These partnerships provide a joint masters course with a degree qualification in Europe and the USA. The university has accordingly paid particular attention to the requirements of the telecommunications sector. mobilcom has considerably expanded its commitment and has donated € 200,000 to the Multimedia Campus in addition to the bursaries and other services.

Focus on personnel development

mobilcom perceives efficient personnel development to be a key factor in the Company's future market success. mobilcom has also optimised the Company's suggestion scheme in order to incorporate the know-how of its staff in the ongoing scheme of process improvement. In addition, the Company has also carried out various management and motivation training sessions and has also offered specific further training, such as executive MBA programmes. The strengthening of management skills was one of the key aspects of 2004, and this process will be continued in 2005.

2.2.11 Group structure[1]



as at 31 Dec. 2004

The mobilcom Group made virtually no changes to its legal structure in the course of financial 2004: mobilcom AG holds its equity participations via mobilcom Holding GmbH (MCH). The main subsidiaries of MCH are mobilcom Communicationstechnik GmbH (mcC) and freenet.de AG. mcC comprises the core activities of the mobile service provider business, whereby it arranges for all logistics services to be provided by MobilCom Logistik GmbH. freenet.de AG comprises the fixed network and Internet business: The Company operates as the holding company for the freenet sub-group and operates the portal business.

[1] In the Fixed Network/Internet segment, the information is restricted to the main group companies. These are responsible for more than 96% of overall revenues, the balance sheet total and earnings before interest and taxes from this segment.

The Group structure will change in 2005 as a result of the acquisitions which were agreed by freenet.de AG in December 2004 (see „Events of special significance after the end of 2004“, page 67).

2.2.12 Executive bodies

The Executive Board consists of two persons, namely the chairman and the director responsible for Sales and Marketing. The Supervisory Board has twelve members, six of whom are elected from among the ranks of employees.

Members of the Executive Board

Dr. Thorsten Grenz, Strande
Dr. Thorsten Grenz, born in 1958, has been the chairman of the Executive Board of mobilcom AG since June 2002. The Supervisory Board has granted Dr. Grenz powers of sole representation; his current appointment is due to end on 31 March 2008.

Dr. Grenz joined the Company in April 2000 as the financial director. Before being appointed to the Executive Board at mobilcom AG, he worked in several positions between 1992 and 2000 at the Hapag-Lloyd Group in Hamburg, where his final position was as managing director of Hapag-Lloyd Container Line GmbH. Dr. Grenz worked as a management consultant at McKinsey & Company, Inc., in Frankfurt between 1986 and 1992; his main responsibility was strategy and organisation development for banks. He studied Betriebswirtschaft (management) at the Christian Albrechts University in Kiel, and graduated as a Diplom-Kaufmann. He obtained his doctorate (Dr. sc. pol.) from the Christian Albrechts University in 1986.

Other mandates of Dr. Thorsten Grenz:

- Dr. Schmidt AG & Co., Berlin
  Member of the Supervisory Board
- freenet.de AG, Hamburg
  Vice-Chairman of the Supervisory Board

Michael Grodd, Munich
Michael Grodd, born in 1956, has been a member of the Executive Board of mobilcom AG since January 2003, and is responsible for Sales and Marketing; his current appointment is due to end on 31 January 2006.

Before being appointed to the Executive Board of mobilcom AG, Mr. Grodd had been responsible since 2002 for mobile telephone sales of all service provider companies of the Group. Mr. Grodd joined Cellway Kommunikationsdienste GmbH in Hallbergmoos in 1998 as the director of Sales and Marketing, and was appointed as managing director of the company in the year 2000. Between 1993 and 1997, he held various management positions in Munich and Hamburg at the consumer product group Philips: Mr. Grodd built up his sales and marketing experience during 15 years of working in consumer electronics sales at Standard Electric Lorenz and Nokia. He completed his Industriekaufmann training at Standard Electric Lorenz AG in Stuttgart.

Michael Grodd does not have any other mandates.

Members of the Supervisory Board

Prof. Dr.-Ing. Dieter H. Vogel, Düsseldorf
(Chairman of the Supervisory Board)
Managing Partner of LGB & Vogel GmbH, Düsseldorf

Other mandates:

- Bertelsmann AG, Gütersloh
  Chairman of the Supervisory Board
- Ernst + Young AG, Stuttgart
  Member of the Advisory Board
- Gerling Konzern Versicherungs-Beteiligungs AG, Cologne
  Member of the Administrative Board
- HSBC Trinkaus & Burkhardt KGaA, Düsseldorf
  Member of the Administrative Board
- Klöckner + Co. AG, Duisburg
  Member of the Supervisory Board
- Wacker Construction Equipment AG, Munich
  Chairman of the Supervisory Board
- WCM Beteiligungs- und Grundbesitz AG, Frankfurt am Main
  Chairman of the Supervisory Board

Ulrich Kalthoff, Neumünster
(Deputy chairman of the Supervisory Board)
Lawyer, mobilcom AG, Büdelsdorf

Thorsten Delling, Büdelsdorf
Operations administrator, mobilcom Communicationstechnik GmbH, Schleswig

Dr.-Ing. Horst Dietz, Berlin
Managing director, The Industrial Investment Council GmbH (IIC), Berlin

Other mandates:

- ABB AG, Mannheim
  Member of the Supervisory Board
- Bilfinger Berger AG, Mannheim
  Member of the Supervisory Board

Ulf Gänger, Hamburg
Member of the Executive Board (now retired) of Hamburgische Landesbank (now HSH Nordbank AG, Hamburg and Kiel)

Other mandates:

- Hela Gewürzwerk Hermann Laue GmbH & Co. KG, Ahrensburg
  Deputy chairman of the Advisory Board
- n Helm AG, Hamburg, up to 14 May 2004
  Chairman of the Supervisory Board
- Navis Schiffahrts- und Speditions-Aktiengesellschaft, Hamburg
  Chairman of the Supervisory Board
- Norddeutsche Affinerie AG, Hamburg
  Member of the Supervisory Board
- Peter Cremer Holding GmbH & Co., Hamburg
  Chairman of the Advisory Board
- VON ESSEN KG BANKGESELLSCHAFT, Essen
  Chairman of the Administrative Board

Gabriele Hanrieder, Finsing
AVNET Logistics GmbH, Poing, (finance manager Accounting)
Representative of the Christian Postal Service and Telecommunications Trade Union (Christliche Gewerkschaft Postservice und Telekommunikation)

Helmut Holzer, Bessenbach
Wholesale merchandiser
Representative of the Christian Postal Service and Telecommunications Trade Union (Christliche Gewerkschaft Postservice und Telekommunikation)

Dr. Hans-Peter Kohlhammer, Kulmbach
CEO & Directeur General, SITA SC, Cointrin-Geneva, Switzerland

Other mandates:

- Equant N.V., Amsterdam, the Netherlands
  Member of the Supervisory Board
- Fraunhofer-Gesellschaft zur Förderung der angewandten Forschung e.V., Munich
  Member of the Senate
- Fraunhofer Institut für Graphische Datenverarbeitung (IGD), Darmstadt
  Chairman of the Board of Trustees

Andreas Neumann, Hamburg
Head of Controlling and Investor Relations, freenet.de AG, Hamburg

Other mandates:

- Tourismus Agentur Schleswig-Holstein GmbH, Kiel
  Member of the Supervisory Board (up to 31 December 2004)

Christian Teufel, Kronshagen
Head of IT-Services Central Function, mobilcom Communicationstechnik GmbH, Schleswig

Klaus Thiemann, Düsseldorf
Self-employed management consultant
Other mandates:
- BBDO Consult GmbH, Düsseldorf
  Member of the Advisory Board
- Kabel Baden-Württemberg GmbH & Co. KG, Heidelberg
  Member of the Advisory Board

Prof. Dr. Helmut Thoma, Cologne
Self-employed media consultant
Other mandates:
- Ad'LINK Internet Media AG, Montabaur
  Member of the Supervisory Board
- freenet.de AG, Hamburg
  Chairman of the Supervisory Board
- PrimaCom AG, Mainz
  Deputy chairman of the Supervisory Board
- Q1 Deutschland AG, Düsseldorf
  Member of the Supervisory Board
- typhoon AG, Köln
  Chairman of the Supervisory Board
- VEMAG Verlags- und Medien AG, Köln
  Member of the Supervisory Board

Committees of the Supervisory Board

Members of the main committee
Prof. Dr.-Ing. Dieter H. Vogel (Chairman)
Ulrich Kalthoff
Christian Teufel
Prof. Dr. Helmut Thoma

Members of the audit committee
Ulf Gänger (Chairman)
Gabriele Hanrieder
Dr. Hans-Peter Kohlhammer
Andreas Neumann

Members of the mediation committee in accordance with section 27 (3) MitbestG (co-determination act)
Prof. Dr.-Ing. Dieter H. Vogel (Chairman)
Ulrich Kalthoff
Christian Teufel
Prof. Dr. Helmut Thoma

2.2.13 Strategy

Group strategy
mobilcom is responsible for strategy at the Mobile Service Provider segment and the Fixed Network/Internet segment. As a mobile service provider, mobilcom markets mobile services in Germany under its own name and for its own account. In the Fixed Network/Internet segment, mobilcom operates via its listed subsidiary freenet.de AG, in which it owns a 53.23 percent stake. mobilcom and freenet concentrate on the private customer market and, on a selective basis, self-employed persons as well as small and mid-size companies. The mobilcom Group possesses a broad financial base which enables it to invest in attractive growth opportunities in the telecommunications market.

Segment strategy: Mobile Service Provider
The Mobile Service Provider segment pursues a profit-oriented growth strategy. Within this strategy, long-term and constant earnings growth enjoys priority over short-term maximisation of results and pure volume growth. The main factors necessary for successfully expanding mobile business are specific measures designed to retain existing customers and sign up new customers as well as further expansion of sales based consistently on quality.

In view of the fiercely competitive nature of the mobile market and the willingness of customers to change providers, the ability to retain customers is increasingly becoming a major factor of success. mobilcom is therefore implementing concepts which are expected to ensure that customers will be retained by the Company on a long-term basis. These concepts are based on a comprehensive assessment of the customer (customer lifecycle management). In addition, mobilcom is also strengthening customer service and uses innovative services and products, such as “m-limit”, “pure” or the navigation system for the mobile phone in order to differentiate itself from its competitors. For this purpose, mobilcom takes advantage of the principles which have been established by the new Telecommunications Act (Telekommunikationsgesetz): Service and infrastructure competition have been recognised to be of equal importance, and the business model of the mobile service provider has been significantly strengthened. Mobile service providers are able to benefit from this acceptance of service competition by developing simple and easy-to-use products. Attractive products which however need to be explained, such as the UMTS data card, have to be marketed to customers via an appropriately qualified network of shops and retail outlets. This finding is also reflected in the results of a representative study carried out by the market research institute forsa: Customers want competent advice, a sales representative who takes time for his customers, and the possibility of testing products on site. Any company wishing to compete as a mobile service provider in future will have to meet these demands. mobilcom is accordingly consistently expanding its network of shops and retail outlets. The aim is to sign up entrepreneurs for co-operation with mobilcom. However, the investments are well worthwhile, because shops and retail outlets sign up customers with above-average spending patterns. The mobilcom flagship stores which have been opened in Berlin, Düsseldorf, Cologne and Stuttgart and which present a particularly wide range of products are designed to act as models for the rest of the Group.

The profit-based growth strategy comprises a policy of expanding the quantity and quality of the customer base and also constant productivity gains within the Company: The internal organisation structure is to be improved further, costs are to be reduced and risk management is to be further expanded. In this way, the Company will be able to concentrate to an even greater extent on the various growth opportunities in the individual segments.

Segment strategy: Fixed Network/Internet

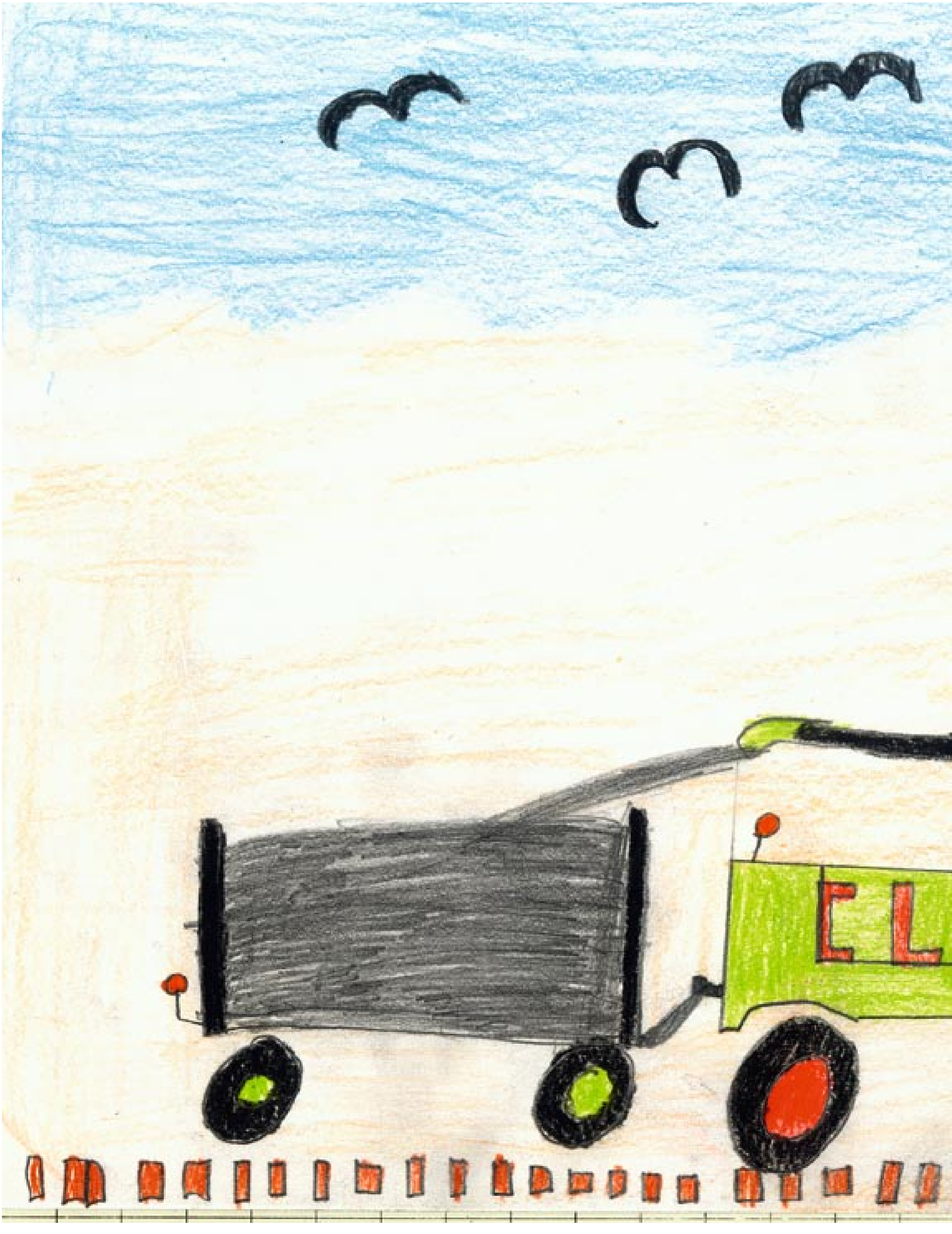
freenet is one of the leading Internet and telecommunications companies, and is in a good position to benefit from the expected merger of data and voice communication via IP-based networks. IP technology not only provides broadband access to the Internet; it also provides a facility for routing telephone calls via the Internet. This results in additional potential revenues in addition to the growth which the Company aims to achieve in fixed network telephony and broadband Internet access (DSL). Moreover, the cost advantages resulting from the expansion of the Company’s own network infrastructure mean that freenet enjoys a good competitive position in a climate characterised by particularly aggressive pricing. In this context, the strategic value of DSL new business is extremely important: freenet.de AG is investing in future earnings growth in this respect.

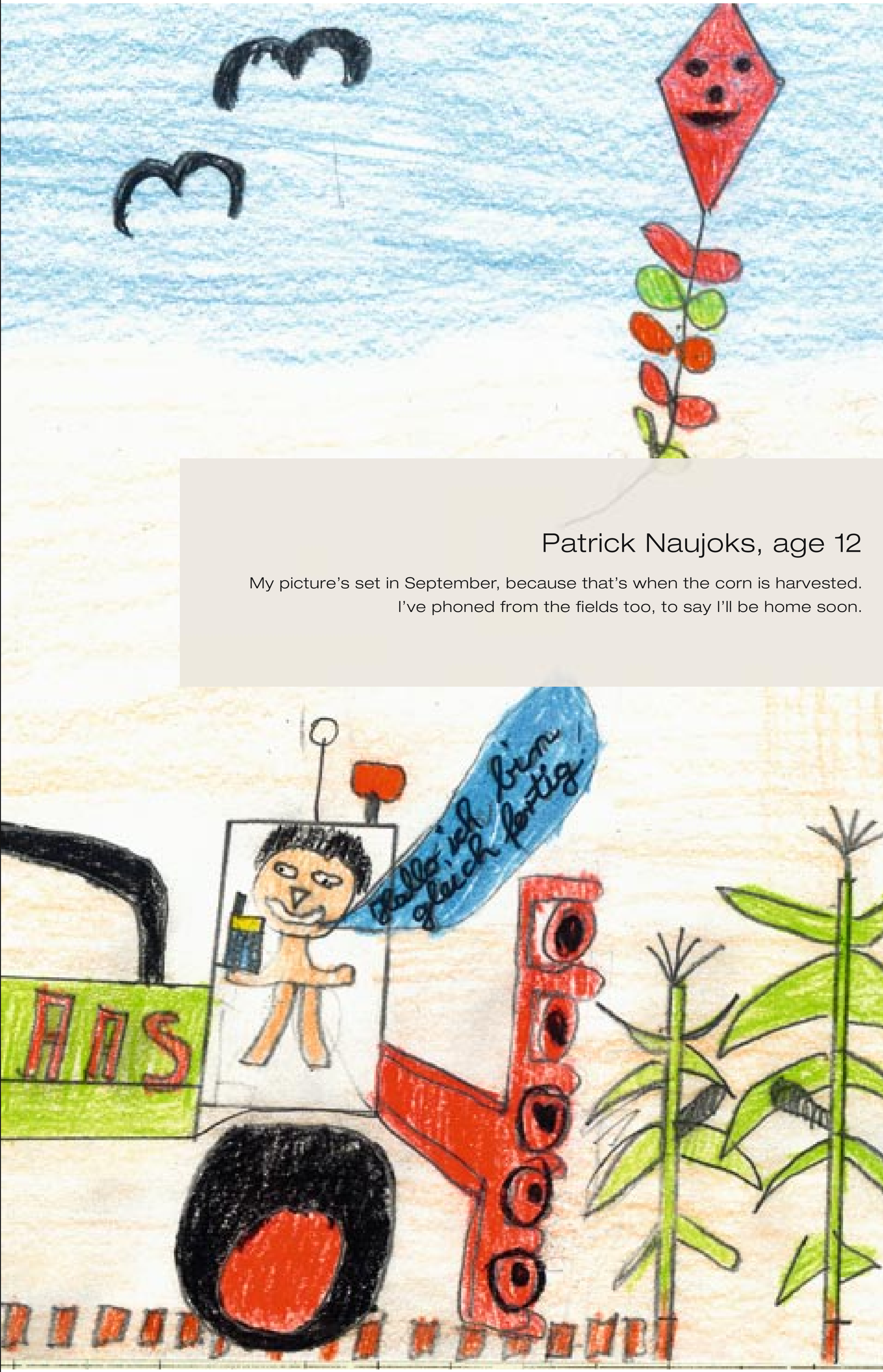
Where internal growth is not possible or is too expensive, freenet uses its available funds in order to open up future growth potential by way of acquisitions: As a result of the acquisition of the STRATO Group, Berlin, freenet has now become the second largest player in the web-hosting service market, with a market share of around 25 percent. In this way, and also as a result of the acquisition of Talkline ID, Bonn, which occupies a leading position in the field of fixed network value added services, freenet is consistently pursuing its aim of providing a complete range of fixed network and Internet products and services, and is also strengthening its presence in the business customer market.

2.3 Events of special significance after the end of 2004

After the end of the year, the following events of special significance occurred before the individual and consolidated financial statements were prepared:

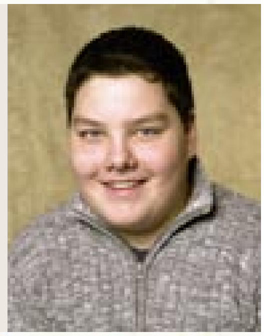
- The acquisition of the STRATO Group agreed in December 2004 was completed on 25 January 2005.
- The share buy-back programme of mobilcom AG was completed on 31 January 2005. mobilcom now owns 5 percent of all shares admitted to trading. The Company intends to withdraw these shares.
- It is expected that the acquisition of Talkline ID will be completed during the first quarter of 2005.





Patrick Naujoks, age 12

My picture's set in September, because that's when the corn is harvested. I've phoned from the fields too, to say I'll be home soon.



3. Management report: outlook

3.1 General conditions

3.1.1 Future macro-economic development

The global economy will continue to expand strongly in 2005. The chairman of the central banks of the G10 countries are forecasting global economic growth of around 4 percent for 2005. Economic growth in Germany will also continue – albeit at a lower level. Growth in Germany will be driven primarily by exports. The Council of Experts (Sachverständigenrat) in its assessment of macro-economic development is forecasting growth of 1.4 percent (as of 17 November 2004). According to the Sachverständigenrat, domestic demand will pick up gradually: Private consumer spending is also expected to increase subsequently by 0.7 percent, for the first time following three years of stagnation.

3.1.2 Future sector situation

Although consumer demand is weak, the telecommunications market has turned out to be a growth sector. mobilcom expects that the overall market will expand in 2005; this will again be due primarily to the continued dynamic growth of the mobile market and the DSL market. Any recovery of the consumer climate might also result in additional impetus for the overall market.

The number of gross new customers on the German mobile market is expected to be roughly the same as the level seen in 2004 (more than 17 million). Accordingly, taking account of slightly higher fluctuation, growth in existing customers would be around 6 percent (2004: 10 percent), and the penetration rate would be approx. 91 percent (2004: 87 percent). In the course of 2005, even more so than has been the case in the past, the companies operating on the market will have to strengthen the loyalty of existing customers by way of extensive customer retention measures. The mobile market will be more competitive in future, one of the reasons being displacement competition, resulting from a slow-down in market growth and the arrival of new competitors on the market.

Further intensive price competition is expected in call-by-call business and also in DSL business on the Fixed Network/Internet market, in which the mobilcom subsidiary freenet.de AG operates. The DSL market will probably maintain its high rate of growth.

3.2 Company situation

3.2.1 Future development in revenues

The Executive Board expects that the Company will generate Group revenues which will be at least equivalent to the level seen in 2004 (€ 1,897.3 million).

The number of mobile customers – representing the basis of future telephony revenues – is expected to rise from 4.56 to 4.80 million. The Company is planning to achieve growth with lower growth costs compared with 2004. The key factors in this respect are improved customer retention as well as the decision to concentrate on the core sales channels of shops and retail outlets. mobilcom will not target new customers from expensive and low-margin sales channels.

3.2.2 Future development in earnings

The Executive Board expects that the mobilcom Group in 2005 will generate earnings which will be slightly higher than the level seen in the record year of 2004 (EBITDA 2004: € 166.6 million; EBIT 2004: € 94.3 million). For the Mobile Service Provider segment, the Company expects to see EBITDA and EBIT increase strongly (EBITDA 2004: € 40.6 million; EBIT 2004: € 9.2 million) despite an increase in the number of customers to 4.80 million. In the medium term, mobilcom aims to attain an EBITDA margin of 6 percent in this particular segment (EBITDA margin 2004: 2.8 percent). mobilcom expects to see stable earnings in the Fixed Network/Internet segment in financial 2005 (EBITDA 2004: € 126.0 million; EBIT 2004: € 85.0 million).

3.2.3 Expected dividend

At the ordinary shareholders' meeting to be held on 22 April 2005 in Berlin, the Executive Board and Supervisory Board of mobilcom AG will propose that a dividend of € 0.25 per share be paid for financial 2004 (see "Dividend", page 54). With this dividend increase of 25 percent, the Executive Board and Supervisory Board intend to enable all shareholders to participate in the Company's stronger earnings position.

In the previous year, mobilcom paid a dividend of € 0.20 per share and also an additional bonus dividend of € 0.20 per share in order to enable the shareholders to participate promptly in the proceeds of the disposal of the 20 percent stake in freenet. The Executive Board and Supervisory Board aim to consistently apply the principle of dividend continuity. In future, the Company aims to pay out between 30 and 50 percent of group net income in the form of a dividend.

3.2.4 Future investments

mobilcom plans to invest between € 25 and € 30 million in its Mobile Service Provider activities (2004: € 13.7 million), and will thus attain a level which will probably be maintained in subsequent years. Of this figure, 50 percent in 2005 has been earmarked for information technology, and around 40 percent has been earmarked for converting existing shops and establishing new shops. Overall, the number of retail partners (31 December 2004: 1,000) is expected to rise in line with the number of mobilcom shops. mobilcom expects to expand the number of shops to 250 by the end of 2005 (31 December 2004: 219).

3.2.5 Future financing

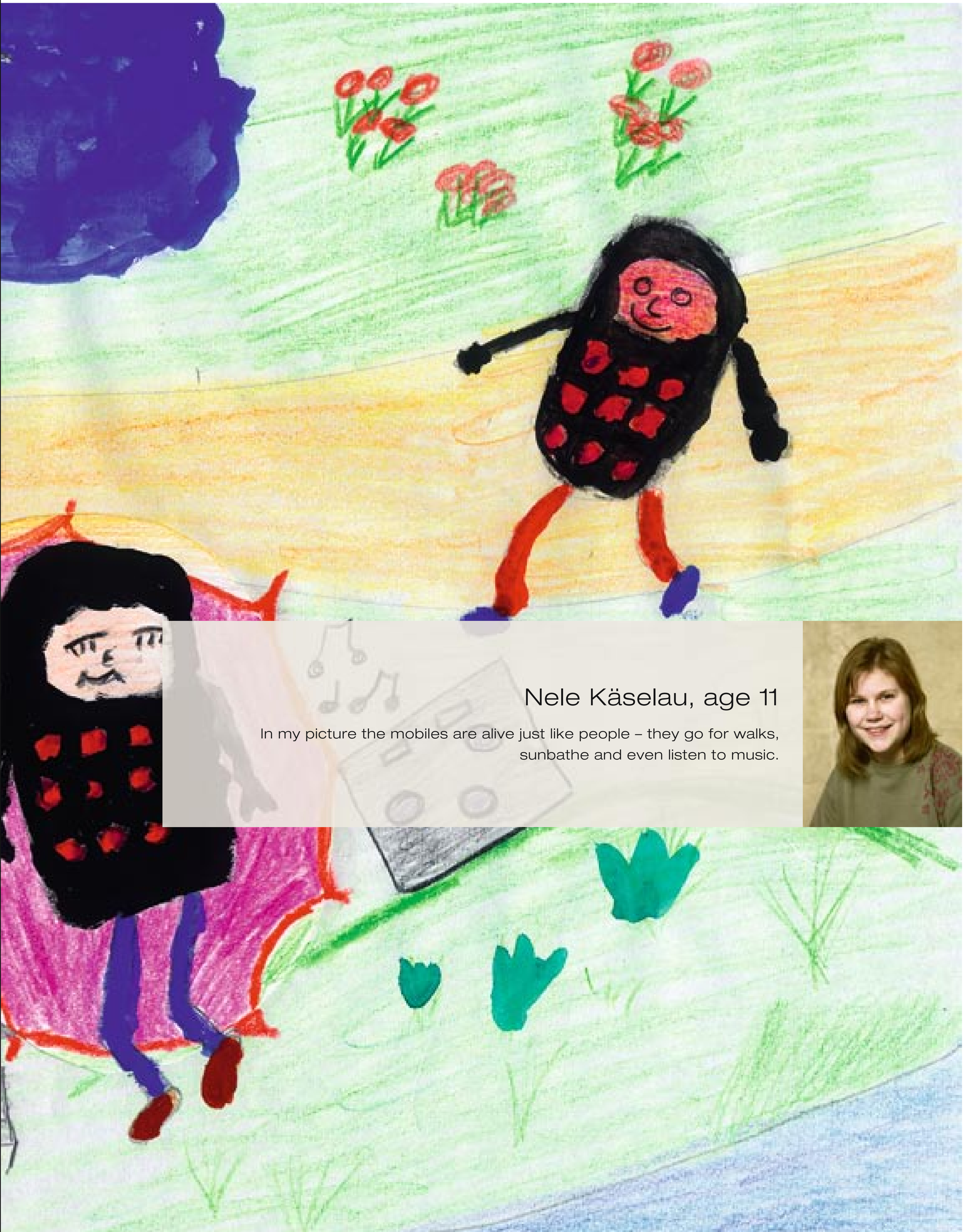
Financing of the mobilcom Group is secure: With net financial assets of € 365.1 million, the Company has an adequate base for taking advantage of potential growth – either by internal or by external growth. The liquidity balance in 2005 will probably be negative as a result of the acquisitions completed by freenet. The mobile service provider expects to generate a net inflow of funds as a result of the positive operating cash flow despite the share buy-back programme, the dividend payments and investments. However, the fixed network segment will probably report a negative liquidity balance for the year as a result of the acquisition of the STRATO Group and Talkline ID and the fact that investments are still running at a high level. It has however to be borne in mind that both the STRATO Group and Talkline ID are profitable and will be one of the reasons why freenet will generate strong inflows of funds again in subsequent years.

3.2.6 Further personnel growth

The number of persons employed in the mobilcom Group will probably rise further in February 2005.

The Mobile Service Provider segment is assuming that the number of persons which it employs will remain roughly constant and that the personnel expense ratio will be stable (2004: 4.3 percent).

The workforce in the Fixed Network/Internet segment will expand strongly, one of the reasons being the acquisition of the STRATO Group and Talkline ID.



Nele Käselau, age 11

In my picture the mobiles are alive just like people – they go for walks, sunbathe and even listen to music.

4. Management report: risk report

4.1 Risks

Risks profiles normal for the sector

There have not been any major changes in the risk situation compared with last year. The main risks still facing mobilcom are those which are normal for an established core business, such as growth in the number of existing customers and the need to monitor the credit-worthiness of customers. Such risks also include the need for highly specialised staff in selected positions, the efficiency of technical infrastructure and general market risks such as the structure of competition. The Executive Board does not consider that there are any developments which would exceed the risks of normal operations.

The overall risk situation of mobilcom is the result of completed economic activity and the economic measures which have been initiated or which are planned. The Executive Board does not consider that there are any indications of risks which might pose a danger to the continued existence of the Company as a going concern. The Company's key financials are impressive. With shareholders' equity of € 506.5 million (2003: € 520.3 million), the Group enjoys a comfortable equity ratio of 58.4 percent (2003: 58.8 percent). The Company's liquidity situation is still excellent (€ 367.1 million, 2003: € 262.3 million), which means that mobilcom is able to respond quickly to changes which take place on the market, and is also able to absorb unforeseen risks. Gearing at 41.6 percent (2003: 41.2 percent) is lower than the average for the sector. Cash flow from current operations is again very positive, namely € 199.3 million (2003: € 31.3 million). Net financial assets are stated as € 365.1 million (2003: € 252.1 million), and underline the strengthened position of mobilcom.

Growth in the number of existing customers

mobilcom has set itself ambitious targets with regard to growth in the number of existing customers. New customer business as well as customer retention are key cost factors in the mobile service provider business. If the costs of signing up new customers or retaining existing customers prove to be higher than originally anticipated, this can have a considerably negative impact on earnings at mobilcom. Market developments are constantly monitored and analysed, enabling the Company to plan and take corrective action in plenty of time, for instance in the sales channels which are used or in the mix of these sales channels.

Bad debt losses with customers and sales partners

Particular attention must be devoted to the creditworthiness of customers and sales partners in the volume business of a mobile service provider. mobilcom expects that it is very likely that a considerable proportion of accounts receivable will have to be assessed as bad debt next year. In order to improve overall management, mobilcom operates an extensive system of credit checks, credit limits and effective debt collection processes for recognising and managing imminent bad debt losses on a timely basis. This risk is recognised in the earnings forecasts for 2005.

Demand for highly specialised personnel

mobilcom requires highly specialised personnel in many areas. This is applicable for technical as well as commercial applications. Staff fluctuation can lead to shortages. mobilcom estimates that a medium level of risk is associated with the probability of such shortages. Compliance with principles of staff management and staff development is only one instrument for boosting motivation and staff loyalty.

Efficiency of technical infrastructure

Technical progress and constantly changing demands imposed on technical infrastructure are sufficient reasons for permanent renewal and improvement. The overriding emphasis is to ensure operational reliability and also the security of customer and company data. If for instance the billing system were to fail for a lengthy period of time, this would have a considerable impact on the liquidity and earnings situation of mobilcom. We consider that the likelihood of this happening is not very great. Redundant systems and business continuity concepts are further factors which ensure the efficiency of the systems.

Changes in Internet access technologies

The increasing popularity of DSL as an Internet access technology resulted in a decline in the narrowband Internet access market in 2004. It is likely that this trend will continue in the course of the next few years. It will therefore be very important for the Company to further increase its share of the DSL market. If it is not successful in this respect, the long-term earnings prospects of the Company would probably be negatively affected. However, depending on the development of the market, even if the implementation of the DSL strategy continues to be successful, it still has to be expected that the increase in sales and earnings in the DSL segment will temporarily not be able to compensate for the downturn in the narrowband segment, and this would have a temporarily negative impact on the Company’s earnings situation.

Market and regulation

In its capacity as a mobile service provider, mobilcom does not have its own mobile network and is therefore reliant on co-operating with the network operators. As operators of GSM mobile networks in Germany, T-Mobile, Vodafone and E-Plus are legally required as a result of appropriate covenants in their GSM licenses to enable service providers such as mobilcom to independently market a network access service. A similar obligation is also applicable for all UMTS network operators resulting from the UMTS licenses which were awarded in 2000. If this situation changes, for instance as a result of EU requirements, this could have a negative impact on the Company’s financial position. The Executive Board currently does not see any indications of imminent changes in the regulatory environment.

Tax risks

Tax audits have been carried out at the mobilcom companies for the years up to and including 1999. Tax statements have been submitted for the years up to 2002. There is always a risk of additional tax payments if the fiscal authorities arrive at different interpretations of tax regulations.

Additional tax costs may arise for the unaudited periods if the fiscal authorities arrive at a different interpretation of the restructuring process, and in particular the legal aspects of the merger which took place as part of the process of combining mobile service provider activities. This is also applicable for the sale of fixed network business to freenet.de AG. However, the Company is assuming that all tax returns are consistent with the legal regulations.

It is also possible that existing tax losses carried forward at mobilcom AG and its subsidiaries might be entirely or partially lost as a result of contributions, other conversion procedures, allocations to capital and changes of shareholder in accordance with with section 8 (4) KStG and section 12 (3) page 2. UmwStG.

Residual risks from the restructuring of the Group

The restructuring of the Group has involved major changes. The risk report still includes residual risks attributable to the winding-up of UMTS activities and the restructuring of the service provider; in the opinion of the Executive Board, these risks will not have any significant impact on the net worth, financial and earnings situation of the Company. These risks include litigation concerning alleged claims arising from the MC settlement agreement, the contesting of resolutions adopted by the shareholders' meeting and remaining risks resulting from the winding-up of the Comtech companies.

Decision of the EU Commission concerning the guarantee

The EU Commission classified and approved the federal and state guarantees for a loan of € 112 million extended in December 2002 as "restructuring aid". The EU Commission granted its approval on condition that the online shop1 operated by mobilcom be closed for seven months. This condition still has to be implemented by the Federal Republic of Germany. mobilcom has filed an invalidation claim against the EU Commission at the European Court of Justice of first instance.

[1] For online direct sales of mobile contracts for the mobilcom Group.

4.2 Risk management system

mobilcom has implemented an efficient risk management system as an integral component of corporate management. mobilcom takes its responsibility for continuously developing the risk management system very seriously and has appointed a risk manager to be responsible for such continuous improvement; he reports directly to the Executive Board. The risks are allocated to risk owners, who observe and evaluate the risks and where necessary define action necessary for minimising risk.

Risk identification: At mobilcom, the local operating entities are responsible for the methods of recording risk. For instance, the department and project discussions are routinely used for updating the risk situation.

Risk measurement: The risk owners classify the risk according to risk classes. The expected damages are specifically calculated, where possible and meaningful. The probability of occurrence is mainly estimated on an individual basis.

Risk analysis and evaluation: The risk owner is responsible for risk observation, analysis and evaluation. However, all members of staff are required to analyse their specific area of responsibility for risks. The risk potential is measured by way of an assessment of the probability of occurrence and the expected damages. mobilcom makes a distinction between low, medium and high probabilities of occurrence and expected damages. A 75 percent probability of occurrence is considered to be high, whereas a 25 percent probability of occurrence is considered to be low. Major damages are defined as those resulting in a reduction in net assets of more than € 5 million; minor damages are defined as those where the impact is less than € 0.5 million.

Risk monitoring: The risk owners are responsible for co-ordinating and monitoring operational risks; projects and processes are monitored by special, risk-oriented controlling entities, with support provided by the specialist departments. This arrangement ensures that the process of recording and managing risks is closely linked with the controlling process.

Risk handling: The Executive Board regularly receives reports detailing the risk situation. In addition, the risk manager regularly reports to the Supervisory Board; to be precise, he reports to the audit committee set up by the Supervisory Board. The Executive Board and remaining management regularly discuss risks and adopt measures for controlling such risks. These measures should be designed either to minimise / avoid risk, or should ensure that the Company deliberately exposes itself to risks arising from the decisions which it has taken in order to be in a position to take advantage of economic opportunities.

Organisation of risk management: The risk owners are organised on a local basis via the operating entities of the Company. They proactively report new risks or changes affecting existing risk expectations. The risk manager collects the risk notifications, and is responsible for ensuring a standardised reporting and notification system. The risk manager also heads the internal auditing department of mobilcom.

Nature and extent of documentation: The Executive Board has issued a guideline for defining the objectives, principles and organisation of the risk management system. This guideline also documents the duties, responsibilities and limits applicable for classification in specific risk classes as well as specifications for ad-hoc reports for the Executive Board. Every individual risk is recorded via so-called risk profiles which are maintained in a central database. This database is used for preparing reports for the Executive Board. A separate risk inventory is also maintained for the freenet sub-group. Evaluations for special questions can be carried out at any time.


Jenny
Iam

Susanne Hanfler, age 9

In my picture I thought about the future. I'm sure even angels will use mobile phones then.

5. Group account

5.1 Group accounts as at 31 December 2004

5.1.1 Table of content

5.1.2 Consolidated income statement for the financial year from 1 January to 31 December 2004

In thousand €	Note	2004	2003
Revenues	1	1,897,323	1,837,587
Other own work capitalised	2	3,493	617
Other operating income	3	84,666	465,295
		1,985,482	2,303,499
Costs of materials	4	- 1,478,467	- 1,458,347
Personnel expenses	5	- 102,716	- 105,074
Depreciation and impairment write-downs	6	- 72,345	- 81,358
Other operating expenses	7	- 238,579	- 405,336
Other taxes		- 82	0
Operating result		**93,293**	**253,384**
Result from investments accounted for using the equity method		967	645
Other interest and similar income	8	9,926	5,300
Interest and similar expenses	9	- 1,888	- 91,668
Result from ordinary activities		**102,298**	**167,661**
Income taxes	10	- 30,961	374
Group net result before minority interest		**71,337**	**168,035**
Minority interest		- 24,597	- 7,600
Group net result		**46,740**	**160,435**
Undiluted earnings per share in €	11	**0.71**	**2.44**
Diluted earnings per share in €	11	**0.71**	**2.44**

5.1.3 Consolidated balance sheet as at 31 December 2004

Assets in thousand €	Note	31 December 2004	31 December 2003
Non-current assets			
Intangible assets	13	79,862	94,119
Property, plant and equipment	13	61,818	90,866
Investments accounted for using the equity method	14, 15	1,612	387
Other investments	16	304	320
		143,596	185,692
Current Assets			
Inventories	17	25,802	29,639
Receivables and other assets			
Trade accounts receivable	18	204,759	258,307
Other receivables and other assets	19	82,372	96,486
Current tax claims	19	2,821	2,753
Cash and cash equivalents	20	367,062	262,287
		682,816	649,472
Deferred tax assets	21	36,226	45,453
Prepaid expenses		4,669	4,702
		867,307	885,319

Liabilities and shareholders' equity in thousand €	Note	31 December 2004	31 December 2003
Shareholders' equity			
Share capital	22	65,702	65,702
Share premium	22	287,320	294,146
Treasury shares	22	-27,441	0
Revenue reserves	23	36	36
Retained earnings		180,894	160,435
		506,511	520,319
Minority interests		86,743	62,713
Liabilities			
Pension provisions	25	389	25
Other provisions	26	15,426	21,177
Current tax liabilities	27	23,836	543
Non-current interest-bearing debt	28	0	1,555
Current interest-bearing debt	28	1,563	8,560
Trade accounts payable	30	59,771	93,448
Other liabilities	31	147,321	148,658
		248,306	273,966
Deferred tax liabilities	21	9,611	16,372
		257,917	290,328
Deferred income	32	16,136	11,949
		867,307	885,319

5.1.4 Consolidated statement of changes in equity for the financial year from 1 January to 31 December 2004

In thousand €	Share capital	Share premium	Options on treasury shares	Treasury shares	Foreign currency trans-lation reserve	Revenue reserves	Retained earnings	Total
As at 1 Jan. 2003	65,702	320,762	-64,890	0	-359	36	0	321,251
Options on treasury shares – settlement	0	-26,616	64,890	0	0	0	0	38,274
Currency translation	0	0	0	0	359	0	0	359
Group net result	0	0	0	0	0	0	160,435	160,435
As at 31 Dec. 2003	65,702	294,146	0	0	0	36	160,435	520,319
As at 1 Jan. 2004	65,702	294,146	0	0	0	36	160,435	520,319
Purchase of treasury shares by subsidiary	0	-6,826	0	0	0	0	0	-6,826
Purchase of treasury shares	0	0	0	-27,441	0	0	0	-27,441
Dividend payment	0	0	0	0	0	0	-26,281	-26,281
Group net result	0	0	0	0	0	0	46,740	46,740
As at 31 Dec. 2004	65,702	287,320	0	-27,441	0	36	180,894	506,511

5.1.5 Consolidated statement of cash flows for the financial year from 1 January to 31 December 2004

In thousand €	Note	2004	2003
Result before income taxes		102,298	167,661
Adjustments			
Depreciation and impairment write-downs	6	72,345	81,358
Interest income	8	-9,926	-5,300
Interest expense	9	1,888	91,668
Loss on disposals of non-current assets		1,425	217
Other non-cash income		-547	-5,075
Income from the sale of shares in consolidated companies		0	-144,992
Change in inventories, receivables and other assets not relating to investing or financing activities		73,280	309,275
Change in payables and other liabilities not relating to investing or financing activities		-30,827	-229,487
Changes in provisions		17,906	-278,597
Proceeds from settlement of options		0	44,381
Tax payments		-28,495	214
Cash flow from operating activities		**199,347**	**31,323**
Proceeds from disposals of intangible assets and property, plant and equipment		58	11,489
Purchase of property, plant and equipment		-13,351	-14,302
Purchase of intangible assets		-14,333	-9,845
Proceeds from disposals of non-current financial assets		0	56
Acquisition of subsidiaries		-2,000	-5,037
Proceeds from the sale of shares in consolidated companies		0	170,771
Interest receipts		8,075	4,493
Cash flow from investing activities		**-21,551**	**157,625**
Payment of dividends		-26,281	0
Payments for the purchase of treasury shares	22	-27,441	0
Payments for the purchase of treasury shares by subsidiaries		-8,894	0
Proceeds from issuing bonds and raising loans		0	50,502
Repayments of bonds and loans		-8,519	-169,408
Interest payments		-1,853	-7,541
Cash flow from financing activities		**-72,988**	**-126,447**
Changes in cash and cash equivalents		**104,808**	**62,501**
Cash and cash equivalents as of 1 January	20	262,254	199,753
Cash and cash equivalents as of 31 December	**20**	**367,062**	**262,254**

5.1.6 Consolidated statement of movements in non-current assets for the financial year from 1 January to 31 December 2004

In thousand €	Costs of purchase or production					
	1 Jan. 2004	Change in companies included in consoli-dation	Additions	Transfers	Disposals	31 Dec. 2004
Intangible assets						
Internally-generated software	2,490	181	1,857	0	2	4,526
Software, trademarks and licenses	144,260	2,044	12,476	0	1,134	157,646
Goodwill	252,914	51	0	0	11,113	241,852
Negative goodwill	-5,543	0	0	0	0	-5,543
	394,121	**2,276**	**14,333**	**0**	**12,249**	**398,481**
Property, plant and equipment						
Land, similar rights and buildings including buildings on third-party land	13,071	0	0	0	0	13,071
Technical equipment and machinery	8,599	0	281	20	2	8,898
Switches and networks	164,737	0	5,839	37	0	170,613
Mobile telephones	40,282	0	0	-2	40,280	0
Other office equipment	151,668	0	7,072	237	6,623	152,354
Payments on account and assets under construction	201	0	160	-292	0	69
	378,558	**0**	**13,352**	**0**	**46,905**	**345,005**
Financial assets						
Investments in associates	3,524	0	0	0	0	3,524
Other equity investments	319	0	0	0	15	304
Other loans	1	0	0	0	1	0
	3,844	0	0	0	16	3,828
	776,523	**2,276**	**27,685**	**0**	**59,170**	**747,314**

[1] Including proportionate tax expenditure.
[2] Thereof impairments € 6.9 million (see Note 6).

Depreciation and impairment write-downs								Book values	
1 Jan. 2004	Change in companies included in consoli-dation	Additions	Amortisa-tion of negative goodwill	Result of invest-ments accounted for using the equity method	Transfers	Disposals	31 Dec. 2004	31 Dec. 2004	31 Dec. 2003
1,628	0	769	0	0	0	0	2,397	2,129	862
94,818	0	18,386	0	0	0	686	112,518	45,128	49,442
208,537	0	11,822	0	0	0	11,112	209,247	32,605	44,377
-4,981	0	0	-562	0	0	0	-5,543	0	-562
300,002	0	30,977	-562	0	0	11,798	318,619	79,862	94,119
2,654	0	517	0	0	0	0	3,171	9,900	10,417
3,118	0	750	0	0	0	2	3,866	5,032	5,481
114,949	0	25,560	0	0	0	0	140,509	30,104	49,788
40,282	0	0	0	0	-2	40,280	0	0	0
126,689	0	14,541	0	0	2	5,591	135,641	16,713	24,979
0	0	0	0	0	0	0	0	69	201
287,692	0	41,368	0	0	0	45,873	283,187	61,818	90,866
3,137	0	0	0	1,225	0	0	1,912	1,612	387
0	0	0	0	0	0	0	0	304	319
0	0	0	0	0	0	0	0	0	1
3,137	0	0	0	1,225	0	0	1,912	1,916	707
590,831	0	72,345[2]	-562	1,225	0	57,671	603,718	143,596	185,692

5.2 Notes to the consolidated financial statements for the financial year from 1 January to 31 December 2004

5.2.1 The Group

mobilcom Aktiengesellschaft (mc AG) is the parent company of the mobilcom group and is registered in Schleswig, Germany. The group acts as a Mobile Service Provider and offers fixed network voice and data services and associated services.

5.2.2 Accounting standards

The consolidated financial statements 2004 have been prepared in accordance with International Financial Reporting Standards (IFRS). All standards in force as at 31 December 2004 and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) have been observed. Furthermore, the historic cost convention has been applied. The annual financial statements of the companies included in the consolidated financial statements have been prepared using uniform accounting and valuation principles, and these individual financial statements were prepared as at the balance sheet date of the consolidated financial statements.

Individual items in the income statement and the balance sheet have been aggregated for the sake of clarity. Details of these items are provided below.

As permitted by § 292a of the German Commercial Code (Handelsgesetzbuch, HGB), the consolidated financial statements were not prepared in accordance with German accounting standards. The conditions for such exemption have been fulfilled. Both the EU directive on group accounting (Directive 83/349/EEC) and the principle of equivalence for consolidated financial statements prepared in accordance with German commercial law have been taken into account, as have the interpretations of the German Accounting Standards Board as set forth in DRS 1.

The consolidated financial statements have been prepared in accordance with IFRS using accounting and valuation principles which differ from those of HGB as follows:

- recognition of deferred taxes on the basis of temporary differences and requirement to recognise tax loss carryforwards
- recognition of the leased asset and corresponding lease liability in respect of finance leases where the group is lessee, and recognition of a receivable in respect of finance leases where the group is lessor, in accordance with IAS 17

- internally-generated software is capitalised as a non-current asset
- treasury share purchases are disclosed at historical costs and are set against shareholders' equity
- securities are valued at fair value, and changes in the fair value are recognised in the income statement
- Valuation of pension provisions and similar obligations using the Projected Unit Credit Method, taking expected future increases in salaries and pensions into consideration

5.2.3 Companies included in consolidation and other group investments

The development of the companies included in the scope of consolidation is as follows (excluding mc AG):.

	31. Dec 2003	Additions	Disposals	31. Dec 2004
Consolidated companies	30	6	1	35
thereof domestic	29	6	1	34
thereof foreign	1	-	-	1
Joint ventures	1	-	-	1
Associated companies	1	-	-	1
Other investments	3	-	-	3

The additions to the companies included in the consolidation involve acquisitions which have a negligible effect on the assets, financial situation and profitability of the mobilcom group; for further details, including details of acquisitions completed in the financial year 2004 and prior to the date these financial statements were released to the Supervisory Board, see Note 36. Disposals from the scope of consolidation result from mergers between subsidiaries.

A list of significant subsidiaries included in the consolidated financial statements is provided in Note 38.

5.2.4. Consolidation methods

The consolidated financial statements include all significant companies in respect of which the parent company, mc AG, is able to exercise either direct or indirect control over the financial and business policies of the respective companies as it sees fit to benefit the group. These companies are included in the consolidated financial statements from the date on which mc AG assumes control. Minority interests are disclosed separately on the balance sheet.

The purchase method was applied to the consolidation of equity. Accordingly, historical costs of the holdings are offset against the fair value of the group's share in the relevant company's shareholders' equity. The assets and liabilities acquired are recognised at their fair values at the time of acquisition. Minority interests are recognised at the minority's share in these fair values at the time of acquisition. Any remaining positive balance is capitalised as goodwill and is amortised according to the straight-line method.

In the event of a negative difference on consolidation, this amount will be disclosed separately as "negative goodwill" in the consolidated statement of changes in non-current assets. This amount is shown offset from positive goodwill and is released to income over a time period determined by the weighted average of the remaining useful lives of the non-monetary assets acquired.

Transactions between consolidated companies are eliminated. Receivables and liabilities between consolidated companies are offset. Inter-company profits are eliminated and income and expenses from transactions between group companies are offset.

In the event of a disposal of a subsidiary, its consolidated assets and liabilities plus any existing goodwill are offset against the proceeds from the disposal.

As the group has no foreign companies which prepare their balance sheets using a currency different from that of mc AG, the translation of financial statements of foreign subsidiaries is not necessary.

5.2.5 Accounting and valuation methods

The following accounting and valuation methods were applied in preparing the consolidated financial statements:

(a) Revenues

Revenues relate primarily to mobile services, fixed network services, internet service fees and other goods supplied and services rendered, and are disclosed net of value added tax and cash discounts. Services rendered but not yet invoiced are accrued separately in the financial statements.

(b) Borrowing costs

Borrowing costs are recognised as expenses in the period they are incurred. No borrowing costs directly attributable to the acquisition, construction or manufacture of a qualifying asset were capitalised in 2004.

(c) Intangible assets

Intangible assets are recognised upon acquisition at purchase cost and are subsequently amortised over their expected useful lives according to the straight-line method. Expected useful lives are usually between three and five years. A beneficial interest quota is amortised over 18 years, according to the minimum lease period of the underlying tenancy agreement.

The useful life of the “Cellway” trade name is ten years.

A useful life of either five or ten years is applied for goodwill.

Negative goodwill not exceeding the fair value of the acquired non-monetary assets is subject to straight-line amortisation over their remaining average useful lives of these assets (two to five years). Negative goodwill exceeding the fair value of the acquired non-monetary assets is immediately recognised as income. The amount of negative goodwill released is recognised in the income statement under “Other operating income”.

For details of the future accounting and valuation treatment of goodwill and negative goodwill, see Note 39, “Effects of new accounting standards”.

Costs incurred for the development or maintenance of software programs are usually recognised as expenses in the year they are incurred. Such costs are recognised as intangible assets if they relate to a clearly-defined software product which can be used by the company and if the product’s expected overall economic benefit is greater than the costs incurred. Direct costs primarily include consultancy fees and personnel costs of the software development team, which typically occur in the software development process. Until the point in time when their technical and economic feasibility can be proven, development costs are recognised as assets under construction or prepaid expenses.

Costs incurred to significantly improve or extend the performance of a software program beyond its original capacity are deemed to constitute significant improvements and thus increase the software's production costs. The amortisation method applied for capitalised software development costs does not fundamentally differ from that employed for intangible assets purchased externally. Intangible assets are not revalued.

(d) Property, plant and equipment

Property, plant and equipment is valued at the cost of acquisition or production less scheduled 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. Property, plant and equipment is not revalued.

The scheduled depreciation of property, plant and equipment is generally based of the following useful lives.

Assets	Useful lives in years
Buildings	25
Technical equipment and machinery	3 to 10
Motor vehicles	4 to 5
IT equipment	3 to 5
Telecommunication equipment and hardware	3
Leasehold improvements	3 to 10

Real estate is not depreciated.

(e) Impairment

Impairment write-downs on assets are always recognised in cases where the asset's book value exceeds its expected recoverable amount.

(f) Leases

Leases with the company as lessee
The group decides on a case-by-case basis whether assets are to be leased or purchased. For items of fixed assets, general rules apply to passenger cars (operating lease contracts), and plant and equipment (purchase), with the exception of IT hardware and telecommunications equipment.
In accordance with IAS 17, if the company is classified as the economic owner of leased assets, the assets are capitalised and depreciated over the shorter of their expected useful lives or the lease term. Liabilities resulting from finance leases are reduced by the capital portion of lease instalments paid. Significant contracts which are classified as finance leases relate to leases of software, fixed network technology, IT hardware and telecommunications equipment. The lease terms are between 48 and 66 months.
Other leases which the company is party to are classified as operating leases. Payments made under these leases are recognised in the income statement on a straight-line basis over the lease term.

Leases with the company as lessor
If the economic ownership of a mobile telephone is transferred to the customer (finance lease), the group recognises – in accordance with IAS 17 – a receivable from the lessee in the amount of the net investment in the lease at the time the contract is entered into. Lease payments received are split into an interest portion, which is recognised in the income statement, and a capital (redemption) portion. The income portion is recognised as interest income over the period of the contract on an accruals basis. At the balance sheet date, the above accounting treatment is applicable only to contracts under the "Inklusiv-Programm" launched in 2003.

(g) Joint ventures and associates

Investments in associates and joint ventures are generally accounted for using the equity method. The recognised values of these holdings are increased or decreased annually by the amount of the change in the shareholders' equity in the associate or joint venture attributable to mobilcom group.

(h) Other equity investments

Other equity investments of the mobilcom group are generally recognised initially at acquisition cost and valued at their fair value at the balance sheet date. Investments for which a fair value cannot be determined reliably are recognised at acquisition cost.

(i) Available-for-sale financial assets

mobilcom Group holds investments in money market funds. These funds are valued at their market value, which is deemed to represent their fair value. The market value is equivalent to the stock exchange quotation or market price prevailing on the balance sheet date or the last trading day before the balance sheet date. Changes in the market value of securities on the balance sheet date compared to the previous year are recognised as income or expenses in the financial result of the income statement.

(j) Inventories

Inventories are valued at the lower of acquisition or production cost on the one hand, and the net realisable value at the balance sheet date, less incidental costs, on the other hand. The acquisition or production costs are calculated using the first-in-first-out method (FIFO).

(k) Receivables and other assets

Trade accounts receivable and other receivables are generally recognised at their nominal value. However, appropriate specific valuation allowances (in some cases at a flat rate) are made as circumstances demand. To reflect overall credit risk, general valuation allowances for bad or doubtful debts are made on the basis of past experience. Receivables that are not collectible are written off.

(l) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, money market investments available on demand and cheques and bank balances, less bank liabilities due on demand. The bank liabilities due are recognised in the balance sheet under “current interest-bearing liabilities”.

(m) Provisions

Provisions are recognised for legal or constructive obligations of uncertain timing or amount which arise as a result of past events, when it is probable that settlement of the obligation will lead to an outflow of group resources, and a reliable estimate of the amount of the obligation can be made.

(n) Pension provisions and similar obligations

The major portion of the pension provisions is determined using actuarial methods, taking account of the life expectancy statistics prepared by Prof. Dr. Klaus Heubeck. The calculation is performed using the Projected Unit Credit Method. This method of calculating the present value of vested claims takes account not only of the pensions and vested claims known at the balance sheet date, but also of expected future rises in pensions and salaries. To the extent that actuarial gains and losses exceed 10 percent of the higher amount of obligations and the present value of plan assets, they are taken or charged to income over the average remaining service years of the workforce. The service cost is shown under personnel expenses and the interest portion of the allocation to provisions is shown in the financial result.

Due to their relatively low value, a small portion of the pension obligations has been valued according to the German net present benefit method used for tax purposes.

(o) Foreign currency transactions

Receivables and payables denominated in foreign currencies are translated at the rate prevailing on the date of the transaction. Any gains and losses from changes in exchange rates as at the balance sheet date are recognised in the income statement.

(p) Employee share option programme

mc AG has granted convertible bonds and share options to senior management and selected employees. Any financial benefits which may arise on exercise of the options are not recorded in the income statement. On exercise, the share capital is increased by an imputed value of 1 Euro for each share issued. Any resulting premium is recognised in the share premium account.

On grounds of immateriality, convertible bonds are recognised in their entirety as liabilities rather than being split into their equity and debt components.

(q) Deferred taxes

Deferred taxes are recognised for tax loss carryforwards and, using the liability method, for all temporary differences between the tax balance sheet values and book values of assets and liabilities. Deferred tax assets are recognised for tax loss carryforwards only to the extent that it is probable they can be used against future profits. Deferred tax assets are calculated using the tax rates prevailing under current tax law.

(r) Comparative figures

Where necessary to restore comparability with current year figures, comparative figures are adjusted to reflect reclassifications.

5.2.6 Segment reporting

Since the group's business operations are conducted almost exclusively in Germany, a segment report is required only by business segment.

In 2004, the group was active in the following business segments:

- Mobile Service Provider: mobile services
- Fixed Network/Internet: fixed network voice and data services and related services

The segment "UMTS" was discontinued as of the beginning of the 2004 financial year. The reason for the discontinuation was the freezing of the UMTS project and the subsequent termination of resulting activities. As part of this process, the UMTS license was returned to the regulatory authority responsible for post and telecommunication at the end of 2003. From 2004, UMTS activities are included in the Mobile Service Provider segment, since mobilcom has also been active as a UMTS service provider since spring 2004.

Significant categories of expenditures are allocated on the basis of meaningful criteria.

Segment assets and liabilities are assigned to the economically appropriate segments.

Transactions between segments are of minimal importance and accordingly are not disclosed in the segment report.

Segment assets consist primarily of intangible assets (including goodwill), property, plant and equipment, inventories, receivables, other assets and cash and cash equivalents. All receivables from income taxes have been excluded. Investments in associates and joint ventures have been valued using the equity method and are shown separately in the appropriate segments. Segment liabilities primarily result from operational activities and generally exclude income tax and financial liabilities. Additions of non-current assets and depreciation relate to both intangible assets (including goodwill) and property, plant and equipment.

2004 In thousand €	Mobile Service Provider	Fixed Network/ Internet	Group
Third-party revenues	1,428,544	468,779	1,897,323
Segment result excluding share of result of investments accounted for using the equity method	9,217	84,076	93,293
(thereof goodwill amortisation)	(4,273)	(7,549)	(11,822)
Result from investments accounted for using the equity method	0	967	967
Consolidated/segment result before financial result and taxes	**9,217**	**85,043**	**94,260**
Consolidated financial result			8,038
Income taxes			-30,961
Group net result before minority interest			**71,337**
Minority interests			-24,597
Group net result			**46,740**
Segment assets	497,457	329,835	827,292
Associates and joint ventures	0	1,612	1,612
Unassigned assets			38,403
Group assets			**867,307**
Segment liabilities	162,156	77,079	239,235
Minority interests			86,743
Unassigned liabilities			34,818
Group liabilities			**360,796**
Additions to fixed assets	13,687	13,998	27,685
Additions to fixed assets through acquisitions	0	2,276	2,276
Group additions to fixed assets			**29,961**
Significant non-cash expenses			
Depreciation and impairment write-downs	31,378	40,967	72,345
(thereof impairment write-downs)	(6,783)	(80)	(6,863)
Additions to provisions and accrued liabilities	65,809	47,897	113,706
Write-downs of receivables and increase in valuation adjustments against receivables	20,874	575	21,449
	118,061	**89,439**	**207,500**

2003 In thousand €	Mobile Service Provider	Fixed Network/ Internet	UMTS	Group
Third-party revenues	1,356,804	480,783	0	1,837,587
Segment result excluding share of result of investments accounted for using the equity method	-19,309	40,917	86,784	108,392
(thereof goodwill amortisation)	(4,273)	(6,265)	(0)	(10,538)
Result from investments accounted for using the equity method	0	645	0	645
Consolidated/segment result before financial result and taxes	**-19,309**	**41,562**	**86,784**	**109,037**
Unallocated income				144,922
Group net result before financial result				**254,029**
Consolidated financial result				-86,368
Income taxes				374
Group net result before minority interest				**168,035**
Minority interests				-7,600
Group net result				**160,435**
Segment assets	503,648	315,146	3,628	822,422
Associates and joint ventures	0	387	0	387
Unassigned assets				62,510
Group assets				**885,319**
Segment liabilities	205,458	68,048	2,294	275,800
Minority interests				62,713
Unassigned liabilities				26,487
Group liabilities				**365,000**
Additions to fixed assets	5,794	38,050	0	43,844
Additions to fixed assets through acquisitions	0	8	0	8
Group additions to fixed assets				**43,852**
Significant non-cash expenses				
Depreciation and impairment write-downs	33,826	47,532	0	81,358
(thereof impairment write-downs)	(1,743)	(4,586)	(0)	(6,329)
Additions to provisions and accrued liabilities	64,151	66,054	0	130,205
Write-downs of receivables and increase in valuation adjustments against receivables	44,677	13,326	0	58,003
	108,828	**79,380**	**0**	**188,208**

Revenues and profits of the Mobile Service Provider segment were improved on the previous year. With a result of € 9.2 million for the segment, the group reached its targeted earnings range of € 8 to 10 million, which was announced in the summer.

Significant improvements in gross profit were primarily achieved through adjustments of the customer base initiated in the year 2003. This involved the exclusion of non-users and customers with negative gross margins (before overhead costs), increasing profitability compared to the previous year. This becomes obvious by the rise in ARPU per contract customer compared to the previous year. mobilcom benefited from additional positive impacts by selected measures to increase customer retention in the area of heavy and normal telephone users. The acquisition of new customers has been supported by offering new product innovations such as m-limit. An increase to 1.7 million new customers was reached in the year under review.

The overhead cost structure was further improved. The profit-oriented growth strategy had a strong impact on valuation adjustments on trade receivables, resulting in declining valuation adjustments. Moreover, the reduction in personnel expenses contributed to the earnings improvement.

The segment Fixed Network/Internet includes the service range of voice services and data transport. Data transport encompasses narrow and broadband access, among other offerings. By the end of the third quarter, freenet.de AG, Hamburg, had extended its DSL offering to include the provision of its own DSL connection (so-called resale business).

The annual results illustrate a positive trend. Despite slightly declining revenues, freenet.de AG managed to double the operating profit of the segment to € 85 million.

Total revenues and overall minutes sold by the segment are slightly lower compared to the previous year. However, trends differ for minutes sold for the different services. While the number of minutes sold is declining in the field of internet services, a significant increase was posted in the voice segment. The group recorded strong growth in its DSL offering and served a total of 350,000 DSL customers.

5.2.7 Notes to the consolidated income statement

1. Revenues

Revenues are made up as follows.

In thousand €	2004	2003
Mobile Service Provider	1,428,544	1,356,804
Internet Provider	319,667	335,625
Fixed Network Services	149,112	145,158
	1,897,323	1,837,587

2. Other own work capitalised

Other own work capitalised includes € 2,038 thousand in respect of software for the internet segment (2003: € 617 thousand) and in-house services with respect to the SAP R/3 implementation in the amount of € 1,455 thousand (2003: € 0).

The capitalised costs include attributable direct costs, which primarily comprise consultancy costs and personnel expenses, as well as proportionate overhead costs.

3. Other operating income

Other operating income includes income from the release of other provisions and accrued liabilities amounting to € 30.2 million (2003: € 158.3 million), cash proceeds in respect of written-down receivables and the release of valuation allowances on receivables of € 13.5 million (2003: € 7.3 million), as well as € 12.2 million from promotion subsidies (2003: € 8.9 million).

From the total amount of € 84.7 million in other operating income, € 15.9 million relates to earlier periods (2003: € 20.8 million).

4. Costs of materials

Costs of materials comprise the following.

In thousand €	2004	2003
Costs of purchased goods	266,232	154,420
Costs of purchased services	1,212,235	1,303,927
	1,478,467	1,458,347

Costs of purchased goods primarily include the cost value of mobile telephones sold under term contracts and bundles from the prepaid business.

Costs of purchased services primarily include fees for mobile telephone services, commission payments to retail partners and fixed network interconnection fees.

5. Personnel expenses

Personnel expenses comprise the following.

In thousand €	2004	2003
Wages and salaries	87,474	90,950
Social security costs	15,242	14,124
	102,716	105,074

At 2,911, the average number of group employees in 2004 was almost unchanged over the previous year (2,920).

6. Depreciation and impairment write-downs on intangible assets and property, plant and equipment

In thousand €	2004	2003
Amortisation and impairment write-downs on intangible assets	30,977	29,160
Depreciation and impairment write-downs on property, plant and equipment	41,368	52,198
	72,345	81,358

Total depreciation and impairment write-downs include impairment write-downs of € 6,863 thousand (2003: € 6,329 thousand). € 4,423 thousand thereof relates to intangible assets and is to a large extent due to the complete replacement of the ERP software J. D. Edwards OneWorld Xe – used only until the end of 2004 – by SAP R/3.

Impairment write-downs of IT equipment in the amount of € 2,440 thousand have been recognised. These primarily refer to server and storage systems. Both hardware components are affected by increasingly shorter innovation cycles in the IT sector and are therefore subject to steady adjustments. Consequently certain components were replaced earlier than expected while the useful lives of others were shortened.

Scheduled depreciation is calculated using the group-wide economic useful lives set out under the accounting and valuation methods above.

7. Other operating expenses

Other operating expenses include the following items, among others.

In thousand €	2004	2003
Advertising and trade fair costs	38,502	39,799
Postage and telephone costs	26,595	24,013
Write-downs/write-offs of receivables and increase in valuation allowances, based on past experience	21,647	58,003
Legal and advisory costs	20,973	18,517
Occupancy costs	13,393	16,353
Maintenance and repair	10,747	11,058
Costs for credit reports and debt collection	10,145	7,607
Motor vehicle costs	9,135	9,639
Subsidies to retail partners for advertising costs	8,233	5,784
Printing costs	6,115	4,985
Insurance costs	3,893	3,647
Travel costs	1,856	1,967
Derecognition of claim against France Télécom S. A., Paris/France	0	135,431

The other operating expenses include an amount of € 12.2 million (2003: € 13.7 million) which relates to earlier periods.

8. Other interest and similar income

Other interest and similar income comprise the following items.

In thousand €	2004	2003
Interest income from banks and from debt collection and similar income	6,877	4,414
Interest on tax repayments	1,971	0
Market valuation of money market investments (write-up)	1,078	886
	9,926	**5,300**

9. Interest and similar expenses

Interest and similar expenses comprise the following items.

In thousand €	2004	2003
Interest on supplementary tax payments	1,225	11
Interest on finance leases	282	1,032
Interest on UMTS financing	0	84,692
Other interest and similar expenses	381	5,933
	1,888	**91,668**

10. Income taxes

Both paid and outstanding income taxes, as well as deferred taxes, are recognised as taxes on income.

In thousand €	2004	2003
Current tax of consolidated companies	-28,753	-186
Deferred tax of consolidated companies	-2,466	818
Proportionate tax credit (2003: tax payment) of associates	258	-258
	-30,961	**374**

For additional information on deferred taxes, see Note 21.

Applying the income tax rate to the consolidated pre-tax profit would yield an expected tax expense of € 38.0 million (2003: € 65.1 million). The difference between this amount and the actual tax expense of € 31.0 million (2003: tax credit of € 374 thousand) is made up as follows.

In thousand €	2004	2003
Result before income taxes	**102,298**	**167,661**
Expected tax expense applying the tax rate of 37.1 % (2003: 38.8 %)	-37,953	-65,052
Write-ups in deferred tax assets	10,609	14,023
Tax effect of non-deductible expenses and tax-free income	-5,352	65,007
Tax credit as a result of tax audits	4,081	120
Others	-2,346	-13,724
Actual tax expense (2003: tax credit)	**-30,961**	**374**
Effective tax rate (%)	30,27	-0,22

The tax rate includes the corporation tax rate of 25 percent (2002: 26.5 percent), the solidarity surcharge of 5.5 percent, as well as an average municipal trade tax rate of the group of 342.09 percent (2003: 356.65 percent). The reduced corporation tax rate is due to a change in federal tax legislation which only applied to the previous year (so-called Flood Victim Solidarity Act).

11. Earnings per share

Undiluted earnings per share

Undiluted earnings per share are derived by dividing the net result attributable to shareholders by the weighted average number of undiluted shares outstanding during the financial year.

	2004	2003
Net income in thousand €	46,740	160,435
Weighted average of outstanding shares	65,579,618	65,701,800
Undiluted earnings per share in €	**0.71**	**2.44**

Diluted earnings per share

The diluted earnings per share are calculated by dividing the net result attributable to shareholders by the weighted average number of diluted shares outstanding.

The number of dilutive potential shares is derived from the difference between the number of potential ordinary shares valued at the subscription price under the employee participation programmes in relation to the number of ordinary shares which would have been issued at fair value.

	2004	2003
Group net result in thousand €	46,740	160,435
Weighted average number of outstanding shares	65,579,618	65,701,800
Potential shares from employee participation programmes	6,577	0
Weighted average of outstanding shares plus potential ordinary shares	65,586,195	65,701,800
Diluted earnings per share in €	**0.71**	**2.44**

12. Proposal for the appropriation of profits

Dividend distributions and repayments of profits or capital and reserves are subject to the restrictions of German commercial and tax law. Dividend distributions are only accounted for following a corresponding resolution at the Annual General Meeting. mc AG's annual financial statements disclose a balance sheet profit of € 91.0 million and a net income of € 22.5 million. The Executive Board of mc AG has proposed to distribute a dividend of 25 cents per share (in total € 15.6 million) from the balance sheet profit. The remaining amount of € 75.4 million should be carried forward. The dividend of the previous year amounted to 20 cents per share plus a bonus dividend of 20 cents per share.

5.2.8 Notes to the consolidated balance sheet

13. Intangible assets and property, plant and equipment

Changes in fixed assets are primarily influenced by capital expenditure and depreciation, with depreciation outweighing expenditure such that mobilcom group's fixed assets declined by € 42.1 million.

Details can be found in the consolidated statement of changes in non-current assets on pages 90 and 91.

The book value of property, plant and equipment at 31 December 2004 includes € 11,223 thousand (2003: € 25,786 thousand) in respect of items which are either still the subject of an ongoing finance lease or were previously leased but are now the legal property of the group. Of this amount, assets with a book value of € 4,081 thousand (2003: € 10,229 thousand) were still the subject of ongoing finance leases as at 31 December 2004.

The consolidated income statement was only marginally affected by research and development costs. As regulations permitted, development activities were capitalised as internally-generated software under intangible assets.

14. Joint Ventures

The consolidated financial statements include an investment in one joint venture, the company FunDorado GmbH, Hamburg, (FunDorado), which was established in 2001 and in which freenet group holds a 33.33 percent stake. FunDorado operates a fee-based internet portal.

FunDorado is included in freenet.de AG's financial statements through proportional consolidation. On grounds of immateriality, mobilcom has refrained from an adjustment to reflect the equity method, which is normally to account for joint ventures in the group consolidated financial statements.

The group's proportionate interest in the above investment is as follows.

In thousand €	31 Dec. 2004	31 Dec. 2003
Current assets	574	295
Non-current assets	40	41
	614	**336**
Current liabilities	448	241
Non-current liabilities	0	0
	448	**241**
Income	1,099	676
Expenses	1,028	657

As in the previous year, no contingent liabilities or capital commitment existed as at 31 December 2004 with respect to the group's holding in this joint venture.

15. Investments in associates

The group has a 50 percent investment in KielNET GmbH Gesellschaft für Kommunikation, Kiel (KielNET), valued at € 1,612 thousand as at 31 December 2004 (2003: € 387 thousand). KielNET supplies telecommunication services within the license area in the Kiel region. In cases of a parity of votes, Stadtwerke Kiel AG has a casting vote.

16. Other financial assets

Other investments disclosed at the balance sheet date primarily relate primarily to the investment in Libri.de GmbH, Hamburg, with a book value of € 304 thousand (2003: € 304 thousand). At the previous balance sheet date, the investment in Tourismus Agentur Schleswig-Holstein GmbH, Kiel, with a book value of € 15 thousand, was also included. The investment in this company was terminated on 31 December 2004, and the resulting claim in respect of repayment of the paid-in-capital of € 15 thousand is recognised under other assets. These investments have been valued at their acquisition costs.

Moreover, the group possesses a 75 percent investment in IFVA Institut für Vermögensaufbau GmbH, Cologne, (IFVA). The management of this company filed for bankruptcy on 8 May 2002. The insolvency proceedings had not been completed by the time these consolidated financial statements were prepared. As the financial and operating policies of the company are determined by the insolvency administrator and the parent company – and the group – therefore no longer has control, the company was excluded from consolidation in the 2002 group financial statements and recognised with a value of one Euro in other equity investments.

17. Inventories

Inventories are made up as follows.

In thousand €	31 Dec. 2004	31 Dec. 2003
Mobile telephones/accessories	8.704	16.274
SIM cards	6.433	7.386
Bundles and Voucher	5.228	5.788
DSL hardware	3.632	176
Payments on account	1.074	0
Other	731	15
	25.802	29.639

The book value of inventories reflects valuation adjustments of € 1.5 million (2003: € 3.1 million).

18. Trade accounts receivable

The trade accounts receivable are due exclusively from third parties and comprise the following.

In thousand €	31 Dec. 2004	31 Dec. 2003
Receivables from fee income, sales of equipment, fixed network services, commissions etc.	346.927	472.373
Valuation allowances in total	-142.168	-214.066
	204.759	258.307

This amount includes fee claims from the fixed network business (€ 54,492 thousand), which were included under the position “Other receivables and other assets” in the previous year (€ 52,795 thousand); the comparative figures from the previous year have been adjusted accordingly (see Note 19).

Trade accounts receivable include receivables from finance leases with the following forecasted income streams.

In thousand €	31 Dec. 2004	31 Dec. 2003
Within one year	2,206	2,221
Between one year and five years	529	1,034
	2,735	3,255
Unrealised income from financing (discounting)	78	191
Present value of receivables from finance leases	**2,657**	**3,064**

19. Other receivables and other assets

Other receivables and other assets comprise the following.

In thousand €	31 Dec. 2004	31 Dec. 2003
Accrued claims against network operators	41,787	47,349
Payments on account	24,702	27,500
Claims from deposits paid	4,485	3,540
Claims from value added tax	2,326	13,440
Accounts payable with debit balances	1,741	2,210
Other	7,331	2,447
	82,372	96,486

In the period under review, a separate balance sheet position was established for current income tax claims. In the previous year, these claims were included in other receivables and other assets. The comparative figures of the previous year were adjusted accordingly. The claims on fees from the fixed network business (€ 54,492 thousand; 2003: € 52,795 thousand) were reclassified to the trade accounts receivable with the corresponding adjustment of comparative figures from the previous year (see Note 18).

20. Cash and cash equivalents

Cash and cash equivalents comprise the following items:

In thousand €	31 Dec. 2004	31 Dec. 2003
Cash-on-hand and at bank	322,561	218,464
Securities (money market investments)	44,501	43,823
	367,062	262,287

21. Deferred taxes

Deferred taxes have been calculated on the basis of temporary differences using the liability method and an overall tax rate of 37.1 percent (2003: 37.5 percent).

The following amounts are shown on the consolidated balance sheet.

In thousand €	31 Dec. 2004	31 Dec. 2003
Deferred tax assets		
from deductible temporary differences	439	9,031
from tax loss carryforwards	35,787	36,422
	36,226	45,453
Deferred tax liabilities		
from taxable temporary differences	- 9,611	- 16,372
	26,615	**29,081**

In the financial year there was a reassessment of the future realisation of existing tax loss carry-forwards on the basis of the updated business plan, which led to an increase in deferred tax assets by € 10.6 million (2003: € 14.0 million).

Tax loss carry-forwards for which no deferred tax claims were made comprise € 3.4 billion of corporate income tax and € 3.0 billion of trade tax (previous year € 3.5 billion corporate income tax and € 3.1 billion trade tax).

The net changes of deferred taxes during the financial year are displayed in the following table.

In thousand €	2004	2003
As of 1 January	29,081	31,696
Change in the scope of consolidation	0	77
Recognised directly in shareholders' equity	0	-3,510
Tax expense (2003: tax credit)	-2,466	818
As at 31 December	**26,615**	**29,081**

Deferred tax assets and tax liabilities from temporary differences result from the following balance sheet items.

In thousand €	31 Dec. 2004		31 Dec. 2003	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	0	5,214	0	6,344
Property, plant and equipment	0	4,164	0	9,670
Financial assets	0	32	0	0
Current assets	0	201	0	358
Provisions	93	0	5,487	0
Other liabilities	346	0	3,544	0
	439	**9,611**	**9,031**	**16,372**

22. Share capital and capital reserve

	Number of shares in thousand	Share capital in thousand €	Share premium in thousand €	Options on treasury shares in thousand €	Treasury shares in thousand €	Total in thousand €
As at 1 Jan. 2003	65,702	65,702	320,762	-64,890	0	321,574
Options on treasury shares – settlement		0	-26,616	64,890	0	38,274
As at 31 Dec. 2003	**65,702**	**65,702**	**294,146**	**0**	**0**	**359,848**
As at 1 Jan. 2004	65,702	65,702	294,146	0	0	359,848
Purchase of treasury shares by subsidiary	0	0	-6,826	0	0	-6,826
Purchase of treasury shares	0	0	0	0	-27,441	-27,441
As at 31 Dec. 2004	**65,702**	**65,702**	**287,320**	**0**	**-27,441**	**325,581**

The company's issued share capital amounts to € 65,701,800.00 and is divided into no-par shares with an imputed value of € 1.00 each. The share capital is fully paid up. All shares have equal rights.

A resolution from the Annual General Meeting on 19 May 2004 authorised the company's Executive Board to buy, in the period lasting until 31 October 2005, treasury shares up to an amount of 10 percent of the share capital. At 31 December 2004, the company held 1,836,376 mobilcom AG shares.

Authorised capital

Authorised capital of € 32.6 million was approved by resolution of the Annual General Meeting on 5 April 2001. The Executive Board has been authorised to increase, in the period lasting until 4 April 2006 and with the approval of the Supervisory Board, the share capital by a maximum amount of € 32,643,300.00, by issuing new shares in one or more tranches. No increase of the subscribed capital was made from the authorised capital during the financial year, so that the amount of authorised capital at the balance sheet date remained unchanged.

Conditional capital

In the 2004 financial year, the existing conditional capital (I) of € 1.5 million remained unchanged. The conditional capital (I) serves to safeguard the conversion rights of the holders of convertible bonds issued on the basis of the authorisation granted by the Annual General Meeting on 3 February 1997 as part of an employee participation programme.

There is also a conditional capital (II) of € 28.0 million. The conditional capital (II) serves to safeguard the conversion or option rights of holders of convertible bonds or warrants from partial debentures on the basis of the authorisation granted by the Annual General Meeting on 5 April 2001.

Furthermore, by resolution of the Annual General Meeting of 5 April 2001, a conditional capital (III) exists for the issue of up to 2,000,000 shares with a value of € 2.0 million. The Executive and Supervisory Boards have been authorised to create a share option programme in the amount of conditional capital (III) and grant options to members of the Executive Board and to employees of the group.

In summary, the composition of conditional capital is as follows.

In thousand €	31 Dec. 2004	31 Dec. 2003
Conditional capital I (from 3 February 1997)	1,498	1,498
Conditional capital II (from of 5 April 2001)	28,000	28,000
Conditional capital III (from of 5 April 2001)	2,000	2,000
Total	31,498	31,498

23. Revenue reserves

Revenue reserves of € 36,000 are recognised on the balance sheet. These reserves were created from the net income of the financial year 1996.

24. Employee participation programs

mobilcom AG has issued convertible bonds to selected employees. During 2004, the book value of the issued convertible bonds changed as follows.

In thousand €	01 Jan. 2004	Withdrawn	31 Dec. 2004
Tranche V	5,525.00	375.00	5,150.00
Tranche VI	12,049.00	428.00	11,621.00
	17,574.00	**803.00**	**16,771.00**

In the previous year, the development was as follows.

In thousand €	01 Jan. 2003	Withdrawn	Final settlement	31 Dec. 2003
Tranche III	50,055.46	10,941.65	39,113.81	0.00
Tranche IV	9,458.88	0.00	9,458.88	0.00
Tranche V	6,125.00	600.00	0.00	5,525.00
Tranche VI	13,544.00	1,495.00	0.00	12,049.00
	79,183.34	**13,036.65**	**48,572.69**	**17,574.00**

The amounts withdrawn represent bonds held by persons leaving the mobilcom group, whose conversion rights lapse on leaving. No expenses are recognised in the consolidated financial statements in connection with the granting of convertible bonds.

The convertible bonds of tranche V, issued in 2000, include the right to subscribe for 400 shares in respect of each € 100.00 nominal value of bonds held. Given the negative performance of the share price during the 2001 financial year, it was possible to swap this tranche with tranche VI. Through this decision, employees have been allowed to continue to participate in the success of the company. Holders of tranche VI have the right to subscribe for 20 shares in respect of each € 1.00 nominal value of bonds held.

The conditions are as follows.

	Interest p.a. %	Expiry date	Additional payment per share in €	Maximum possible number of shares (ignoring blocking periods) 2004	2003
Tranche V	4.00	15 May 2005	122.25	20,600	22,100
Tranche VI	4.00	15 May 2005	16.70	232,420	240,980
				253,020	263,080

No conversion rights were exercised in the financial year 2004.

In addition, the company grants option rights on ordinary shares to members of the Executive Board, to employees of the company and to members of management and employees of affiliated companies in Germany and abroad.

All share options are subject to the following conditions: Options can only be exercised after the end of the relevant blocking period of two years after the issuing date. Subsequently, 50 percent of the share options can be exercised after two years, a further 25 percent can only be exercised after three years, and the remaining 25 percent can only be exercised after four years following the issuing date. Stock options can be exercised within a three-year period after expiration of the applicable blocking period. After this period, the share options expire.

Details of the share option plan are as follows.

	Exercise price	Issue date	Expiry date
Tranche 2001	€ 24.40	12 Nov. 2001	11 Nov. 2008
Tranche 2004	€ 20.51	31 Mar. 2004	30 Mar. 2011

	Option rights as at 31 Dec. 2002	Disposals	Option rights as at 31 Dec. 2002	Issued	Disposals	Option rights as at 31 Dec. 2004
Tranche 2001	138,600	59,700	78,900	-	17,500	61,400
Tranche 2004	-	-	-	476,773	35,133	441,640

No share options were issued in the 2002 and 2003 financial years. The disposals relate to employees who have left the mobilcom group and whose option rights expired upon leaving.

25. Pension provisions and similar obligations

The changes in pension obligations are the result of direct pension promises by freenet.de AG to the beneficiaries that were first established in December 2004. In each case the retirement benefit provided for is payment of a life-long retirement pension, which begins after the beneficiary reaches the age of 60. Pensions are financed through a pension fund, for which there is a re-insurance policy. The direct pension promises are generally determined on the basis of salary level and length of service within the company.

The provisions for pensions and similar obligations, which are recognised for the first time as at 31 December 2004, are accounted for in accordance with the Projected Unit Credit Method stipulated in IAS 19 (Employee Benefits). This method takes account of pensions and pension entitlements known at the balance sheet date as well as expected future increases in pension costs and salaries.

For the calculation of the future obligations, actuarial methods were applied using the life expectancy statistics prepared by Prof. Dr. Klaus Heubeck. The calculations are based on an imputed interest rate of 4.75 percent and a pension trend rate 2.0 percent. No rise is currently expected in the pensionable income.

Using these computational bases, a pension provision was set up in the balance sheet of 31 December 2004 in the amount of € 365,000. The provision is calculated by subtracting the plan asset of € 187,000 from the defined benefit obligation (abbreviated below to „DBO“) of € 552,000. The plan asset recognised was the value of the reinsurance policy contracted by the pension fund. No discount has been made on the insurance amount or on the plan asset for these financial statements since the pension promises were granted only shortly prior to the balance sheet date. For this reason, the past service cost as well as the service cost for 2004 has been recognised in the amount of the DBO as at 31 December 2004. The past service cost and the current service cost calculated in this manner have been recorded in the income statement with € 552,000.

In the reporting year no actuarial gains or losses arose.

26. Other provisions

In thousand €	01 Jan. 2004	Utilised	Released	Reclassified	Additions	01 Dec. 2004
Litigation risks	14,865	807	11,674	211	11,476	14,071
Impending losses	5,962	3,296	1,100	-211	0	1,355
Warranties	350	350	0	0	0	0
	21,177	**4,453**	**12,774**	**0**	**11,476**	**15,426**

The provision for litigation risks reflects the estimated costs arising from various claims against group companies. This provision relates primarily to legal disputes with former retail partners and customers as well as with former subsidiaries. The mobilcom group assumes that the majority of the disputes will be settled during the course of 2005. Further details cannot be provided here so as not to reveal and therefore endanger the current legal and negotiating positions.

The provision for contingent losses is primarily due to the discontinuation of subscriber direct dialling operations in 2003. It is expected that all but € 505 thousand of the impending losses will be realised in the 2005 financial year.

27. Current tax liabilities

Liabilities from current taxes relate to freenet.de AG in the amount of € 23,221 thousand (2003: € 0) and to mc AG in the amount of € 615 thousand (2003: € 543 thousand).

28. Debt

In thousand €	31 Dec. 2004	31 Dec. 2003
Non-current		
Finance lease liabilities	0	933
Silent partnerships	0	614
Convertible bonds	0	8
	0	1,555
Current		
Finance lease liabilities	933	8,518
Silent partnerships	614	0
Bank overdrafts	0	33
Convertible bonds	16	9
	1,563	8,560
Total	**1,563**	**10,115**

29. Finance leases

The minimum lease payments are due as follows.

In thousand €	31 Dec. 2004	31 Dec. 2003
Within one year	948	8,800
Between one year and five years	0	948
	948	9,748
Interest portion of future lease rates	15	297
Present values of total finance lease liabilities	**933**	**9,451**

The maturities of finance lease liabilities are as follows.

In thousand €	31 Dec. 2004	31 Dec. 2003
Within one year	933	8,518
Between one year and five years	0	933
	933	**9,451**

The underlying interest rates charged by the leasing companies are between 6.1 percent and 6.2 percent p.a. (2003: 3.7 percent and 6.9 percent).

30. Trade accounts payable

Trade accounts payable primarily relate to telephone and interconnection fees. Their maturities are specified in Note 31.

31. Other liabilities

Other liabilities comprise the following.

In thousand €	31 Dec. 2004	31 Dec. 2003
Accrued liabilities		
Outstanding invoices	67,733	53,303
Dealer commission	26,224	27,940
Compensation claims	8,250	12,508
Personnel costs	9,212	6,760
Other	4,758	3,007
	116,177	103,518
Payments received on account	19,000	16,186
Accounts receivable with credit balances	4,128	17,116
Wage/church tax and social security contributions	3,683	5,912
Value added tax	90	0
Other	4,243	5,926
	31,144	45,140
	147,321	**148,658**

The remaining maturities of debt, trade accounts receivable and other liabilities are as follows.

In thousand €	Total	Remaining term to maturity		
		within 1 year	1 to 5 years	more than 5 years
Debt	1,563	1,563		0
Trade accounts payable	59,771	59,745	26	0
Other liabilities	147,321	147,321	0	0
	208,655	**208,629**	**26**	**0**

32. Deferred income

Deferred income of € 15.6 million (2003: € 11.1 million) relates to base fees and usage fees received in advance. This amount will be released to income in full within one year.

5.2.9 Other disclosures

33. Other financial obligations

Purchase obligations from pending orders amounted to € 33,012 thousand at the end of the 2004 financial year (2003: € 43,441 thousand). Thereof, € 816 thousand (2003: € 76 thousand) relates to the purchase of property, plant and equipment and intangible assets. Other purchase obligations relate in full to merchandise, such as mobile telephones and accessories. Guarantees relate primarily to guarantees for shop leases and amounted to € 3,437 thousand (2003: € 2,274 thousand) at the balance sheet date

Obligations from rental and lease agreements under operating leases as at 31 December 2004 were as follows.

In thousand €	31 Dec. 2004	31 Dec. 2003
Within one year	46,802	52,739
Between one year and five years	24,159	29,085
More than five years	1,108	1,632
	72,069	83,456

Further financial obligations arise primarily in respect of the contracts between freenet.de AG and Teles AG which were concluded in December 2004 for the acquisition of STRATO group. For further details see Note 36.

34. Notes on the consolidated statement of cash flows

Cash and cash equivalents for the purposes of the cash flow statement comprise the following:

In thousand €	31 Dec. 2004	31 Dec. 2003
Cash and cash equivalents	367,062	262,287
less: short-term liabilities to banks	0	-33
	367,062	262,254

Cash flows are split into operating, investing and financing activities. The indirect method was used for the calculation of cash flows from operating activities.

After adjustments for non-cash related expenses and income (primarily depreciation and interest expense) and considering changes in working capital, mc AG achieved a net cash inflow from operating activities of € 199.3 million (2003: € 31.3 million). Besides the net income for the year, a reduction in working capital contributed particularly to the high cash flow.

The cash flow from investing activities (€ -21.6 million; 2003: € +157.6 million) was influenced by capital expenditures (€ 27.7 million; 2003: € 24.1 million). This was partially compensated by proceeds from interest payments (€ 8.1 million; 2003: € 4.5 million).

In respect of the dividend payment for the financial year 2003 in the amount of € 26.3 million, and purchase of treasury shares (€ 27.4 million), a total amount of € 53.7 million was paid in 2004. Together with the purchase of freenet shares by freenet.de AG (€ 8.9 million), these payments comprise the majority of the cash flow from financing activities (€ -73.0 million; 2003: € -126.4 million).

Financial resources totalled € 104.9 million, which is almost exclusively reflected in a rise of € +104.8 million in cash and cash equivalents.

35. Financial risks

No derivative financial instruments are used in the mobilcom group.

Foreign currency risk

The mobilcom group operates almost exclusively in Germany and invoices in domestic currency. Trade accounts payable in foreign currency are of subordinate importance for the group, resulting in no significant foreign currency risk.

Default risk

Default risk is at normal market levels. Appropriate allowances have been made to account for this risk.

Securities and cash are mainly held as deposits and money market funds at major German banks. There is no significant default risk.

Liquidity/refinancing risk

Instruments for financial planning are used throughout the group to monitor and control liquidity. The planning horizon is one year. Short-term liquidity planning and control is conducted on a daily basis for a subsequent three-month period. This planning is updated daily on the basis of the latest actual data.

In 2004, mobilcom did not take out any loans; therefore, there are no refinancing risks at present.

Interest rate risk

Items that are subject to the risk of fluctuating interest rates did not exist at the balance sheet date.

36. Company Acquisitions

In the 2004 financial year, the freenet group, in which the mobilcom group holds a majority stake, completed numerous acquisitions.

By contract of 12 December 2004, the freenet group acquired 100 percent of the shares in TECT-TELES eCommerce Track AG, Berlin (TECT) and in STRATO Rechenzentrum AG, Berlin. These two companies are referred to below, together with the subsidiaries of TECT, namely STRATO Medien AG, Berlin, and Cronon AG, Berlin, as the STRATO group.

STRATO develops and sells webhosting services and fully-integrated E-Commerce products in the private and business customer segments.

As consideration for the assumption of the interests described, a preliminary cash payment was agreed of € 80.0 million together with the transfer of 750,167 treasury shares of freenet.de AG and the transfer of 2,349,833 new individual shares of freenet.de AG. Furthermore, freenet.de AG entered into a commitment to purchase technical equipment and services in the amount of € 10.0 million net no later than 31 December 2007.

At the balance sheet date the contract was still subject to conditions precedent. With the realisation of all conditions precedent on 25 January 2005, controlling influence could be exercised for the first time. Acquisition costs for the purchase totalled € 128,856 thousand. The freenet shares which formed a component of the purchase price were valued at € 15.76, which was the share price on 25 January 2005.

The acquisition of the STRATO group represents for freenet a deliberate addition to the product portfolio which will release synergy potential with the group's existing webhosting activities. Furthermore, with STRATO the freenet group aims to develop a second DSL brand. When the purchase price allocation has been performed in accordance with IFRS 3, it is likely that goodwill will be recognised on the acquisition of the STRATO group.

By contract of 16 December 2004, the freenet group acquired 100 percent of the shares in the value-added services provider Talkline ID GmbH, Bonn. Moreover, also by contract of 16 December 2004, the call-by-call and the network business of the Talkline group were acquired through an asset deal.

As consideration for these transactions, a purchase price totalling € 7.0 million was agreed. Under certain conditions the purchase price may be adjusted downwards. As of the balance sheet date, the execution of the contract was still subject to the occurrence of conditions precedent which had not yet transpired at the time the consolidated financial statements of mc AG were approved for submission to the Supervisory Board.

The acquisition of the value added business, which represents a fundamental strengthening of freenet's B2B business, will give rise to synergy potential since the areas internet and telecommunications are increasingly enmeshed with the media landscape and its contents. Hence it is expected that the acquisition of the value-added service and call-by-call and network businesses of the Talkline group will likely give rise to recognition of goodwill.

There were outlays of € 2,350 thousand in cash for further company acquisitions in the third quarter of the financial year, which however are of minor importance for the net assets, financial situation and results of operations of the group; after deduction of liquid funds acquired there was a net outflow of funds of € 2,000 thousand. With regard to the company acquisitions mentioned above, goodwill was recognised of € 51 thousand. These transactions involved mainly the purchase of intangible assets (software).

37. Related companies and persons

The following significant transactions occurred between the group and related parties.

In thousand €	2004	2003
Revenues and income from services and recharges		
France Télécom S. A., Paris, France	1,479	0
KielNET GmbH Gesellschaft für Kommunikation, Kiel	459	242
FunDorado GmbH, Hamburg	105	0
Purchase of services and subsequent charges		
France Télécom S. A., Paris, France	4,045	0
KielNET GmbH Gesellschaft für Kommunikation, Kiel	306	95
Freshfields, Bruckhaus, Deringer, Frankfurt am Main	n. a.[1]	253
Prof. Dr. Helmut Thoma, Cologne	0	107
Ad'Link Internet Media AG, Montabaur	0	99
Dr. Klaus Hommels, Zumikon, Switzerland	0	50

[1] In the year under review, these companies no longer meet the IAS 24 definition of related companies/persons.

All of the above items of revenue/income and purchases of services and recharges were settled under the same conditions as transactions with third parties.

Any remuneration for services rendered by members of the Supervisory Board over and above the remuneration fixed in the articles of association was approved by the Supervisory Board in accordance with §114 Para. 1 of the German Stock Corporation Act (AktG).

On 31 December 2004, the following significant receivables and liabilities were due from and to related parties.

In thousand €	2004	2003
Receivables		
France Télécom S. A., Paris, France	1,664	0
KielNET GmbH Gesellschaft für Kommunikation, Kiel	119	25
FunDorado GmbH, Hamburg	31	0
Super 24 GmbH i. L., Erfurt	n. a.[1]	1,631
TelePassport Telecommunications GmbH, Erfurt	n. a.[1]	1,135
Payables		
France Télécom S. A., Paris, France	428	0

[1] In the year under review, these companies no longer meet the IAS 24 definition of related companies/persons.

At the balance sheet date, France Télécom S. A. held an indirect share of ca. 28.3 percent in the company's capital. Due to the shareholding, France Télécom S. A. is able to assert influence on operating decisions (blocking minority). The major relations with the company are specified by the MC-Settlement-Agreement and are primarily based on activities in the context of the termination of the UMTS project.

Executive Board remuneration

The main committee of the Supervisory Board is responsible for determining the remuneration of the Executive Board. The Executive Board's compensation is performance-related; in the financial year 2004 it consisted of three components: fixed salary, non-cash benefits and a performance-related variable bonus.

The fixed salary is paid monthly.

Non-cash benefits include contributions to life insurance in the form of retirement provisions as well as fringe benefits like provision of a company car.

If certain targets specified by the main committee at the beginning of the financial year are achieved, an annual bonus is paid.

In the year 2004, remuneration of the Executive Board totalled € 1,461 thousand (2003: € 1,277 thousand). The following compensation was granted to the individual Board members in 2004

In €	Salary	Non-cash compensation	Annual bonus	Total
Dr. Thorsten Grenz	345,000	128,008	482,400	955,408
Michael Grodd	300,000	7,596	197,800	505,396
Total	**645,000**	**135,604**	**680,200**	**1,460,804**

In the previous year, individual remuneration was as follows.

In €	Salary	Non-cash compensation	Annual bonus	Total
Dr. Thorsten Grenz	300,000	6,875	470,000	776,875
Michael Grodd	300,000	22,310	170,000	492,310
Ulrich Kalthoff	7,342	250	0	7,592
Total	**607,342**	**29,435**	**640,000**	**1,276,777**

Moreover, the members of the Executive Board hold convertible bonds/share options as a result of which Dr. Thorsten Grenz can purchase up to 60,000 (2003: 30,000) and Michael Grodd up to 25,000 (2003: 5,000) shares. For details of the convertible bonds/share options, see Note 24.

All elements of the remuneration of the Executive Board originated from mobilcom AG; no compensation was paid by its subsidiaries. The company has not granted loans to any member of the Executive Board and no guarantees or warranties have been assumed.

Supervisory Board remuneration

Compensation of the Supervisory Board is fixed in the articles of association. In the financial year 2004, remuneration consisted of three components:

- a base remuneration,
- attendance fees and
- a performance-related compensation.

For each full financial year of their membership in this panel, each Supervisory Board member receives a base remuneration of € 12,000. The Chairman and Deputy Chairman of the Supervisory Board receive double and one and a half times this amount, respectively.

Each Supervisory Board member also receives an attendance fee of € 1,000 per meeting. Members of a committee of the Supervisory Board – with the exception of the committee formed in accordance with § 27 Para. 3 of German Co-determination Act (Mitbestimmungsgesetz) –also receive an attendance fee of € 1,000 per meeting of the committee. The Chairman of the committee receives double this amount.

Upon completion of each financial year, the members of the Supervisory Board receive a variable compensation of € 500 for each € 0.01 of the dividend paid to shareholders which exceeds € 0.10 per share of the company. The Chairman and Deputy Chairman of the Supervisory Board receive double and one and a half times this amount, respectively.

Total remuneration for the Supervisory Board members amounted to € 365 thousand (2003: € 221 thousand) for the financial year 2004. In addition, members of the Supervisory Board are reimbursed for expenses relating to the duties of their mandate, plus applicable value added taxes.

Remuneration for the financial year 2004	Base remuneration	Attendance fee	Dividend-related compensation[1]	Total
Prof. Dr.-Ing. Dieter H. Vogel	24,000	14,000	15,000	53,000
Ulrich Kalthoff	18,000	10,000	11,250	39,250
Thorsten Delling	12,000	5,000	7,500	24,500
Dr.-Ing. Horst Dietz	12,000	5,000	7,500	24,500
Ulf Gänger	12,000	12,000	7,500	31,500
Gabriele Hanrieder	12,000	9,000	7,500	28,500
Helmut Holzer	12,000	6,000	7,500	25,500
Dr. Hans-Peter Kohlhammer	12,000	7,000	7,500	26,500
Andreas Neumann	12,000	8,000	7,500	27,500
Christian Teufel	12,000	10,000	7,500	29,500
Klaus Thiemann	12,000	6,000	7,500	25,500
Prof. Dr. Helmut Thoma	12,000	10,000	7,500	29,500
Total	162,000	102,000	101,250	365,250

[1] Includes the dividend proposal for the financial year 2004 in the amount of € 0.25 per share.

According to the decision of the Federal Supreme Court (Bundesgerichtshofs) of 16 February 2004 regarding the general inadmissibility of granting share options to members of the Supervisory Board, the performance-based compensation package was changed at the Annual General Meeting on 19 May 2004. For the lapsed variable compensation in the form of share options, the Supervisory Board members received a non-recurring cash payment for the financial years 2000 to 2002, according to the resolution of the Annual General Meeting. The cash amount was determined by reference to the value of the option at the date of the decision by the Federal Supreme Court on 16 February 2004 and totals € 282 thousand. The compensation for the dividend of the financial year 2003 amounts to € 197 thousand.

Remunertion for the financial years 2000 – 2003 paid in 2004 In €	Dividend-related compensation for FY 2003	Cash settle-ment for stock option plan	Total
Prof. Dr.-Ing. Dieter H. Vogel	30,000	26,727	56,727
Ulrich Kalthoff	21,699	22,767	44,466
Thorsten Delling	15,000	21,963	36,963
Dr.-Ing. Horst Dietz	13,726	0	13,726
Ulf Gänger	14,466	0	14,466
Gabriele Hanrieder	15,000	21,963	36,963
Helmut Holzer	15,000	21,963	36,963
Dr. Hans-Peter Kohlhammer	575	0	575
Andreas Neumann	15,000	21,963	36,963
Christian Teufel	15,000	21,963	36,963
Klaus Thiemann	5,137	0	5,137
Prof. Dr. Helmut Thoma	15,000	26,727	41,727
Dr. Joachim Dreyer [1]	11,466	1,317	12,783
Carsten Meyer1	1,274	24,345	25,619
Prof. Dr. Gerhard Picot [1]	8,877	1,317	10,194
Klaus Ripken [1]	0	53,454	53,454
Andreas Schober [1]	0	6,551	6,551
Derek Wooler [1]	0	8,933	8,933
Total	197,219	281,953	479,172

[1] Former Supervisory Board members; compensation was approved retroactively by Annual General Meeting on 19 May 2004.

Disclosure of share ownership by members of the Executive and Supervisory Boards[1]

	31 Dec. 2004		31 Dec. 2003	
	Shares	Options	Shares	Options[2]
Executive Board				
Dr. Thorsten Grenz	0	60,000	0	30,000
Michael Grodd	0	25,000	0	5,000
Total Executive Board	**0**	**85,000**	**0**	**35,000**
Supervisory Board				
Prof. Dr.-Ing. Dieter H. Vogel	0	0	0	3,600
Ulrich Kalthoff	0	11,400	0	6,400
Thorsten Delling	0	4,025	0	3,800
Dr.-Ing. Horst Dietz	0	0	0	0
Ulf Gänger	0	0	0	0
Gabriele Hanrieder	190	0	190	2,800
Helmut Holzer	19	0	19	3,400
Dr. Hans-Peter Kohlhammer	80	0	0	0
Andreas Neumann	0	4,200	0	4,200
Christian Teufel	2,500	5,524	5,100	3,800
Klaus Thiemann	0	0	0	0
Prof. Dr. Helmut Thoma	6,132	0	0	3,600
Total Supervisory Board	**8,921**	**25,149**	**5,309**	**31,600**
Total (Executive and Supervisory Boards)	**8,921**	**110,149**	**5,309**	**66,600**

[1] As at 31 January 2005.
[2] Option holdings of Supervisory Board nullified by decision of Federal Supreme Court of 16 February 2004; excludes Options from employee participation programs for representatives of employees

38. Consolidated companies

Segment Mobile Service Provider

Name and location of registered office	Share in capital[1] in %
mobilcom AG, Schleswig	
mobilcom Communicationstechnik GmbH, Schleswig	100.0
MobilCom Holding GmbH, Schleswig	100.0
MobilCom Logistik GmbH, Schleswig	100.0
MobilCom Multimedia GmbH, Schleswig	100.0
MobilCom Products & Services GmbH, Schleswig	100.0

[1] The share in capital is equal to the share in voting rights.

Segment Fixed Network/Internet[1]

Name and location of registered office	Share in capital[2] in %
freenet.de AG, Hamburg	53.2
0 10 19 Telefondienste GmbH, Kiel	100.0
0 10 24 Telefondienste GmbH, Kiel	100.0
freenet Cityline GmbH, Kiel	100.0
freenet Customer Care GmbH, Kiel	100.0
freenet Datenkommunikations GmbH, Hamburg	100.0
freenet Internet Beteiligungsgesellschaft mbH, Hamburg	100.0
life medien GmbH, Berlin	100.0
vitrado GmbH, Munich	100.0

[1] In the Group's segment Fixed Network/Internet only significant companies of the Group are included; these represent more than 96 % of the revenues, the balance sheet total and the earnings before interest and taxes.
[2] The share in capital is equal to the share in voting rights.

39. Influence of new accounting standards

Below some explanations are given of new IAS and IFRS standards, most of which are mandatory as from 1 January 2005, whereby the emphasis is on those standards which have a certain relevance for the mobilcom group.

In IFRS 2, which was adopted by the IASB in February 2004, the accounting regulations for share-based payments have been revised. According to the new standard, share option programmes and other forms of remuneration that are based on the value of company shares must be expensed at their fair value. The application of this standard as from 1 January 2005 will affect the company for the first time in its 2005 quarterly financial statements and in the annual financial statements for 2005. In this connection, it will be necessary to adjust retrospectively the prior year comparative figures for the year 2004. These new rules will affect the accounting treatment of the share option programmes of both mobilcom and freenet. With regard to the tranches which have so far been issued, measurement is of the fair value of the options at each balance sheet date (in cases where it is probable that a cash settlement will be made) or of their fair value at the time of their issue; the personnel expense will be reported over the period in which the benefits are earned. The main consequence is hence an increase in personnel expenses and correspondingly, depending on whether the options are expected to be exercised in the form of shares or in the form of cash settlement, an increase in equity or in financial liabilities.

In March 2004, the IASB published IFRS 3, which specified new rules on business combinations. This replaced IAS 22. In this connection, IAS 36 “Impairment of Assets” and IAS 38 “Intangible Assets” were revised. The application of the new and revised standards is mandatory for business combinations which are contractually agreed on or after 31 March 2004. For the mobilcom group, this means that the major transactions made in December 2004 for the acquisition of the STRATO group, which have been finalised in January 2005, and of the value-added and call-by-call businesses of the Talkline group, which foreseeably will be finalised in the first quarter of 2005, will be accounted for using these new or revised standards (see also the comments in Note 36 “Company acquisitions”). With regard to goodwill and negative goodwill, the main changes are that goodwill will no longer be subject to scheduled amortisation and that negative goodwill will no longer be released on a scheduled basis. This will also affect the positive and negative goodwill recorded in the mobilcom financial statements for the year ended 31 December 2004. Instead of being amortised, goodwill recorded in the balance sheet must in future be subjected at least once annually to an impairment test. If there is evidence of impairment, further impairment tests are required.

Following the conclusion of the so-called “Improvements Project” of the IASB in December 2003, various standards have been revised and these will be applicable for financial years that begin on or after 1 January 2005. The standards concerned are IAS 1, IAS 2, IAS 8, IAS 10, IAS 16, IAS 17, IAS 21, IAS 24, IAS 27, IAS 28, IAS 31, IAS 33 and IAS 40. The company will be affected by these changes mainly with respect to the presentation in the balance sheet and the income statement as well as with respect to additional disclosures in the notes (with corresponding adjustment of the comparative figures from the prior year). With regards to these changes, an important point for the company is that in accordance with IAS 1 (revised 2003) the assets and liabilities presented in the balance sheet will each have to be split into current and non-current positions. Moreover, the presentation of minority interest under IAS 1 (revised 2003) and IAS 27 (revised 2003) must be made within group equity separately from the group equity which is attributable to the company's principal shareholders. Secondly, under IAS 24 (revised 2003) additional disclosures are required with regard to transactions with related parties. The other changes arising from the "Improvements Project" do not have any material significance for the company at present or are completely irrelevant.

40. Declaration of compliance in accordance with §161 of the German Stock Corporation Act (AktG)

The declaration of compliance in accordance with §161 AktG was issued by the Executive and Supervisory Boards in December 2004. It has been made permanently available to shareholders on the company's website under the address www.mobilcom.de.

Schleswig, 24 February 2005
mobilcom Aktiengesellschaft

The Executive Board

Dr. Thorsten Grenz

Michael Grodd

5.3 Auditor's Report

We have audited the consolidated financial statements of mobilcom Aktiengesellschaft, Schleswig, consisting of the balance sheet, the income statement and the statements of changes in equity and cash flows as well as the notes to the financial statements for the business year from 1 January to 31 December 2004. The preparation and the content of the consolidated financial statements according to the International Financial Reporting Standards of the IASB (IFRS) are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statements are in accordance with IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with IFRS.

Our audit, which also extends to the group management report prepared by the Board of Managing Directors for the business year from 1 January to 31 December 2004, has not led to any reservations. In our opinion, on the whole the group management report, together with the other information of the consolidated financial statements, provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1 January to 31 December 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law.

Kiel, 25 February 2005

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Nienborg)
Wirtschaftsprüfer

(ppa. Dr. Focke)
Wirtschaftsprüfer


BERTOLT-B

Sören Kempert, age 10

My picture's called „mobilcom children go to school“. mobilcom put equipment in my school too. I think that's a good thing.

6. Other information

6.1 Contact

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6.2 Publications

You can also find our annual and quarterly reports in the internet under:
www.mobilcom.de, Section: Investor Relations; Subsection: Reports

In case of doubt, the German language version of this annual report is the authoritative version.

Up-to-date information on mobilcom AG and on the mobilcom share are available to you on our website. You can also register for our E-mail subscription service in the Investor Relations section.

6.3 Glossary

ARPU	Average revenue per user
B2B	Business to Business. Refers to transactions between business undertakings.
Broadband	Digital data transfer at a speed of more than 128 Kbit per second.
Call-by-Call	Call switching procedure allowing the caller to make a call with a preferred provider by adding a prefix to the number dialled.
Carrier	Operator of a telecommunications network ("network operator").
DSL	Digital Subscriber Line. A connection technology for digital broadband end user connections.
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest and taxes, depreciation and amortisation
Earnings per share	A ratio describing the amount of the group's net profit attributable to an individual share in the company. The ratio is calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of shares in issue.
GSM	Global System for Mobile Communications. Industry standard for digital mobile telecommunications in a frequency range of 900 to 1,800 MHz in Europe and 800, 850 and 1,900 MHz in the US.
IFRS	International Financial Reporting Standards
Interconnection	Term for the interconnection of the networks of different service providers, as regulated by the German Telecommunications network in Germany.
Internet	A worldwide network of computers based on Internet Protocol (IP) and with no central network management.
IP	Internet Protocol. A data exchange protocol used widely in computer networks.
ISDN	Integrated Services Digital Network. ISDN integrates services such as telephone, fax or data communications in a fixed network. Digitisation improves the speed and quality of transmission in comparison to an analogue connection. In addition, ISDN allows packet switching data transmission.
ISIN	International Securities Identification Number
Mobile Service Provider	A telephone company without its own mobile telephony network, which sells mobile telephony minutes, SIM cards and mobile telephones, as well as value-added services such as SMS, in its own name and on its own account, using the capacities of network operators.

Page Impressions	Refers to the number of times an internet page has been viewed by users. Serves as an important criterion for the analysis of the extent of coverage achieved by a website.
Portal	Internet access page, usually featuring a comprehensive selection of navigation functions, collections of content and additional services such as e-mail.
Prepaid	Refers to services paid for in advance by the customer. In the case of mobile telephony often takes the form of a prepaid card; whereby the customer can use telephony services up to the value of the card.
Preselection	Procedure by which the customer can choose to use a preferred network provider, the so-called connection operator, by default.
Protocol	In information technology, rules which determine the format, content, importance and sequence of messages sent between different entities.
Roaming	Allows telephone calls to be placed via the networks of different network operators, for example international roaming in the Europe-wide GSM system.
Narrow band	Data transmission at a speed of up to 128 Kbit per second.
Server	In information technology, a computer which provides data or resources to users in a computer system. The system may comprise one computer or a network of several computers.
Server-Hosting	The provision of the services of an internet server, such as storage space and e-mail functions, e.g. in order to set up an internet presence.
Server-Housing	A service, whereby a server providing an internet presence is – on grounds of cost and capacity – operated not on the premises of the proprietor of the internet presence, but instead on the premises of a specialised service provider.
SIM-Card	Subscriber Identity Module Card. Identification card for the user of a mobile telephony service.
SMS	Short Message Service. Digital transmission of short messages (text, images) by mobile telephone.
UMTS	Universal Mobile Telecommunications System. International third generation mobile telephony standard, combining mobile multimedia and electronic data transmission services in the 2 GHz frequency spectrum.
Voice over IP	Making telephone calls over a computer network (e.g. the internet) on the basis of Internet Protocol (IP).

6.4 Financial calendar

8 March 2005
Press conference on financial statements and analysts' conference
for the 2004 financial year
Publication of the 2004 annual report

22 April 2005
Ordinary Annual General Meeting
Tempodrom, Berlin

9 May 2005
Publication of interim-report for the first quarter of 2005

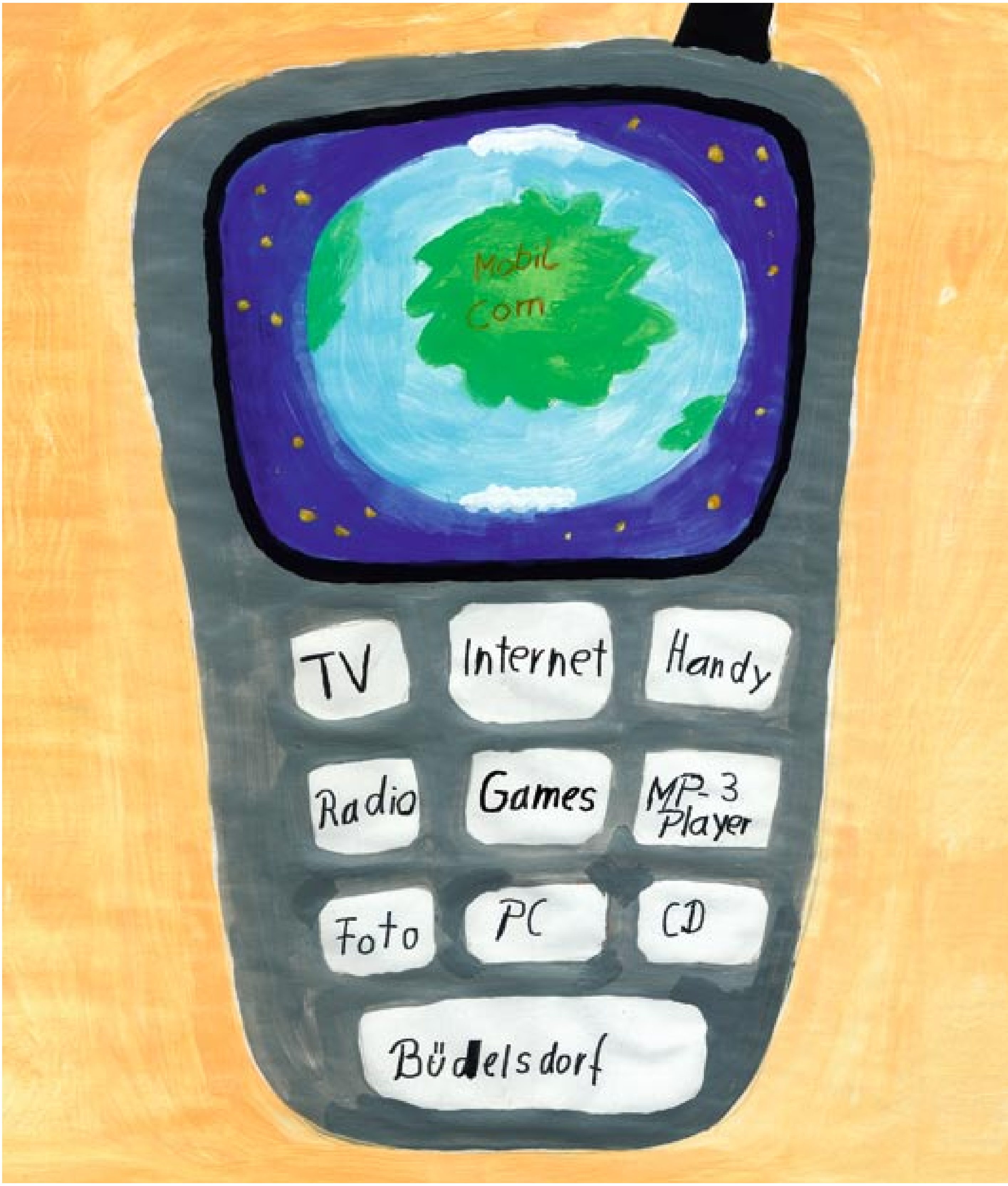
8 August 2005
Publication of interim-report for the first half of 2005

8 November 2005
Publication of interim-report for the first nine months of 2005

Back cover image

Tom Embke, age 11

mobilcom is all over the world, because with a mobile you can call everyone.
It's a little bit expensive, but really handy.



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