DRILLISCH AG
ANNUAL REPORT 2010

Key Indicators of the Drillisch Group

Drillisch-Group	2010	2009	2008
Turnover in €m	362.5	344.5	350.1
EBITDA in €m	46.1	50.7	40.6
EBITDA, adjusted, in €m	49.3	43.5	40.6
EBIT in €m	40.4	44.4	33.9
EBT in €m	42.6	110.9	-172.4
Consolidated profits in €m	31.0	101.2	-184.1
Profit/loss per share in €	0.58	1.98	-3.58
EBITDA margin in % of turnover	12.7	14.7	11.6
EBITDA margin adjusted in % of turnover	13.6	12.6	11.6
EBIT margin in % of turnover	11.1	12.9	9.7
EBT margin in % of turnover	11.8	32.2	-49.2
Consolidated profit margin in % of turnover	8.6	29.4	-52.6
Equity ratio (equity % of balance sheet total)	51.5	48.7	17.4
Return of equity (ROE) (ratio Group result to equity)	20.9	318.8	-78.8
Cash flow from current business operations in €m	40.8	53.9	42.6
Depreciation excluding goodwill in €m	5.7	6.3	6.7
Investments (in tangible and intangible fixed assets), adjusted, in €m	4.0	3.9	3.9
Staff as annual average (incl. Management Board)	379	382	347
Wireless services customers as per 31/12 (approx. in thousands)	2,431	2,250	2,371
Wireless services customers Debit	1,240	1,268	1,525
Wireless services customers Credit	1,191	982	846

Letter from the Management Board

Management Board

Paschalis Choulidis
Executive-Board Spokesman, Director of Finances, Financial Communication, Controlling and IT

Vlasios Choulidis
Director of Sales, Marketing and Customer Care

Dear Sir or Madam,

During the past fiscal year, we were able to continue the unbroken success of past years and to exceed our targets. Overall, our Company's development was better than that of the general market. We have laid a solid foundation so that we will be able to grow profitably with our innovative products and services in the future as well. Our clear, reliable cash and financial profile – we replaced the credit agreement due to expire in April 2011 with a new, more flexible loan agreement in the fourth quarter of 2010 – and our focus on the important trends in the sector of voice telephony and mobile Internet are a source of confidence as we enter the new fiscal year 2011.

The positive development of turnover in fiscal year 2010 continued in the final quarter of the year. In the fourth quarter, revenues rose by 8.9% or €8.3 million to €100.7 million (Q4 2009: €92.4m). In comparison with the third quarter 2010, turnover rose by €15.9 million or 18.7%. Consolidated turnover in fiscal year 2010 of €362.5 million was 5.2% or about €18 million higher than the previous year's mark (2009: €344.5m). This revenue was realised from 2.431 million subscribers (2009: 2.250 million). Thanks to the expansion of the higher-value postpaid business, the ratio of prepaid to postpaid subscribers improved further to 51% to 49% (2009: 56% to 44%). Gross profit came to €88.4 million at the end of the year, an improvement over the previous year (2009: €80.9m) of 9.3% or €7.5 million. The gross profit margin improved by 0.9% to 24.4% (2009: 23.5%). The EBITDA, including the one-time special expenditures for the closure of the Idstein location, recorded a decline of 8.9% or €4.5 million. In contrast, so-called special factors in the previous year caused the unadjusted result to rise by €7.2 million. The consolidated EBITDA, adjusted for extraordinary expenditures and income, gives a better perspective of the Group's performance capability: during the past fiscal year, this indicator rose by 13.2% or €5.8 million to €49.3 million (2009: €43.5m). The EBITDA forecast, which had been raised in November, was exceeded. The consolidated profit declined, primarily as a consequence of the non liquidity related attribution of the previous year on our holding in freenet, by €70.2 million (2009: €101.2m) to €31.0 million, and profit per share came to €0.58 (2009: €1.98). Owing to the continued high level of cash flow, the net financing liabilities were reduced by 44.2% to €29.3 million (2009: €52.6m).

In view of this positive development, we are able to offer to our shareholders a reasonable and attractive return on their capital. That is why we will, with the approval of the Advisory Board, propose a dividend of €0.50 per share for the past fiscal year 2010 at the upcoming Annual General Meeting; this proposal follows the dividend of €0.30 per share in the previous year.

Letter from the Management Board

Even after the financial and economic crisis, the telecommunications industry remains one of the driving forces behind economic growth in Germany. The dynamics of the wireless services market is an especially vital contributor to this growth, a fact confirmed by a recent market study issued by VATM and Dialog Consult in November 2010. One of the most important trends – mobile Internet usage – is still at the beginning of its development and is far from having exhausted its potential. The increasing popularity of mobile Internet applications is causing a sustained rise in data volume. According to calculations of BITKOM, the data volume transmitted in German wireless services networks last year more than doubled to 70 million gigabytes. This quantity corresponds to the content of about 15 million DVDs. Growth of data traffic on the Internet will continue to evolve dynamically in the coming years. Today, about 1.4 terabits per second flow through the largest German Internet node DE-CIX. Only one year ago, the data traffic was still 700 gigabits. The DE-CIX operators forecast an increase in data traffic on the Internet by twenty times by the year 2015.

The Internet association also determined in its "Mobile Monitor" in December 2010 that fast transmission speeds are a major point which will cause the data sector to grow dynamically in the coming years as well.

According to a study conducted by the market research institute tns Infratest in the middle of 2010, 40% of all mobile phone owners now have a smartphone, and 21% surf the Internet while on the go, corresponding to 3% growth over the previous year. However, the tns study also indicates that the potential is far from exhausted. As we continue to seek to exploit actively the opportunities presented to our Company, we offer simple and attractive products featuring predictable prices and are present in this growth segment with the right service and product for every user profile.

We wish to thank expressly our employees for their commitment and their performance because reliable cooperation in a spirit of trust both in and outside of the Company is very important for economic success. We also want to express our sincere thanks for the trust which our shareholders, customers and business partners have displayed to us.

Warmest regards from Maintal.

Paschalis Choulidis and Vlasios Choulidis

Report of the Supervisory Board

Dear Sir or Madam,

During fiscal year 2010, the Supervisory Board diligently performed the duties required of its members by law and Company Charter. We continuously advised the Management Board in significant questions concerning the management of the Company and monitored activities to satisfy ourselves of the proper management of the firm. The Supervisory Board was involved in all of the decisions of fundamental significance for the Company directly and in good time.

Dr. Hartmut Schenk
Business graduate, tax consultant, Saarbrücken. Chairman of the Supervisory Board of Drillisch AG.

The Supervisory Board obtained regular information – in both written and oral form – from the Management Board, contemporaneously and comprehensively, concerning the course of business events, the position of the Company and any and all questions of corporate planning and strategic further development. Our special attention was given to the risk situation and risk management. The strategic positioning of the Company on the market was another focus of our consultations.

Based on the reports from the Management Board, we thoroughly discussed all of the business transactions of essential importance during the Supervisory Board meetings. Whenever required by legal or Company Charter regulations, we voted on the resolution proposals submitted by the Management Board after thorough review and discussion.

A total of seven Supervisory Board meetings were held as live meetings during fiscal year 2010. These meetings were held on 24 March, 11 May, 28 May, 29 June, 30 June, 11 August and 10 November. In addition, the Supervisory Board dealt with current and urgent matters outside of the live meetings by electronic means or by means of a written consent procedure in lieu of a meeting in a total of nine cases, employing this procedure for the adoption of resolutions as needed. All of the Supervisory Board members participated in at least half of the Board meetings. Average attendance was 90%.

Supervisory Board activities in the past fiscal year focused on the following topics:

- Withdrawal of United Internet AG from MSP Holding GmbH
- Closure of the Drillisch Telecom GmbH branch in Idstein
- Strategies and activities related to the holdings in freenet AG
- Financing of the Company
- Strategic positioning of the company
- IT secureness including data security and data protection
- Legal dispute with VS GmbH

Moreover, the development of turnover and profits, the development of the number of subscribers and the tax circumstances and the financial position of the Company and of the Group were the subject of regular discussions. Furthermore, we discussed the effects of current legal developments and our risk management system in joint meetings with the Management Board.

The Supervisory Board also received regular, detailed information about ongoing developments as well as about all projects and plans which were of special significance for the Company in the form of monthly reports and special information between the actual meetings. Besides the intensive work together as a full group, my fellow members of the Supervisory Board and I had regular contact with the Management Board outside of the meetings. At such times, we obtained information about current business development and the major business transactions.

Report of the Supervisory Board

None of the Management and Supervisory Board members were confronted with conflicts of interest which must be disclosed immediately to the Supervisory Board and reported to the Annual General Meeting.

During the reporting period, the Supervisory Board did not act on the opportunity to view the ledgers and correspondence of the Company or to engage special experts for specific tasks (Section 111 (2) AktG (German Company Law)); actions of this nature did not appear necessary or meaningful due to the regular and intensive reporting from the Management Board and the supplementary supervisory measures described above.

The Supervisory Board closely observed the further development of the corporate governance standards. The Management Board reported on the corporate governance in a separate section of the Annual Report, which was also directed to the Supervisory Board. We have conducted detailed discussions with the Management Board regarding the implementation of the recommendations and suggestions of the German Corporate Governance Code at Drillisch. The Supervisory Board and Management Board issued a joint, updated Declaration of Conformity in accordance with Section 161 AktG on 15 March 2010. We looked closely at the amendments to the Code adopted by the Government Commission German Corporate Governance Code during its meeting on 26 May 2010 in our Supervisory Board meeting on 11 August 2010. Management and Supervisory Boards submitted an updated Declaration of Conformity in accordance with Section 161 AktG on 15 March 2011 and made it permanently accessible to our shareholders on the Company's website.

The Supervisory Board currently maintains three committees: the Audit Committee, the Personnel Committee and the Nomination Committee.

The Audit Committee, comprising the members Mr Weindl (chairperson), Dr Lennertz and Dr Schenk, met once, on 10 November 2010, during fiscal year 2010; the meeting focused in particular on the major points during the audit of annual accounts and on the engagement, independence and fee payment of the auditor. The balance sheet meeting was held in conjunction with the meeting of the full Supervisory Board, as were the consultations on the quarterly accounts; all of these discussions took place in live meetings.

The Nomination Committee, to which all of the Supervisory Board members belong, met once in 2010. In its meeting on 24 March 2010, the Nomination Committee adopted a resolution containing a recommendation addressed to the Supervisory Board that Dr Bernd Schmidt be nominated for election to the Drillisch AG Supervisory Board by the Annual General Meeting on 28 May 2010.

The Personnel Committee with Dr Schenk (chairperson), Mr Müller-Berg and Dr Lennertz met once in 2010, on 10 November 2010; the subject of the meeting was the revision and extension of the service contracts for the Management Board.

The consolidated annual accounts, the consolidated management report and the annual accounts and management report for fiscal year 2010 were audited by the BDO AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, designated by the Annual General Meeting to be the auditor for the annual accounts and consolidated annual accounts and engaged by the Supervisory Board to perform the audit, and were each certified by the issue of an unqualified auditor's opinion. The annual accounts per 31 December 2010 and the management report were prepared in accordance with the statutes of the German Commercial Code (HGB), the consolidated annual accounts per 31 December 2010 and the consolidated management report were prepared in accordance with Section 315a HGB on the basis of the international accounting standards IFRS as they are to be applied in the European Union.

The audit reports were sent to all of the Supervisory Board members in good time. The reports were the subject of intensive discussions in the Supervisory Board meeting on 24 March 2011. The auditor took part in the Supervisory Board meeting, reported on the major results of the audit and was available to the Supervisory Board to answer questions and provide supplementary information. The Supervisory Board carefully examined the annual accounts, the consolidated annual accounts, the management report and the consolidated management report as well as the proposal for the appropriation of the retained earnings.

Report of the Supervisory Board

Focal points of the examination were once again the estimates of the investment book values and the goodwill as well as the values of the investment in MSP Holding GmbH and of the stock in freenet AG held directly; other points were the implementation of the changes required by the BilMoG (German Accounting Law Modification Act) and the impact of the closure of the Idstein site on the accounting.

After concluding its examination, the Supervisory Board did not raise any objections; the Supervisory Board accepted the conclusions reached by the auditor and is in full agreement with the content. During its meeting on 24 March 2011, the Supervisory Board approved the annual accounts and consolidated annual accounts for fiscal year 2010; the annual accounts for Drillisch AG have thus been adopted.

After conducting its own review, the Supervisory Board accepted the Management Board's proposals for the appropriation of the retained earnings.

Nico Forster, who had been a member of the Supervisory Board for many years, died on 16 February 2010. The Annual General Meeting elected Dr Bernd Schmidt to be his successor on the Drillisch AG Supervisory Board on 28 May 2010.

The Supervisory Board wishes to thank the Management Board for its work and its successful business activities in 2010. At the same time, the Supervisory Board wishes to express to all of the employees of the Group its appreciation for their work during the reporting period and their contributions to the success of the corporation.

Maintal, 24 March 2011

On behalf of the Supervisory Board

Dr Hartmut Schenk

Statement on Corporate Governance

The term "corporate governance" refers to responsible, effective corporate management aimed at securing long-term added value. Efficient cooperation between management and supervisory boards, respect for shareholders' interests, openness and transparency of corporate communications are major aspects of good corporate governance. It has always enjoyed a position of high priority at Drillisch and is a major factor for a company's success.

In the following declaration, the Management Board – simultaneously on behalf of the Supervisory Board – reports on the corporate governance of the Company in accordance with Clause 3.10 of the German Corporate Governance Codex as well as in accordance with Section 289a HGB (German Commercial Code) regarding corporate management.

Declaration of Conformity Pursuant to Section 161 AktG (Germany Company Law)

The current Declaration of Conformity issued by the Management Board and Supervisory Board on 15/03/2011 and which has been made permanently accessible on the Internet at the site www.drillisch.de (to be found there under the section "Corporate Governance", subsection "Declaration of Conformity"), reads as follows:

Drillisch Aktiengesellschaft
Declaration of the Management Board and Supervisory Board of Drillisch AG Regarding the Recommendations of the "Government Commission German Corporate Governance Codex"
Pursuant to Section 161 AktG

Management Board and Supervisory Board of Drillisch AG hereby declare that the Company has been and is in conformity with the recommendations of the "Government Commission German Corporate Governance Codex" announced by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, subject to the following exceptions. This Declaration is issued in accordance with the version of the Codex of 18 June 2009 for the period from 16 March 2010 to 01 July 2010. This Declaration is issued in accordance with the version of the Codex of 26 May 2010 for the period since 02 July 2010.

Clause 2.3.3 (2) Concerning support of the shareholders in postal vote procedures

The Company's Charter does not provide for a postal vote procedure. The Management and Supervisory Boards have refrained from submitting a proposal to amend the Charter accordingly to the Annual General Meeting because they want to take into consideration the developments and experience of other issuers listed on the stock exchanges. Moreover, Management and Supervisory Boards have not been able to determine that shareholders would thereby gain any advantages in the exercise of their rights over the proxy rights subject to instruction currently offered by the Company.

Clause 3.8 (3) Concerning the distribution of any and all convocation documents by electronic means in the past. It has previously been possible to request copies of all of the convocation documents solely in paper form.

The Company has concluded a liability insurance policy covering pecuniary loss for the Supervisory Board which at this time does not include an excess. In the opinion of the Management Board and Supervisory Board at Drillisch AG, there is a risk that the agreement of an excess for negligent actions and the related liability risks would counteract the efforts of Drillisch AG to obtain the services of highly qualified persons to serve on the Supervisory Board. This is the reason for the decision not to agree to an excess. At this time, there is no legal obligation to provide for an excess in a D&O insurance policy for the Supervisory Board.

Clause 4.2.5 (1) Concerning the disclosure in the compensation report of the total compensation paid to each Management Board member, broken down according to fixed and variable compensation components and designated by name, and the commitment for benefits granted to a Management Board member in the event of his/her premature or regular resignation from the Management Board or commitments modified during the fiscal year.

Statement on Corporate Governance

The compensation comprises fixed and variable components. The variable components are shown as a lump sum in the total compensation. There is no stock option programme. Management Board compensation payments are not itemised according to the individual members. The Management Board and Supervisory Board are of the opinion that this disclosure satisfies the legitimate interest of the shareholders in information in a reasonable and satisfactory manner. In other respects, the itemised disclosure is expressly subject to the reservation of a deviation resolution adopted by the Annual General Meeting. On 26 May 2006, the Annual General Meeting adopted a resolution with the required majority pursuant to Section 286 (5) (1), Section 314 (2) (2) HGB (German Commercial Code) waiving the requirement, contained at that time in Section 285 (9) lit. a) Sentence 5 to 9 and Section 314 (1) (6) lit. a) Sentence 5 to 9 HGB (today Section 285 (9) lit. a) Sentence 5 to 8 and Section 314 (1) (6) lit. a) Sentence 5 to 8 HGB), to disclose information about the compensation paid to each individual Management Board member and the benefits promised or granted to him/her in the annual accounts and consolidated annual accounts for fiscal years 2006 to and including 2010.

Clause 5.4.1 (2) and (3) Concerning the specification of concrete objectives by the Supervisory Board for its composition which, while taking account of the company's specific situation, give due consideration to the international activities of the company, potential conflicts of interest, the definition of a maximum age for Supervisory Board members and its diversity and provide for an appropriate number of women members; concerning the implementation of these objectives in the proposals submitted by the Supervisory Board to the responsible election committees; and concerning the publication of the Supervisory Board's objectives and the status of their realisation in the corporate governance report.

The Supervisory board has not previously established, and will in the future not establish, concrete objectives for its composition in consideration of diversity and an appropriate number of women members. The Supervisory Board is of the opinion that restrictions of this nature are irrelevant in comparison with other criteria for the nomination of candidates for election to the Supervisory Board and wishes to make its decisions related to proposals for its composition specifically in each concrete situation.

Clause 5.4.6 (1) (3) Concerning the inclusion of the chair of and the membership in committees in determining the compensation paid to Supervisory Board members.

The chair and the deputy chair positions on the Supervisory Board were given consideration in determining the compensation paid to Supervisory Board member, but not the chair of or membership in a committee. Supervisory Board activities as actually practised have shown that the committee meetings largely take place in close temporal and spatial proximity to the meetings of the Supervisory Board itself. The Management and Supervisory Boards are of the opinion that the assumption of a position on a committee is adequately compensated by the current compensation.

Clause 5.4.6 (2) Concerning the payment of compensation contingent on success to the Supervisory Board members.

Compensation payments to Supervisory Board members contingent on success were not provided in the previous version of the Charter. The Company’s Annual General Meeting adopted a resolution on 28 May 2010 amending the Charter in accordance with a recommendation of the German Corporate Governance Codex and providing a variable component, oriented to the Company’s success, of the compensation paid to the Supervisory Board members in addition to the fixed compensation, beginning in fiscal year 2010. The amendment to the Charter was entered in the Commercial Register for the Company on 14 July 2010 so that the Company is now in compliance with this recommendation of the German Corporate Governance Codex.

Statement on Corporate Governance

Clause 5.4.6 (3) Concerning the itemised disclosure of Supervisory Board compensation, broken down according to components, in the Corporate Governance Report.

Just as for Management Board members, there is no itemised disclosure of the Supervisory Board member compensation. The amount of compensation paid to Supervisory Board members can be determined on the basis of Section 14 of the Drillisch AG Company Charter. In the estimation of the Management and Supervisory Boards, the figures disclosed in compliance with statutory requirements provide satisfactory information to our shareholders and the general public.

Maintal, 15 March 2011

On behalf of the Supervisory Board	The Management Board	
Dr. Hartmut Schenk	Paschalis Choulidis	Vlasios Choulidis

Working Methods of Management Board and Supervisory Board

The corporate management is based on close, constructive cooperation in a spirit of trust between Management and Supervisory Boards as well as an intensive and constant flow of information – this is in line with the common understanding of good corporate governance held by Management and Supervisory Boards at Drillisch.

The current Management Board has two members. They manage the Company on their own responsibility and define, in consultation with the Supervisory Board, the strategic direction of the Drillisch Group. The distribution of authority on the Management Board is regulated in rules of procedure. Fundamentally, each member of the Management Board manages the business units of the Company assigned to him by the rules of procedure on his sole authority. Measures of special significance or which involve unusual risks always require the prior agreement of the entire Management Board. The rules of procedure contain in addition a catalogue of the major transactions and events which require approval by the Supervisory Board. The Management Board regularly and contemporaneously notifies the Supervisory Board in written and oral form about the course of business, the position and profitability of the Group, the planned business policies and other fundamental issues of corporate planning as well as about transactions which may be of major significance for the profitability or liquidity of the Group. Moreover, the Management Board reports to the chairperson of the Supervisory Board as required by other important events.

As required by statutory provisions, the Supervisory Board comprises six representatives who are elected solely and exclusively by the shareholders. Five of the current Supervisory Board members were elected by the Company's Annual General Meeting on 30 May 2008; one current member was elected by the Annual General Meeting on 28 May 2010. The term of office of all six Supervisory Board members ends at the time of the Annual General Meeting 2013. The Board has a sufficient number of members who are independent within the sense of Clause 5.4.2 of the German Corporate Governance Codex, i.e. who do not have any business or personal relationships to the Company or its Management Board. The Supervisory Board carries out its duties as a supervisory body both by monitoring the Management Board and advising the latter's members in the conduct of business. The Supervisory Board meets at least twice in every six-month period of a calendar year. It is quorate if and when announcements have been properly sent to all of the members and a minimum of three members participate in the adoption of resolutions. Unless otherwise provided by law or company charter, the Supervisory Board's decisions are made by simple majority vote. The Supervisory Board's working methods are regulated in detail in rules of procedure adopted by the Supervisory Board. The Supervisory Board reports on the Board's work in a separate Supervisory Board report. This report is printed on pages 6 to 8 of the Annual Report for fiscal year 2010. The names, professions and domiciles of the current Supervisory Board members and their membership on other supervisory boards formed in accordance with legal requirements and on comparable domestic and foreign governing bodies of commercial enterprises are listed on page 78 of the consolidated notes.

Statement on Corporate Governance

Work Methods and Composition of the Committees

The Supervisory Board has formed three committees, namely, a Nomination Committee, an Audit Committee and a Personnel Committee. Unless otherwise mandated by legal provisions, the provisions of the company charter applicable to the Supervisory Board as well as the Supervisory Board's rules of procedure apply mutatis mutandis to the committees.

The Nominating Committee comprises all of the members of the Supervisory Board, chaired by the Supervisory Board chairperson, and is responsible for proposing suitable candidates to the Supervisory Board for the latter's candidate proposals to the Annual General Meeting.

The Audit Committee consists of Mr Weindl (Chairperson), Mr Brucherseifer and Dr Lennertz and is concerned in particular with the monitoring of the accounting process, the effectiveness of the internal controlling system, the internal risk management system, the internal auditing system and the final audit. The chairperson of the Audit Committee is independent and is qualified as an authority in the fields of accounting and final audits.

The members of the Personnel Committee are Dr Schenk (chair), Dr Lennertz and Mr Müller-Berg. The Personnel Committee is concerned with the affairs of the Management Board, including the terms and conditions of their employment contracts. The compensation for the Management Board members is determined by the Supervisory Board acting in its entirety as required by statutory provisions.

Since there are only two members of the Management Board, it has not formed any committees.

Information Regarding Corporate Management Practices Within the Sense of Section 289a (2) (2) HGB

Drillisch AG regards the legal requirements for corporate management to be adequate. Consequently, there are no further relevant corporate management practices within the sense of Section 289a (2) (2) HGB at Drillisch AG.

Additional Information on Corporate Governance

Risk Management

If the Company's success is to be assured over the long term, it is essential to identify and analyse the risks of business actions effectively and to eliminate or restrict their effects by means of the appropriate steering mechanisms. The risk management system at Drillisch ensures the responsible handling of these risks. It is especially designed with the aim of recognising risks early, then assessing and controlling them. The system is subject to constant further development and adapted as necessary to changing circumstances. As necessary, the Management Board regularly reports to the Supervisory Board regarding current risks and the measures initiated to handle them. The effectiveness of the internal risk management system is monitored by the Supervisory Board's Audit Committee.

The major features of the internal controlling and risk management system with regard to the accounting process are described in detail in the management report pursuant to Section 289 (5) HGB and in the consolidated management report (page 36 of the Annual Report 2010) pursuant to Section 315 (2) HGB. The Management Board also reports in detail in this document on current risks and their development.

Statement on Corporate Governance

Compensation of Management Board and Supervisory Board

The compensation paid to members of the Management and Supervisory Boards is commensurate with their tasks and the responsibility which has been assigned to them. The compensation system and the compensation paid to Management Board and Supervisory Board in fiscal year 2010 are shown in the management report and notes and in the consolidated management report on page 40 of the Annual Report 2010 (compensation report) and in the consolidated notes on page 79, Point 36, of the Annual Report.

Stock Transactions and Holdings of Officers and Directors

According to Section 15a WpHG (German Securities Trade Act), officers and directors of the Company and people with management tasks must disclose the purchase and sale of Drillisch AG stock to the Company. Drillisch AG was notified of the following purchase and sales transactions, which in accordance with Clause 6.6 of the German Corporate Governance Codex must be reported in the Corporate Governance Report, during fiscal year 2010.

Directors' Dealings in 2010

Date	Transaction Type	Shares	Price/Euro	Reporting Person
13 August	Purchase	58,875	5.026	SP GmbH
27 August	Purchase	13,000	4.990	MV GmbH
14 September	Purchase	7,136	5.240	MV GmbH
15 September	Purchase	3,524	5.290	MV GmbH

The number of Drillisch shares held by the individual officers and directors is shown on pages 79 and 80, Point 37, of the consolidated notes.

Investor Relations Report

The Drillisch Stock – Key Data

Description	Characteristic value
Security Identification Number	554 550
ISIN	DE0005545503
Stock abbreviation	DRI
Initial listing	22 April 1998
Listed on	Prime Standard
Index	Technology All Share / TecDAX
Class	No-par shares issued to bearer
Number of shares	53,189,015
Share capital as per 31/12/2010	€ 58,507,916.50
Year-end closing price on 30/12/2010	€ 6.10 (Xetra)
Highest price on 29/12/2010	€ 6.25 (Xetra)
Lowest price on 02/07/2010	€ 4.21 (Xetra
Average of traded stock (shares) on Xetra	273,322/day (previous year: 313,387)
Designated Sponsors	Close Brothers Seydler Bank AG

The Stock Market Year 2010 – Scepticism at the Beginning, But a Good End at Closing

In 2010, the DAX rose by 16.1% or 956.76 points to 6,914.19 points (2009: 5,957.43), while the TecDAX improved by 33.09 points or 4.0% to 850.67 points (2009: 817.58).

No one could have foreseen at the beginning of the year that the capital markets would enjoy such a positive development. Fears of further destabilisation of the financial markets and the scepticism that greeted companies' forecasts led to substantial declines in stock prices during the first two months. This bearish attitude on the capital markets continued throughout the first half of the year with the consequence that some of the stock market indices suffered very high losses as of 30 June 2010. During the second half of the year, the stock exchanges began a rapid upswing which was carried by the continued low level of interest rates and the steadily improving reports from companies.

The Drillisch Stock: Establishment on TecDAX and Improved Ratings

The performance of the Drillisch stock during the stock market year in comparison with the indices:

	Close-out 2009	Close-out 2010	% change
Drillisch	€ 5.05	€ 6.10	+ 20.8
TecDAX	817.58	850.67	+ 4.0
TecAllShare	932.93	1,017.33	+ 9.0

Although the stock price fluctuated at the beginning of 2010, the Drillisch stock developed significantly better than the market as a whole over the further course of the year. The close-out price for the year came to €6.10, a plus of 20.8% or €1.05. As a daily average, 273,322 shares of Drillisch stock (2009: 313,387; 2008: 130,741) were traded on Xetra. As of the end of the year, the Drillisch stock improved on the TecDAX in the criteria stock exchange turnover and free float market capitalisation to 17th place (previous year: 20th place) and 20th place (previous year: 21st place), respectively.

Investor Relations Report

Corporate Strategy and Attractive Dividend Policy

The corporate strategy with the focus on the discount market, the sector "mobile Internet" and the sustained development of company value is supported by organic growth. Drillisch AG reduced its financial liabilities even further during the past year. The loan agreement which would have expired in April 2011 was replaced by a new, more flexible loan agreement in the fourth quarter of 2010.

The Company acknowledged the improved earnings situation by issuing an early dividend statement. Very early in the year – in the ad hoc report on 09 March 2010 – the Drillisch AG Management Board published a dividend proposal for the previous fiscal year. A dividend for fiscal year 2009 in the amount of €0.30 per share was distributed to the shareholders in May 2010. An attractive distribution is planned for the subsequent years as well. The implementation of this strategy is contingent upon Drillisch AG being able to report the corresponding balance sheet profit in its financial statements prepared under commercial law for the respective fiscal years and upon the responsible boards adopting the corresponding resolutions, bearing in mind the current situation of the Company at each respective point in time.

Investor Relations

Drillisch AG continued to stress one of its core tasks – the maintenance of an intensive dialogue with the capital market – during the past year. The Company follows a policy of open and frank communication with all sectors of the capital market so that all of the shareholders are notified of important developments in the same manner and without discrimination. We were able to explain in detail the corporate strategy of Drillisch AG to the capital market at a number of national and international road shows, during a number of meetings at the Company headquarters in Maintal, at various Company presentations and in interviews.

Drillisch AG consistently fulfilled the high standards for complete and contemporaneous information to all investors at all times during 2010. The Company is also happy and willing to consider suggestions from stockholders.

Investor Relations Events 2010

Date	Event
21 May	German & Austrian Corporate Conference, Deutsche Bank, Frankfurt
08 September	Tech/Telco Day, West LB, London
16 November	Corporate Day, Commerzbank, London

In addition to these and other road shows, telephone conferences, personal discussions and one-on-one meetings were held at the Company's headquarters in Maintal and other sites.

IR Goals 2011

In the new year, one of the most important goals will remain the securing of a commensurate rating for the Drillisch stock and simultaneously the reduction of its volatility. Open, non-discriminating and sustained communication with all of the target groups is given high priority so that this objective is achieved.

The continuing work of the Investor Relations Department can be followed and tracked equally by all investor groups on the Drillisch AG home page. In addition to a detailed financial calendar, all of the relevant reports can be viewed, in the sense of fair disclosure, as PDF documents. Many investors also take advantage of the opportunity for personal contact via e-mail and/or telephone.

Investor Relations Report

Latest Analyst Assessments 2010/2011 (as per 31 January 2010)

Institute	Investment Rating	Price Target	Date
West LB	„Buy“	€ 7.09	11 January 2011
Warburg Research	„Buy“	€ 6.60	25 November 2010
Commerzbank	„Buy“	€ 6.80	15 November 2010
Kepler Capital Markets	„Buy“	€ 7.00	12 November 2010
Hauck & Aufhäuser	„Buy“	€ 7.80	11 November 2010
LBBW	„Buy“	€ 7.00	21 October 2010

Drillisch vs. TecDAX (as per 31 December 2010)

Source: Copyright 2011 Bloomberg Finance L.P.

Investor Relations Report

Directors' Holdings as per 31 December 2010

Company	No-par Shares
MV GmbH	1,840,000 ➡ 3.46 Prozent
SP GmbH	1,950,000 ➡ 3.67 Prozent
Supervisory Board	**No-par Shares**
Dr Hartmut Schenk (Chair)	5,000 ➡ 0.01 Prozent
Johann Weindl (Deputy Chair)	7,439 ➡ 0.01 Prozent
Marc Brucherseifer	3,909,295 ➡ 7.35 Prozent
Dr Horst Lennertz	0
Michael Müller-Berg	0
Dr Bernd Schmidt	0

Ad-hoc Reports 2010

Date	Report
10 November	Substantial increase in earning power in the first nine months – EBITDA forecast 2010 raised by an additional €2m to €48m (+10.3% in comparison with PY: €43.5m)
11 August	Best results in company history: turnover +9.0% to €177.0m (PY: €162.4m); EBITDA +8.8% to €23.0m (PY: €21.2m); subscribers +3.1% to 2.290m (H1 2009: 2.221m)
28 April	Dynamic start to 2010; turnover +8.7% to €84.6m (PY: €77.8m); EBITDA +13.0% to €11.0m (PY: €9.7m)
09 March	Dividend proposal for 2009 €0.30 per share
10 February	The provisional consolidated profit comes to €101.3m (PY: -€184.1m); EBITDA €50.7M (PY: €40.6m); profit/share €1.98 (PY: -€3.58)

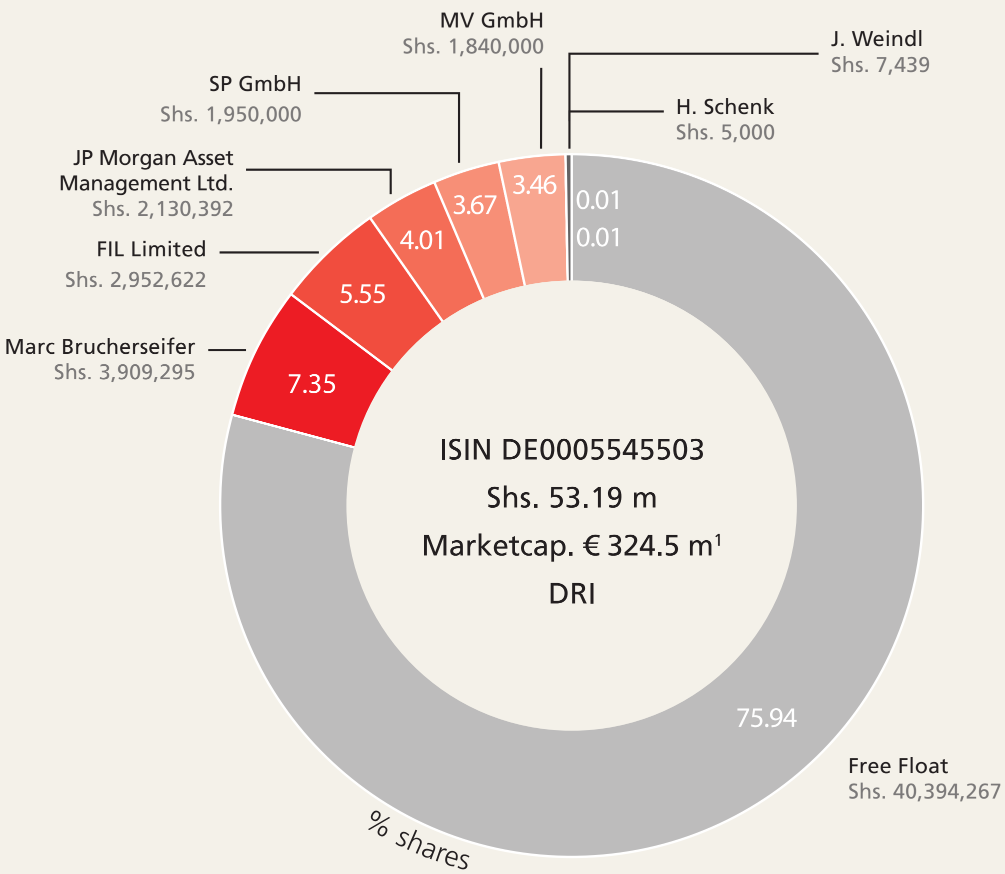
Financial Dates 2011*

Date	Topic
Friday, 25 March	Annual Report 2010
Thursday, 12 May	1st quarter report 2011
Friday, 27 May	Annual General Meeting
Friday, 12 August	Semi-annual Report 2011
Friday, 11 November	3rd quarter report 2011
November	DVFA Analyst Event

* Subject to change

Investor Relations Report

Shareholder Structure of Drillisch AG (Last revised 31 December 2010)



Source: Disclosures by the corporations pursuant to sections 21 ff German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) and unless the company was not informed of a more recent figure.

1) On the basis of the XETRA closing price €6.10 on 30 December 2010. Free Float acc. to the rule of Dt. Boerse AG: 92.65%.

THE DRILLISCH GROUP AND THE MARKET ENVIRONMENT

Profitable growth with innovative products

Drillisch AG has succeeded in increasing long-term company value on a wireless services market characterised by intense competition. This is expressed in the KPI so important for our industry, the EBITDA (earnings before interest, taxes, depreciation and amortisation). Drillisch AG has been quick to pick up on major trends and to play an active role in their further development for many years – as was the case on the booming smartphone market in 2010. The brands of our subsidiaries have a successful presence on the market, featuring service-oriented products as well as simple and transparent rate plans. The most important factors for our success here, besides our innovative products, are lean cost structures, experienced management and employees ready to perform.

Sales in wireless services again on the increase after years of decline

Following the financial and economic crisis, the telecommunications industry remains one of the driving forces behind economic growth in Germany. The dynamics of the wireless services market is an especially vital contributor to this growth. A recent market study from VATM and Dialog Consult in November 2010 documents that an increase in sales of just under one per cent to €24.3 billion was achieved in 2010. More and more people are reaching more and more often for their mobile phones, causing call volume to rise by three per cent to 258 million minutes a day. According to an assessment by the industry federation BITKOM, half of German consumers can no longer imagine life without a mobile phone. A survey conducted by the market and social research institute infas within the framework of the so-called Telecommunications Monitor in August 2010 revealed that 13% do not use landline networks at all for their phone calls at home. Many of these “mobile only” consumers use a mobile phone with e-mail and Internet capability or access a UMTS connection with their laptops.

Phoning costs decline again in 2010 and surfing on mobile phones gains in acceptance

As an average for 2010, the costs for phone calls from mobiles fell by 2.8% in comparison with 2009. The prices for mobile data services on mobile phones declined as well as the simple minute prices for phone calls, but the acceptance of these services simultaneously increased at an above-average rate. The non-voice share of sales in wireless services increased year-on-year by 1.5 percentage points to 28.5% in 2010. More than half of this turnover (15.9%) came from data transmission (2009: 13.9%).

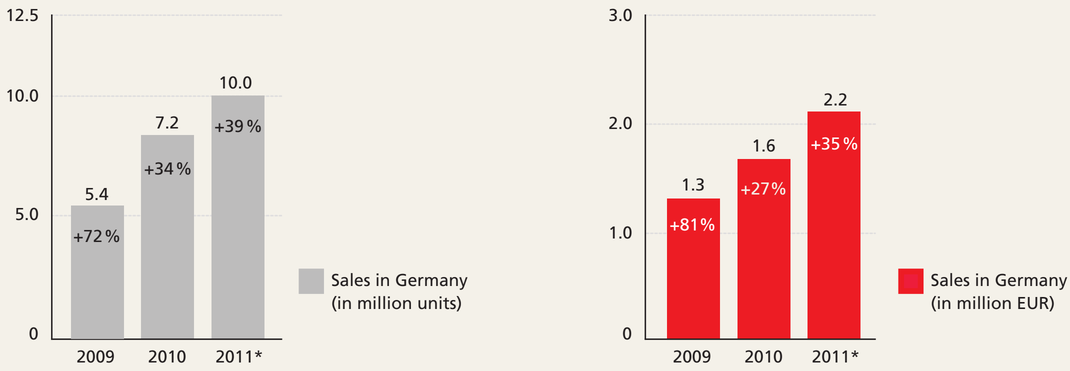
Surfing on smartphones and notebooks has become more popular than ever before. As confirmed in a statement issued by the Bundesverband Digitale Wirtschaft (BVDW) in February 2011, the Internet for mobile end devices is becoming faster and faster, and mobile Internet has become well established in the meantime thanks to attractive end devices and low prices. The Internet association also determined in its “Mobile Monitor” in December 2010 that fast transmission speeds are a major point which will cause the data sector to grow dynamically in the coming years as well.

Smartphones and tablet computers driving the mobile Internet

More evidence of the increasing usage of mobile Internet: estimates by the corporate consultancy Deloitte & Touche from January 2011 indicate that there is at least one so-called smartphone – a multimedia mobile phone ideally suited for mobile Internet use because of its large touch screen, powerful processor and operating system optimised for the Internet – in one out of four households in Germany. Within a single year, the number of mobile phones with computer functions in Germany has doubled. And the boom continues: the BITKOM estimates that smartphone sales in Germany in 2011 will increase to 10.1 million units (2009: 7.4 million units). In the meantime, one out of every three mobile phones sold is a smartphone. A forecast by BITKOM published in a press release on 07 February 2011 predicts that the turnover with these devices in Germany will rise by 24% to €2.1 billion.

Mobile Internet usage continues to grow – but potential is far from exhausted

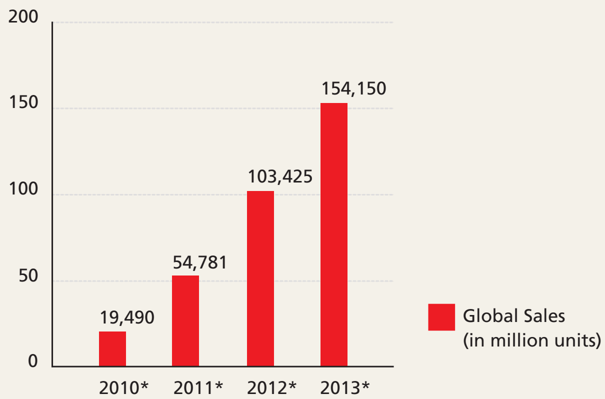
Smartphone Sales reached 10 million



Source: BITKOM, EITO, IDATE * Forecasting

In the opinion of the high-tech association, the success of portable computers will give an additional push to mobile Internet usage. Where compact, small netbooks – mini-laptops with fold-down screens – dominated the market in recent years, they will be replaced in the future by tablet PCs with touch screens. The pioneer in this field is the US company Apple, which introduced the first successful device of the latest generation, the iPad, to the market about one year ago. At the CES trade fair for entertainment electronics (Consumer Electronic Show) in Las Vegas at the beginning of 2011, numerous companies exhibited new devices featuring differing operating concepts and various operating systems – tablet computers were the trendy topic of the fair. As additional providers enter the market, the diversity of the segment as well as turnover will grow. The analysts at Gartner predict a trebling of the sales of tablet PCs by 2013, while the market researchers from IHS iSuppli expect twelve times as many tablets as today to be sold by 2015. Thanks to the larger screen in comparison with smartphones, tablet PCs are even more suitable for mobile surfing, reading e-mails or applications demanding high data volume such as video streaming. Most tablet PCs contain a UMTS modem as standard equipment and require only a wireless services card with a data plan to enable users access to the Internet from virtually anywhere.

Global Sales of Media Tablets in the years 2010 until 2013

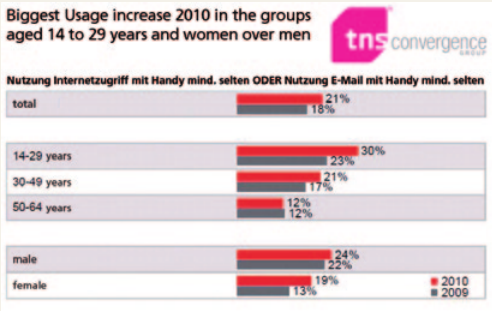


Source: Gartner, © Statista 2010 * Forecasting

Boom on the mobile Internet – data traffic and turnover from mobile data services on the rise

Mobile Internet usage continues to grow – but potential is far from exhausted

A study by the market research institute tns Infratest from the middle of 2010 reveals that 40% of all mobile phone owners already have a smartphone. Moreover, it also shows that 21% of the wireless services users surf on the Internet with their mobile phones, a year-on-year increase of 3%. Mobile Internet usage is related in particular to e-mail and surfing on the Internet, but also includes typical applications from the so-called "Web 2.0". As smartphones become more and more powerful, mobile usage of profiles in social networks or picture and video platforms is becoming more common. At the moment, 17% of the mobile users utilise the e-mail function of their mobile phones, while 13% visit websites on the Internet. However, the tns study also indicates that the potential is far from exhausted. Although 33% of the smartphone owners know that their mobile phones are Internet-capable, fewer than half of them make use of these functions. The situation is similar when it comes to retrieving e-mails: 38% could use their mobiles for this purpose, but fewer than half actually do so. In the past, concerns about costs being too high or too unpredictable were one of the reasons for consumers' reservations. With its simple and attractive products and predictable prices, the Drillisch Group has the right offer for every user profile so that everyone can always enjoy mobile communications while on the go without any worries.

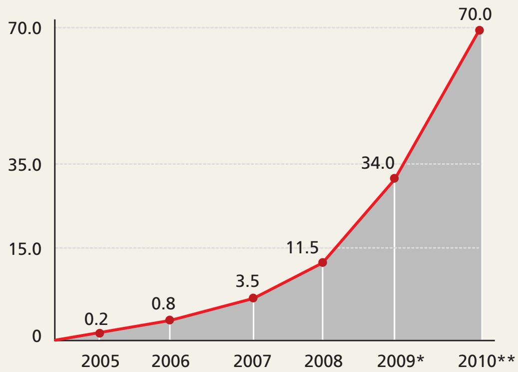


Data traffic rises steadily

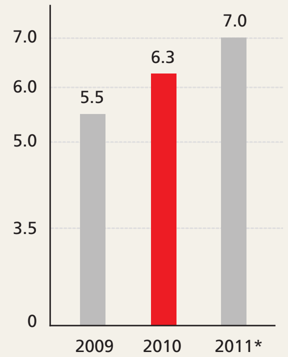
The increasing popularity of mobile Internet applications is causing a sustained rise in data volume. According to calculations of BITKOM, the data volume transmitted in German wireless services networks last year more than doubled to 70 million gigabytes. This quantity corresponds to the content of about 15 million DVDs. Growth of data traffic on the Internet will continue to evolve dynamically in the coming years. Today, about 1.4 terabits per second flow through the largest German Internet node DE-CIX. One year ago, the data quantity was only 700 gigabits, so the volume has doubled within the last twelve months. The DE-CIX operators forecast an increase in data traffic on the Internet by twenty times by the year 2015.

Mobile Internet developes fine

Data vol. in Germany
(in million GB)



Sales with mobile data services in Germany
(in bn EUR)



Source: BITKOM, EITO, IDATE

*Forecasting **Estimate

MARKETING REPORT

Drillisch stays with the continuing smartphone boom and extends its product lines to include mobile phone rates with data options

Drillisch launches smartphone rates for all distribution channels

Over the past six years, Drillisch has steadily evolved and expanded its market position in the rapid-growth segment of alternative rate plans. Following the start of the first discount brand simply, which launched the growth segment discount on the German market in 2005 and featured low rates per minute without basic fees or commitments to minimum contract periods, the brands McSIM (2006) and maXXim (2008) joined the product family. All of these brands are successfully established on the market.

helloMobil is the newest member of the Drillisch product family

February 2010 saw the start of helloMobil from Drillisch, the first smartphone rate plan. This new discount product is the first of its kind to combine in one rate plan both mobile phoning at discount rates with mobile phone surfing at no risk. The plan also represents the first time that Drillisch has realised a new discount product in close cooperation with a network operator. In addition to a simple rate for mobile phoning (8 eurocents to all networks and for every text message) and low costs for mobile Internet, helloMobil customers profit from the high-performance mobile broadband network. During the introduction of this new brand, Drillisch simultaneously set off on new paths of customer communication. By focusing especially on low-cost mobile phone surfing, the Company addressed target groups with an affinity for the Internet via social networks such as "facebook" or the microblogging service "twitter"; thanks to the active community, these new communication channels were successfully utilised.

5 years of discount market: simply becomes clever and smart

Six years after the start of simply, Germany's first discount brand has grown up. As a consequence of the new, revised rate structure, simply has now become clever and smart. The two names designate the new smartphone rate simply clever, which features a standard rate of 8 eurocents, various data options ranging from 50 MB to 1 GB high-speed volume and, if desired, a landline network flat rate, and simply smart, the rate plan family featuring attractive iPhone packages at low prices. In making these changes to the brand simply, Drillisch has displayed an early response to the dynamic growth on the market for smartphones. In addition, the Company continues to market the 5GB data rate plan simply data, available for as low as €14.95 a month. During the Football World Cup, simply data also began offering a combination surf-TV stick with DVB-T support for only €89.00, enabling customers to watch football matches almost everywhere free of charge as well as to surf the Internet at low cost. Besides a selection of various USB sticks and data cards in all formats (e.g. MicroSIM) for today's mobile end devices, simply offers a lucrative iPad package which is significantly more advantageous than other offers on the market in terms of both the device price and the monthly costs.

Drillisch convinces consumers with competent service in the no-frills segment

Service pays off: maXXim is "Germany's most popular mobile discounter"

This was the result of a survey conducted by the major German comparison portal Verivox. Verivox interviewed about 13,000 consumers in June 2010 to determine their views on mobile network discounters offering prepaid rates. maXXim received the largest number of positive single ratings and came away as the overall winner, scoring 1.6 for the top position. Consumers ranked maXXim especially high in the categories "Transparency", "Service", "Intention to recommend to others", "Image" and "Provider assessment overall", so it left all of its competitors behind. maXXim's overall score of 1.5 in the category "Transparency" was the best of any. In this category, respondents rated the clarity of the rate plans and the understandability of the costs. As early as January 2010, TÜV Saarland recognised maXXim for its service and high level of customer satisfaction by awarding the discounter its seal of approval "Service tested" (score "Good", 1.78). And in December 2010, maXXim took second place in the service test conducted by the magazine connect among all of the discount providers. Testers praised in particular the reliable, competent and understandable answers sent by e-mail.

Yet another highlight: the customer service of simply Communication GmbH has been certified in accordance with the strict quality standard DIN EN ISO 9001:2008 since October 2008. This means that the brands simply, maXXim, ja! mobil, PENNY MOBIL and Weltbild Mobil are the first and only providers on the rapidly growing market of mobile discount providers to bear the ISO seal. During the audit, the quality management at simply Communication GmbH was examined especially closely in the sectors of online product marketing and customer service – both the call centre and back office – and certified. Moreover, simply scored well during an examination by the Deutsche Institut für Servicequalität (DISQ). simply took third place among all of the German wireless services providers, an outstanding result. The Drillisch Group can proudly point to all of these results as proof that low-cost mobile phone rates and good service in the discount sector are not mutually exclusive. Our strategy of providing consistent service and quality management in the discount segment has shown itself to be successful.

Mobile phone surfing inexpensively and safely with simply, maXXim, helloMobil, McSIM and Telco

In response to the continuing positive developments in the sale of smartphones and the growing acceptance of mobile Internet, Drillisch revamped the rate structures of all of the leading brands during the course of the year and now offers low-cost phone calls and mobile phone surfing without the risk of exploding costs on all distribution channels. In addition to the rate plan relaunch at simply, low-price data options for worry-free mobile Internet were added to the 8-eurocent mobile phone rates of maXXim and McSIM. Furthermore, a rate plan highlight aimed specifically at smartphone users was launched in the classic service provider business as well under the brand Telco. The new Telco All-In product family offers the opportunity to phone, text and surf on mobile phones for as little as €7.95 a month. The All-In packages with options for 50, 100 or 200 free minutes and 50 or 100 text messages are supplemented by Germany's lowest mobile flat rate for all networks – the Telco All-In Flat + Internet. This three-way flat rate – featuring calls to German landline networks and to all national wireless networks at no extra charge and including a genuine Internet flat rate – for only €27.90 a month clearly leaves comparable offers from DSL providers, discount chains and network operators far behind in its wake. This has been confirmed by a number of test victories and rate plan recommendations, e.g. first place in the monthly overview of the lowest mobile phone rate plans in the journal Computerbild (issues 1/2011, 2/2011 and 3/2011) in the category "Mobile Phone Flat Rates to All Networks and Internet Flat Rate" or its selection as "Least Expensive Flat Rate for Phone Calls to All Networks" by the online comparison portal Handyflatrate-Preisvergleich.de.

Drillisch creates innovative rate plans and expands cooperative ventures

Drillisch continues to expand its network of distribution and cooperation partners

New distribution channels are opening for the Drillisch AG discount segment through the cooperation with a well-known company in the book and media business. Weltbild Mobil has been offering a discount voice rate (minute/text message price: 8 eurocents) since March 2010. It is available from the Weltbild Group catalogue in selected book stores of the publisher and on the Internet site www.welbild-mobil.de and can be ordered by customers by letter, on the phone or online. Besides the book trade, Drillisch has entered yet another cooperative venture in the in the media sector. In the middle of March 2010, the "newstarif" was launched in collaboration with the Augsburger Allgemeine Zeitung and the sh:z Schleswig-Holsteinische Zeitungsverlag GmbH & Co. Subscribers to this rate plan phone for 9 eurocents a minute and surf the mobile portals of the publishers on their mobile phones at no charge. Readers receive reports about the latest events from around the world, local news and sports and weather information on their mobile phones at no cost.

Also new: within the framework of the service "Emergency Locating" provided by the Automobilclub von Deutschland (AvD), helloMobil offers club members the choice between a basic package or a full-service offer with mobile phone rate and a Nokia mobile phone at a special price. And maXXim has created the new mobile phone rate plan "sprich.billiger.de" for the well-known and popular price comparison portal billiger.de. What makes it so special: everyone who submits product evaluations for the products displayed at billiger.de is rewarded with 10 free minutes or 10 free text messages per evaluation. In entering these new cooperative ventures, Drillisch is steadfastly continuing its distribution strategy and creating additional sales channels to join retail grocers and book stores. These moves are opening up additional customer potential for the Company.

Drillisch demonstrates innovative strength with new rate plans

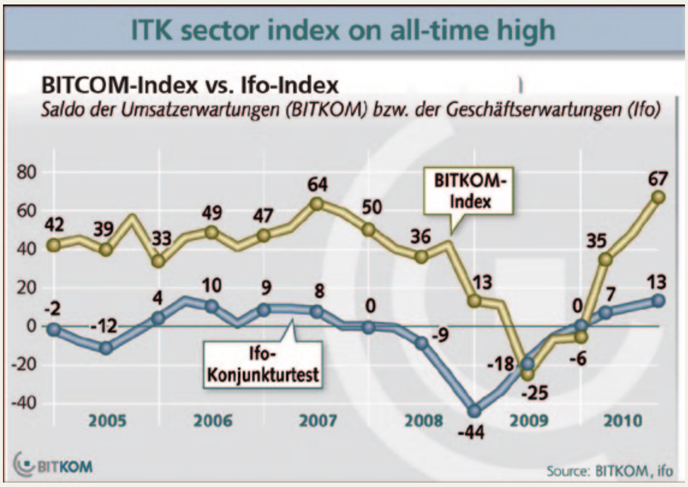
The leading brands in the Drillisch Group have moved closer together since December 2010. On 1 December, Drillisch launched the new rate plan friends4free; subscribers who have booked this rate plan can phone each other free of charge. friends4free is available for the brands simply, maXXim and helloMobil. An additional highlight included in the offer is the 50 megabytes of free volume for mobile Internet on the mobile phone. If a higher volume of data is retrieved from the Internet, there is a cost limit of €12.95, and the total high-speed volume is 200 MB.

In November 2010, eteleon began offering an all-network rate called DeutschlandSIM with a cost limit of only €35. All of the phone calls, text messages and Internet usage in excess of this amount are free of charge during the billing period. Charges up to the cost limit are only 9 eurocents per minute or text message to all networks and 24 eurocents per MB of data usage.

German software market returns to the pre-crisis level for the first time

Software market booms

According to information from the high-tech association BITKOM, the German software market will grow strongly in the current year and return to the pre-crisis level for the first time. Forecasts from the European Information Technology Observatory (EITO) indicate that sales of software products in Germany will rise by 4.2% to €15.2 billion in 2011. Growth in the previous year was 2.4% and had a volume of €14.6 billion. In the opinion of BITKOM, the demand for new software solutions will rise sharply. As the economy recovers, companies are once again making major investments in new applications. Moreover, many mid-size companies are replacing their software for the control of operational procedures with modern solutions. New legal requirements for the storage of documents are also prompting many companies to procure systems for enterprise content management. In addition, there is a greater demand for programs to manage customer relationships as the positive economic development continues.



CONSOLIDATED MANAGEMENT REPORT

Business Report

1. Business Report

1.1. Drillisch is a wireless services provider

Drillisch AG, Maintal, is a wireless services provider which operates solely in Germany. The Company markets the wireless services offered by all four of the wireless network operators ("network operators") active in Germany, primarily through subsidiaries. Besides the Internet, the most important sales channels are distribution and cooperation partners in the media sector, large retail chains and the classic wireless services specialist trade. Moreover, social media platforms such as Facebook or Twitter are used to target customers.

The services acquired from the network operators Telekom Deutschland GmbH ("Telekom"), Vodafone D2 GmbH ("Vodafone"), E-Plus Mobilfunk GmbH ("E-Plus") and Telefónica O_2 Germany GmbH & Co. OHG ("O_2") are sold further to the end consumers for the Company's own account and at rates established by Drillisch on the basis of its own calculations. The "Wireless Services" business unit forms the core business of Drillisch. The scope of services includes all of the services, without exception, that are offered by the network operators relating to the transmission of voice, data and other content based on current standard transmission technologies. The significantly smaller business division "Software Services" has been concentrated in the subsidiary IQ-optimize Software AG ("IQ-optimize"), Maintal. This subsidiary performs IT services for all of the Group companies. Moreover, IQ-optimize markets its own workflow management software program.

Drillisch AG is the Group's holding

Within the Drillisch Group ("Drillisch"), Drillisch AG, the parent company, concentrates on holding tasks such as management, finances and accounting, controlling, cash management, human resources, risk management, corporate communications and investor relations along with the definition, management and monitoring of the global corporate strategy. The wireless services providers Drillisch Telecom GmbH ("Drillisch Telecom"), Maintal, and SIMply Communication GmbH ("simply"), Maintal, handle mainly the operational wireless services business. MS Mobile Services GmbH ("MS Mobile"), Maintal, is a group company which successfully markets discount products under the brand name "maXXim". All of the IT expertise of Drillisch Group is concentrated in IQ-optimize. Working together with eteleon e-solutions AG ("eteleon"), Munich, a specialist for innovative sales solutions on the telecommunications market, the Company extends sales activities via c-commerce and additional distance trade channels, to expand the product line and, by doing so, to intensify efforts to acquire new customers. MSP Holding GmbH ("MSP"), Maintal, is an affiliated company of Drillisch, which held 5,000,000 shares in freenet AG ("freenet") as of 31 December 2010. Moreover, Drillisch AG held an additional 10,540,650 shares of freenet stock as of 31 December 2010. The voting agreement between MSP, United Internet and Drillisch related to the shares of freenet stock held by the companies in the previous year was terminated in 2010.

Drillisch Telecom – strong brands in mobile voice and data communications

Drillisch Telecom is a wireless services provider with the brands Telco, VICTORVOX, Alphatel, McSIM, helloMobil and PHONEX. The established premium brand Telco is distributed primarily via specialist retailers. As in the past, Telco and VICTORVOX stand for traditional business with fixed-term contracts for which the Company's own, specifically calculated offers are developed to stand alongside the original network operator rates. McSIM, helloMobil and PHONEX enhance the product line with attractive discount rates – for voice telephony as well for Internet surfing using a smartphone and mobile data communication via notebook. Drillisch uses the brand Alphatel to offer in prepaid business, the only service provider in Germany to do so, cash codes via its own platform, g-paid, as well as cash cards, starter cards and bundles.

Business Report

The organisational merger of the four wireless services providers to form Drillisch Telecom in 2008 was the first step taken by Drillisch to increase efficiency and heighten its clout even more. Over the steady course of an on-going process, the Idstein location was closed in fiscal year 2010 to optimise further operations and improve the cost structure even more.

simply – low-cost discount offers featuring high quality of products and service

simply – one of Germany's discount pioneers – celebrated its fifth anniversary in April 2010. simply markets wireless services at especially favourable conditions via the Internet and in cooperation with large retail chains. In addition to mobile phone calls at discount prices and flat rates, simply offers a wide range of low-cost rates for mobile data communications. Since July 2010, simply has offered the first smartphone discount rate with a double flat rate anywhere in Germany. During this time, simply and its subscribers have received official confirmation that low prices, high quality and good service do not have to be mutually exclusive. Following a successful audit in September 2010, simply was awarded the DIN EN ISO 9001:2008 certificate for quality management in the sectors online product marketing and customer service, the first provider of wireless services discount products to earn this distinction.

eteleon – new highlights on the wireless services discount market at 7.5 eurocents a minute

discoTEL and discoPLUS are successful discount brands offered by the subsidiary eteleon. A new standard was set again on the German wireless services discount market through an offered rate of 7.5 eurocents per minute.

IQ-optimize guarantees IT competence

Drillisch has bundled its IT competence in its subsidiary IQ-optimize. The company performs all of the IT services for the Group firms and markets its own workflow management software.

1.2. Company management – objectives and strategies

The Company's strategy emphasises profitable growth. New business focuses on the discount sector and the marketing of data products. In the estimation of the Management Board, the low, transparent discount rates represent the greatest opportunities for growth on the German market for voice telephony. The highest growth rates percentage-wise in wireless services are expected in the segment of data communications. Drillisch does not want to limit its participation in this market growth to offers of network operator rates. The Company has secured positions for its own customer-friendly brands (among them simply, maXXim, McSIM, helloMobil, discoPLUS and discoTEL) – for straightforward voice and straightforward data communications as well as for combined mobile phoning and surfing using modern high-performance smartphones, for example.

The expansion of sales activities by means of e-commerce and other distance trade channels in cooperation with eteleon is aimed at the acquisition of new customers. Part of this process is the continued expansion of the product portfolio. In the postpaid sector, the Company aims to retain its clientele by offering attractive options for contract renewals, to develop integrated communications solutions and to market wireless services in combination with other products. Measures focusing on the steady improvement in the quality of the offered products and services, the more efficient design of the creation of services and the promotion of sales through innovative marketing concepts and new distribution channels are being boosted so that the good level of profit margins can be maintained despite the growing competition.

Business Report

Value-oriented management system

The focus of the value-oriented management system at Drillisch is on a long-term increase in the corporate value through profitable growth. The key performance indicator for the value-oriented management is the EBITDA (earnings before interest, taxes, depreciation and amortisation, adjusted for extraordinary and one-off factors). Besides the EBITDA, cash flow and net working capital are given special attention.

Value-oriented management at Drillisch makes an impact first and foremost in the following areas:

1. Thanks to its lean structure, Drillisch works highly efficiently in terms of costs. So despite the stagnating market environment, the Group has steadily increased the EBITDA in past years. Drillisch achieves this high level of economic efficiency by consistently optimising business processes and by making efficient use of its personnel.
2. The major IT services required at Drillisch are performed by its subsidiary IQ-optimize so that the Company is not dependent on external providers. This enables fast and flexible response to changes in the market.
3. Drillisch has great innovation strength in the design and development of new products and rate schedules. For example, the Company was one of the first German providers to sell wireless services under its own discount brand name. This innovation strength made it possible for Drillisch to develop new business fields ahead of competitors in the past. We will continue to exploit this capability to increase our corporate value in the future as well.
4. Drillisch constantly works on the further development of distribution paths, taking advantage of its competence and new ideas, so that the Company can successfully market its innovative products.

In addition to the Management Board members who have had so many years of experience, Drillisch enjoys the benefits of an experienced team at second-tier management.

1.3. Market and competition

Wireless services sales in Germany continued to rise in 2010

According to a TC market analysis conducted jointly by Dialog Consult and VATN, sales on the German wireless networks market rose from €24.1 billion in the previous year to €24.3 billion in 2010. This is the first growth on an annual basis since 2005. The number of activated SIM cards stagnated at 108.3 million owing to the removal of inactive prepaid customers from the books. Voice traffic over wireless services connections increased from 250 million to 258 million minutes per day. This rise was able to more than compensate for the decline in landline telephony from 649 million to 645 million minutes per day. As management expected, the data volume on the wireless services networks rose at a breakneck pace. The VATM estimates that the total data volume in 2010 clearly more than trebled from 36.4 million gigabytes to 121.0 million gigabytes. At over €3.8 billion, sales of mobile data traffic in 2010 made up 56% of the non-voice turnover of wireless services.

IT industry growth continues in 2010

The IT industry found its way back to a pattern of growth in 2010 after the collapse of the previous year. According to information from BITKOM (December 2010), sales in Germany rose by about 2.7% to €65.4 billion, making the IT industry one of the most innovative branches of business. 81% of the providers of software and IT services as well as 78% of the hardware manufacturers launched new products or services on the market in 2010. This is documented by a study presented by BITKOM in November 2010.

Business Report

Drillisch holds its position on the German service provider market

As a wireless services provider, Drillisch competes both with the four network operators (Telekom, Vodafone, E-Plus and O_2) and other wireless service providers. The network operators have a market share of about 83% in Germany (according to our own estimates based on the various corporate reports as of 30 September 2010). The remainder is essentially distributed between the service providers freenet (including mobilcom and Debitel) and Drillisch. According to its own estimates as of 30 September 2010, Drillisch had a market share of 12.9% in the wireless services provider sector. In contrast to its competitors in Germany, Drillisch succeeded in growing in terms of turnover, subscriber base and EBITDA in the past fiscal year. This accomplishment reflects the innovation strength and the capability to seize upon opportunities and exploit them for growth as well as to adapt constantly to the ever-changing needs of the market.

1.4. General economic conditions

"Germany on the Upswing" is the title of the annual economic report from the German government presented in January 2011. However, despite growth in the gross domestic product (GDP) of 3.6% in 2010, the German economy was not yet able to recover completely from the economic collapse by 4.7% of the previous year. In contrast, the employment figure of 40.5 million in 2010 was the highest level since the reunification. Gross wages rose by 2.2%, and domestic demand increased by 2.6%.

The Drillisch Management Board has noticed little impact on the Company's own wireless services business from the rise and fall of the economy in recent years. The steady growth in the discount business and for mobile Internet has been of greater significance.

1.5. Turnover and earnings position

During fiscal year 2010, the Drillisch Group increased sales by 5.2% to €362.5 million (previous year: €344.5 million) from a customer base of 2.431 million (previous year: 2.250 million) as of the end of the year. The sales figure includes €0.1 million (previous year: €0.2 million) from the software services segment and €362.4 million (previous year: €344.3 million) from prepaid and postpaid wireless services sales, earnings from network operator commissions and bonuses and sales from merchandise business (sale of wireless devices, prepaid bundles and starter cards). The product mix was expanded in the direction of the postpaid business. The relationship of prepaid to postpaid subscribers was 51% to 49% (2008: 56% to 44%). Besides new customer acquisition, especially in the discount business and mobile data communications, the Company has boosted its investment in the renewal of current customer relationships among contract subscribers.

As of the end of the year – in the fourth quarter – growth rates accelerated further. In comparison with the fourth quarter 2009, consolidated turnover rose by 8.9% or €8.3 million to €100.7 million (4th quarter 2009: €92.4 million). In comparison with the third quarter 2010, sales rose by 18.7% or €15.9 million (3rd quarter 2010: €84.8 million).

Other operating income declined by €7.6 million to €2.6 million (previous year: €10.2 million) in fiscal year 2010. It should be noted here that in the previous year this item included €7.4 million in income from an out-of-court settlement. Cost of materials increased by 4.0% – underproportionately to the rise in turnover – to €274.1 million (previous year: €263.6 million). This figure comprises primarily basic fees and fees for the on-going use of the wireless services networks of the network operators (air time), commissions and bonuses paid to distribution partners and expenditures related to the merchandise business (purchase of wireless devices, prepaid bundles and starter cards). The gross profit (turnover less cost of materials) improved by 9.3% to €88.4 million (previous year: €80.9 million). The gross profit ratio (gross profit to turnover) rose from 23.5% in the previous year to 24.4%. Personnel expenses rose by 11.4% to €23.9 million (previous year: €21.4 million). The major cause for the increase was related to the restructuring measures for increasing efficiency during the closure of the Idstein location. This led to expenditures of €3.2 million, mainly as funding of a social plan for employees leaving the Company. Correspondingly, the personnel

Business Report

expenses ratio (personnel expenses to turnover) increased by 0.4% to 6.6% (previous year: 6.2%). Other operating expenses increased by 9.7% to €23.0 million (previous year: €21.0 million), primarily as a consequence of higher expenditures for advertising.

The EBITDA (earnings before interest, taxes, depreciation and amortisation) decreased by €4.5 million to €46.1 million (previous year: €50.7 million). The figure includes charges totalling €3.2 million (previous year: earnings with a volume of €7.4 million) which are of a one-off or extraordinary nature. Adjusted for these factors, the EBITDA comes to €49.3 million (previous year: €43.5 million) and consequently exceeds the forecast, as raised by the Management Board in autumn, of €48 million. The adjusted EBITDA in fiscal year 2010 improved by 13.2%. Depreciation declined by 9.0% to €5.7 million (previous year: €6.3 million). The EBIT (earnings before interest and taxes) decreased – owing to the extraordinary factors described above – to €40.4 million (previous year: €44.4 million). The EBIT ratio fell by 1.8% to 11.1% (previous year: 12.9%).

The good cash flow and the repayment of bank loans resulted in an improvement of interest results of €1.5 million to -€1.2 million (previous year: -€2.7 million). The participation in MSP and the shares in freenet held directly were valuated according to the equity method until the middle of December 2009 and the end of August 2009, respectively. The results from this inclusion amounted to €69.2 million in fiscal year 2009. This figure mainly included write-ups on the shares in freenet AG and – to a much lesser extent – the portion of updated proportional equity that is effective for income. Just as per 31 December 2009, the shares in freenet AG held by MSP and Drillisch AG are classified as "available for sale" in accordance with IAS 39 as per 31 December 2010, and changes in value are measured as non-operating results by means of the market evaluation provision in equity. The Other financial results of €3.4 million (previous year: €0.1 million) included primarily dividend payments from freenet AG in fiscal year 2010. freenet AG did not distribute any dividends last year.

Earnings before taxes on income (EBT) fell by €68.3 million to €42.6 million (previous year: €110.9 million). Taxes on income amounted to €11.6 million (previous year: €9.7 million). The relatively high tax rate – in comparison with results of the previous year – resulted from the fact that the earnings in 2009 from the write-up on financial assets were not subject to taxation. The consolidated result declined to €31.0 million (previous year: €101.2 million). Profit per share came to €0.58 (previous year: €1.98).

General statement on business development

Operating in a favourable, although highly competitive economic sector, Drillisch exceeded the business forecast, even though it had been raised in November 2010. The number of customers was increased and turnover rose. The profitability and yield indicators relevant for Drillisch of gross profit and gross profit margin, along with adjusted EBITDA and adjusted EBITDA ratio, continued to improve. Business developments make it clear that Drillisch – by and large independently of economic fluctuations – remains on a course of growth which has continued to be profitable over many years. Management Board and Supervisory Board will therefore propose a dividend of €0.50 for each share entitled to dividends to the Annual General Meeting.

1.6. Assets, liabilities and financial position

The balance sheet total of the Drillisch Group declined by €30.7 million to €274.6 million (previous year: €305.3 million) as per 31 December 2010. Owing to the good development of our business – and despite the decline in value of the Other financial assets – the equity ratio improved to 51.1% (previous year: 48.7%).

Cash rose by €0.7 million to €27.6 million (previous year: €26.9 million). Trade receivables declined by €5.0 million to €28.4 million (previous year: €33.4 million). In total, current assets rose by €4.5 million to €70.4 million (previous year: €74.9 million).

Business Report

Fixed assets fell by €26.2 million to €204.2 million (previous year: €230.4 million). Their share of the balance sheet total as of 31 December 2010 came to 74.4% (previous year: 75.5%). 99% (previous year: 92%) is financed by equity and long-term debt. Other financial assets decreased by €23.2 million to €122.8 million (previous year: €146.0 million). The reason for this is found in the share price of the freenet stock as per 31 December 2010, which was €1.49 lower than on 31 December 2009.

Thanks to the good business results, the accumulated deficit decreased by €15.0 million to €57.5 million (previous year: €72.5 million). The accumulated deficit resulted in 2008 from the change in the stock market evaluation of the freenet shares as of the end of the year. The market valuation provision as per 31 December 2010 amounted to -€18.4 million (previous year: €4.4). It reflects the decline in value of the Other financial assets as a non-operating result. The freenet stock held by Drillisch AG and MSP is a major component of the Other financial assets. In comparison with the previous year, equity decreased by €8.1 million to €140.4 million (previous year: €148.5 million).

Net financial liabilities as per 31 December 2010 declined by €23.3 million to €29.3 million (previous year: €52.6 million). During the fourth quarter of 2010, the previous syndicate loan with a term until 15 April 2011 was replaced ahead of time by a new financing agreement. The new syndicate loan has a term running until 15 October 2014. Long-term liabilities due to banks declined by €2.6 million to €56.9 million (previous year: €59.5 million). Short-term bank liabilities were repaid completely as per 31 December 2010 (previous year: €20.0 million). The share of long-term liabilities in the balance sheet total amounts to 22% (previous year: 21%).

Short-term liabilities declined in comparison with the end of fiscal year 2009 by €19.4 million to €73.3 million (previous year: €92.7 million). Their share in the balance sheet total fell to 27% (previous year: 30%). Trade liabilities fell by €2.8 million to €24.8 (previous year: €27.5 million), and payments received on account decreased by €0.7 million to €25.5 million (previous year: €26.2 million). Other liabilities rose by €7.2 million to €14.1 million (previous year: €6.9 million). This rise is primarily a consequence of the restructuring measures during the consolidation of the operating locations and of the greater liabilities due to distribution partners.

1.7. Cash flow

Cash flow from current business activities amounted to €40.8 million (previous year: €53.9 million). The most important factors reducing this figure were the decline in trade payables and the increase in paid taxes on income. There was on balance an outflow of funds for investment activities in the amount of €1.2 million (previous year: €24.5 million) owing to investments, primarily in tangible and intangible assets, and expenditures for the acquisition of additional shares in eteleon on the one hand and income from the dividends from freenet on the other. The balance of the cash flow from financing activities came to -€39.0 million (previous year: -€6.8 million) as a result of the amortisations of the previous credit line in the amount of €80.0 million and the utilisation of the new credit line in the amount of €57.0 million as well as of the dividends paid to shareholders during the fiscal year in the amount of €16.0 million. Total cash therefore rose by €0.7 million to €27.6 million (previous year: increase by €22.6 million to €26.9 million) in comparison with the end of 2009.

1.8. Employees

As an annual average, Drillisch employed a staff of 379, including the two Management Board members (previous year 382). The Company firmly believes that good vocational training is important for the future of young people. Because of its convictions, it takes its social responsibility seriously and gives more young people opportunities for vocational training than required to satisfy its own needs. The number of vocational trainees, which is not included in the above figure, rose to 41 (previous year: 40).

Business Report

1.9. Principles and objectives of the financial and capital management

The financing of the Group is always handled centrally by the parent company Drillisch AG. The top priority of the financial management at Drillisch is to secure the Company's liquidity at all times. Liquidity reserves are always maintained in such an amount that any and all payment obligations can be met on time. Liquidity is secured on the basis of detailed financial planning. Business operations are financed from cash flow and free cash. The Company strives to develop further and to optimise the financial management continuously.

As a general principle, the company law provisions form the framework of capital management in the Drillisch Group. In cases in which contractual provisions must be observed, the equity is taxed additionally in accordance with the principles defined in these provisions. In cases in which no special provisions must be observed, the taxable equity is the equity as shown in the balance sheet. Otherwise, the equity from the balance sheet is adjusted according to the contractual requirements. During the reporting period, the Company complied with both company law and contractual provisions at all times.

1.10. Non-financial performance indicators

In addition to efficient, value-oriented corporate management, the non-financial performance indicators described below make an important contribution to the success of Drillisch.

Quality of the products: At the end of September 2010, simply Communication GmbH became the first provider of wireless services discount products to be certified in accordance with the standard DIN EN ISO 9001:2008 for its quality management system used in the marketing of voice and data plans for the brands simply and maXXim. simply is currently the only discount provider to complete successfully this audit of the segments online product marketing and customer service in both the call centre and the back office. The ISO seal which was awarded simultaneously meets the high standards of the EU RAS norm and applies to the entire product family at simply as well as to the brands maXXim, ja! mobile, Penny Mobil and Weltbild Mobil.

Knowledge of the markets: As a consequence of the more than 15 years of activities by Drillisch and its predecessor companies on the wireless services market, the Company has established a position of trust among customers and network providers. The proximity to network operators and customers enables Drillisch to recognise trends well in advance. Realising innovative marketing ideas and alternative distribution solutions has led to Drillisch's success in offering products which meet the needs of the customers at an early stage. One important goal is an increase in the number of subscribers and the securing of a larger market share.

First-class customer service: Drillisch sets high standards for its own customer service, based on its many years of experience in classic contract customer business. In addition to maintaining these standards for the significantly expanded base of discount customers, the Company has even succeeded in improving them through consistent quality management. So we have demonstrated that innovative, low rates and good customer service are definitely compatible with each other.

Efficiency of business processes: Drillisch works constantly on the improvement of efficiency in business processes. Measures for the continuous reduction of costs have already led to sustained increases in productivity. In the Company's own estimation, Drillisch is one of the most profitable wireless services providers in Germany.

Risk Report

2. Risk Report

2.1. Risk management

The risk management system is an integral component of corporate policy aimed at early exploitation of opportunities as well as the detection and limitation of risks. Drillisch operates a risk management system throughout the Group which includes continuous observation to ensure early recognition and the standardised recording, assessment, control and monitoring of risks. The objective is to obtain information about negative developments and the related financial effects as early as possible so that the appropriate measures can be initiated to counteract them. The management of the company results and company value makes use of the instrument of risk management. It can become a strategic success factor for corporate management – for Drillisch itself as well as for the subsidiaries.

If the Company is to be consistently successful in the conflict between opportunities for profit and the threat of loss, risks must be taken into consideration during the decision-making process systematically and in accordance with standards which are uniform throughout the Group. Risk management includes the definition of risk fields, the recording of risks and the communication of risks by the operational units, the assignment of responsibilities and tasks and the documentation of these steps. The concrete implementation of the procedures which have been issued is secured by a monitoring system. The Drillisch risk management process utilises the following building blocks for the exploitation of opportunities without delay and the early discovery of risks:

- The internal controlling system
- The daily, weekly and monthly management reporting, especially in the areas controlling, cash management and the operational business segments
- The continuous monitoring of the market

The coordination of risk management is handled at the group level by the group controlling and the legal department. Based on monthly close-outs, the regular comparison of budget and as-is figures as well as market analyses and market observations, opportunities and risks from both operational and strategic areas can be recognised early so that a risk portfolio can be created and implemented in the appropriate measures. Competencies and responsibilities are clearly regulated at Drillisch and are based on the corporate structure of the Drillisch Group. Risk management includes the securing of risks outside of the Group as well. Adequate insurance policies have been concluded to cover incidents of loss and liability risks arising in the course of daily business, provided that they are regarded as being economically justifiable.

The Management Board and the Audit Committee of the Supervisory Board are regularly provided with reports on the risk situation and the effectiveness of the risk management system with all of its controlling functions. The results are discussed by both the Management Board and Supervisory Board.

2. 2. Description of the major features of the internal controlling and the risk management system with respect to the accounting process (Section 315 (2) HGB)

The internal controlling system in the Drillisch Group includes all of the principles, procedures and measures to secure the effectiveness, correctness and economic efficiency of the accounting and to assure compliance with the relevant legal requirements. Besides the manual process controls in the form of the “two sets of eyes principle”, automatic IT process checks also form a major part of the integrated controlling measures. The auditor and other auditing bodies are indirectly incorporated into the controlling environment of the Drillisch Group with auditing activities independent of processes. The audit of the individual and consolidated annual accounts by the auditor are especially important as major monitoring measures with respect to the accounting process.

Risk Report

The risk management system in the Drillisch Group as a component of the internal controlling system is oriented to the risk of incorrect representation by the bookkeeping and the external reporting possible in the accounting. A "monitoring system for the early recognition of risks threatening the Company's existence" has been set up in the Drillisch Group to ensure the systematic early detection of risks throughout the Group so that, going beyond the scope originally required by statutory provisions, other risks as well as those threatening the existence of the firm are detected early, controlled and monitored. In accordance with Section 317 (4) HGB, the auditor appraises the functional capability of the early detection of risks system so that it can be adapted without delay to any and all changes in the environment. The bookkeeping software from the manufacturer Sage is used for the posting of accounting items in the Drillisch Group, while the consolidation software from the manufacturer Infor Global Solutions is used at the Group level.

Risks related to accounting can arise from the conclusion of unusual or complex transactions, for example. Moreover, business transactions which are not handled as a matter of routine include a latent risk. The measures of the internal controlling system oriented to the correctness of the accounting ensure that all of the business transactions are recorded completely and contemporaneously in conformity with legal and statutory requirements. Furthermore, it is assured that assets and debts are correctly measured, appraised and shown in the annual accounts.

The controlling activities include the analysis of material circumstances and developments, for example, using special indicator systems. The organisational separation of administrative, executive, billing and approval functions significantly reduce vulnerability to fraud. The internal controlling system also assures the representation of changes in the economic or legal environment of the Drillisch Group and ensues the application of any new or amended legal provisions for the accounting.

2.3. Market-related risks

The major overall risks related to the market are as follows:

- Drillisch operates in a market environment which is by and large saturated and consequently highly competitive. Substantial increases in overall turnover cannot be expected on the German wireless services market in 2011.
- The market for the so-called wireless services discount rates and for mobile Internet products may not grow as expected, and Drillisch may not succeed in gaining and maintaining a reasonable share of this market.
- The increasing availability of discount rates may cause the prices which can be charged for wireless services to decline.
- A fall in prices on the market for wireless services can lead to declining income from the trade margins agreed with the network operators.
- The expenditures required to acquire new customers and retain the loyalty of current customers are comparatively high, especially in the segment of fixed-term contracts. These expenditures may continue to rise in the future.
- Drillisch is subject to regulatory restraints in its business activities. These general conditions may change and could impact business.
- Wireless services providers are dependent on network operators in offering their products and services because they do not have their own network.

Risk Report

2.4. Company-specific risk factors

The major risks specific to Drillisch are as follows:

- The net financial debt of Drillisch could increase, e.g., as a consequence of the takeover of companies, leading to a worsening of the financial results and the equity ratio. This could have a long-term effect of the Company's ability to pay dividends and to take out new loans.
- Risks which affect the assets and liabilities, the financial position or profit and loss of freenet or the value of its stock could also influence Drillisch owing to its holdings of freenet stock. During the acquisition of the shares in freenet, Drillisch was dependent on documentation which was available to the general public. If this information should prove to be incorrect or incomplete, Drillisch may be exposed to unknown threats.
- The freenet holdings of Drillisch and MSP lead to a book value of the shares which must be reviewed regularly with regard to their value. The review can again lead to extraordinary write-offs both in the consolidated accounts in accordance with IFRS and in the individual annual accounts in accordance with HGB.
- A loan agreement which Drillisch has concluded contains obligations which restrict the entrepreneurial flexibility of Drillisch.
- The interest rates on the bank loans are variable. This could result in a threat from changes in interest rates.
- The maintenance of the functional capability and the regular further development of the software systems used by the Company, which it developed in part itself, for the administration of the customers and the billing of performed services is of decisive importance for the success of Drillisch. Software errors can cause disruptions in the program execution, in extreme cases causing a permanent crash of the software and the loss of data, and prevent the Company from developing and offering new wireless service products within a short period of time.
- Drillisch is subject to the risk that contract customers will not meet their payment obligations from their wireless service contracts.
- Drillisch is highly dependent on members of the Management Board and on employees in key positions.

There were no significant changes in the risk situation in 2010 in comparison with the previous year. The risks described here are the major risks which have been identified at this time. The possibility that additional major risks which have not been recognised by management exist, or that the probability of the occurrence of such risks has been wrongly assessed as negligible, cannot be excluded. Adequate precautions have been taken to counter any probable risks. There are at this time no known risks which would threaten the Company's existence.

Prediction Report

3. Forecast Report

This report contains certain statements oriented to the future which are based on the current assumptions and projections of the management of the Drillisch. Various risks, uncertainties and other factors, both known and unknown, can cause the actual results, financial position, development or performance of the Company to deviate substantially from the assessment shown here.

3.1. General economic conditions

In the opinion of the German government and the great majority of the most important economic research institutes, the economic upswing in Germany is not yet at an end. Federal Minister of Economics Rainer Brüderle expects economic growth of 2.3% in 2011, declining slightly to 1.8% in 2012. The survey by the Institute of the German Economy (IW) released in January 2011 also signalled sustained positive economic development in Germany for 2011. As a result, the climate among companies in almost all 46 German industrial associations is substantially better than a year ago. The IW survey is largely congruent with the IFO business climate index, which reached an all-time high in December 2010.

3.2. Drillisch Management Board projections regarding development on the German wireless services market

The Drillisch Management Board expects the telecommunications and IT markets in Germany to continue to serve as important innovation drivers for the German economy. However, there will presumably not be any substantial growth in turnover because, although usage is increasing, the prices will continue to decline. The most important growth segments on the wireless services market will still be the discounters and mobile data communications. Moreover, the displacement of the landline network by wireless services will continue. A survey conducted by the market and social research institute infas in August 2010 revealed that 13% of Germans no longer use landline networks at all for their phone calls.

3.3. Opportunities and risks of future development

Simple means for making phone calls at low prices will remain the focus of interest for wireless services customers. This assessment is confirmed by a survey conducted by the opinion poll institute Innofact in June 2010. It also indicates that 51% intend to change providers at the earliest possible opportunity. Discount customers, on the other hand, are especially satisfied. A survey conducted by the consumer portal verivox.de in June 2010 revealed that 90% of the wireless services discount users would recommend their provider to others. This is why Drillisch, being a pioneer on the wireless services discount market, expects good growth potential for its attractive offers featuring low-price wireless services despite the increasingly keen competition.

The virtually full-area availability of mobile high-speed Internet and the accelerating spread of smartphones give rise to the expectation that growth rates in the use of mobile data communications will continue to be high. The greatest growth in turnover is predicted for this segment of the wireless services market. Drillisch intends to make use of its customer-friendly portfolio to profit from this development. The Management Board expects turnover to rise and an EBITDA of €52 million in 2011. The Management Board presumes that these positive developments in earnings in business operations will continue in 2012 as well.

Compensation Report

4. Compensation Report

The structure of the compensation system for the Management Board is determined by the Supervisory Board. The criteria for the reasonableness of the compensation include in particular the duties and responsibilities of each of the Management Board members; their personal performance; the performance of the Management Board as a whole; and the economic position, the success and the future prospects of the Company, taking into account its comparative environment. The compensation for the Management Board members comprises short-term components and, until 31 December 2010, factors with long-term incentive components. The short-term components consist of elements independent of success and elements contingent on success. The elements independent of success comprise fixed compensation as well as payment in kind and other benefits. The fixed compensation as basic compensation independent of success is paid monthly as a salary and reviewed annually. In addition, the Management Board members receive other benefits, in particular allowances for pension, health and invalidity insurance, as well as payments in kind, The Management Board's compensation always includes variable compensation elements which are components contingent on success. They are newly agreed between the Supervisory Board and the Management Board members every year on the basis of individually defined targets for the year. The programme for the increase in shareholder value ("Long-Term Incentive Plan 2008–2010") implemented in fiscal year 2007, which is explained under the item "Personnel expenses" in the consolidated notes, served as long-term incentive components; it expired per 31 December 2010. The Management Board does not receive any stock options.

The contracts with the Management Board have a term of three years. The Management Board contracts do not contain any express commitments for severance pay – with the exception of the following regulation for a change of control clause – in the event that the employment relationship is terminated. In the event that Drillisch experiences a change in the shareholder structure of more than 30% (change of control), a part of the compensation contingent on success will be deemed earned. The Management Board members receive compensation of €19k for their Supervisory Board activities at IQ-optimize and eteleon. The Management Board members did not receive any loans or advance payments in the reporting period. No pension commitments have been made to the Management Board.

Compensation paid to Management Board members in 2010 totalled €2,288k, thereof variable €1,400k (previous year in total: €2,003k). In accordance with the resolution adopted by the Annual General Meeting on 26 May 2006, the compensation paid to the individual Management Board members is not itemised (Section 286 (5) HGB).

The members of the Supervisory Board receive reasonable compensation for each full fiscal year of their participation in the Supervisory Board; the amount is specified in the Company Charter. The chairperson receives twice the amount, while the deputy chairperson receives €2k in addition to the regular compensation. Furthermore, attendance fees per meeting and Supervisory Board member are paid if and when the number of meetings exceeds that stipulated in Section 110 (3) AktG. Supervisory Board members who did not belong to the Supervisory Board during the full fiscal year receive pro rata temporis compensation according to the duration of their membership on the Supervisory Board. Supervisory Board members receive as well variable compensation, implemented for the first time in fiscal year 2010. The variable compensation for all Supervisory Board members is dependent on the distributed dividends per share which exceed €0.10 in dividends per share. However, the variable compensation for each Supervisory Board member may not exceed the amount of the fixed compensation which the relevant Supervisory Board member receives. One-quarter of the fixed compensation is payable upon the expiration of each and every quarter. The attendance fees as accrued are payable upon the expiration of each and every quarter. The variable compensation is payable on the day after the adjournment of the Ordinary Annual General Meeting which adopts a resolution regarding the appropriation of the retained earnings for the fiscal year for which the compensation is owed. The Supervisory Board members are also reimbursed for all of their expenses and for any turnover tax which must be paid on their compensation and expenses. Compensation paid to the Supervisory Board in 2010 totalled €177k (previous year: €178.5k).

Supplemental Information in Accordance with Section 315, Subsection 4 HGB

5. Supplementary Information

5.1. Supplemental information in accordance with Section 315 (4) HGB

The subscribed capital amounts to €58,507,916.50 and is distributed in 53,189,015 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10. Each share is the equivalent of one vote. The securitisation of the stock is excluded.

The Company was not notified of any direct and indirect holding of stock greater than 10%.

In accordance with Sections 84, 85 AktG in conjunction with Section 7 of the Company Charter, the Management Board is appointed and recalled by the Supervisory Board. Any amendments to the Company Charter must be adopted in conformity with legal statutes (Sections 179 et seqq. AktG) by the Annual General Meeting. Moreover, the Supervisory Board is authorised to amend the Company Charter if and when such amendments affect only the wording.

The Annual General Meeting of 30 May 2008 authorised the Management Board, subject to the approval of the Supervisory Board, to increase the Company's share capital by as much as €29,253,957.70 by a single or multiple issue of new shares against cash contributions and/or contributions in kind before the lapse of 29 May 2013 (approved capital). In the event of cash contributions, the new shares may also be taken over by one or more banks, subject to the obligation to offer them for purchase to the shareholders (indirect subscription right). On principle, a subscription right is to be granted to the shareholders. However, the Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights:

- So that fractional amounts are excluded from the subscription right;
- If the capital increase is achieved by cash contributions and the issue price of the new shares is not significantly lower than that of the equivalent shares already traded on the exchange at the time of the final determination of the issue price by the Management Board. The number of shares issued subject to exclusion of the subscription pursuant to Section 186 (3) (4) AktG may not exceed 10% of the share capital, neither at the point in time at which the authorisation becomes effective nor at the point in time that it is exercised. Any shares which have been issued or must be issued to satisfy subscription rights from options or convertible bonds, provided that the debenture bonds have been issued during the term of this authorisation subject to application mutatis mutandis of Section 186 (3) (4) AktG and excluding the subscription right must be included in this figure. Furthermore, any shares which are issued or sold, subject to the exclusion of a subscription right, during the term of this authorisation on the basis of an authorisation for the use of treasury stock in accordance with Section 71 (1) (8) and Section 186 (3) (4) AktG must be included in this figure;
- If the capital increase against contributions in kind is carried out for the purpose of providing shares within the framework of corporate mergers or of acquiring companies or parts of companies, holdings in companies or other assets;
- So that new shares up to a proportionate amount of the share capital totalling €2,925,395.00 may be issued as staff shares to employees of the Company or of affiliated companies within the sense of Section 15 et seqq. AktG.

Furthermore, the Management Board is authorised, subject to the approval of the Supervisory Board, to determine the further content of the stock rights and the terms and conditions of the issue of the shares. The Supervisory Board is authorised to amend the current version of the Company Charter in accordance with the specific utilisation of the approved capital or after the expiration of the authorisation.

Important Events after the End of the Fiscal Year

The Annual General Meeting on 28 May 2010 adopted a resolution authorising the Drillisch Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2010 on or before 27 May 2015.

The Company has concluded a number of agreements in which a change of control as a consequence of a takeover represents a condition precedent. These are primarily agreements with the network operators. Furthermore, the occurrence of a so-called “change of control” has effects on the financing of the Company.

5.2. Statement on corporate management pursuant to Section 289a HGB

Drillisch has published the statement on corporate management pursuant to Section 289a HGB, which also contains the Declaration of Conformity pursuant to Section 161 AktG, on the Company’s Internet site at www.drillisch.de > Drillisch AG > Corporate Governance > Statement in accordance with Section 289a HGB. Moreover, Management Board and Supervisory Board describe in detail the principles of good, value-oriented corporate management in full awareness of responsibility as pursued at Drillisch in the corporate governance report in this Annual Report and on the Company’s Internet site. In addition, the working methods of the Management Board and Supervisory Board as well as the composition and working methods of the committees are described.

6. Important events after the end of the fiscal year

There were no important events after the end of the fiscal year.

Maintal, 4 March 2011

The Management Board

CONSOLIDATED ANNUAL ACCOUNTS

Consolidated Income Statement

Consolidated Annual Accounts for the Fiscal Year from 01 January 2010 to 31 December 2010

		2010	2009
	Exhibit No.	€k	€k
Sales	1	362,491	344,537
Other own work capitalised		1,998	1,996
Other operating income	2	2,638	10,205
Cost of materials / Expenditures for purchased services	3	-274,072	-263,632
Personnel expenses	4	-23,890	-21,446
Other operating expenses	5	-23,034	-21,001
Amortisation and depreciation	6	-5,728	-6,297
Operating result		**40,403**	**44,362**
Result from financial investments shown in the balance sheet according to the equity method		0	69,091
Other financial results		3,426	108
Interest income		781	1,779
Interest and similar expenses		-1,988	-4,454
Financial result	7	**2,219**	**66,524**
Profit before taxes on income		**42,622**	**110,886**
Taxes on income	**8**	**-11,648**	**-9,687**
Consolidated results		**30,974**	**101,199**
Consolidated results attributable to non-controlling shareholders		3	76
Share of Drillisch AG shareholders in consolidated results		**30,971**	**101,123**
Change in attributable market value of financial assets available for sale		-23,202	4,507
Taxes on income		-350	68
Other earnings after taxes		-22,852	4,439
Consolidated comprehensive results		**8,122**	**105,638**
thereof comprehensive results attributable to non-controlling shareholders		3	76
thereof share of Drillisch AG shareholders in total results		8,119	105,562
Profit per share (in €)			
Undiluted	39	0.58	1.98
Diluted	39	0.58	1.98

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 01 January 2010 to 31 December 2010

ASSETS

	Exhibit No.	31.12.2010 €k	31.12.2009 €k
Fixed assets			
Other intangible assets	9	11,271	14,044
Goodwill	10	67,206	67,206
Tangible assets	11	1,402	1,274
Other financial assets	12	122,758	145,960
Deferred tax reimbursements	8	1,573	1,877
Fixed assets, total		**204,210**	**230,361**
Current assets			
Inventories	13	7,705	6,267
Trade accounts receivable	14	28,413	33,434
Accounts due from affiliated companies		0	3
Tax reimbursement claims	15	437	877
Cash		27,591	26,915
Other current assets	16	6,229	7,410
Current assets, total		**70,375**	**74,906**
ASSETS, TOTAL		**274,585**	**305,267**

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 01 January 2010 to 31 December 2010

SHAREHOLDERS' EQUITY AND LIABILITIES

	Exhibit No.	31.12.2010 €k	31.12.2009 €k
Shareholders' equity			
Subscribed capital		58,508	58,508
Capital surplus		126,469	126,469
Earnings reserves		31,123	31,123
Market evaluation provision		-18,413	4,439
Accumulated deficit		-57,510	-72,468
Equity to which Drillisch AG shareholders are entitled		**140,177**	**148,071**
Non-controlling shareholders		201	445
Equity, total	17	**140,378**	**148,516**
Long-term liabilities			
Pension provisions	19	499	956
Deferred tax liabilities	8	2,771	3,500
Bank loans and overdrafts	20	56,930	59,531
Leasing liabilities	18	681	62
Long-term liabilities, total		**60,881**	**64,049**
Short-term liabilities			
Short-term provisions	21	1,353	2,096
Tax liabilities	22	7,196	9,567
Bank loans and overdrafts	20	0	20,003
Trade accounts payable	23	24,757	27,541
Payments received on account	24	25,482	26,169
Leasing liabilities	18	457	404
Other liabilities	25	14,081	6,922
Short-term liabilities, total		**73,326**	**92,702**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**274,585**	**305,267**

Consolidated Statement of Change in Capital

Consolidated Annual Accounts for the Fiscal Year from 01 January 2010 to 31 December 2010

	Number of shares	Subscribed capital	Capital reserves	Retained earnings	valuation provision	Accumu-lated deficit	Equity to which Drillisch AG shareholders are entitled	Non controlling share-holders	Equity total
		€k	€k	€k	€k	€k	€k	€k	€k
As per 01/01/2009	**49,732,347**	**54,706**	**119,480**	**31,123**	**0**	**-173,568**	**31,741**	**0**	**31,741**
Change in own shares	3,456,668	3,802	6,990	0	0	0	10,792	0	10,792
Dividend payments		0	0	0	0	0	0	0	0
Change in the consolidated group		0	0	0	0	-23	-23	369	346
Consolidated comprehensi-ve results		0	0	0	4,439	101,123	105,562	76	105,638
As per 31/12/2009	**53,189,015**	**58,508**	**126,469**	**31,123**	**4,439**	**-72,468**	**148,071**	**445**	**148,516**
As per 01/01/2010	**53,189,015**	**58,508**	**126,469**	**31,123**	**4,439**	**-72,468**	**148,071**	**445**	**148,516**
Change in own shares		0	0	0	0	0	0	0	0
Dividend payments		0	0	0	0	-15,957	-15,957	0	-15,957
Change in the consolidated group		0	0	0	0	-56	-56	-247	-303
Consolidated comprehensi-ve results		**0**	**0**	**0**	**-22,852**	**30,971**	**8,119**	**3**	**8,122**
As per 31/12/2010	**53,189,015**	**58,508**	**126,469**	**31,123**	**-18,413**	**-57,510**	**140,177**	**201**	**140,378**

Consolidated Capital Flow Statement

Consolidated Annual Accounts for the Fiscal Year from 01 January 2010 to 31 December 2010

	2010	2009
	€k	€k
Consolidated results	30,974	101,199
Other financial results	-3,426	0
Interest paid	-1,258	-4,454
Interest received	781	1,779
Results from interest	1,207	2,675
Result not affecting payments from financial assets shown in the balance sheet according to the equity method and other financial results without effects on payment	0	-67,735
Income tax paid	-14,204	-10,501
Income tax received	1,548	101
Taxes on income	11,648	9,687
Amortisation and depreciation	5,728	6,297
Income from the disposal of tangible assets and intangible assets	-73	29
Change in inventories	-1,438	345
Change in receivables and other assets	8,234	-6,562
Change in trade payables and other liabilities and provisions	1,783	10,560
Change in payments received on account	-687	10,506
Cash Flow from Current Business Activities	**40,817**	**53,926**
Investments in tangible and intangible assets	-4,002	-3,888
Payments for acquisitions less acquired cash	-265	-1,869
Payments for investments in financial assets shown in the balance sheet in accordance with the equity method and investments in Other financial assets	0	-19,597
Received dividends or special dividends	3,108	0
Payments from the disposal of financial assets shown in the balance in accordance with the equity method and investments in Other financial assets	0	822
Cash flow from investment activities	**-1,159**	**-24,532**
Change in own shares	0	9,745
Dividend payments	-15,957	0
Outgoing payments for amortisation of loans	-80,000	-20,000
Incoming payments from the taking out of loans	57,000	4,121
Change in investment liabilities	-25	-670
Cash flow from financing activities	**-38,982**	**-6,804**
Change in cash	**676**	**22,590**
Cash at beginning of period	26,915	4,325
Cash at end of period	27,591	26,915

Consolidated Notes

A. General information

Drillisch AG is a listed stock corporation which offers telecommunication services. Drillisch was founded in 1997. The business field of wireless services is the core business of the Drillisch Group and is situated primarily in the wholly-owned subsidiaries Drillisch Telecom GmbH and SIMply Communication GmbH. The Group holds service provider licences for the networks Telekom, Vodafone, E-Plus and O_2 and markets wireless services products from the credit, debit and discount sectors. The address and registered office of Drillisch AG as the parent company of the Group is Wilhelm-Röntgen-Strasse 1–5, 63477 Maintal, Germany. The Company is registered at the Hanau Local Court under HRB 7384. The consolidated annual accounts are submitted to the electronic Federal Gazette.

The Management Board prepared the consolidated annual accounts and the consolidated management report as per 31 December 2010 on 04 March 2011 and released them for submission to the Supervisory Board.

B. Basic accounting principles

These consolidated annual accounts have been prepared in conformity with the International Financial Reporting Standards (IFRS) as they are to be applied in the EU and the relevant interpretations issued by the International Accounting Standards Board (IASB). Moreover, the commercial law provisions to be applied in accordance with Section 315 (1) HGB have been observed.

The consolidated annual accounts have been prepared in euros. Unless otherwise specifically indicated, all of the amounts are shown in thousand euros (€k). Assets and liabilities are sub-categorised as long-term and short-term assets or liabilities according to the attributable periods. The consolidated income statement is structured according to the cost summary method. The fiscal year is the equivalent of the calendar year.

Beginning in fiscal year 2010, application of the following standards and interpretations as revised or newly published by the IASB was mandatory:

- Amendments to IFRS 1: “First-time Adoption of International Financial Reporting Standards”
- Amendments to IFRS 1: “Additional Exceptions for First-Time Adopters”
- Amendments to IFRS 2: “Cash-Settled Share-Based Payment Transactions in the Group”
- Amendments to IFRS 3: “Business Combinations”
- Amendments to IAS 27: “Consolidated and Separate Financial Statements”
- Amendments to IAS 39: “Financial Instruments: Recognition and Measurement: Embedded Derivatives”
- Annual Improvement Project
- IFRIC 12: “Service Concession Arrangements”
- IFRIC 15: “Agreements for the Construction of Real Estate”
- IFRIC 16: “Hedges of a Net Investment in a Foreign Operation”
- IFRIC 17: “Distribution of Non-Cash Assets to Owners”
- IFRIC 18: “Transfers of Assets from Customers”

The new regulations did not affect the consolidated annual accounts.

Consolidated Notes

The IASB and the IFRIC (International Financial Reporting Interpretations Committee) have issued the following standards, interpretations and amendments to existing standards, but their application is not yet obligatory, and Drillisch AG has not prematurely applied them. The application of these IFRS presumes that they will be taken over by the EU within the scope of the IFRS endorsement procedure.

The application of the following standards and interpretations which have already been adopted, revised or newly issued by the IASB was not yet mandatory in fiscal year 2010:

Standards/Interpretations

		Mandatory application for fiscal years beginning	Accepted by EU Commissions
Standards			
IFRS 1 rev. 2008	Additional Exceptions for First-Time Adopters	1.7.2011	Yes
IFRS 1 rev. 2008	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters	1.7.2011	No
IFRS 7	Improved Disclosures About Financial Instruments	1.7.2011	No
IFRS 9	Financial Instruments	1.1.2013	No
IAS 12	Deferred Tax: Realisation of Underlying Assets	1.2.2010	No
IAS 24	Related Party Disclosures	1.1.2011	Yes
IAS 32	Classification of Subscription Rights	1.2.2010	Yes
Various	Annual Improvement Project (2010)	Essentially 1.1.2011	No
Interpretationen			
IFRIC 14	IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction	1.1.2011	Yes
IFRIC 19	Amortisation of Financial Liabilities Using Equity Instruments	1.7.2010	Yes

As the situation stands today, we do not expect any major effects on the consolidated annual accounts from the new regulations.

Consolidated Notes

C. Consolidation

Consolidation principles and consolidated companies

Business combinations are measured according to the acquisition method. The purchase price is allocated to the identified assets and liabilities of the acquired subsidiary. The value relationships at the point in time at which the control over the subsidiary is obtained are authoritative. Measurable assets and the assumed liabilities are valued at their full fair value, regardless of the amount of the participation. Any remaining positive difference is shown as goodwill. A negative difference which remains is included as directly effective on income. The disclosed hidden reserves and hidden encumbrances are carried forward to the following periods in the same way as the handling of the corresponding assets and liabilities, written off as scheduled or reversed.

Joint ventures are included in accordance with the equity method. The balance sheets for these companies are prepared with their identified, proportionate assets which have been revaluated (plus any goodwill) and liabilities in one item. The goodwill derived during the application of the equity method is not written off as scheduled depreciation, but it is reviewed at least once a year for any signs of a decrease in value. The equity measurement is always updated by the proportionate period results. Unrealised profits and losses from business transactions with these companies are eliminated proportionately.

Consistent accounting and valuation methods are applied to the separate accounts included in the consolidated annual accounts of Drillisch AG.

All of the receivables and payables as well as income and expenditures among the companies included in the consolidated annual accounts were eliminated, as were interim results.

The parent company`s annual accounts as well as those of all of the important subsidiaries controlled by the former, whether directly or indirectly, were included in the consolidated annual accounts of Drillisch AG as per 31 December 2010. There is control of a company if the parent company, legally or de facto, has the opportunity to determine the financial and business policies of a company with the aim of obtaining economic benefits.

The initial inclusion in the consolidated annual accounts takes place at the point in time from which control can be exercised or at which the criteria for joint ventures and associated companies are fulfilled. Companies which are not included are singly and in their totality of only minor importance, both from quantitative and qualitative perspectives, and the balance sheets are prepared in accordance with IAS 39.

Consolidated Notes

The following companies are included in the consolidated annual accounts:

		Share of capital	Held by
		%	No.
1.	Drillisch AG, Maintal		
2.	Drillisch Telecom GmbH, Maintal	100	1
3.	IQ-optimize Software AG („IQ-optimize AG"), Maintal	100	1
4.	SIMply Communication GmbH („SIMply GmbH"), Maintal	100	1
5.	MS Mobile Services GmbH („MS Mobile GmbH"), Maintal	100	2
6.	MSP Holding GmbH, Maintal	100	1
7.	MSP Beteiligungs GmbH, Maintal	100	6
8.	eteleon e-solutions AG, München	95,05	1
9.	eteleon GmbH, München	100	8
10.	Intelligram GmbH, München	100	9

eteleon e-solutions AG, Munich

In December 2008, Drillisch AG concluded a contract regarding the acquisition of the majority shareholding in eteleon e-solutions AG, Munich. As of 31 December 2009, Drillisch AG held 88.8% of the stock in eteleon e-solutions AG. As of 31 December 2010, the Drillisch AG holding in eteleon e-solutions AG had increased to 95.05% as a consequence of additional purchases as well as of the acquisition and redemption of own shares by eteleon e-solutions AG.

freenet AG, Büdelsdorf

As of 31 December 2010, Drillisch AG held a total of 10,540,650 shares in freenet AG. The fair value per share of freenet AG stock as per 31 December 2010 amounted to €7.90, while the book value per share came to €9.39. A further valuation allowance on the freenet AG stock held by Drillisch was not taken as of the balance sheet date because the Company does not assume that the loss in value will be permanent owing to the difference between book value and fair value of the securities during the fiscal year and the previous duration of the value decline which had already occurred.

Drillisch AG and MSP Holding GmbH held a total of 15,540,650 shares in freenet AG as per 31 December 2010, corresponding to a share in the freenet AG capital of 12.14%.

The shares in freenet AG are included under the "Other financial assets". In accordance with IAS 39, freenet shares held directly by Drillisch AG and by MSP Holding GmbH are classified as "available for sale". Changes in the market value will be measured as non-operating results in shareholders' equity through the market valuation provision.

Consolidated Notes

D. General accounting and evaluation methods

Realisation of income and expenses

In the wireless services segment, sales are generated from the offered wireless services, one-time installation charges and from the sale of mobile end devices and accessories. Sales from wireless services include monthly service charges, charges for special features and connection and roaming charges. Sales from wireless services are realised on the basis of utilisation units which have been used and contractual charges, less credit notes and adjustments due to price discounts. The turnover generated from the sale of mobile telephones, mobile data devices and accessories and the related expenses are realised as soon as the products are delivered and accepted by the customers.

In the segment software services, sales are generated from the offered customised software solutions and from maintenance and support services. Sales from software solutions and sales from maintenance and support services are based on contractual provisions.

Operating expenditures are recorded as expenses when the service is used or at the point in time they are caused.

Interest expenses are recorded appropriately for the period in consideration of the outstanding loan total and the effective interest rate which is applicable. The effective interest rate is the interest rate which results in the cash value of the estimated future payments over the expected useful life of the financial asset being the equivalent of the net book value. Dividend income from financial investments is recorded when a legal claim to payment arises.

Intangible assets

Intangible fixed assets are shown in the balance sheet at acquisition or manufacturing costs, less scheduled depreciation calculated according to the straight-line method. A useful life of three to four years is taken as the basis. The manufacturing costs include overhead costs as well as the immediately attributable direct costs.

Intangible assets with an indeterminate useful life are not written off according to a schedule, but are instead subjected to a recoverability test once a year and, in addition, whenever there are indications of a decrease in value; as appropriate, this is based on entities which generate cash. If the book value of the intangible asset or of the cash-generating entity on which it is based exceeds the recoverable value, the asset must be written off to the recoverable amount.

If the reasons for the previously recorded devaluations cease to exist, the assets are written up without goodwill.

In accordance with IFRS, there has no longer been any scheduled depreciation of goodwill since fiscal year 2005. The goodwill is reviewed annually to determine any loss of value.

Within the framework of the review of loss of value, the goodwill acquired during a corporate merger is allocated to the cash-generating entities which will presumably profit from the assets which determine the value, but which cannot be measured. The recoverability test is conducted once a year and, in addition, whenever there are indications for a loss of value in the corresponding cash-generating entity. If the book value of the cash-generating entity exceeds its recoverable value, the goodwill allocated to this cash-generating entity must be written off in the amount of the difference; devaluations are not reversed in this case.

The recoverable value for a cash-generating entity which corresponds to the legal entity is calculated on the basis of its use value. The use value is determined by application of the DCF procedure. The calculations are based on projections resulting from financial plans approved by management and are also used for internal purposes.

Consolidated Notes

Tangible assets

Tangible assets are evaluated at acquisition costs less scheduled straight-line depreciation. The depreciation period for fixtures, fittings and equipment varies between two and nineteen years. Additions during the fiscal year are written off pro rata temporis. Borrowing costs are measured in the period in which they are incurred as expenditures because there are no qualifying assets in accordance with IAS 23.5.

Financial instruments

A financial instrument is a contract which simultaneously leads to the creation of a financial asset for one company and to the creation of a financial liability or equity instrument for another company. Financial instruments are included in the consolidated balance sheet at the point in time at which a consolidated company becomes the party of the financial instrument. However, the day of performance is relevant in the case of purchases and sales usual on the market for the initial inclusion in and the removal from the balance sheet.

A financial asset is derecognised when the conditions of IAS 39.17–39.18 have been fulfilled. If the Group assigns its contractual rights to payment flows from an asset and retains essentially all of the threats and opportunities related to the ownership of this asset, the Group continues to record the assigned asset in the scope of its on-going commitment.

Financial assets include in particular cash and cash equivalents, trade receivables, financial assets available for sale and loans and receivables and derivative financial assets maintained for commercial purposes. Financial liabilities include trade accounts payable, liabilities due to banks, liabilities from financing leasing relationships and derivative financial liabilities. Financial assets and financial liabilities are shown as balances only if there is an offset right with respect to the amounts and the intention is to realise a balance on a net basis.

Financial instruments are valued at their fair value when recognised for the first time. The transaction expenses which are directly attributable to the acquisition must be taken into account for all of the financial assets and liabilities which are subsequently valued at the fair value without effect on income. The fair values measured in the balance sheet correspond as a rule to the market prices of the financial assets and liabilities.

The subsequent valuation depends on whether a financial instrument is held for commercial purposes or until its final maturity, whether it is available for sale or whether it comprises loans and receivables of the company. Financial instruments held for commercial purposes are valuated at the fair value with effect on income. If it is intended, and can also from a commercial standpoint be expected with reasonable confidence, that the financial instruments will be held until their final maturity, they are valuated in accordance with the effective rate of return method with the acquisition costs carried forward. All other original financial assets, unless they are loans and receivables, must be classified as available for sale and valuated at the fair value. This value is determined on the basis of market prices (exchange prices). The profits and losses resulting from the valuation at the fair value are included in shareholders' equity as non-operating results. This does not apply if there are permanent or major losses in value or if there are changes in the value of borrowed capital instruments as a consequence of currency exchange rates. When the financial instruments are derecognised, the cumulative profits and losses recorded in shareholders' equity are shown in the income statement effective on income.

Other financial assets

Other financial assets are always classified as "available for sale" in accordance with IAS 39 and measured at current market value. Changes in market valuation are presented in equity as non-operating results by means of the market valuation provision.

Consolidated Notes

Inventories

The inventories, comprising solely and exclusively merchandise and payments on account, are evaluated at the lower of acquisition costs or realisable net sales value. The evaluation of the merchandise is based on the FIFO principle.

Receivables and other assets

Receivables and other assets were measured at nominal value in the balance sheet. Valuation allowances were created for default risks. Receivables and liabilities related to the network operators Telekom, Vodafone, E-Plus and O_2 are shown in the balance sheet as balances in each case. Any receivables which result from the calculation of the balance are shown in the other current assets, liabilities under the trade accounts payable.

Liabilities

Financial liabilities are shown at acquisition costs carried forward in accordance with IAS 39. Directly attributable issue costs are deducted when the financial liabilities are taken out and distributed with effect on earnings over the entire term.

Leases

Leases are classified, pursuant to IAS 17, as finance leases if and when essentially all of the threats and opportunities associated with the ownership of the leased object are transferred to the lessee. Any other leases are to be classified as operating leases.

Assets held within the framework of finance leases are capitalised at the beginning of the lease at their fair value or, if it is lower, at the cash value of the minimum leasing instalments, then written off according to straight-line depreciation. The corresponding liability to the lessor is shown in the balance sheet as obligation from finance lease. The leasing instalments are allocated proportionately to financing expenses and reduction in the lease obligation so that over the periods a constant interest rate on the remaining balance of the obligations is created for each reporting period. Rent payments from operating leases are recorded according to the straight-line method with effect on income over the term of the pertinent lease.

Pension provisions

Pension provisions for merit-based pension commitments are determined actuarially according to the projected unit credit method and shown in the balance sheet on the basis of an assessor's valuation on the balance sheet date.

The pension commitments shown in the balance sheet represent the cash value of the merit-based commitment adjusted for the service period expenses which are to be offset retroactively and for actuarial profits and losses, less the fair value of the scheme assets. Actuarial profits and losses are taken into account and allocated to the average future remaining service period solely to the extent that they exceed a corridor corresponding to 10% of the scope of the obligation or the market value of the scheme assets, whichever is higher.

Short-term provisions

Provisions are created for legal or de facto obligation which originated in the past if it is probable that the fulfilment of the obligation will result in an outflow of Group resources and a reliable estimate of the amount of the obligation can be made.

Consolidated Notes

Deferred taxes

Deferred taxes are shown according to the liability method for all temporary differences between the tax value measurements and the book values. The tax rates which will presumably apply at the point in time of the reversal of the temporary differences are applied. Deferred taxes are not created if the temporary difference results from goodwill.

Deferred taxes are shown as tax revenue or expenses in the income statement unless they directly affect items included in shareholders' equity as non-operating results; in this case, the deferred taxes as also shown as non-operating results in shareholders' equity.

Share-based compensation

Until 31 December 2010, there was a share-based payment agreement in place between Drillisch AG and its Management Board members as a part of the total compensation. The consideration which was received was valuated indirectly on the basis of the fair value of the equity instruments and recorded pro rata temporis as personnel expenses and as a provision. The fair values were determined for the first time on the day of the grant and subsequently on each and every balance sheet date, applying suitable option price models. Changes in the fair value were recorded effective on income.

Usage of assumptions and estimates

During the preparation of the consolidated annual accounts, assumptions were made and estimates applied which affected the disclosure and measurement of the assets, liabilities, earnings, expenditures and contingent liabilities shown in the balance sheet. These assumptions and estimates are related primarily to the determination of commercial lifetimes used as a standard throughout the Group, the assumptions concerning the recoverability of goodwill, brand rights, receivables and investments, the valuation of provisions and the realisability of future tax relief. The actual values may, in individual cases, deviate from the assumptions and estimates which have been made, especially with respect to dividend returns, interest rates and volatilities. Any changes will be given due consideration with effect on the results whenever more precise knowledge becomes available.

Estimates are necessary especially in measuring the goodwill in the balance sheet and its recoverability tests, in determining the interest factor for calculation of the pension provisions and the valuation of other provisions when showing them in the balance sheet.

The Drillisch Group has a key approach of financial risk management for the identification, measurement and control of risks. The risk items are derived from the income and expenditures affecting payments which are undertaken and planned throughout the Group.

Consolidated Notes

Explanatory comments on the consolidated comprehensive income statement

1. Sales

	2010	2009
	€k	€k
Telecommunications		
Wireless services providing	362,317	344,270
Other sales	68	95
Software services	106	172
	362,491	**344,537**

Other sales refer to landline network sales of Drillisch Telecom GmbH.

2. Other operating income

	2010	2009
	€k	€k
Receipt of written-off receivables	881	1,010
Reversal of provisions and liabilities	350	420
Insurance benefits	29	112
Reimbursement of dunning fees (lawyer and court fees)	27	35
Out-of-court settlement	500	7,406
Other	851	1,222
	2,638	**10,205**

3. Cost of materials/expenditures for purchased services

The cost of materials comprises essentially basic fees and fees for the on-going use of the wireless services networks of the network operators (air time), commissions and bonuses paid to distribution partners and expenditures related to the merchandise business (purchase of wireless devices, prepaid bundles and starter cards).

4. Personnel expenses

	2010	2009
	€k	€k
Wages and salaries	21,541	19,092
Social security contributions	2,349	2,354
	23,890	**21,446**

Payroll expenses include expenditures for severance pay and expenditures for continued payment of salary following the release of employees in the amount of €3,286k.

Consolidated Notes

The number of employees (excluding Management Board, part-time employees converted to equivalent full-time positions) came to:	**2010**	**2009**
Annual average	377	380
Annual average - vocational trainees	41	40

The programme to increase share value concluded for the Management Board in fiscal year 2007 expired on 31 December 2010. With it, the share appreciation rights with a scope of 50,000 shares still outstanding at the beginning of the fiscal year were forfeit. The rights were not exercised in 2010 because of the failure to achieve the success targets (increase in share price for Drillisch stock, starting from the base price, by 5%, 10%, 15% and 20% and better development than that of the Technology All-Share Index).

5. Other operating expenses

	2010	**2009**
	€k	€k
Advertising expenses	7,303	3,547
Legal and professional fees	3,774	3,420
Bad debts and valuation allowances	3,279	3,780
Rent and secondary costs	1,908	2,025
Billing and external work	1,269	1,652
Incidental costs for money transactions	596	562
Postal and telephone fees / Dedicated lines	521	581
Motor vehicle expenses	484	468
Travel and entertainment expenses	333	265
Other	3,567	4,701
	23,034	**21,001**

Bad debt losses and valuation allowances are related solely to the valuation category "Loans and Receivables".

6. Depreciation and amortisation

	2010	**2009**
	€k	€k
Intangible assets		
Own produced software	2,288	2,731
Customer relationships	2,162	2,162
Purchased software	389	429
Tangible assets	889	975
	5,728	**6,297**

Consolidated Notes

7. Financial results

Result from financial investments shown in the balance sheet according to the equity method

Until the middle of December 2009, this item contained the portion of the updating of the proportional equity of the investment in MSP Holding GmbH, valuated at equity, effective for income up to that time and the shares in freenet AG held directly.

Other financial results

The dividend distributions from freenet AG and the income from derivatives on shares of freenet AG are shown here.

Interest income/Interest and similar expenses

The interest income results solely from the valuation category of the “Loans and Receivables”. Interest and similar expenses are allocated solely to the valuation category “Financial Liabilities Measured at Amortised Cost”.

The interest and similar expenses include bank charges and commissions of €160k.

8. Taxes on income

	2010	2009
	€k	€k
Current income tax	11,704	12,276
Deferred taxes	-56	-2,589
Income tax expenses shown	**11,648**	**9,687**

Taxes on income which have either been paid or which are owed as well as deferred taxes as shown as taxes on income. Taxes on income comprise corporate income tax, solidarity surcharge and trade tax. Effective and deferred taxes are levied on stock companies as follows: corporate income tax 15.0% (previous year: 15.0%), solidarity surcharge of 5.5% (previous year: 5.5%) and trade tax, levied according to the rates charged in the specific municipality.

The actual tax expenses were reduced by the utilisation of deficits carried forward for MSP Holding GmbH of €95k which were previously not taken into consideration. Accordingly, there were accumulated deficits carried forward relevant for corporate income tax in the amount of €2,481k (previous year: €2,795k) and accumulated deficits carried forward relevant for trade tax in the amount of €2,085k (previous year: €2,399k), neither of which has been shown.

Consolidated Notes

The rollover from the expected expenditures for taxes on income which would result from application of the Group's income tax rate to the shown tax expenditure is presented below:

	2010	2009
	€k	€k
Profit before taxes on income	42,622	110,886
Tax expenses from application of the Group income tax rate of 30.25% (previous year: 30.25%)	12,893	33,543
Taxes for previous year	-107	-138
Trade tax additions	71	167
Non-deductible expenses and tax-free income	-982	-23,567
Effects of changes in tax rates	0	-160
Other effects	-227	-158
	11,648	**9,687**

The deferred taxes are calculated on the basis of the tax rates which are applicable according to the present legal situation or which are expected at the point in time of realisation. A tax rate of about 30.25% (previous year: about 30.25%) was applied, comprising corporate income tax of 15.0% (previous year: 15.0%), the solidarity surcharge of 5.5% and an average trade tax rate of 14.43%.

The deferred tax reimbursements and liabilities are composed of the following:

	2010	2009
	€k	€k
Deferred tax reimbursements for		
Other intangible assets	341	510
Other current assets	594	1,115
Leasing liabilities	344	141
Market evaluation provision	283	0
Pension provisions	11	61
Financial assets	0	50
	1,573	**1,877**
Deferred tax liabilities for		
Other intangible assets	2,407	3,124
Financial assets	0	11
Leasing assets	343	155
Market evaluation provision	0	68
Bank loans and overdrafts	21	142
	2,771	**3,500**

Consolidated Notes

The deferred tax reimbursements comprise €1,132k (previous year: €1,479k) on short-term and €441k (previous year: €398k) on long-term assets and liabilities. The deferred tax liabilities comprise €296k (previous year: €1,118k) on short-term and €2,475k (previous year: €2,382k) on long-term assets and liabilities. Deferred tax liabilities of €283k were created as non-operating results owing to the evaluation of the freenet stock through application of the market valuation provision.

Explanatory comments on the consolidated balance sheet

9. Other intangible assets

	Trademarks	Customer relationships	Own produced software	Purchased software	Total
	€k	€k	€k	€k	€k
Acquisition costs					
As per 01 January 2009	**6,668**	**8,650**	**13,744**	**2,810**	**31,872**
Additions	699	0	1,996	293	2,988
Addition to consolidated companies	0	0	310	554	864
Disposals	0	0	0	0	0
As per 31 December 2009	**7,367**	**8,650**	**16,050**	**3,657**	**35,724**
Additions	0	0	1,995	81	2,076
Disposals	0	0	0	10	10
As per 31 December 2010	**7,367**	**8,650**	**18,045**	**3,728**	**37,790**
Accrued depreciation					
As per 01 January 2009	**0**	**3,965**	**9,837**	**2,158**	**15,960**
Additions	0	2,162	2,731	429	5,322
Addition to consolidated companies	0	0	0	398	398
Disposals	0	0	0	0	0
As per 31 December 2009	**0**	**6,127**	**12,568**	**2,985**	**21,680**
Additions	0	2,162	2,288	389	4,839
Disposals	0	0	0	0	0
As per 31 December 2010	**0**	**8,289**	**14,856**	**3,374**	**26,519**
Book values					
as per 31 December 2009	7,367	2,523	3,482	672	14,044
as per 31 December 2010	**7,367**	**361**	**3,189**	**354**	**11,271**

Consolidated Notes

The additions of the own produced software are related to the software developed by IQ-optimize AG and used by the Company.

During the purchase price allocation process for Telco GmbH in 2007 and eteleon e-solutions AG in 2009, customer relationships, own produced software and the trademarks Telco and eteleon were recognised. The trademarks are intangible assets with an unlimited useful life. Based on the analysis of the relevant factors (planning related to the future use of the asset, expected market behaviour, and so on), there is no foreseeable limitation to the periods in which the trademarks will presumably generate net cash flows.

10. Goodwill

The goodwill was allocated to the entities generating funds as shown below:

	Acquisition costs	Accrued depreciation as per 31 December 2010	Book values
	€k	€k	€k
Drillisch Telecom GmbH	89,314	22,976	66,338
IQ-optimize AG	103	41	62
eteleon e-solutions AG	806	0	806
	90,223	**23,017**	**67,206**

The goodwill of Drillisch Telecom GmbH results from the original goodwill in the companies Alphatel GmbH, VICTORVOX GmbH and Telco GmbH.

The acquisition costs and the accrued depreciation as well as the resulting book values did not change in comparison with the previous year.

The value of the goodwill was reviewed using the amounts realisable for these cash-generating entities, calculated on the basis of their utilisation values. The utilisation values result from the future cash flows, including interest. The company planning approved by management for the years 2011 to 2014 and for the time after that is based on a sustained net profit with a constant growth rate of 1% in equity costs derived from the budgetary figures for 2015. Interest paid on the cash flows for the period 2011 to 2014 was calculated at an interest rate of 8.3% and for the following period at an interest rate of 7.6% pa. The major assumption for the planning of the cash-generating entities is the number of subscribers. No adjustments in the value of the goodwill were required in fiscal year 2010. There was no value reduction in goodwill from a reduction of the discount interest rate by 1% and in consideration of a lump-sum deduction of 25% from the expected cash flow.

Consolidated Notes

11. Tangible assets

	Fixtures, fittings and equipment	Tenant installations	Total
	€k	€k	€k
Acquisition costs			
As per 01 January 2009	**6,181**	**221**	**6,402**
Additions	538	0	538
Addition to consolidated companies	485	0	485
Disposals	1,612	0	1,612
As per 31 December 2009	**5,592**	**221**	**5,813**
Additions	1,903	23	1,926
Disposals	1,681	0	1,681
As per 31 December 2010	**5,814**	**244**	**6,058**
Accrued depreciation			
As per 01 January 2009	**4,512**	**167**	**4,679**
Additions	942	33	975
Addition to consolidated companies	325	0	325
Disposals	1,440	0	1,440
As per 31 December 2009	**4,339**	**200**	**4,539**
Additions	871	18	889
Disposals	772	0	772
As per 31 December 2010	**4,438**	**218**	**4,656**
Book values			
as per 31 December 2009	1,253	21	1,274
as per 31 December 2010	**1,376**	**26**	**1,402**

12. Other financial assets

The freenet AG stock held by MSP Holding GmbH and directly by Drillisch AG (15,540,650 shares) has been shown under the "Other financial assets" since the sale of freenet shares by United Internet AG in August 2009.

The book value is calculated as the acquisition costs of €9.10, less the market valuation provision created as a non-operating result of -€1,20 (price on 31 December 2010: €7.90) per share.

Consolidated Notes

13. Inventories

	2010	2009
	€k	€k
Merchandise	5,582	3,610
Value allowances on merchandise	-11	-9
Advance payments	2,134	2,666
	7,705	**6,267**

The merchandise consists primarily of mobile phones, SIM cards, prepaid bundles and accessories. The payments on account represent primarily vouchers in storage.

14. Trade accounts receivable

	2010	2009
	€k	€k
Gross receivables	29,543	34,796
Value allowances on receivables	-1,130	-1,362
	28,413	**33,434**

Analysis of maturity of trade receivables

	Book value	Thereof neither devalued nor overdue as of closing date	Thereof not devalued as of closing date and overdue in the following time spans			
			Less than 30 days	Between 31 and 90 days	Between 91 and 180 days	More than 180 days
	€k	€k	€k	€k	€k	€k
31/12/2010	28,413	15,311	2,938	1,225	2,815	5,676
31/12/2009	33,434	18,250	4,662	2,571	2,511	4,704

With respect to the receivables which as of the closing date had not been devaluated and which were not overdue, nothing was known as of the closing date which would indicate that the debtors would not fulfil their payment obligations.

Receivables which as of the closing date were not devaluated, but which were overdue, comprise essentially receivables due from customers and suppliers with whom payment in instalments in the amount of €339k (previous year: €328k) has been agreed. As long as these debtors fulfil their payment obligations, there will not be any valuation allowances and the receivables will continue to be valuated at acquisition costs.

In the Drillisch Group, valuation allowances are created on doubtful receivables to take into account estimated losses which result from customers' insolvency. The criteria used by management for the assessment of the reasonableness of the valuation allowances for doubtful receivables are the maturity structure of the receivable balances and experience related to the write-offs of receivables in the past, the creditworthiness of the customers and the changes in terms and conditions of payment. If the customers' financial position deteriorates, the scope of the write-offs which must actually be taken can exceed the scope of the expected write-offs.

Consolidated Notes

The valuation allowances on trade receivables have developed as shown below:

	2010	2009
	€k	€k
Valuation allowances as per 1 January	**1,362**	**752**
Addition from the change in the group of consolidated companies	0	580
Additions (expenses for valuation allowances)	9,746	10,175
Consumption / Reversal	-9,978	-10,145
Valuation allowances as per 31 December	**1,130**	**1,362**

15. Tax reimbursement claims

	2010	2009
	€k	€k
Corporate income tax	329	743
Trade tax	108	90
Other taxes	0	44
	437	**877**

The corporate income tax claims include corporate income tax credits of €132k (previous year: €147k).

16. Other current assets

	2010	2009
	€k	€k
Network operator receivables	2,936	3,509
Remaining claim from settlement	1,604	2,406
Deposits	11	46
Insurance claims	0	294
Other	1,678	1,155
	6,229	**7,410**

17. Equity

The Company's share capital in the amount of €58,507,916.50 is distributed in 53,189,015 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10.

The Annual General Meeting of 28 May 2010 adopted a resolution to distribute a dividend of €0.30 for each and every share entitled to receive a dividend. The number of issued shares totals 53,189,015. The distribution consequently amounted to a total of €15,957k.

Management Board and Supervisory Board will propose a dividend of €0.50 for each share entitled to dividends to the Annual General Meeting of the current year.

Consolidated Notes

Treasury stock

The Annual General Meeting on 29 May 2009 adopted a resolution authorising the Drillisch AG Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2009 on or before 28 November 2010.

A resolution was adopted by the Annual General Meeting on 28 May 2010 for an additional stock repurchasing programme, superseding the authorisation of 29 May 2009. The repurchasing programme applies to a maximum of 10% of the share capital at the time of the Annual General Meeting 2010 (5,318,901 shares) and has a term running until 27 May 2015.

Capital surplus

The capital surplus contains the premium over the nominal amount from the issue of shares by Drillisch AG.

Earnings reserves

The earnings reserves contain the profits realised in the past by the companies included in the consolidated annual accounts which were not distributed from a Group perspective.

Non-controlling shareholders

The non-controlling shareholders are third-party stockholders at eteleon e-solutions AG.

Approved capital

The Annual General Meeting of 30 May 2008 authorised the Management Board, subject to the approval of the Supervisory Board, to increase the Company's share capital by as much as €29,253,957.70 by a single or multiple issue of new shares against cash contributions and/or contributions in kind before the lapse of 29 May 2013 (approved capital). In the event of cash contributions, the new shares may also be taken over by one or more banks, subject to the obligation to offer them for purchase to the shareholders (indirect subscription right). On principle, a subscription right is to be granted to the shareholders. However, the Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights:

- So that fractional amounts are excluded from the subscription right;
- If the capital increase is achieved by cash contributions and the issue price of the new shares is not significantly lower than that of the equivalent shares already traded on the exchange at the time of the final determination of the issue price by the Management Board. The number of shares issued subject to exclusion of the subscription pursuant to Section 186 (3) (4) AktG may not exceed 10% of the share capital, neither at the point in time at which the authorisation becomes effective nor at the point in time that it is exercised. Any shares which have been issued or must be issued to satisfy subscription rights from options or convertible bonds, provided that the debenture bonds have been issued during the term of this authorisation subject to application mutatis mutandis of Section 186 (3) (4) AktG and excluding the subscription right must be included in this figure. Furthermore, any shares which are issued or sold, subject to the exclusion of a subscription right, during the term of this authorisation on the basis of an authorisation for the use of treasury stock in accordance with Section 71 (1) (8) and Section 186 (3) (4) AktG must be included in this figure;
- If the capital increase against contributions in kind is carried out for the purpose of providing shares within the framework of corporate mergers or of acquiring companies or parts of companies, holdings in companies or other assets;
- So that new shares up to a proportionate amount of the share capital totalling €2,925,395.00 may be issued as staff shares to employees of the Company or of affiliated companies within the sense of Section 15 et seqq. AktG.

Consolidated Notes

Furthermore, the Management Board is authorised, subject to the approval of the Supervisory Board, to determine the further content of the stock rights and the terms and conditions of the issue of the shares. The Supervisory Board is authorised to amend the current version of the Company Charter in accordance with the specific utilisation of the approved capital or after the expiration of the authorisation.

18. Leasing agreements

The tangible assets and the software include the following finance leases:

	Fixtures, fittings and equipment	Software	Total
	€k	€k	€k
Acquisition costs			
As per 01 January 2009	**2,614**	**1,131**	**3,745**
Additions	0	0	0
Disposals	1,226	1,131	2,357
As per 31 December 2009	**1,388**	**0**	**1,388**
Additions	1,218	0	1,218
Disposals	404	0	404
As per 31 December 2010	**2,202**	**0**	**2,202**
Accrued depreciation			
As per 01 January 2009	**1,421**	**1,041**	**2,462**
Additions	682	90	772
Disposals	1,226	1,131	2,357
As per 31 December 2009	**877**	**0**	**877**
Additions	596	0	596
Disposals	404	0	404
As per 31 December 2010	**1,069**	**0**	**1,069**
Book values			
as per 31 December 2009	511	0	511
as per 31 December 2010	**1,133**	**0**	**1,133**

Leasing liabilities	Up to 1 year	1 to 5 years
	€k	€k
Leasing payments	488	703
Interest	31	22
Cash values	**457**	**681**

Various fixed assets were sold to GEFA-Leasing and then leased back on the basis of sale-and-lease transactions. The cash value of the leasing instalments was carried as a liability. The leasing agreements include extension and purchase options.

Consolidated Notes

19. Pension provisions

Provisions are created for commitments from pension expectancies to present and former employees or their survivors.

Pension provisions are shown in the balance sheet and valuated in accordance with IAS 19. The future commitments are valuated by applying actuarial procedures and using prudent estimates of the relevant influential variables. The company pension plan in the Group is merit-based and as a rule depends on the time of service to the Company and the compensation paid to the employees.

The following calculation parameters are used in addition to the assumptions about life expectancy:

Calculation parameters	2010	2009
	%	%
Calculated interest rate	5.25	5.60
Expected income from scheme assets	2.50	0.00
Expected development of income	0.00	0.00
Expected development of pensions	0.00	0.00
Fluctuation	0.00	0.00

The pension provisions are always valuated by applying the 10% corridor rule. Actuarial profits or losses are not considered with effects on income provided that they do not exceed 10% of the higher of the scope of the commitments or market value of the scheme assets. Any amount exceeding this corridor is distributed with effect on income over the average remaining time of service of present employees. The scheme assets represent a pension plan reinsurance which has been pledged to the employees.

The reference tables 2005 G from Dr Klaus Heubeck were used for the biometrical basis of the calculations. The fluctuation probability was estimated specifically to age and sex.

The income expected from the scheme assets was determined essentially on the basis of the development of the reinsurance policy in the past.

Analysis of Pension Model	2010	2009	2008	2007	2006
	€k	€k	€k	€k	€k
Cash value of pension expectancies for merit-based pension commitments (DBO)	955	929	920	952	922
Fair value of scheme assets	309	0	0	0	0
Shortfall of scheme	**646**	**929**	**920**	**952**	**922**
Adjustment of obligations based on experience	2	-28	25	30	0
Adjustment of scheme assets based on experience	-8	0	0	0	0

The reinsurance to be shown in the balance sheet as scheme assets in the fiscal year was shown in previous years under the Other assets.

Consolidated Notes

As of the closing date, the amount of pension commitments which result are shown in the balance sheet as follows:

Balance sheet obligations	2010	2009
	€k	€k
Cash value of pension expectancies for pension commitments (DBO)	787	929
Actuarial profits/losses not considered	21	27
Costs for changes in claims from previous years not considered	0	0
Market value of scheme assets	-309	0
Pension provisions as per 31 December	**499**	**956**

In the fiscal year, the commitments were financed exclusively by funds; in previous years, they were financed exclusively by provisions.

Development of cash value of pension expectancies (DBO)	2010	2009
	€k	€k
As per 1 January	929	920
Addition to consolidated companies	0	0
Costs for pension claims acquired in fiscal year	5	6
Interest	42	30
Pension payments	0	0
Service period expenses to be offset retroactively	0	0
Actuarial profits/losses	-21	-27
Other changes	-168	0
As per 31 December	**787**	**929**

The costs for the pension claims acquired during the fiscal year are shown in the personnel expenses and the interest, including the income from the scheme assets, is shown in the financial results.

Pension expenditures (NPPC)	2010	2009
	€k	€k
Costs for pension claims acquired in fiscal year	5	6
Interest	42	30
Expected income from scheme assets	-7	0
Actuarial profits/losses recognised effective for income	0	0
Service period expenses to be offset retroactively	0	0
	40	**36**

Consolidated Notes

The reinsurance developed as follows:

Development of fair value of scheme assets	2010	2009
	€k	€k
As per 1 January	294	0
Expected income from scheme assets	7	0
Actuarial profits/losses	8	0
As per 31 December	**309**	**0**

Actual income from scheme assets	2010	2009
	€k	€k
Expected income from scheme assets	7	0
Actuarial profits/losses	8	0
	15	**0**

No contributions will be made to the reinsurance in fiscal year 2011.

The scheme assets comprises exclusively a reinsurance policy.

20. Bank loans and overdrafts

	2010	2009
	€k	€k
Long-term liabilities	56,930	59,531
Short-term liabilities	0	20,003
	56,930	**79,534**

The loan agreement for a total of €100 million concluded between the West LB AG, Düsseldorf, and Drillisch AG on 16 April 2008 was cancelled during the fiscal year and the resulting liabilities of €80 million were repaid.

A new loan agreement for a total of €100 million was agreed between the Commerzbank Aktiengesellschaft, Frankfurt, and the West LB AG, Düsseldorf, as the arranger and Drillisch AG on 15 October 2010. The loan is divided into a bullet loan (€40 million) and a revolving loan (€60 million) and was utilised to the extent of €57 million as per 31 December 2010. The interest rate comprises two components: the EURIBOR applicable to the relevant interest period and a margin agreed in the loan agreement. As of 31 December 2010, the combined interest rate came to 2.36%. The loan has a term running until 15 October 2014. The loan must be repaid at the end of the term at the latest; interim obligatory repayments have not been agreed. Voluntary premature amortisation is possible at any time.

Beginning in fiscal year 2011, the applicable margin will be adjusted quarterly and oriented to the ratio of consolidated net financial debt to consolidated EBITDA on the basis of the 12 months previous to the relevant quarterly closing date. The minimum margin is 1.10% for the bullet loan and 1.25% for the revolving credit and will be applied if the ratio of consolidated net financial debt to consolidated EBITDA is less than 1 to 1. If this ratio is greater than 2 to 1, the maximum possible margins of 2.10% and 2.25%, respectively, will apply.

Consolidated Notes

The bank charges of €950k due and payable when the loan became available will be set off against the nominal amount of the loan and distributed per schedule over the term.

Drillisch AG has pledged 2.5 million shares of the freenet stock it holds directly as security for the loan. As of the balance sheet date, the security had a total value of €19.7 million.

The loan is tied to particular financial indicators; in the event of failure to comply with these indicators, the loan agreement may be terminated.

The interest expenses related to the loans amounted to €1,166k in fiscal year 2010 (previous year €2,333k).

21. Short-term provisions

	As per 1.1.2010	Utilisation	Reversals	Additions	As per 31.12.2010
	€k	€k	€k	€k	€k
Basic charges	665	665	0	696	696
Commissions	0	0	0	72	72
Litigation risks	511	215	150	37	183
Removals	144	50	15	0	79
Other	776	757	0	304	323
	2,096	**1,687**	**165**	**1,109**	**1,353**

The Drillisch Group presumes that there will be an outflow of funds in fiscal year 2011.

22. Tax liabilities

	2010	2009
	€k	€k
Corporate income tax	2,390	3,365
Trade tax	3,908	4,640
Turnover tax	898	1,562
	7,196	**9,567**

23. Trade accounts payable

This item includes essentially invoices from network operators.

24. Payments received on account

This item includes income from sold vouchers and top-ups by pre-paid customers which had not yet been used for phone calls as of the balance sheet date.

Consolidated Notes

25. Other liabilities

	2010	2009
	€k	€k
Liabilities due to sales partners/customers	6,483	2,342
Payroll	4,695	1,931
Basic charges	1,526	1,988
Income tax	309	276
Employers' liability insurance association	53	49
Security deposits	14	16
Holiday leave not taken	0	18
Other	1,001	302
	14,081	**6,922**

The item wages and salaries essentially contains liabilities for restructuring measures carried out during the closure of the Idstein location in the amount of €2,314k.

26. Analysis of maturity

	2010	Cash flow 2011			Cash flow 2012–2016
	Book value	< 1 month	1 to 3 months	3 months to 1 year	> 1 year
	€k	€k	€k	€k	€k
Bank loans and overdrafts	56,930	124	249	1,122	61,245
Trade accounts payable	24,757	24,757	0	0	0
Liabilities from finance leases	1,138	65	102	321	703

Consolidated Notes

27. Net profits and losses from valuation categories

	Interest	From subsequent valuation		From disposals	Net results	
		At fair value	Value allowances		2010	2009
	€k	€k	€k	€k	€k	€k
Loans and Receivables (LaR)	781	0	-3,279	881	-1,617	-2,038
Available for Sale (AFS)						
-effective on results	0	0	0	0	0	108
-non-operating	0	-22,852	0	0	0	0
Derivatives	0	0	0	0	-0	-6,425
Financial liabilities measured at amortised cost (FLAC)	-1,988	0	0	0	-1,988	-4,454
thereof from the effective rate of return method	-399	0	0		-399	-117
	-1,606	**-22,852**	**-3,279**	**881**	**-3,605**	**-12,809**

28. Other financial obligations

	Rents	Leasing	Total	Previous year
	€k	€k	€k	€k
Payable within 1 year	1,141	779	1,920	1,642
Payable in 1 to 5 years	2,333	855	3,188	3,349
Payable in over 5 years	0	0	0	0
	3,474	**1,634**	**5,108**	**4,991**

In the fiscal year, €1,625k (previous year: €1,328k) from rent and leasing payments was included in expenditures.

29. Additional disclosures of financial instruments in accordance with IFRS 7

A financial reporting system responsible for the security and financing activities of the Group has been installed throughout the Drillisch Group. Market, liquidity and loan risks of the Group can be identified and appropriate measures and strategies determined with the aid of this financial reporting system. The risks are managed centrally in accordance with guidelines adopted by the Management Board.

The Drillisch Group is subject to various threats in its business fields. These threats and their management are described in detail in the risk report which is part of the consolidated management report. Capital management is described under Point 1.9 of the consolidated management report.

The risks resulting from the financial instruments are related to loan risks, liquidity risks and market risks. The loan risks take the form of the risks of losses of financial assets. Liquidity risks are refinancing risks and are risks of the on-time fulfilment of the Group's existing payment obligations. Market risks occur in the Group in the form of interest risks and stock price risks.

Consolidated Notes

The risk of asset losses in the Group is limited as a maximum to the book values of the financial assets. For the original financial instruments, this is the total of the book values. The risk of asset losses is given due consideration by valuation allowances. There is no concentration of risks of loss of assets on individual debtors, especially because of the mass business. When seen against this background, the risk of loss is deemed to be slight.

Early recognition of the future liquidity situation is obtained by considering payment flows, taking into account the planned assets and liabilities and earning position in the 5-year planning of the Group. The short-term liquidity planning is updated daily with actual figures.

IFRS 7 requires sensitivity analyses to show market risks. The influence of risk variables on earnings and equity is to be described by hypothetical changes in these variables based on past experience. In this regard, risks due to changes in interest and stock prices are above all relevant for the Drillisch Group.

The holdings in the financial instruments as of the balance sheet date are representative for the entire fiscal year. The holdings in the financial instruments are valuated as imputed values with additions and deductions to the risk variables to determine their effects on earnings and equity.

Interest risks results from changes in the market interest level. Within the framework of the sensitivity analysis of IFRS 7, the effects of changes in the market interest level on interest payments, interest expenses and interest income, on other sectors of the results and on equity are shown.

The sensitivity analyses of interest risks are based on the following premises: Original financial instruments with fixed interest rates are subject to interest risks only if they are valuated at the fair value. Financial instruments which are valuated at acquisition costs are not subject to any risks from changes in the market interest level.

Original financial instruments with a variable interest rate are subject to market interest risks and are included in the sensitivity analysis.

Stock price risks result from changes in the market prices (stock exchange prices). Within the framework of the sensitivity analysis of IFRS 7, the effects of changes in the stock exchange prices on the results and on equity are shown.

Sensitivity analysis

In the event of a change in the market interest level as per 31 December 2010 of ±100 base points, the Group results would be €570k lower or €570k higher.

This hypothetical effect on results is based on original financial debts subject to variable interest rates.

In the event of a change in the stock exchange price for the freenet AG shares of ±10%, the consolidated equity would be €12.1 million (after taxes) higher or €12.1 million (after taxes) lower.

Miscellaneous disclosures about financial instruments

None of the financial assets were reclassified into another valuation category of IAS 39 during the reporting period. None of the financial assets and financial liabilities were designated as effective for income at the attributable market value during the reporting period. The pertinent book value for short-term financial assets and liabilities which are not derivatives is a reasonable approximation of the attributable market value within the sense of IFRS 7.29(a).

The book values of financial assets which serve as collateral for liabilities and the terms and conditions of collateral are shown under the item “Liabilities due to banks”.

Consolidated Notes

The valuation categories shown below result from the classification of all assets and liabilities pursuant to IAS 39:

	Measurement category IAS 39	Book value 31.12.2010		Book value 31.12.2009	
		€k	thereof no financial instrument €k	€k	thereof no financial instrument €k
Assets					
Cash	LaR	27,591		26,915	
Trade accounts receivable	LaR	28,413		33,434	
Other financial assets	AFS	122,758		145,960	
Accounts due from affiliated companies	LaR	0		3	
Accounts due from companies in which there is a participating interest	LaR	0		0	
Other current assets	LaR/n,a,	6,229	1,027	7,410	221
thereof derivatives	n,a,				
Shareholders' equity					
Trade accounts payable	FLAC	24,757		27,541	
Bank loans and overdrafts	FLAC	56,930		79,534	
Other liabilities	FLAC	14,081	9,108	6,922	4,563
thereof derivatives	n,a,	0		0	
Liabilities from financing leasing	n,a,	1,138	1,138	466	466

thereof aggregated as per valuation categories as per IAS 39		
Loans and Receivables (LaR)	61,206	67,541
Financial assets available for sale (AFS)	122,758	145,960
Financial liabilities measured at amortised cost (FLAC)	86,660	109,433
Derivatives	0	0
Liabilities from finance leasing	1,138	466

Consolidated Notes

30. Segment reporting

The segment report is based on the internal organisation and reporting structure. It differentiates among the products and services offered by the various segments of the Drillisch Group. The software services segment is shown along with the telecommunications segment.

The activities of the Group in the sector of wireless services are bundled in the telecommunications segment. The operating companies in the Drillisch Group market wireless services from all four of the wireless services network operators active in Germany. The services acquired from the network operators Telekom Deutschland GmbH, Vodafone D2 GmbH, E-Plus Mobilfunk GmbH and Telefónica O_2 Germany GmbH & Co. OHG are sold further to the end consumers for the Company's own account and at rates established by Drillisch on the basis of its own calculations.

Activities related to the development and marketing of a workflow management software are bundled in the segment software services.

	2010	2009
	€k	€k
Sales		
Telecommunications (third-party sales)	362,385	344,365
Software services (third-party sales)	106	172
Software services (internal sales)	9,080	7,026
Consolidation	-9,080	-7,026
Group	**362,491**	**344,537**
Segment results (EBITDA)		
Telecommunications	46,056	50,528
Software services	75	131
Group	**46,131**	**50,659**

The consolidation includes the elimination of the business relationships within or between the segments. Such relationships are essentially the offsetting of the expenses and income within the Group. The accounting methods are identical for all of the segments.

The financial assets shown in the balance sheet according to the equity and AFS method and their results are allocated to the telecommunications segment. The transfer prices correspond on principle to the prices determined by arm's length comparison. Since the Drillisch Group is active only in Germany, there are no geographic segments. The major segment expenditures without effect on payments are related to the allocations to the provisions.

Consolidated Notes

Rollover

The rollover of the total of the segment profits (EBITDA) to the profit before taxes on income is determined as shown below:

	2010	2009
	€k	€k
Total segment results (EBITDA)	46,131	50,659
Depreciation	5,728	6,297
Operating results	40,403	44,362
Financial results	2,219	66,524
Results before taxes	**42,622**	**110,886**

31. Explanatory comments on the capital flow statement

The liquidity (cash) shown in the cash flow statement includes cash on hand and cash in banks, shown under cash in the consolidated balance sheet.

32. Auditor's fee

Fees posted as expenditures:

	2010	2009
	€k	€k
1. Audit	253	256
2. Other certification services	49	48
3. Tax accountant services	87	116
4. Other services	0	0
	389	**420**

33. Related party disclosures

As per 31 December 2010, there were claims due from and liabilities due to relatives and companies as shown below:

The Baugemeinschaft Maintal, consisting of the shareholders Paschalis Choulidis and Marianne Choulidis, has rented office space in Maintal to the Drillisch Group. The lease was originally concluded for a fixed term until 30 June 2010 and was extended by a five-year period because notice of termination was not given in 2010. Rent in 2010 came to €507k (previous year: €507k).

Ms Marianne Choulidis and Ms Simone Choulidis received compensation totalling €76k (previous year: €76k) as employees of Drillisch Telecom GmbH.

The company Flexi Shop GmbH, Oestrich-Winkel (shareholder Mr Jannis Choulidis), realised sales in the amount of €759k (previous year: €172k) with the Drillisch Group in fiscal year 2010.

Consolidated Notes

34. Supervisory Board

Dr Hartmut Schenk, Dipl.-Kfm.,
(similar to Bachelor of Commerce), Chartered Public Accountant and Tax Accountant, Saarbrücken
- *Chairperson* -
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal (Supervisory Board chairperson)
Optima Gruppe AG, Saarbrücken (Supervisory Board chairperson)

Michael Müller-Berg, Dipl.-Kfm.,
Director, Cologne
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal
Knowledge Intelligence AG, Cologne
Communology GmbH, Cologne (Advisory Board)

Johann Weindl, Dipl.-Kfm.,
Chartered Public Accountant and Tax Accountant, Munich
- *Deputy Chairperson* -
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal

Horst Lennertz, Dr.-Ingenieur,
(Doctor of Engineering), Consultant, Meerbusch
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal
E-Plus Mobilfunk Geschäftsführungs GmbH, Düsseldorf

Nico Forster
Merchant, Kraiburg (until 16 February 2010 †)
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal
IQ-optimize Software AG, Maintal
ARIADNE AG, Tunzenberg
EMG Casting AG, Waldkraiburg
EMG Milling AG, Waldkraiburg
EMG Real AG, Waldkraiburg

Marc Brucherseifer, Dipl.-Kfm.,
Merchant, Frechen
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal
IQ-optimize Software AG, Maintal (Supervisory Board chairperson) (since 5 May 2010)

Dr Bernd H. Schmidt
Managing Director, Saarbrücken (since 28 May 2010)
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal

Consolidated Notes

The following members of the Supervisory Board were members of the following committees in 2010:

Nominating Committee:
All Supervisory Board members; Chair: Dr Schenk

Audit Committee:
Mr Weindl, Mr Forster, Mr Brucherseifer and Dr Lennertz; Chair: Mr Weindl

Personnel Committee:
Mr Müller-Berg, Dr Lennertz and Dr Schenk; Chair: Dr Schenk

35. Management Board

Paschalis Choulidis
Vorstandsprecher, Langenselbold
- Executive Officer Finances, Controlling and IT, CEO -
Seats held on supervisory boards required by law
or other supervisory bodies:
IQ-optimize Software AG, Maintal
eteleon e-solutions AG, Munich

Vlasios Choulidis
Gelnhausen,
- Executive Officer Sales, Marketing and Customer Care -
Seats held on supervisory boards required by law
or other supervisory bodies:
IQ-optimize Software AG, Maintal
eteleon e-solutions AG, Munich

36. Compensation paid to management in key positions and Supervisory Board

The compensation paid to the Management Board in the Group during fiscal year 2010 totalled €2,288k, thereof €1,400k variable (previous year: total €2,003k). In accordance with the resolution adopted by the Annual General Meeting on 26 May 2006, the compensation paid to the individual Management Board members is not itemised (Section 286 (5) HGB). In addition, the Management Board members received compensation for their activities as Supervisory Board members of subsidiaries in the amount of €19k (previous year €10k).

Compensation paid to the members of the Supervisory Board for their work in the parent company in the reporting period amounted to €105K (previous year: €108.5k). In addition, the Supervisory Board members received compensation for their activities in subsidiaries in the amount of €72k (previous year €70k).

The compensation system is described in the compensation report, which is a component of the consolidated management report.

37. Directors' Holdings

As per 31 December 2010, the Management Board members held the following stock in Drillisch AG:

Paschalis Choulidis	1,950,000 shares	via SP Beteiligungs-Gesellschaft mbH
Vlasios Choulidis	1,840,000 shares	via MV Beteiligungs-Gesellschaft mbH

Consolidated Notes

The Supervisory Board members held the following stock in Drillisch AG as per 31 December 2010:	
Marc Brucherseifer	3,909,295 shares
Johann Weindl	7,439 shares
Dr. Hartmut Schenk	5,000 shares

- Management Board and Supervisory Board hold a total of 14.5% of the stock of Drillisch AG as per 31 December 2010.

38. Declaration in accordance with Section 161 AktG

Management Board and Supervisory Board of Drillisch AG submitted the declaration required by Section 161 of the German Company Law on 15 March 2010 and made it permanently accessible to shareholders at the Internet address www.drillisch.de.

39. Profit per share

The consolidated profit is divided by the weighted average of the shares in circulation to determine the profit per share.

	2010	2009
Consolidated profit allocated to shareholders in €k	30,971	101,123
Weighted average, less own shares held	53,189,015	51,127,616
Consolidated Profit per Share in €	**0.58**	**1.98**

40. Exemption from the obligation to disclose the annual accounts pursuant to Section 264 (3) HGB

The following German subsidiaries in the legal form of a stock corporation fulfilled the conditions required pursuant to Section 264 (3) HGB for the exercise of the exemption provisions (Sections 325 to 329 HGB) in fiscal year 2010:

- Drillisch Telecom GmbH, Maintal
- IQ-optimize Software AG, Maintal
- SIMply Communication GmbH, Maintal
- MS Mobile Services GmbH, Maintal

Maintal, 4 March 2011

Drillisch Aktiengesellschaft

Paschalis Choulidis and Vlasios Choulidis

Auditor´s Opinion

Auditor's Report

We have audited the consolidated financial statements prepared by the Drillisch Aktiengesellschaft, Maintal, comprising the consolidated statement of comprehensive income, the statement of financial position, statement of changes in equity, statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from 1. January 2010 to 31. December 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to sec. 315a para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to sec. 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 4 March 2011

BDO AG
Wirtschaftsprüfungsgesellschaft

signed Dr. Gorny	signed Meier
Wirtschaftsprüfer (German Public Auditor)	Wirtschaftsprüfer (German Public Auditor)

Affidavity by legal representatives (balance sheet oath)

Affidavity by legal representatives (balance sheet oath)

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Maintal, 4 March 2011

Paschalis Choulidis and Vlasios Choulidis

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Publications

This Annual Report 2010 is also available in German.

You can view and download our business and quarterly reports, ad-hoc announcements, press releases and other publications about Drillisch AG at **www.drillisch.de**.

Your Contacts

Our Press/Investor Relations Department will be glad to answer any questions you may have concerning the Annual Report and Drillisch AG:

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Information and Order Service

Please use our online order service under the heading Investor Relations on our website www.drillisch.de. Naturally, we would also be happy to send you the desired information by post or by fax. We will be glad to help you with any personal queries by telephone.

Glossary

#

3G
Abbreviation for the mobile telephone network standard of the third generation, also known as ➨ UMTS. The analogue A, B and C networks (until the end of 2000) are known as the first generation; the digital GSM standard introduced in 1992 is called the 2nd generation.

4G
The most recent mobile telephone network standard – successor to ➨ UMTS – is called the 4th mobile telephone network generation. (See also ➨ LTE)

A

Aktiengesetz (German Company Law)
The German Company Law (Aktiengesetz, AktG) regulates the structure and governing bodies of stock corporations, e.g. Supervisory Board and Management Board, and shareholder rights.

ARPU
(Abbreviation for average revenue per user) Shows the average revenue from each customer.

C

Cash Flow
Net inflow of all of the cash which results from sales activities and other ongoing activities during a specific period.

Consolidated Cash Flow Statement
The consolidated cash flow statement is the liquidity-oriented part of accounting. It represents a determination of the value of payment flows over the course of a fiscal year, broken down into the categories of current business operations, investment activities and financing activities. Incoming and outgoing payments during the relevant reporting period are compared with one another; on this basis, the changes in cash inventory are determined and explained.

Corporate Governance
Name of guidelines (code of conduct) for good management.

Credit Customer
Customer who has concluded a contract with a rate schedule designed by Drillisch and who is billed once monthly in the Company's own billing system.

D

DCF
(Abbreviation for discounted cash flow) A DCF analysis is based on the total of all of the cash flows projected for the future and discounts them to the present value.

Debit Customer
Customer who is billed in a network operator system in accordance with a prepaid rate schedule set by the network operator, requiring the prior top-up of the card with credit.

Directors' Dealings
Stock transactions undertaken by the Management Board or Supervisory Board or the relevant report of holdings

Dividends
The dividend is the profit which is distributed proportionally for each share of stock in the stock corporation. The General Meeting of the stock corporation decides about the amount of the dividend and its distribution.

E

EBIT
Abbreviation for earnings before interest and taxes.

EBITDA
Abbreviation for earnings before interest, taxes, depreciation and amortisation, the most important performance indicator.

EDGE
(Abbreviation for enhanced data rates for GSM evolution) This special modulation protocol increases the transmission speed in ➨ GSM mobile telephony networks to as much as 473 kbit/s (in comparison: GPRS 171.2 kbit/s).

F

Flat Rates (mobile telephony services)
A flat rate is a lump-sum rate for telecommunications services such as telephony and data transmissions. The mobile telephone services industry offers flat rates for landline or mobile connections singly or as a combination flat rate for all networks.

Free Float
Number or proportion of shares which can be freely traded on the stock market rather than being held by strategic investors.

G

g~paid
Virtual cash card system which makes possible the secure distribution of activation codes for topping up ➨ pre-paid cards (e.g. in wireless networks, for online payment systems).

GPRS
(Abbreviation for general packet radio service) Technology providing higher data transmission rates in GSM networks (up to 171.2 kbit/s).

GSM
(Abbreviation for global system for mobile communications) Pan-European standard in the range of 900 and 1,800 MHz for digital mobile telephone networks.

H

HSDPA
(Abbreviation for high-speed downlink packet access) This special transmission protocol within the mobile telephone standard ➨ UMTS makes it possible to increase data rates between telecommunications network and end device (downlink) to as much as 7.2 Mbit/s.

HSUPA
(Abbreviation for high-speed uplink packet access) This transmission protocol within the mobile telephone standard UMTS makes it possible to increase data rates between end device and telecommunications network (uplink) to as much as 5.8 Mbit/s.

I

IFRS
(Abbreviation for International Financial Reporting Standards) Body of international accounting standards.

Issuer
An issuer is the party who issues securities.

L

LTE
(Abbreviation for long-term evolution) LTE, the successor to the mobile telephone standard ➨ UMTS – also known as the 4th generation (➨ 4G) of mobile telephony – enables transmission rates across various bandwidths of as much as 300 Mbit/s in downlink and 75 Mbit/s in uplink. Although a general standard has not yet been defined, field tests have already begun in various European countries, including Germany. The implementation of the new networks is scheduled to begin in 2010.

Glossary

M

MMS
(Abbreviation for multimedia messaging service) MMS makes it possible to use a mobile telephone to send multimedia messages – documents, pictures, even short video sequences – to other mobile end devices or to e-mail addresses.

Mobile Payment
Mobile payment (or m-payment) refers to the initiation, authorisation or realisation of payment (on the part of the debtor as a minimum) using a mobile electronic means of communication, e.g. cash card purchase using ➡ g~paid, payment of parking fees using a mobile phone or bank transfers via SMS.

Multimedia
Buzzword for the simultaneous integration of text information, still photos, video films and sounds.

N

No-frills Provider
These are products which are offered at comparatively low prices, but with very few options or additional features. On the wireless services market, the discounters are frequently referred to as "no-frills providers."

P

PIN
(Abbreviation for personal identification number) A number, usually consisting of four digits, saved on a data carrier, entered as verification when the holder uses a machine. The best-known examples are bank debit cards and cash points or ➡ SIM cards in a mobile phone. If the authorisation is blocked because of a series of incorrect entries, the device can no longer be used without entry of the ➡ PUK.

Post-paid
Payment model; the customer does not pay for the services he/she has used until the end of the statement period, when an invoice is issued.

Pre-paid
Payment model; the customer cannot use the services until a (pre-paid) account has been topped up.

Profit per Share
This figure shows the amount of the realised consolidated profit or deficit which can be appropriated to a single share of stock. The figure is calculated by dividing the results for the year (consolidated profit/deficit) by the weighted average of the number of issued shares.

PUK
(Abbreviation for personal unblocking key) A number, usually consisting of 8 digits, which can be used to unblock a blocked ➡ PIN (also called super PIN).

R

Roaming
Process allowing telephone calls to be placed using the networks of various network operators, such as international roaming in the pan-European GSM system.

S

Security Identification Number
The six-place combination of digits and letters used in Germany (WKN) identifies each security uniquely.

SIM
(Abbreviation for subscriber identity module) Chip card which is placed in a mobile telephone or other mobile end device. It identifies the device with the user, verifies his/her identity via a ➡ PIN and authorises the use of the offered services (e.g. mobile telephone services). In addition to network-related data, data such as address book entries or text messages can be stored on a SIM card.

SMS
(Abbreviation for short message service) Digital short message, e.g., texts, graphics sent via a mobile communications end device ("text message").

Stock Index
A stock index provides comprehensive information regarding the development of prices on the stock markets. One example for the German stock market is the Deutsche Aktienindex (DAX); changes in stock prices as well as dividend payments are integrated into the calculation of its values.

Supervisory Board
The Supervisory Board is one of the governing bodies of stock companies; its members are elected by the General Meeting and, depending on the number of employees in the company, by the workforce. It is responsible for monitoring the management of the corporation. The Supervisory Board of a stock corporation consists of a minimum of three members, who may not simultaneously be members of the Management Board.

T

TecDAX
Stock index introduced on 24/03/2003 compiling the 30 most important German technology stocks. It is the successor of the Nemax50.

U

UMTS
(Abbreviation for universal mobile telecommunications system) International mobile telephone standard of the third generation which combines mobile multimedia and telematics services under the frequency range of 2 GHz.

V

Value-Added Services (VAS)
Services which produce additional value, such as ring tones for mobile phones.

W

Wireless Services Discounter
Provider of very low wireless services rates which do not include subsidisation of the device and offer transparent terms and conditions. As a rule, no basic fee, minimum turnover or term of contract.

Wireless Services Provider (WSP)
Private telephone company without its own wireless network which, on its own behalf and for its own account, sells wireless services, ➡ SIM cards and wireless end devices as well as value-added services (e.g. SMS, SMS Premium, ➡ MMS).

Workflow Management System
Automation of production and business processes using IT systems and special software.

Editorial Information

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Vlasios Choulidis

Supervisory Board:
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Johann Weindl (Deputy Chairperson)
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Michael Müller-Berg
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Future-oriented Statements:
This report contains certain statements oriented to the future and which are based on the current assumptions and projections of the management of the Drillisch Group. Various risks, uncertainties and other factors, both known and unknown, can cause the actual results, financial position, development or performance of the Company to deviate substantially from the assessments shown here.
The factors described in our reports to the Frankfurt Stock Exchange and to the American Securities and Exchange Commission (incl. Form 20-F) are among such factors. The Company does not undertake any obligation to update such future-oriented statements and to adapt them to future events or developments.