DRILLISCH AG
ANNUAL REPORT 2011

Key Indicators of the Drillisch Group

Drillisch-Group	2011	2010	2009
Turnover in €m	349.1	362.5	344.5
Service Revenues	303.1	277.5	273.2
Other revenues *	46.0	85.0	71.4
EBITDA in €m	51.4	46.1	50.7
EBITDA, adjusted, in €m	52.6	49.3	43.5
EBIT in €m	48.1	40.4	44.4
EBT in €m	52.3	42.6	110.9
Consolidated profits in €m	41.0	31.0	101.2
Profit/loss per share in €	0.77	0.58	1.98
EBITDA margin in % of turnover	14.7	12.7	14.7
EBITDA margin adjusted in % of turnover	15.1	13.6	12.6
EBIT margin in % of turnover	13.8	11.1	12.9
EBT margin in % of turnover	15.0	11.8	32.2
Consolidated profit margin in % of turnover	11.8	8.6	29.4
Equity ratio (equity % of balance sheet total)	41.9	51.5	48.7
Return of equity (ROE) (ratio Group result to equity)	29.2	20.9	318.8
Cash flow from current business operations in €m	20.0	40.8	53.9
Depreciation excluding goodwill in €m	3.4	5.7	6.3
Investments (in tangible and intangible fixed assets), adjusted, in €m	2.8	4.0	3.9
Staff as annual average (incl. Management Board)	329	379	382
Wireless services customers as per 31/12 (approx. in thousands)	2,550	2,431	2,250
Wireless services customers Debit	1,038	1,240	1,268
Wireless services customers Credit	1,512	1,191	982

* Other revenues, includes sales of devices and other sales

Letter from the Management Board

Management Board

Vlasios Choulidis
Director of Sales, Marketing and Customer Care

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

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. The transformation in our operations from our former position as a classic service provider to that of a mobile virtual network operator (MVNO) in the Telefónica O_2 and Vodafone networks which we launched in the fourth quarter of 2010 is the implementation of an important strategic decision. Initial positive results became evident in 2011. We have now laid a solid foundation so that we will be able to continue profitable growth with our innovative products and services in the future as well, and we are full of confidence as we enter the new fiscal year 2012.

Two major events left their mark on 2011:

1. Our interest in freenet AG: During the first and second quarters of 2011, we purchased additional shares in this company, strengthening our position as the largest shareholder at freenet AG. Since these additional purchases, Drillisch AG now holds an interest of more than 20% in freenet AG. Hedge transactions have secured this increase against stock price fluctuations. Crossing the holding threshold of 20% led to a change in accounting methods as well. The participation in freenet AG is now shown under the position "Financial assets shown in the balance sheet in accordance with the equity method".

2. Cooperation with Deutsche Telekom AG (Telekom): Despite the conduct of intensive negotiations since the beginning of 2010, the realisation of a more flexible purchasing model on the product side with Telekom which is not based on one-off payments was not possible. As a consequence, the level of close cooperation with Telekom going back many years has been reduced; it played merely a subordinate role in 2011 and will continue to do so in the Drillisch AG planning for the future. In October 2011, Telekom objected to the use of certain SIM cards provided to the Drillisch Group exclusively for sending text messages, both parties issued notices of termination of current contractual relationships at the beginning of November 2011 and Telekom issued a press release to this effect which had not been authorised by Drillisch AG.

The Drillisch Group on the one hand and Telekom on the other are in disagreement regarding the legal manifestations of these circumstances, which have in part become the subject of litigation.

On 21 March 2012, an agreement to wind up the contractual relationships which were the subject of the litigation and to settle the legal dispute was concluded with Telekom. One objective of the agreement is to ensure that the transfer of subscribers pursuant to the termination of the contracts will be effected without any difficulties. The execution of the agreement is subject to a number of reservations, in particular

Letter from the Management Board

the approval of the German Federal Cartel Office.

We do not believe that the termination of the contractual relationship with Telekom will have any major impact on the business operations of the Drillisch Group because, as mentioned above, the operating business with Telekom now plays no more than a subordinate role for the Drillisch Group.

We continue to set new standards with our innovative products. In 2011, we once again gave new impetus to the market with the launch of new innovative products focusing on the customer-friendly, individual billing of used services by means of intelligent automatic billing mechanisms. We offer clear rate plan concepts without fixed contract terms for voice and data under our brand names.

In the first quarter of 2011, we established an innovative rate plan known as *best4me*. *best4me* offers an automatic best price mechanism for the brand helloMobil. This rate plan always offers the customers the lowest-price combination from the available telephone flat rates, minute packages, text message flat rates or data options. While our competitors' customers must decide in advance which of the offered packages might be the right one for them, our automatic best price mechanism guarantees the combination with the lowest prices at the end of the billing period.

Yet another example for innovative products is our *OptiSurf* option which gives customers the opportunity to select a data flat rate with an intelligent automatic billing mechanism. Customers of the brands simply, maXXim and helloMobil with this product select a monthly maximum charge between €4.95 and €14.95 and can then use their mobile devices to surf up to the selected volume (100 MB, 200 MB, 500 MB or 1 GB) at high speed. What makes this so special: a customer who uses a lower volume also pays less. If a user surfs less than the chosen volume in one month, only the lower price is charged.

Our established brands such as simply, maXXim, helloMobil and McSIM are regularly singled out during the impartial comparisons of rate plans in journals and consumer magazines with respect to both price and quality. Even our new brand smartmobil.de (www.smartmobil.de), which did not appear on the market until April 2011, was rated almost immediately as "excellent" in the category Mobile Internet on Mobile Phones (*All-in 100*) by Tariftipp.de in July 2011. Data flat rates from Drillisch have regularly been crowned "Least Expensive Mobile Internet Rate" by the comparison portal Handyflatrate-Preisvergleich.de.

The comparison portal Tariftipp.de awarded Drillisch products the best mark of "Excellent" in the three most important categories in 2011:

- Mobile phone rate plans for frequent callers (PHONEX *All-in Flat*)
- Mobile internet on mobile phones (smartmobil.de)
- Mobile internet per USB stick (surfROYAL Data L)

We turn to external auditors to verify our statements of quality. During the course of an audit in October 2011, the ISO certification for the brands simply and maXXim in accordance with the standard DIN EN ISO 9001:2008 was confirmed and renewed. They received the ISO certificate in 2010, making them the first providers to have been so recognised by a successful audit of customer service in both the back office and the call centre. A completely new accomplishment for all of our websites is the certification within the framework of the S@afer-Shopping programme at TÜV SÜD. Over the course of a comprehensive series of procedures, all of the relevant security and quality criteria were audited and approved. Anyone purchasing merchandise and services on the Internet should pay close attention to this seal of approval (Stiftung Warentest, November 2011).

So we can state with confidence: every customer will find the right rate plan for his or her situation in our portfolio of rate plans. We are certain that this assures us an outstanding competitive position in all market areas.

The wireless services market is the most important growth factor for the telecommunications industry. Communication of the future is mobile. Estimates from the VATM indicate that the total data volume increased by 77% from 67.9 million gigabytes in 2010 to 120.2 million gigabytes in 2011. The share of

Letter from the Management Board

revenue generated by mobile data traffic rose in the sector of non-voice sales by 3% to 59% (2010: 56%). According to a study from Cisco Systems, mobile data traffic will increase in the future at a rate three times faster than that of cable-transmitted traffic. Smartphones and tablets are penetrating more and more deeply into people's daily lives and are becoming their constant companions. As they do so, new concepts for rate plans which can satisfy the needs of various user types will be required. People who use their smartphones for e-mails only, for instance, do not require the full bandwidth and could benefit from rate models at lower prices. Heavy users, on the other hand, are prepared to pay more for better performance. The major success factors on the market include innovative rate models which offer low-cost and transparent solutions to meet the needs of various user types, devices and usage scenarios. We recognised this trend to smartphones and the increasing acceptance of mobile internet at an early stage and set up our portfolio to include combined voice and data rate plans.

Our figures speak for themselves. In the fiscal year just ended, we realised revenues of €349.1 million (2010: €362.50 million). The decline in revenues of €13.4 million was primarily a consequence of the decrease of €39.0 million in business with hardware and prepaid bundles, transactions with low profit margins. In contrast, the high-margin service sector saw revenue rise by €25.6 million to €303.1 million (2010: €277.5 million). This positive income development in service revenue was realised with 2.550 million subscribers (2010: 2.431 million). Thanks to the expansion of the higher-value postpaid business, the ratio of postpaid to prepaid subscribers improved further to 59% to 41% (2010: 49% to 51%). Gross profit came to €102.8 million at the end of the year, an improvement over the previous year (2010: €88.4 million) of 16.2% or €14.4 million. The gross profit margin improved by 5.0% to 29.4% (2010: 24.4%). The EBITDA adjusted for extraordinary expenditures and income posted a rise of 6.7% or €3.3 million to €52.6 million (2010: €49.3 million) and exceeded the forecast for 2011. Consolidated results rose by €32.5% or €10.0 million to €41.0 million (2010: € 31.0 million) and the profit per share came to €0.77 (2010: €0.58).

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 the third dividend increase in succession to the upcoming Annual General Meeting, this time to €0.70 per share for the past fiscal year 2011; this proposal follows the dividends of €0.50 and €0.30 per share in the previous years. We expect an increase in revenue in the sector of "service revenues" and an adjusted EBITDA of about €58 million for 2012. As far as we can see at this time, these positive developments in earnings in business operations will continue in 2013 as well.

We wish to take this opportunity to thank expressly our associates 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 placed in us.

Warmest regards from Maintal.

Vlasios Choulidis and Paschalis Choulidis

Report of the Supervisory Board

Dear Sir or Madam,

Marc Brucherseifer
Dipl.-Kfm., Frechen. Chairman of the Supervisory Board of Drillisch AG.

Fiscal year 2011 which has just ended was an extraordinarily successful business year for Drillisch AG. Once again, the Company was able to increase profits, but was moreover able to lay major cornerstones for its future. The Supervisory Board was able to accompany the Management Board for the expansion of our direct position as shareholder of freenet AG as well as for the optimisation of earnings from subscribers as a means of driving an improvement in margins. By implementing these measures, we have together laid a solid foundation for continued growth in earnings at Drillisch AG.

During fiscal year 2011, 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.

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 2011. They were held on 24 March, 11 May, 27 May, 4 August, 26 and 27 September and 9 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 eight cases, employing this procedure for the adoption of resolutions as needed. All of the Supervisory Board members participated in at least six of the seven Supervisory Board meetings. Average attendance was 98%.

The main topics of the Supervisory Board's activities in the past business year were as follows:

- Reappointment of the members of the Management Board and the conclusion of new Management Board employment contracts
- Strategy related to the interest in freenet AG
- Strategic alignment of the Company, especially with respect to the earnings expectations in the collaboration with the network operators
- IT security, including data security and data protection
- Exchange of ideas and consultation with the Company’s expanded management team within the framework of an intensive workshop
- Legal dispute with VS GmbH
- Accusations of Deutsche Telekom AG and the steps subsequently required to assure long-term the conduct of daily business
- Acquisition of additional freenet stock and crossing of the 20% threshold

Report of the Supervisory Board

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 comprehensive monthly reports and special information (e.g. about the Company's risk management) 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.

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 2011. Moreover, Management and Supervisory Board submitted an updated Declaration of Conformity in accordance with Section 161 AktG on 22 March 2012 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, Dr Schmidt, Dr Schenk (until 30 June 2011) and Mr Brucherseifer, Dipl.-Kfm. (from 04 July 2011) met four times during fiscal year 2011: on 24 March, 2011; 11 May 2011; 04 August 2011; and 09 November 2011. The meetings focused in particular on the major points for the audit of annual accounts and on the engagement, independence and fee payment of the auditor. The results of the audits of the quarterly accounts were discussed during the meetings held at the relevant times. 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, did not meet in 2011. In its meeting on 22 March 2012, the Nomination Committee adopted a resolution containing a recommendation addressed to the Supervisory Board that Ms Dr Susanne Rückert be nominated for election to the Drillisch AG Supervisory Board by the Annual General Meeting on 25 May 2012.

The Personnel Committee, whose members were Dr Schenk (member and chair until 30 June 2011), Mr Brucherseifer, Dipl.-Kfm. (member and chair from 04 July 2011), Mr Müller-Berg and Dr Lennertz, met on 30 June 2011, at which time the subject of the discussion was the revision and extension of the Management Board employment contracts. In addition, the Personnel Committee participated in a workshop with the Management Board and management of Drillisch AG and the Drillisch Group on 26 September 2011.

The consolidated annual accounts, the consolidated management report and the annual accounts and management report for fiscal year 2011 were audited by the BDO AG Wirtschaftsprüfungsgesellschaft,

Report of the Supervisory Board

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 2011 and the management report were prepared in accordance with the statutes of the German Commercial Code (HGB); the consolidated annual accounts per 31 December 2011 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 22 March 2012. 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.

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.

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 22 March 2012, the Supervisory Board approved the annual accounts and consolidated annual accounts for fiscal year 2011; 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.

Dr Hartmut Schenk, our Supervisory Board chairperson for many years, resigned from the Drillisch AG Supervisory Board on 30 June 2011 so that he could assume new responsibilities as a member of the freenet AG Supervisory Board. The Supervisory Board members elected Mr Marc Brucherseifer, Dipl.-Kfm., to be his successor as chair of the Drillisch AG Supervisory Board on 04 July 2011.

The Supervisory Board wishes to thank the Management Board for its work and its successful business activities in 2011. 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, 22 March 2012

On behalf of the Supervisory Board

(Marc Brucherseifer, Dipl.-Kfm.)

Declaration on Corporate Management / Corporate Governance Report

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 22 March 2012 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 on 02 July 2010, subject to the following exceptions

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

The German Corporate Governance Code does not recommend provision of an option for a postal vote; it merely recommends support for a postal vote, if and when such an option has been made available. The Company's Charter does not provide for a postal vote procedure. Management and Supervisory Boards have not submitted any proposals to the General Meeting to make any corresponding amendments of the Charter. The Boards believe that personal participation in the General Meeting, especially open discussion among the shareholders, is an important element of the General Meeting. 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 agreement of an excess from no less than 10% of the loss or damage to no less than 1.5 times the fixed annual compensation for a member of the Supervisory Board in a D&O insurance policy for the Supervisory Board.

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.

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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.

Maintal, 22 March 2012

On behalf of the Supervisory Board	The Management Board
Marc Brucherseifer, Dipl.-Kfm.	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 Management Board currently has two members; the membership on the Management Board at this time is shown in the consolidated notes (page 83, point 35 of the Annual Report). 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.

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In accordance with statutory provisions, the Supervisory Board has six members who are elected exclusively by the shareholders; the current membership of the Supervisory Board is shown in the consolidated notes (page 81, pointe 34 of the Annual Report). The five Supervisory Board members Dr Hartmut Schenk, Marc Brucherseifer, Dipl.-Kfm., Johann Weindl, Dr Horst Lennertz and Michael Müller-Berg were elected by the Annual General Meeting of the Company on 30 May 2008; Dr Bernd Schmidt was elected as a member by the Annual General Meeting on 28 May 2010. In June 2011, the previous chairperson of the Supervisory Board, Dr Schenk, resigned as a member of the Supervisory Board; Mr Brucherseifer was elected as chairperson of the Supervisory Board pursuant to the resolution of 04 July 2011. The term of office of the current five 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 7 to 9 of the Annual Report for fiscal year 2011. 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 82 of the consolidated notes.

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, Dr Lennertz and Dr Schmidt 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 Mr Brucherseifer, Dipl.-Kfm. (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 on Corporate Management Practices Within the Sense of Section 289a (2) no. 2 HGB

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

Declaration on Corporate Management / Corporate Governance Report

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 38 of the Annual Report) pursuant to Section 315 (2) HGB. The Management Board also reports in detail in this document on current risks and their development.

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 2011 are shown in the management report and notes and in the consolidated management report on page 42 of the Annual Report 2011 (compensation report) and in the consolidated notes on page 83, 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 2011.

Directors' Dealings in 2011

Date	Transaction Type	Shares	Price/Euro	Reporting Person
10 November	Purchase	50,000	6.200	P. Choulidis (Management Board)
10 November	Purchase	55,000	6.157	V. Choulidis (Management Board)
24 November	Purchase	3,000	5.890	J. Weindl (Supervisory Board)
02 December	Purchase	2,407	6.256	H. Lennertz (Supervisory Board)

The number of Drillisch shares held by the individual officers and directors is shown under point 37 on page 83 and 84 of the consolidated notes.

Declaration on Corporate Management / Corporate Governance 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 31/12/2011	€58,507,916.50
Year-end closing price on 30/12/2011	€7.11 (Xetra)
Highest price on 01/08/2011	€8.85 (Xetra)
Lowest price on 07/11/2011	€3.25 (Xetra)
Average of traded stock (shares) on Xetra	330,916/day (previous year: 273,322)
Designated Sponsor	Close Brothers Seydler Bank AG

The year 2011 on the stock exchanges – debt crisis and rating agencies the root of volatility

In 2011, the DAX lost 14.7% or 1,015.8 points, falling to 5,898.35 points (2010: 6,914.19), while the TecDAX fell by 165.6 points or 19.5% to 685.06 points (2010: 850.67).

The debt crisis and its impact on politics as well as the constant stream of announcements from rating agents found concrete expression in the extreme volatility of the markets. As the year came to an end, the visions of the most devastating worst-case scenarios began to fade a bit, but the crisis of confidence has remained a loyal companion into 2012.

The performance of the Drillisch stock during the stock market year 2011 in comparison with the indices:

	Close-out 2010	Close-out 2011	% change
Drillisch	€ 6.10	€ 7.11	+ 16.6%
TecDAX	850.67	685.06	- 19.5
TecAllShare	1,017.33	852.65	- 16.2

Once again, the Drillisch stock outperformed the market as a whole in stock market year 2011. The close-out price at the end of year came to €7.11. This corresponds to a gain of 16.6% or €1.01 in comparison with the close-out of 2010. As a daily average, 330,916 shares of Drillisch stock (2010: 273,322) were traded on Xetra. Since its inclusion in the TecDAX in September 2009, the Drillisch stock has steadily improved in the relevant criteria of free-float market capitalisation and stock exchange turnover and holds a solid place among the 30 members of the index. (Market capitalisation – 2011: 16th place; 2010: 17th place; Turnover – 2011: 13th place; 2010: 20th place)

Corporate strategy and attractive dividend policy

The corporate strategy is based on sustained development of company value and builds on organic growth. Solid dividend policies ensure that shareholders participate in the Company's success. The Annual General Meeting in May 2011 adopted a resolution distributing a dividend of €0.50 per voting share. In the previous year, a dividend of €0.30 was paid to shareholders, so there was an increase of 70%.

Investor Relations Report

An attractive distribution is the target for subsequent years as well. The realisation 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.

Outlook for operations 2012 – dependable forecasts in the tenth year

In the 9-month report 2011, we published an outlook for the coming fiscal year earlier than ever before (source: ad hoc announcement, 09 November 2011). Based on the budgets, we have targeted an EBITDA 2012 (adjusted) of €58.0 million for 2012 (an increase of 11.5% in comparison with the forecast for 2011) and continued positive development of the subscriber basis (postpaid). Our planning for the following years presumes comparable growth dynamics.

Investor relations

We continued to stress one of our 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 2011. The Company is also happy and willing to consider suggestions from stockholders.

Investor Relations events 2011

Date	Event
10 May	German & Austrian Corporate Conference, Deutsche Bank
06 September	Tech/Telco Day, West LB
16 November	TMT Conference, Morgan Stanley
01 December	European Conference, Berenberg Bank

In addition to these events and additional 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 2012

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 our 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 2011/2012 (as per 31 January 2012)

Analysis	Rating	Price Target	Date
Commerzbank	„Buy"	€ 9.50	23 January 2012
West LB	„Buy"	€ 8.10	28 November 2011
Hauck & Aufhäuser	„Buy"	€ 11.00	15 November 2011
Macquarie	„Buy"	€ 10.90	14 November 2011
Warburg	„Buy"	€ 9.65	09 November 2011

Directors' holdings as per 31 December 2011

Company	No-par Shares
MV GmbH	1,840,000 ➜ 3.46 %
Vlasios Choulidis	55,000 ➜ 0.10 %
SP GmbH	1,950,000 ➜ 3.67 %
Pascal Choulidis	50,000 ➜ 0.09 %

Supervisory Board	No-par Shares
Marc Brucherseifer (Chair), Dipl.-Kfm.	3,909,295 ➜ 7.35 %
Johann Weindl (Deputy Chair), Dipl.-Kfm.	10,439 ➜ 0.02 %
Dr Horst Lennertz, Ingenieur	2,407 ➜ 0.01 %
Michael Müller-Berg, Dipl.-Kfm.	0
Dr Bernd Schmidt	0

Ad-hoc Reports 2011

Date	Report
29 November	Munich I Regional Court prohibits distribution of Deutsche Telekom AG press statement of 07/11/2011
28 November	Hanau public prosecutor's office initiates investigation proceedings against Deutsche Telekom executive officer Dr Balz on suspicion of market manipulation.
09 November	Announcement of stock repurchase programme and stock purchase within the framework of Director Dealings. Purchasing power rises significantly in the first nine months.
05 August	Best first half-year in company history
20 May	The chairperson of the Drillisch AG Supervisory Board decides to seek election to the freenet AG Supervisory Board.
03 May	Acquisition of participation
07 February	Provisional results for 2010 exceed forecast. Significant dividend increase and outlook 2011

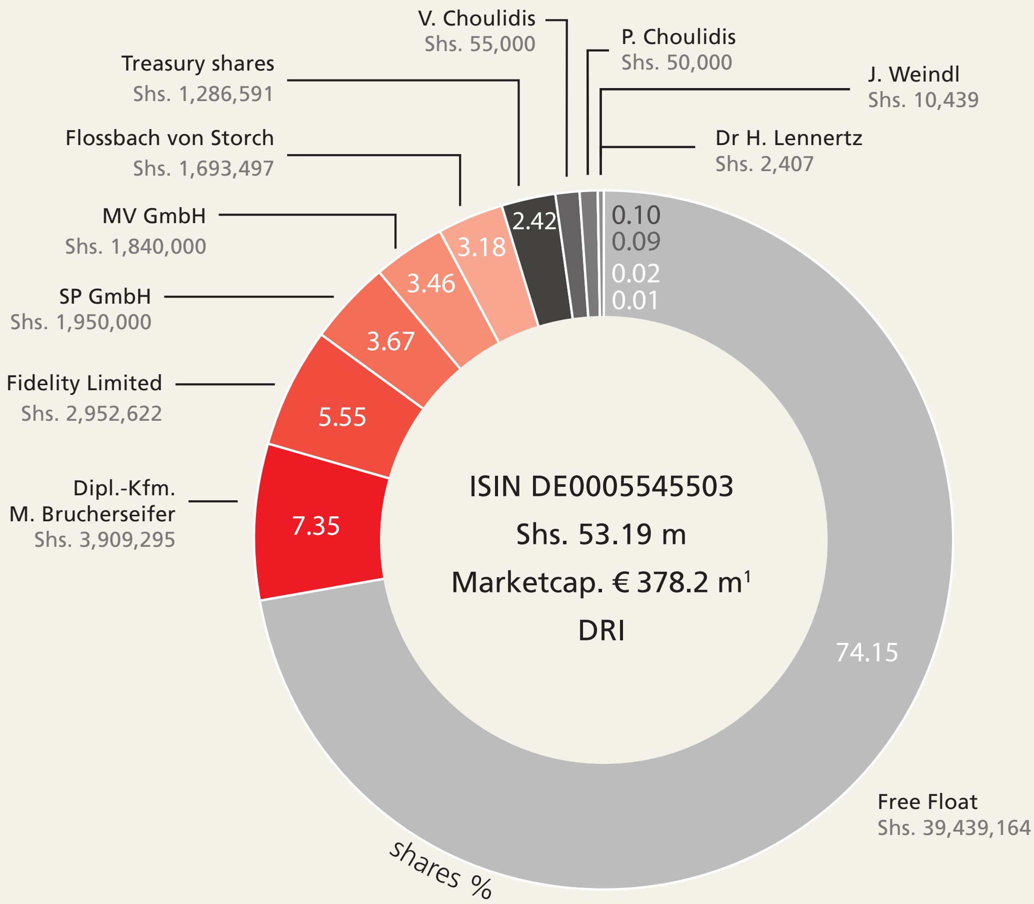
Investor Relations Report

Financial Dates 2012*

Date	Topic
May	1st quarter report 2012
May	Annual General Meeting
August	Semi-annual Report 2012
November	3rd quarter report 2012
November	DVFA Analyst Event

* Subject to change

Shareholder structure of Drillisch AG (Last revised 31 December 2011)



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 € 7.11 on 30 December 2011. Free Float acc. to the rule of Dt. Boerse AG: 92.65%.

THE DRILLISCH GROUP AND THE MARKET ENVIRONMENT

Innovative Rates for dynamic growth in smartphone market

Drillisch AG increased company value once again over the course of the past year by following a determined course of concentration on the growth sectors discount and data services. We recognised the trend to smartphones and the increasing acceptance of mobile internet at an early stage and set up our portfolio to include combined voice and data rate plans. The Company's major success factors include innovative rate models which offer low-cost and transparent solutions to meet the needs of various user types, devices and usage scenarios. Thanks to experienced management, a ready and able staff and lean cost structures, we are able to realise successfully the corporate strategy even in this market environment of intense competition.

The wireless services market is the most important growth factor in the telecommunications industry. Communication of the future is mobile. Innovative device concepts and a broad range of supplementary applications, the so-called "apps", open up new possibilities for digital lifestyles. Smartphones are becoming more and more indispensable in people's daily lives and have become constant companions and digital assistants in many different sectors. Whether mobile shopping, m-payment, mobile phone tickets, online banking or e-health – the functionality of smartphones rises with the appearance of each new app. In turn, optimal access to permanently available high-performance networks at simple and low-cost terms and conditions is becoming more and more important.

More and more people communicate more and more frequently while on the go

In September 2011, the industry association *BITKOM* reported 61 million mobile phone users in Germany, corresponding to about 87% of the population age 14 or more. In the meantime, even 72% of the senior citizens over the age of 65 have a wireless connection, an increase of almost 10% in comparison with the previous year. Moreover, the calls made from mobiles continued to rise strongly in the past year. According to a market study conducted by *VATM* and *Dialog Consult,* there were about 192 billion minutes in calls from mobile networks in 2011 (2010: 180 billion). The average mobile phone owner uses a mobile for 42.5 hours in calls a year – 3.5 hours a month. One reason for this growth: according to information from the German Federal Statistical Office (destatis), wireless phone calls in Germany have decreased in price by an annual average of 3.5%.

Projections indicate that there are about 98 million mobile phones in use in Germany, and estimates by *BITKOM* from December 2011 show that on the average every person living here has 1.3 mobile phones which are in active use. 29 million Germans use at least two phones, and 7 million use three or more mobile phones parallel to one another. According to a study by the *Gesellschaft für Konsumforschung (GfK)* in August 2011, about 30% of mobile phone users could imagine doing without a landline connection completely. One out of two respondents hopes to have significant monetary savings by switching completely to wireless services. Of the total 110.9 million wireless subscriptions in Germany, many SIM cards are in use in the sector *machine-to-machine* (M2M for short) in technical devices for remote monitoring, control and maintenance of machinery, plants and systems besides the applications in mobile phones and surf sticks.

Smartphone sales rising rapidly, driving demand for mobile internet

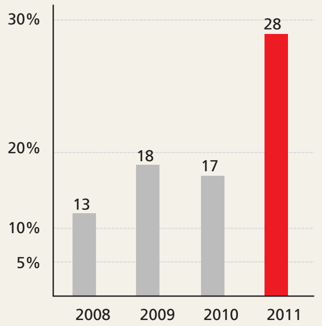
No doubt about it: mobile internet has arrived on the mass market. While only 17% of German internet users went online with their mobile phones in 2010, the figure reached 28% this year. This was the result of the annual Forsa survey conducted on behalf of the consulting company *Accenture.* The acceptance among the age group 14- to 19-year-olds is even more striking. Now 35% of the internet users go online with their mobile phones; in the previous year, only 10% surfed while on the go. But not only the number of mobile surfers is increasing; the frequency of usage is rising steadily as well. Sixty-eight per cent of the respondents told *Forsa* that they were online with their mobiles at least once a day; the corresponding figure in 2010 was only 43%. Women especially are discovering the benefits offered by mobile internet. As 20% of them use mobile devices for surfing, they are more active than men (16%).

Mobile internet has arrived on the mass market - smartphones & tablets are driving the trend furthermore

Mobile Internet Usage / Usage of Mobile Services (in %)

Mobile Data User Development 2008 to 2011

How many subscribers are using the smartphone for mobile internet

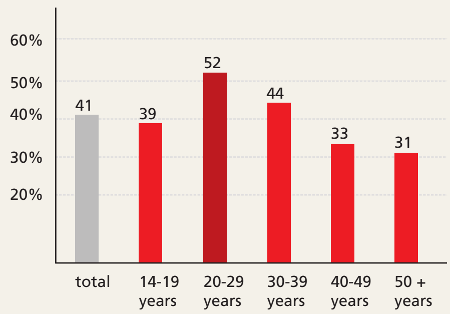


In 2011, 28% of subs or 14.7m people in Germany used their smartphone for mobile internet access.

Usage of Mobile Services (age groups)

Q: How often do you use your smartphone for mobile data?

A: Several times a day.



Mainly people aged 20 to 29 years are online via smartphone several times a day.

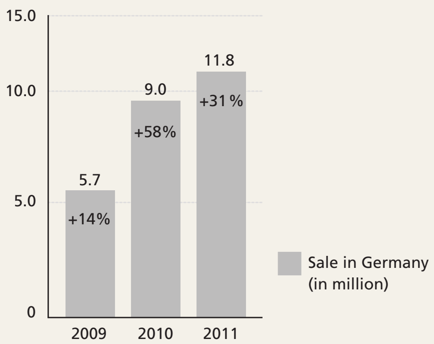
Source: Accenture

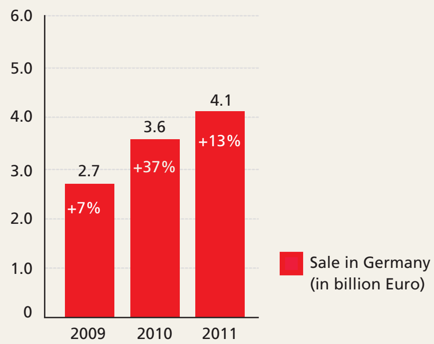
Three major factors continue to drive the trend to mobile internet:

- **New devices:** sales of smartphones and tablet PCs are growing at a rapid pace. Devices and operating systems optimised for the internet make mobile surfing even simpler.
- **Surfing experience:** the many and diversified useful applications (apps) which are downloaded from webshops expand the functionality of mobile phones, and communication via social networks is displacing text messages and mobile phone calls.
- **Low-cost rate plans:** flat rates and combination rate plans assuage users' fears of unpredictable costs and promote acceptance for the convenience of mobile surfing.

Last year, 11.8 million smartphones were sold in Germany, an increase of 31% in comparison with 2010. This was reported by the high-tech association *BITKOM* at the beginning of the year, based on the latest data from the *European Information Technology Observatory (EITO).* So the actual figures exceeded the most optimistic forecasts by industry representatives. The development that began five years ago when Apple introduced the first iPhone has turned into a mass phenomenon today, one that is served by the appearance of more and more new devices in rapid succession and various operating systems from virtually all mobile phone manufacturers. According to *Juniper Research,* touch screen mobile phones will have taken over 72% of the world market within five years.

Dynamic sale of smartphones



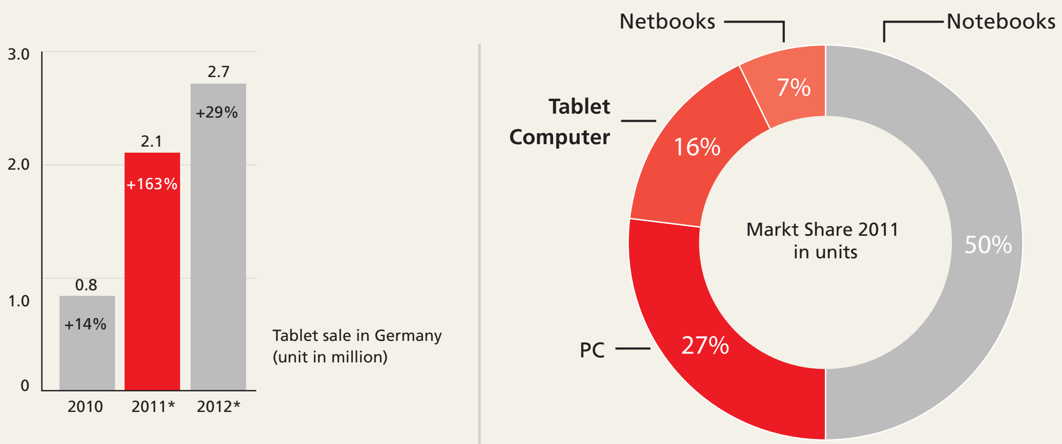


Source: BITKOM, EITO, IDATE

Apps turn smartphones and tablets in digital all-rounders

The boom is even more breathtaking for tablet PCs – compact, flat mini-computers with significantly larger displays than smartphones which are especially suitable for viewing e-books, digital magazines, educational media or pictures and videos thanks to internet access via SIM card. In spring 2011, *BITKOM* forecast about 1.5 million in total sales of tablet computers, but in December the high-tech association had to correct its forecast upward to 2.1 million devices sold in response to the latest market research results. In the year-on-year comparison, sales rose by 162%. This development clearly indicates that tablet computers are conquering the mass market and moving into increasingly broad user groups. Market researchers from *Goldmedia Research* see a potential of nine million tablet users in Germany.

Tablets development on the rise



Source: BITKOM, EITO, IDATE (December 2011) *Forecast

Apps turn smartphones and tablets into digital all-rounders

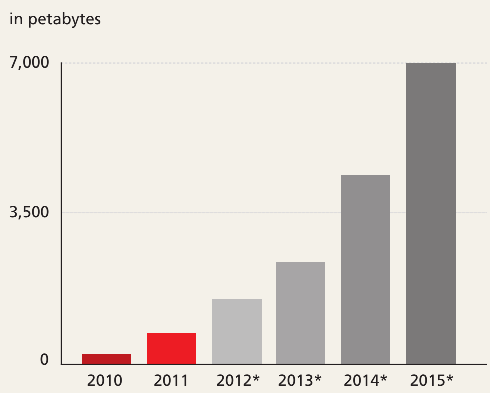
There are virtually no limits to what the new devices can do. The manufacturers are not the only ones who determine what a smartphone or tablet PC can do. A decisive factor for their success is also the scope of available applications – the apps – which can turn a smartphone into a digital Swiss pocketknife. Convenient shopping solutions, price comparisons with scanned barcodes, train tickets or check-in at the airport by smartphone are in common use even now and providing more impetus in the direction of m-commerce. The number of people in Germany who use their smartphones to go to shopping sites online has more than doubled in the past twelve months, increasing by 112%, according to a study released by *ComScore* in January 2012. And even real shopping behaviour will change as the smartphones of the future take advantage of short-range radio NFC at state-of-the-art cash registers to make payment by credit card a thing of the past. Management and monitoring of people's homes by smartphone while travelling or the medical assistant which monitors important body functions and can make a visit to the doctor superfluous are no longer visions of a distant future.

Mobile data traffic doubling every year - Flexible tariffs for all users

Mobile data traffic doubling every year

As the sales of smartphones and tablet PCs rise and the devices are used more intensively, mobile data traffic is increasing dynamically. According to Cisco Systems, more than 10 petabytes of data are transmitted every month worldwide. And this data quantity is expected to rise to almost 320 petabytes a month by 2015, corresponding to a capacity of 79.3 million DVDs a month or 874 million text messages a second. Mobile data traffic is increasing three times faster than cable transmission. The expansion of network capacities now is urgently needed. New concepts for rate plans which can satisfy the needs of various user types are also required. People who use their smartphones for e-mails only, for instance, do not require the full bandwidth and could benefit from rate models at lower prices. Heavy users, on the other hand, are prepared to pay more for better performance.

Mobile Data Usage Worldwide with dynamic growth development



Source: CISCO „Global Mobile Data Traffic Forecast“, February 2011 *Forecast

LTE is here, but the devices have not arrived

LTE (Long Term Evolution), the successor technology for today's UMTS, is ready to go. Now that frequencies have been assigned by the German Federal Network Agency and the initial expansion phases to eliminate the "white areas" in rural regions are past, network operators are beginning to install higher transmission speeds in the first large cities and metropolitan areas. Nevertheless, LTE is at this time being positioned more as a replacement product for stationary DSL connections and less for smartphone users. Even though the first LTE smartphones made an appearance at the Consumer Electronics Show (CES) in Las Vegas in January, the introduction of these products in Germany is not to be expected before the second half of 2012.

Drillisch AG will profit in the future as well from the continuing positive dynamics in the data sector. As we are the price leaders and offer attractive rate plans and devices for any user – from entry level to expert – featuring the greatest possible degree of flexibility and transparency, we are poised in an outstanding position.

MARKETING REPORT

Drillisch successful with innovative products for the mobile internet

In 2011, the successful brands from Drillisch AG introduced innovative and low-price products merging voice and data rates, above all for the mobile internet. Our subscribers can use their smartphones and tablets to take advantage of all of the possibilities of modern communication at low cost.

Independent rate comparisons document that our products can regularly be found in leading positions in terms of the criteria price and quality, prompting numerous journals, consumer magazines and comparison portals to recommend our brands.

All-in – the product family with Germany's lowest triple flat rate

The product family of the *All-in* rate plans offers a choice of 50, 100 or 200 included minutes and the same number of text messages as well as a flat rate for the internet and appeals to subscribers who have a clearly defined usage profile. Another member of the *All-in* family – the triple flat rate *All-in Flat* – has easily maintained its position as the lowest-price flat rate in all networks (first place in all of the criteria of the category "Mobile Phone Flat Rates in All Networks + Internet Flat Rate" of the magazine Computerbild). There is also the *All-in Flat Safe*, a rate plan with an upper limit which turns into a flat rate at €35 a month. Until this ceiling has been reached, subscribers are billed only for their actual use. The *All-in* rate plans, originally launched for specialist stores under the name Telco, have been marketed for all distribution channels and brands of the Drillisch Group since 2011. The rates are also offered for the brand PHONEX (www.phonex.de), for instance, on an online portal and enhanced by their own site on Facebook.

smartmobil.de – the new smartphone rate plan with high recognition effect

smartmobil.de (www.smartmobil.de) is the new brand which appeared on the market in April 2011 and attracted substantial attention within a very short time. A completely new marketing approach was selected, from the development of the brand to the product start to the advertising and social media concept. This is yet another instance in which the focus is on a product with an especially simple rate logic. Costing €9.95 a month, smartmobil.de offers the best value for money for smartphone users. This message was provided with the required support right from the market launch by the placement of short, succinct 15-second spots with a high recognition value in the television advertising block of broadcasters with widespread coverage. This classic advertising was complemented by publications in the social media environment, e.g. on YouTube and the newly created fan page for smartmobil.de on Facebook, reaching a target group of young consumers with high purchasing power.

Drillisch gave new impetus with innovative rate plans and options

simply, maXXim, helloMobil – no-frills brands with a new look

Drillisch has continued to expand the products and services for the established brands in the no-frills segment as well. In addition to the 8-eurocent rates with obtainable options for landline, text messaging or mobile internet, simply, maXXim and helloMobil, discoTEL and discoPLUS are also offering new rate plans for smartphones and tablets.

Everyone will find the right rate plan for his or her individual needs:

- Infrequent phone users
- Text message fans
- Occasional surfers
- Smartphone experts

This diversity of rate plans is reflected on the user-friendly websites such as www.simplytel.de.

Quality features of all brands

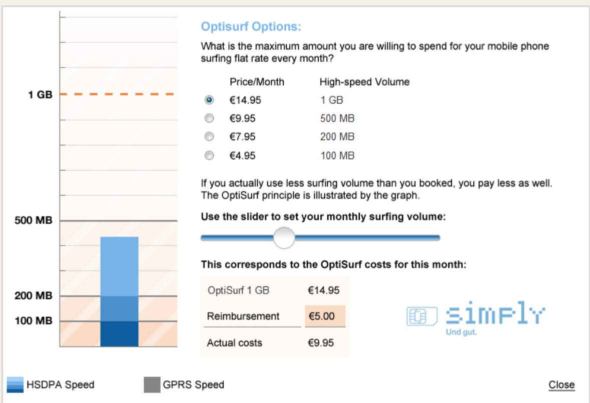
All of our brands offer simple and clear rate concepts without fixed-term contracts. But the price per minute and text message is no longer the sole and exclusive determining factor. Other quality criteria include attractive combination rate plans for voice and data which can be purchased on invoice basis (postpaid) or with advance payment (prepaid). The brand maXXim (www.maxxim.de + www.maxximdata.de) is a good example of such an option. The 8-eurocent mobile phone rate – available as either prepaid or with payment by invoice – is supplemented by further options and variations. One new rate, for instance, is the smartphone rate plan MaxxLimit 35 with a charge ceiling of €35. The brand DeutschlandSIM (www.deutschlandsim.de) also offers a charge ceiling rate in the D-Network with a cap at €49.

Innovative rate plans and options give new impetus

Drillisch AG generated a lot of attention in the second half of 2011 with two fundamentally new rate plan concepts and once again gave new impetus to the wireless services market. Emphasis is on customer-friendly and individual calculation of the actual use of the services by intelligent, automatic billing systems.

OptiSurf – paying only for the mobile internet actually used

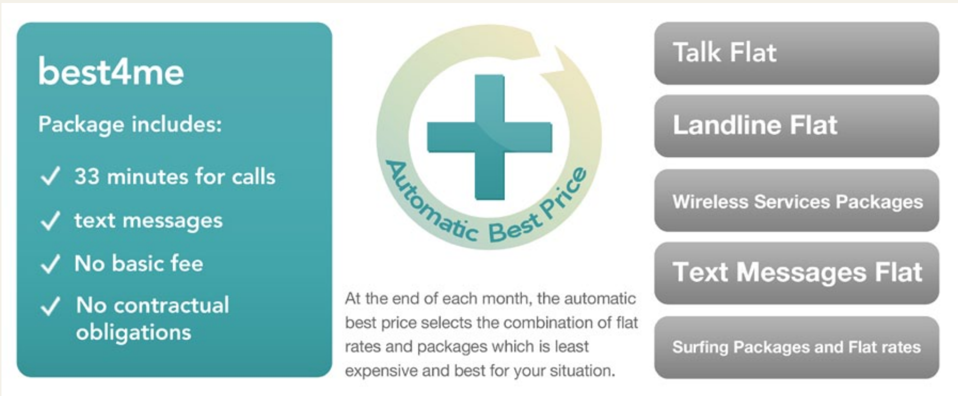
By selecting the new data flat rate *OptiSurf*, subscribers with the 8-eurocent rates of the brands simply, maXXim and helloMobil have since September chosen only their personal monthly maximum of between €4.95 and €14.95 and can take advantage of the maximum high-speed volume for each limit (100 MB, 200 MB, 500 MB or 1 GB). What makes *OptiSurf* so special and new is the intelligent, automatic billing system which ensures that customers who use less also pay less. If a user does not surf as much in one month, only the lower price is charged. So all users, whether occasional surfers or smartphone experts, can be sure that they never again pay too much for flat-rate volumes they have not used, yet retain full flexibility.



Drillisch has the price leadership in all segments

best4me – the new, innovative rate featuring automatic best price

Drillisch has also extended this principle to the voice and text message flat rates of the new rate plan *best4me* offered as part of the brand helloMobil. While the competition's subscribers must always decide in advance for the coming month what the right minute package will be or which flat rate is most suitable, the automatic best price calculation of *best4me* always guarantees the most favourable combination of the available telephone flat rates, minute packages, text messaging flat rate or data options. And the whole process is automatic and not performed until the end of the billing period. In addition, the *best4me* packages and flat rates for landline service, mobile phone surfing and text messaging cost about 10% less than comparable offers from the competition.



Price leader in data rates for laptops, netbooks and tablet PCs as well

But the Drillisch offers of lowest rates are not limited to smartphone users. The data-only rates offered for the new tablet PCs as well as for classic laptops or netbooks can stand up to any comparison. The brands *simply data*, *maXXim data*, *McSIM data* and *discosurf* and their established data flat rate of 5 GB high-speed volume have been supplemented by the addition of variants of 500 MB, 1 GB and 3 GB. So mobile surfing is available for as little as €7.95 a month. Drillisch offers the lowest-price rates on the market for every use and every usage scenario in this segment as well. And anyone who does not yet have an Apple iPad can purchase the cult device from Drillisch for an attractive one-time price with a genuine internet flat rate with 1 gigabyte high-speed volume for only €24.95 a month.

Better business climate in ICT market

Drillisch brands are always right at the front of the pack in rate comparisons and rate recommendations

Drillisch attracts a high level of attention with the diversity of its brands. This is reflected in its frequent mention during rate plan comparisons of leading online portals and in trade journals and popular magazines. The comparison portal *Tariftip.de* has in recent months awarded Drillisch products the best mark of “Excellent” in the three most important categories:

- Mobile phone rate plans for frequent callers (PHONEX *All-in Flat*)
- Mobile internet on mobile phones (smartmobil.de)
- Mobile internet per USB stick surfROYAL Data L.

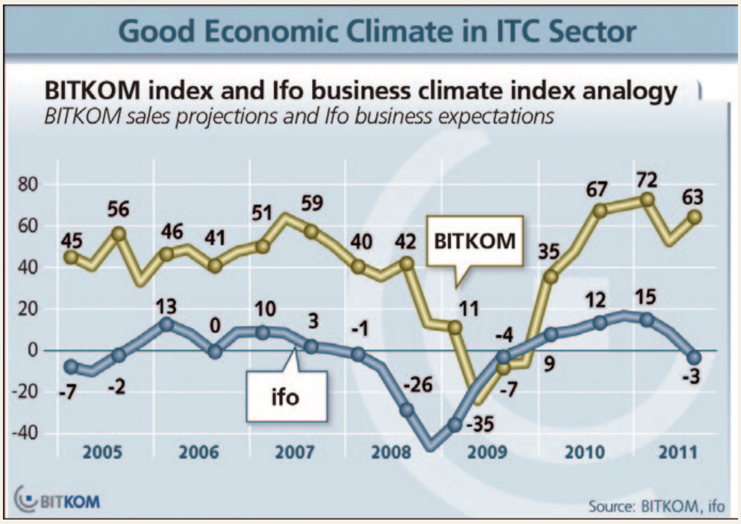
No fewer than three data flat rates from Drillisch have regularly been crowned “Least Expensive Mobile Internet Rate” by the comparison portal *Handyflatrate-Preisvergleich.de*:

simply data, maXXim data and Weltbild Mobil Data.

Moreover, numerous Drillisch products can regularly be found near the top of the lists in rate comparisons by the magazines *FINANZtest*, *connect* or *Computerbild*. The Stiftung Warentest recommended the free community rate *friends4free* for the brands simply, maXXim and helloMobil in its magazine *test* (6/2011). A rate list which is updated monthly on www.test.de regularly features *simply clever*, *maXXim plus* or *helloMobil 8 Cent* and others as the “lowest rates” in the tested categories.

ICT market significantly better than the Ifo index – software and IT services in the lead

The BITKOM index, for which the high-tech association has been collecting sales projections from companies every quarter for many years, showed a plus of 60 points in the middle of December 2011. This figure is significantly higher than the Ifo business climate index for the overall economy, which noted minus 9 points at the same point in time. As early as September 2011, 75% of the surveyed companies expected increasing sales for the year 2011 as a whole. Turnover from software has been developing at an especially strong rate for many years. It will rise by more than 5% in both 2011 and 2012, noted Professor Dieter Kempf, BITKOM president, at the time of the yearly closing press conference in the middle of December 2011. The rapid development on the app market was one of the more important contributors to this positive result. But IT services also grew thanks to outsourcing and cloud computing. Hardware manufacturers, on the other hand, were hard hit over the course of 2011, above all by the tsunami disaster in Japan and the major flooding in Thailand. The European debt crisis has not had any significant impact on the ITC sector. BITKOM projections indicate that the German ITC market will break through the mark of €150 billion this year for the first time and grow by 2.2% to €151.3 billion.



CONSOLIDATED MANAGEMENT REPORT

Business Report

1. Business Report

1.1. Drillisch making the transformation from a service provider to a "virtual network operator"

During fiscal year 2011, Drillisch steadfastly continued its development which began in the fourth quarter of 2010 from its previous position of a classic service provider into an MVNO (mobile virtual network operator). Drillisch procures standardized, unbundled advance services from the wireless network operators Telefónica O_2 Germany GmbH & Co. OHG ("O_2") and Vodafone D2 GmbH ("Vodafone"), a situation which significantly enhances its manoeuvrability on the product and sales side. The Company is able to determine autonomously its own rate plans and options independently of the sales rates of the network operators and to combine these plans and options flexibly with one another. The resulting flexibility assures independence and the capability to plan business over a longer term. In the future, commissions for network operators, a major component of a service provider procurement model, will no longer be charged. Owing to the elimination of the activation charges on the part of the network operators, new customer acquisition will be financed fully from the Company's own funds in the future. The independence from the control over new and current customer business exercised by network operators thus gained will contribute to a significant improvement in planning security for Drillisch's own business.

This flexibility enables Drillisch to pioneer regularly new developments on the wireless services market as well as to offer for the first time products featuring innovative automatic billing methods such as "*OptiSurf*" or "*best4me*" which can be perfectly adapted to customers' usage habits. The demand for smartphones has risen by more than 30% in comparison with 2010. Drillisch recognised this trend at an early stage and now offers smartmobil.de, the rate plan *All-in Flat Smart* and other opportunities to combine high-end smartphones with attractive, low-cost rate plans. From a general perspective, the focus continues to be on the marketing of innovative voice and data products. The scope of the Company's services encompasses all of the transmission technologies available both now and in the future.

The most important sales channels are the sales and cooperation partners along with the webshops on the internet; moreover, the classic wireless services specialist trade continues to be an important pillar. Social media platforms such as Facebook or Twitter are also used to target customers.

Drillisch will continue to serve current customers in the Telekom Deutschland GmbH ("Telekom") and E-Plus Mobilfunk GmbH ("E-Plus") networks on the basis of the service provider agreements.

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 subsidiaries Drillisch Telecom GmbH ("Drillisch Telecom"), Maintal, SIMply Communication GmbH ("simply"), Maintal, and MS Mobile Services GmbH ("MS Mobile"), Maintal, handle the operational wireless services business. All of the IT know-how of the Drillisch Group has been concentrated in IQ-optimize Software AG ("IQ-optimize"), Maintal. 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 e-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; as per 31 December 2011, this affiliate and Drillisch AG together held more than 20% of the share capital of freenet AG.

Business Report

Drillisch Telecom – strong brands in mobile communications

Drillisch Telecom offers attractive rate plans – for both voice telephony and mobile surfing on the internet – under the brand names McSIM, helloMobil and PHONEX. The latest smartphones, tablet PCs or notebooks for use with these plans are available from the online shops for each of the brands. The innovative automatic billing mechanism of the new rate plan "*best4me*" at Drillisch Telecom, launched in the third quarter 2011, frees customers from concerns about the charges for mobile phone calls without having to book rate plan options ahead of time. Subscribers electing *best4me* always find the most favourable combination of flat rate and charges based on minutes for their specific usage in each case. The established premium brands Telco and VICTORVOX stand primarily for business with fixed-term contracts. Drillisch uses the brand Alphatel to offer cash cards, starter cards and bundles in prepaid business together with cash codes via its own platform, g~paid – the only wireless services provider in Germany to do so.

simply – low-cost offers and award-winning quality of products and service

simply – one of the discount pioneers in Germany – continues its success story for yet another year without showing any signs of slowing down. simply makes use of webshops on the internet along with sales and cooperation partners to market wireless services at especially favourable conditions. The new All-Inclusive smartphone savings rates or the iPad2 packages are seamless extensions of the innovations initiated by simply in the middle of last year (first smartphone discount rate with a double flat rate in Germany); besides rate plans at discount prices, simply offers a broad palette of low-priced services for mobile data communications in combination with attractive hardware offers featuring the iPad or iPhone from Apple and popular products from other well-known manufacturers.

Award-winning quality management in product marketing and customer service

simply and its subscribers have meanwhile received official confirmation that low prices, high quality and good service do not have to be mutually exclusive. Following a successful audit in 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. The quality criteria on which the certificate is based were once again confirmed during an audit in October 2011.

MS Mobile – smart rates featuring smart service

Since the beginning of April 2011, MS Mobile has been offering smartmobil.de, the first rate plan available across Germany tailored precisely to the needs of smartphone users. The straightforward, low-cost and transparent product started a new trend in the wireless services sector and was awarded the ISO certificate for outstanding quality management in the areas of online product marketing and customer service in accordance with DIN EN ISO 9001:2008 in the very first month. The smartmobil.de customers have long known that smartmobil.de is outstanding. This was officially confirmed in November when it was designated "UMTS Provider of the Year" by the independent rating portal "Tariftipp.de". smartmobil.de was able to impress the Tarifftipp.de jury with the innovative strength of the Company, the customer friendliness of the rates, the range of options from various customised smartphone rate plans and the excellent value for money. As appropriate for the best smartphone rate plan, smartmobil.de has been offering a matching smartphone at no additional cost since the fourth quarter of 2011. The "TripleCard" from smartmobil.de is the chance for subscribers to be smart in three ways. It can be used to provide accessibility to the network for as many as three mobile devices simultaneously so that users can carry on parallel tasks of phoning, surfing and e-mailing – with only one contract, one invoice and one mailbox. In addition to smartmobil.de, MS Mobile has been offering the brand maXXim since 2008, one of the least expensive rate plans on the German wireless services market at a price of only 8 eurocents for phoning and texting. This rate plan was enhanced in 2011 by the addition of low-cost rates for mobile surfing.

Business Report

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

discoTEL and discoPLUS are successful brands offered by the subsidiary eteleon. These rate plans have been the market leaders in Germany since their introduction, featuring a price of only 7.5 eurocents per minute or text message. In response to the rapid rise in demand for smartphones, eteleon introduced the "All in Flat Smart" rate plans in 2011 and offers subscribers the opportunity to combine the latest devices with a fourfold flat rate featuring terms and conditions that have never been equalled.

In accordance with the resolution adopted by Ordinary Annual General Meeting of eteleon e-solutions AG on 27 June 2011, the shares of the other shareholders (minority shareholders) of eteleon e-solutions AG were transferred to Drillisch AG within the scope of a procedure for the exclusion of minority shareholders (Sections 327a et seqq. Germany Company Law) in return for payment of cash compensation. This resolution was entered in the Commercial Register on 16 August 2011 and has become legally effective. Since that date, Drillisch AG has held 100% of the shares of eteleon e-solutions AG.

IQ-optimize guarantees IT expertise

Drillisch has bundled its IT expertise in its subsidiary IQ-optimize. This company performs all of the IT services for the Group companies.

MSP Holding

MSP Holding GmbH ("MSP Holding"), Maintal, is a subsidiary of Drillisch AG; its functions include the strategic positioning of Drillisch on the wireless services market. Drillisch AG, together with MSP Holding, currently holds more than 20% of the share capital in freenet AG. In 2011, Drillisch additionally acquired about 10.5 million no-par value registered shares in the share capital of freenet AG, once again clearly emphasising its strategic positioning.

Employees

In 2011, an average of 329 employees (previous year: 379), including the two members of the Drillisch AG Management Board, was on the payroll of the Drillisch Group. 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 47 (previous year: 41).

1.2. Company management – objectives and strategies

The Company`s strategy emphasises profitable growth. The focus for new business is on the marketing of innovative and low-cost products. In the estimation of the Management Board, low, transparent rates represent the greatest opportunities for growth on the German market. The highest growth rates here are expected in the data communication sector.

The Company has placed its own successful brands, including simply, maXXim, McSIM, helloMobil, smartmobil.de, discoPLUS and discoTEL. Drillisch offers attractive products in combination with smartphones and tablets, enabling the Company to benefit from the continuing boom in demand for mobile high-end devices.

The expansion of current sales activities and the opening of new distance trade channels by means of attractive product lines such as smartmobil.de, helloMobil or McSIM are at the forefront of the Company's efforts. The ultimate objective is to expand the higher-priced postpaid business, thereby realising profitable margins on a highly competitive market. Active quality management continuously monitors products and services.

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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 is the adjusted EBITDA (earnings before interest, taxes, depreciation and amortisation, adjusted for extraordinary and one-off factors). In addition to the EBITDA, gross profit and cash flow are the subjects of special attention.

Major elements of value-oriented management include:

1. Thanks to its lean structure, Drillisch works highly efficiently in terms of costs. This approach has enabled the group to increase its EBITDA continuously over the past nine 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, enabling fast and flexible action and response on the market.
3. Drillisch is innovative in the design and development of new products and rate plans. The Company is one of the first providers to sell wireless services under its own discount brand name. This innovation strength makes it possible for the group to develop new business fields ahead of competitors.
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.

Moreover, long years of experience are available to Drillisch at the first and second management levels.

1.3. Market and competition

Wireless services sales in Germany declined slightly in 2011

According to a TC market analysis conducted jointly by Dialog Consult and VATN, sales on the German wireless networks market fell slightly from €24.3 billion in the previous year to €23.9 billion in 2011. The year-on-year decline is primarily a consequence of the ongoing reductions in price structures. The number of active SIM cards rose from 108.3 million in the previous year to 110.9 million in 2011. Voice traffic over wireless services connections increased from 258 million to 288 million minutes per day. As management expected, the data volume on the wireless services networks rose further at a breakneck pace. Estimates from the VATM indicate that the total data volume in 2011 increased by 77% from 67.9 million gigabytes in 2010 to 120.2 million gigabytes. The share of revenues from mobile data traffic in the sector non-voice revenues rose from 56% in 2010 to 59% in 2011 so that about €4.3 billion of the wireless services revenues came from the mobile data traffic sector.

IT industry growth continues in 2011

The IT industry was in 2011 able to continue the positive development of the previous year without even a hiccough. According to information from BITKOM (December 2011), sales in Germany rose by about 4.5% to €73.0 billion. The IT industry created another 10,000 jobs in 2011, so it is one of the job engines in the German economy as well as one of the most innovative business sectors.

Drillisch grows on the wireless services market in 2011

Drillisch is in competition with the four network operators (Vodafone, O_2, Telekom and E-Plus) and with other service providers and MVNOs. The network operators have a market share of about 85.6% in Germany as shown in a TC market analysis from VATM in 2011. The remaining market is essentially shared by the service provider freenet and the independent service providers Drillisch and United Internet. In contrast to most of its competitors in Germany, Drillisch succeeded in growing in terms of turnover in the service

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revenues, subscriber base and EBITDA in the past fiscal year.

Telekom Deutschland GmbH terminated the cooperation with the Drillisch Group companies Drillisch Telecom and simply without notice per 04 November 2011 and filed criminal charges. simply had given ordinary notice of termination to Deutsche Telekom GmbH on the day before. The management of simply and Drillisch Telecom regard the claims asserted by Telekom to be groundless.

1.4. General economic conditions

"Strengthen trust – Create opportunities – Grow steadily with Europe" is the title of an annual economic report published by the German government in January 2012. The German economy continued the recovery of the previous year and posted growth in gross domestic product (GDP) of 3.0% in 2011. More people than ever before had jobs in Germany in 2011, a total of 41.1 million workers. Thanks to the positive development in gross wages in 2011 (increase of 2.3%), domestic demand also rose by 1.2%.

However, 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

By posting strong turnover growth once again in the sector "service revenues" in fiscal year 2011, Drillisch confirmed the wisdom of the transformation to an MVNO which began in the fourth quarter of 2010 as well as improved substantially on the excellent results of fiscal year 2010. This excellent business development is supported by the ongoing dynamic developments in the fields of wireless services discount and mobile internet products. Drillisch uses innovative products and marketing and sales concepts to sustain its top position in the German telecommunications industry.

The "service revenues" and the new customer acquisition revenues, essentially the income from the provision of the ongoing wireless services (voice and data transmission) and their billing on the basis of the current customer relationships, rose in 2011 by €25.6 million or 9.2% to €303.1 million (previous year: €277.5 million). Other revenues, which include low-margin business such as sales of devices and prepaid bundled sales, declined by €39.0 million to €45.9 million (previous year: €85.0 million). Sales from the segment software services amounted to €0.1 million (previous year: €0.1 million). Total turnover in 2011 declined by €13.4 million or 3.7% to €349.1 million (previous year: €362.5 million). In the strict quarter-on-quarter comparison, however, revenues in the fourth quarter of 2011 rose just as they had in the third quarter, increasing by €1.4 million to €102.1 million (previous year: €100.7 million). The number of subscribers increased by 119,000 to 2.550 million (31 December 2010: 2.431 million). The subscriber base in the more profitable postpaid business rose by 321,000 or 27.0% in comparison with the end of 2010 to 1.512 million subscribers (31 December 2010: 1.191 million). The number of subscribers in the prepaid sector was reduced by 16.3% to 1.038 million (31 December 2010: 1.240 million). The underlying reasons behind the decline include the continued removal of inactive subscribers from the clientele lists and a declining acquisition of new subscribers in this sector because the investment costs per new subscriber have risen. Thanks to the expansion of the higher-value postpaid business, the ratio of postpaid to prepaid subscribers improved further to 59% to 41%, an increase of 10 percentage points compared to the end of 2010 (31 December 2010: 49% postpaid to 51% prepaid).

The cost of materials decreased overproportionately to the decline in turnover during 2011 by 10.1% to €246.3 million (previous year: €274.1 million). As a consequence, the gross profit improved by 16.3% to €102.8 million (previous year: €88.4 million). The gross profit margin increased by 5.0 percentage points to 29.4% (previous year: 24.4%). Personnel expenses fell by 13.0% to €20.8 million (previous year: €23.9 million). This decline is essentially a consequence of the expenditures for restructuring measures incurred for the concentration of the operating locations in the previous year's figures. This led to expenditures of €3.2 million last year, mainly as funding of a social plan for employees leaving the Company. Correspon-

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dingly, the personnel expenses ratio decreased by 0.6 percentage points to 6.0% (previous year: 6.6%). Other operating expenses rose by 48.9% to €34.3 million (previous year: €23.0 million). The greatest part of these expenditures was for advertising, which grew by €9.8 million to €17.1 million This is more than double the figure for 2010 (€7.3 million). Despite this substantial increase in advertising expenditures, there was a major improvement in the EBITDA in comparison with the same period of last year.

The consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation), one of the most important management indicators in the Drillisch Group, rose by 11.5% to €51.4 million (previous year: €46.1 million). The adjusted consolidated EBITDA in 2011 amounted to €52.6 million in comparison with €49.3 million in the previous year. Extraordinary expenses 2011 amounting to €1.2 million concern the derecognition of a residual claim from a settlement in fiscal year 2009 and extraordinary charges related to a legal dispute. The adjusted EBITDA margin came to 15.1% (previous year: 13.6%). Depreciation declined by 41.5% to €3.4 million (previous year: €5.7 million). In previous years and the first quarter of 2011, the intangible assets identified within the framework of the purchase price allocation from the Telco acquisition of 2007 were written off as scheduled over their useful life. These write-offs have now been completed. As a consequence, the EBIT (earnings before interest and taxes) rose by 19.0% to €48.1 million (previous year: €40.4 million). The EBIT ratio improved by 2.7 percentage points to 13.8% (previous year: 11.1%).

The freenet shares held by MSP Holding and Drillisch AG since 14 June 2011 have been valuated according to the equity method because of the significant influence on the Company from the voting rights quota. The results from this inclusion amounted to €28.3 million as per 31 December 2011. This item also includes income from the reversal of the market valuation provision. This provision was originally created subject to only 5% of the deferred taxes pursuant to Section 8b KStG (German Corporate Income Tax Act), so the reversal has now had little impact on the tax results. Moreover, the share of the updating of the proportional equity of freenet AG effective on profits in the amount of €19.9 million is included in the "Results from the financial assets shown in the balance sheet according to the equity method". In the previous year, the holding was classified as "Available for sale" in accordance with IAS 39 and changes in value were reflected without impact on profits as a market valuation provision in equity.

The Other financial results in the amount of -€19.9 million result essentially from a payment obligation agreed within the framework of a financing transaction and the valuation on the closing date of a hedging transaction which was concluded within the framework of the financing of the acquisition of the freenet shares in 2011. The value of the hedging transaction is recalculated as of every closing date and is primarily a result of the price of the freenet stock on the closing date and of the remaining term. A rising stock price tends to lead to a declining value of the hedging transaction, which can also be negative. In this case, it is disclosed under the long-term financial liabilities. If the value on the closing date is positive, it is capitalised under Other financial assets. Per 31 December 2011, it was necessary to create deferred tax assets of €2.0 million which reduced the taxes on the Group correspondingly and lowered the tax rate.

The increase in the utilisation of bank loans and the rise in interest rates in 2011 caused the results from interest to decline by €3.0 million to -€4.2 million (previous year: -€1.2 million). Taxes on income fell by €0.3 million to €11.3 million (previous year: €11.6 million). The substantially lower tax rate was caused, as described above, in particular by the fact that income from the financial assets shown in the balance sheet according to the equity method was not to be taken into account for tax purposes. Profit per share came to €0.77 (previous year: €0.58).

Business Report

General statement on business development

Operating in a favourable, although highly competitive economic sector, Drillisch fulfilled the business forecast which had been confirmed once again in November 2011. The number of subscribers was increased and turnover in the sector of "service revenues" 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 development clearly demonstrated that Drillisch has been pursuing a course of consistently profitable growth for many years which is largely independent of general economic fluctuations. Management Board and Supervisory Board will therefore propose a dividend of €0.70 for each share entitled to dividends to the Annual General Meeting.

1.6. Assets, liabilities and financial position

The balance sheet total for the Drillisch Group rose by €119.1 million to €393.7 million as per 31 December 2011 (31 December 2010: €274.6 million), primarily a consequence of investments in financial assets. The equity ratio declined accordingly from 51.1% per 31 December 2010 to 41.9% at the end of the year 2011.

Cash declined by €6.9 million to €20.7 million (31 December 2010: €27.6 million). Trade receivables increased by €13.3 million to €41.7 million (31 December 2010: €28.4 million). This rise was a result of the significant push in the sale of high-quality devices in fiscal year 2011 related to the current smartphone rate plans among other factors. In total, current assets increased by €4.8 million to €75.2 million (31 December 2010: €70.4 million).

Fixed assets rose by a total of €114.3 million to €318.5 million (31 December 2010: €204.2 million). Other intangible assets, on the other hand, declined by €0.4 million to €10.9 million (31 December 2010: €11.3 million) as a result of scheduled depreciation. As of the closing date, Drillisch AG, in conjunction with MSP Holding, held more than 20% of the share capital in freenet subsequent essentially to the additional participation in freenet AG acquired in the 2nd quarter of 2011. The participation exceeded the 20% threshold on 14 June 2011 and is now disclosed in the financial assets shown in the balance sheet according to the equity method. Value as per 31 December 2011 came to €236.4 million. In the previous year, the freenet stock was shown in the balance sheet under the Other financial assets. The freenet stock in this item declined to zero as of the closing date (31 December 2010: €122.8m). The balance of the two items affected by the freenet holdings increased by €113.6 million in comparison with 31 December 2010.

Thanks to the good business results of 2011 balanced against the dividend distribution, the accumulated deficit decreased by €14.4 million to €43.1 million (31 December 2010: €57.5 million). The accumulated deficit in 2008 resulted primarily from the change in the stock market evaluation of the freenet AG shares. The market valuation provision reflected the value change in the other financial assets taken into account as non-operating results up to 14 June 2011. The freenet stock held by Drillisch AG and MSP Holding, now valuated and shown in the balance sheet according to the equity method, was a major component of the other financial assets. Any changes in the freenet AG equity are now basically realised directly in the income statement. In comparison with 31 December 2010, total equity increased by €24.6 million to €165.0 million (31 December 2010: €140.4 million).

Long-term liabilities rose by €102.1 million to €163.0 million (31 December 2010: €60.9 million). This increase is essentially a consequence of the rise in liabilities due to banks owing the acquisition of additional shares in freenet AG during the first half of the year.

Short-term liabilities declined by €7.6 million to €65.7 million in comparison with the end of fiscal year 2010 (31 December 2010: €73.3 million). Trade accounts payable rose by €0.3 million to €25.1 million (31 December 2010: €24.8 million) as a consequence of the balance sheet date. Tax liabilities declined by €1.5 million to €5.7 million (31 December 2010: €7.2 million). Payments received on account fell by €3.1 million to €22.4 million (31 December 2010: €25.5 million).

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1.7. Cash flow

Cash flow from current business activities amounted to €20.0 million (previous year: €40.8 million) in fiscal year 2011. The main causes of this change are the increased gain in postpaid subscribers on the one hand and the reduction of the prepaid business, in terms of both subscriber base and voucher sales, on the other. Along with fluctuations related to the closing date, this development overall led to an increase in net working capital which was reflected above all in an increase in trade receivables of €13.3 million (previous year: decline of €5.0 million), the reduction of €4.0 million in trade accounts payable and other liabilities and provisions (previous year: rise of €1.8 million) and in the drop of €3.1 million in advanced payments received (previous year: decline of €0.7 million). Furthermore, advance payments for media services were effected as part of the significantly rising advertising expenditures in 2011, but had not been released as of the closing date. Finally, the increase in interest payments of €1.0 million in comparison with the previous year resulted in a higher outflow of funds.

Cash flow from investment activities totalling -€69.8 million is decisively characterised by payments for investments in financial assets shown in the balance sheet according to the equity method amounting to €114.5 million (previous year: €0.0 million). €3.1 million went to other investments in 2011 (previous year: €4.3 million). This was countered by payments from the sale of financial assets shown in the balance sheet according to the equity method in the amount of €25.4 million (previous year: €0.0 million) and the dividends amounting to €22.4 million (previous year: €3.1 million) received from freenet.

In fiscal year 2011, there was a net inflow of cash in the amount of €42.9 million from financing activities (previous year: outflow of cash in the amount of €39.0 million), essentially representing the balance between the taking out and amortisations of financial loans in the amount of +€78.0 million (previous year: -€23.0 million) on the one hand and payments for the acquisition of own stock in the amount of €8.0 million (previous year: €0.0 million) and dividend payments in the amount of €26.6 million (previous year: €16.0 million) on the other.

1.8. Employees

As an annual average, Drillisch employed a staff of 329, including the two Management Board members (previous year 379). 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 47 (previous year: 41).

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.

Business Report

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: In 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. The quality criteria on which the certificate is based were once again confirmed during an audit in October 2011. 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. MS Mobile GmbH was also awarded the ISO certificate in accordance with DIN EN ISO 9001:2008 for outstanding quality management in the areas of online product marketing and customer service in May 2011, one month after the introduction of smartmobil.de.

Knowledge of the markets: As a consequence of the more than 20 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. This proximity is what enables Drillisch to recognise upcoming trends in good time and to utilise them to raise value. Realising innovative marketing ideas and alternative distribution solutions has repeatedly led to Drillisch's success in offering products which meet the needs of the customers at an early stage. One important objective is the increase of the subscriber base with long-term value and obtaining a greater market share in the relevant segments.

First-class customer service: Drillisch sets high standards for its own customer service, based on its many years of experience as a wireless services provider. Not content just to maintain these standards, the Company has succeeded in improving them through consistent quality management. This has also been confirmed by official sources in the form of ISO certification. 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, provided that they are regarded as being economically justifiable, have been concluded to cover incidents of loss and liability risks arising in the course of daily business.

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 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 risk management 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 separate and consolidated annual accounts and review of the semi-annual reports by the auditor are especially important as major monitoring measures with respect to the accounting process.

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The risk management 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 system for the early detection of risks 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. Increases in overall turnover cannot be expected on the German wireless services market in 2012.
- Drillisch may possibly not be successful in acquiring and maintaining a satisfactory share of this market.
- The increasing availability of low-cost rates and products may cause the prices which can be charged for wireless services to decline.
- A decline in prices on the market for wireless services or the reduction in the forwarding charges could result in falling revenues and income.
- 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 lead to extraordinary write-offs both in the consolidated accounts in accordance with IFRS and in the separate 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 in part 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.
- The termination of the contracts with Telekom Deutschland GmbH and the legal disputes related to this termination may also lead to payment obligations on the part of the subsidiaries simply and Drillisch Telecom. Current fixed-term contracts for the Telekom network can be continued.

There were no major changes in the risk situation in 2011 in comparison with the previous year with the exception of the legal disputes with Telekom Deutschland GmbH. 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 Company's management. 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. Owing to continuing uncertainty caused by the financial and government debt crisis and the darkening of the economic situation in Europe and other international areas, however, Dr Philipp Rösler, German Federal Economics Minister, presumes that economic growth in Germany in 2012 will be lower than in 2011. The Deutsche Institut für Wirtschaftsforschung (DIW) expects economic growth of about 1.0% for 2012. This forecast is in line with the development of the IFO business climate index. Further events related to the European crisis of trust and government debt will continue to have a decisive impact on further economic developments. Thanks to the domestic German economy, which remains very healthy, real economic development in Germany is remarkably resilient.

3.2. Drillisch Management Board forecast regarding the 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 growth in turnover because, although usage is increasing, the price sensitivity will remain at the same level. The most important growth segment will be mobile data communications. Moreover, the displacement of the landline network by wireless services will continue. A study by the Gesellschaft für Konsumforschung (GfK) in August 2011 showed that about 30% of mobile phone users could imagine doing without a landline connection completely. One out of two respondents hopes to have significant monetary savings by switching completely to wireless services.

3.3. Opportunities and risks of future development

Simple means for making phone calls and "surfing" at low prices will remain the focus of interest for wireless services customers. The virtually full-area availability of mobile high-speed Internet, the accelerating spread of smartphones and services such as "near-field" and "machine-to-machine communication" 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 and growth potential are 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 termination of the contracts with the network operator Telekom Deutschland GmbH will not have any negative impact on Drillisch's development. The Management Board expects an increase in sales in the sector of "service revenues" and an EBITDA (adjusted) of about €58 million for 2012. The Management Board presumes that these positive developments in earnings in business operations will continue in 2013 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 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 long-term care insurance, as well as payments in kind (essentially the use of the company car). The Management Board's compensation always includes variable compensation elements which are components contingent on success. These elements are redefined every year by the Supervisory Board on the basis of targets.

In 2011, the Supervisory Board concluded an agreement with both Management Board members providing for a "Long-Term Incentive Bonus" (LTI) with a term of five years as a long-term incentive component. The parameter for determining success is the consolidated EBITDA. In the event of premature termination of the employment relationship within the agreed term, each of the Management Board members will receive a predetermined amount based on the point in time at which he leaves the Company's service.

The term of the contracts with the Management Board expires on 31 December 2015. 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 independent of success and a part contingent on success will be deemed earned. The Management Board members receive compensation of €20k 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 for the members of the Company's Management Board comprises the following elements:

Management Board

Management Board compensation 2011 (in €k)	Fixed compensation	Short-term variable compensation	Long-term variable compensation	Total compensation
Paschalis Choulidis	595	600	250	1,445
Vlasios Choulidis	590	600	250	1,440
	1,185	**1,200**	**500**	**2,885**

Contributions of €230k for each Management Board member are paid annually into a pension fund as deferred compensation.

The long-term variable compensation contains an incentive component of €250k for each Management Board member; it will not be paid unless certain performance indicators are achieved in fiscal year 2016.

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. The Supervisory Board members also receive variable

Supplemental Information in Accordance with Section 315, Subsection 4 HGB

compensation. 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 calendar quarter. The attendance fees as accrued are payable upon the expiration of each and every calendar 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.

The compensation for the Supervisory Board members in 2011 comprised the following elements.

Supervisory Board Compensation

Supervisory Board Compensation 2011 (in €k)	Fixed compensation	Variable compensation (for 2010)	Total Compensation
Marc Brucherseifer, Dipl.-Kfm.	37.5	12.0	49.5
Dr Hartmut Schenk, Dipl.-Kfm.	23.5	20.0	43.5
Johann Weindl, Dipl.-Kfm.	27.0	14.0	41.0
Dr Bernd H. Schmidt	26.5	7.0	33.5
Michael Müller-Berg, Dipl.-Kfm.	26.5	12.0	38.5
Dr Horst Lennertz, Ingenieur	26.5	12.0	38.5
	167.5	**77.0**	**244.5**

5. Supplementary Information

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

The subscribed capital before stock repurchase 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

Important Events after the End of the Fiscal Year

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), fourth sentence AktG (German Company Law) 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) fourth sentence 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) no 8 and Section 186 (3) fourth sentence 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.

The Annual General Meeting on 28 May 2010 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 2010 on or before 27 May 2015. Based on this authorisation, the Management Board, with the approval of the Supervisory Board, decided on 09 November 2011 to initiate a stock repurchase programme for as much as four per cent of the Company's share capital, corresponding to 2,127,560 shares. Per 31 December 2011, a total of 1,286,591 shares had been purchased at an average price of €6.19, corresponding to about 2.4% of the Drillisch AG share capital.

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 289 a HGB

Drillisch has published the statement on corporate management pursuant to Section 289 a 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 289 a 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, 05 March 2012

The Management Board

CONSOLIDATED ANNUAL ACCOUNTS

Consolidated Comprehensive Income Statement

Consolidated Annual Accounts for the Fiscal Year from 01 January 2011 to 31 December 2011

		2011	2010
	Notes No.	€k	€k
Sales	1	349,097	362,491
Other own work capitalised		2,210	1,998
Other operating income	2	1,517	2,638
Cost of materials / Expenditures for purchased services	3	-246,314	-274,072
Personnel expenses	4	-20,776	-23,890
Other operating expenses	5	-34,300	-23,034
Amortisation and depreciation	6	-3,352	-5,728
Operating result		**48,082**	**40,403**
Result from financial investments shown in the balance sheet according to the equity method		28,280	0
Other financial results		-19,876	3,426
Interest income		526	781
Interest and similar expenses		-4,698	-1,988
Financial result	7	**4,232**	**2,219**
Profit before taxes on income		**52,314**	**42,622**
Taxes on income	8	-11,272	-11,648
Consolidated results		**41,042**	**30,974**
Consolidated results attributable to non-controlling shareholders		28	3
Share of Drillisch AG shareholders in consolidated results		41,014	**30,971**
Change in attributable market value of financial assets available for sale		28,188	-23,202
Realisation of market valuation provision affecting results		-9,493	0
Taxes on income		-282	350
Other earnings after taxes		18,413	-22,852
Consolidated comprehensive results		**59,455**	**8,122**
thereof comprehensive results attributable to non-controlling shareholders		28	3
thereof share of Drillisch AG shareholders in total results		59,427	8,119
Profit per share (in €)			
Undiluted	39	0.77	0.58
Diluted	39	0.77	0.58

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 01 January 2011 to 31 December 2011

ASSETS

	Notes No.	31.12.2011 €k	31.12.2010 €k
Fixed assets			
Other intangible assets	9	10,869	11,271
Goodwill	10	67,206	67,206
Tangible assets	11	1,237	1,402
Financial assets shown in balance sheet according to equity method	12	236,359	0
Other financial assets	12	33	122,758
Deferred tax reimbursements	8	2,794	1,573
Fixed assets, total		**318,498**	**204,210**
Current assets			
Inventories	13	8,922	7,705
Trade accounts receivable	14	41,696	28,413
Tax reimbursement claims	15	1,468	437
Cash		20,688	27,591
Other current assets	16	2,417	6,229
Current assets, total		**75,191**	**70,375**
ASSETS, TOTAL		**393,689**	**274,585**

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 01 January 2011 to 31 December 2011

SHAREHOLDERS' EQUITY AND LIABILITIES

	Notes No.	31.12.2010 €k	31.12.2009 €k
Shareholders' equity			
Subscribed capital		57,093	58,508
Capital surplus		119,917	126,469
Earnings reserves		31,123	31,123
Market evaluation provision		0	-18,413
Accumulated deficit		-43,108	-57,510
Equity to which Drillisch AG shareholders are entitled		**165,025**	**140,177**
Non-controlling shareholders		0	201
Equity, total	17	**165,025**	**140,378**
Long-term liabilities			
Pension provisions	19	546	499
Deferred tax liabilities	8	4,378	2,771
Bank loans and overdrafts	20	151,189	56,930
Financial liabilities	20	6,536	0
Leasing liabilities	18	349	681
Long-term liabilities, total		**162,998**	**60,881**
Short-term liabilities			
Short-term provisions	21	746	1,353
Tax liabilities	22	5,730	7,196
Trade accounts payable	23	25,103	24,757
Payments received on account	24	22,373	25,482
Leasing liabilities	18	529	457
Other liabilities	25	11,185	14,081
Short-term liabilities, total		**65,666**	**73,326**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**393,689**	**274,585**

Consolidated Change in Equity Statement

Consolidated Annual Accounts for the Fiscal Year from 01 January 2011 to 31 December 2011

	Number of shares	Subscribed capital	Capital reserves	Retained earnings	Valuation pro-visions	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 01/01/2010	**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**
As per 01/01/2011	**53,189,015**	**58,508**	**126,469**	**31,123**	**-18,413**	**-57,510**	**140,177**	**201**	**140,378**
Change in own shares	-1,286,591	-1,415	-6,552	0	0	0	-7,967	0	-7,967
Dividend payments		0	0	0	0	-26,595	-26,595	0	-26,595
Change in the consolidated group		0	0	0	0	-17	-17	-229	-246
Consolidated comprehensi-ve results		**0**	**0**	**0**	**18,413**	**41,014**	**59,427**	**28**	**59,455**
As per 31/12/2011	**51,902,424**	**57,093**	**119,917**	**31,123**	**0**	**-43,108**	**165,025**	**0**	**165,025**

Consolidated Capital Flow Statement

Consolidated Annual Accounts for the Fiscal Year from 01 January 2011 to 31 December 2011

	2011	2010
	€k	€k
Consolidated results	41,042	30,974
Other financial results not affecting payments	20,666	-3,426
Result not affecting payments from financial assets shown in the balance sheet according to the equity method	-28,280	0
Interest paid	-2,220	-1,258
Interest received	526	781
Results from interest	4,172	1,207
Income tax paid	-10,473	-14,204
Income tax received	0	1,548
Taxes on income	11,272	11,648
Amortisation and depreciation	3,352	5,728
Income from the disposal of tangible assets and intangible assets	-52	-73
Change in inventories	-1,217	-1,438
Change in receivables and other assets	-11,722	8,234
Change in trade payables and other liabilities and provisions	-3,952	1,783
Change in payments received on account	-3,109	-687
Cash flow from current business activities	**20,005**	**40,817**
Investments in tangible and intangible assets	-2,841	-4,002
Payments for acquisitions less acquired cash	-257	-265
Outgoing payments for investments in financial assets shown in the balance sheet according to equity method and investments in Other financial assets	-114,485	0
Received dividends or special dividends	22,400	3,108
Earnings from the disposal of financial assets and Other financial assets shown in the balance sheet according to the financial assets	25,424	0
Cash flow from investment activities	**-69,759**	**-1,159**
Change in own shares	-7,967	0
Dividend payments	-26,595	-15,957
Outgoing payments for amortisation of loans	-47,897	-80,000
Incoming payments from the taking out of loans	125,864	57,000
Change in investment liabilities	-554	-25
Cash flow from financing activities	**42,851**	**-38,982**
Change in cash	**-6,903**	**676**
Cash at beginning of period	27,591	26,915
Cash at end of period	20,688	27,591

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 telecommunications is the core business of the Drillisch Group and is situated primarily in the wholly-owned subsidiaries Drillisch Telecom GmbH, MS Mobile Services 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 prepaid and postpaid 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 2011 on 05 March 2012 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 315a (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 2011, 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 (Amendment)”
- Improvement of IFRS 1: “First-time Adoption of International Financial Reporting Standards Adopting Improvements in IFRSs (AIP 2010)”
- Improvement of IFRS 3: “Business Combinations Adopting Improvements in IFRSs (AIP 2010)”
- Improvement of IFRS 7: “Financial Instruments: Disclosures Adopting Improvements in IFRSs (AIP 2010)”
- Improvement of IAS 1: “Presentation of Financial Statements Adopting Improvements in IFRSs (AIP 2010)”
- Revision of IAS 24: “Related Party Disclosures”
- Subsequent amendments to IAS 21, IAS 28 and IAS 31 by IAS 27: “Consolidated Financial Statements and Accounting for Investments in Subsidiaries”
- Amendments to IAS 32: “Financial Instruments: Presentation”
- Improvement of IAS 34: “Interim Financial Reporting Adopting Improvements in IFRSs (AIP 2010)”
- Improvement of IFRIC 13: “Customer Loyalty Programmes Adopting Improvements in IFRSs (AIP 2010)”
- Amendment of IFRIC 14/IAS 19: “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction”
- IFRIC 19: “Extinguishing Financial Liabilities with Equity Instruments”

Consolidated Notes

The new regulations did not affect the consolidated annual accounts.

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 IFRSs presumes that they will be adopted 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 2011:

Standards/Interpretations

		Mandatory application for fiscal years beginning with	adoption by EU Commission
Standards			
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendment)	1.7.2011	No
IFRS 7	Improved Disclosures About Financial Instruments	1.7.2011	Yes
IFRS 9	Financial Instruments	1.1.2013	No
IFRS 10	Consolidated Financial Statements	1.1.2013	No
IFRS 11	Joint Arrangements	1.1.2013	No
IFRS 12	Disclosure of Interests in Other Entities	1.1.2013	No
IFRS 13	Fair Value Measurement	1.1.2013	No
IAS 1	Presentation of Other Financial Statements (Amendment)	1.7.2012	No
IAS 12	Deferred Tax: Realisation of Underlying Assets (Amendment)	1.1.2012	No
IAS 19	Employee Benefits (Amendment)	1.1.2013	No
IAS 27	Separate Financial Statements	1.1.2013	No
IAS 28	Investments in Associates and Joint Ventures	1.1.2013	No
Interpretations			
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1.1.2013	No

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 and interests which are unilaterally controlled 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 2011. 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:

		Held by	capital in
		%	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, Munich	100	1
9.	b2c.de GmbH, Munich (previously: eteleon GmbH, Munich)	100	8
10.	Intelligram GmbH, Munich	100	9

eteleon e-solutions AG, Munich

The Ordinary Annual General Meeting of eteleon e-solutions held on 27 June 2011 adopted a resolution by unanimous vote to convey the shares of the other shareholders (minority shareholders) of eteleon e-solutions AG to the main shareholder, Drillisch AG in Maintal, in accordance with the procedure for the exclusion of minority shareholders (Sections 327a et seqq. German Company Law) against payment of a cash settlement of €2.65 per share.

The squeeze-out resolution was entered in the Commercial Register for the Company on 16 August 2011. The squeeze-out has become effective, and all of the shares of the minority shareholders (4.95%) have been conveyed to Drillisch AG by operation of law.

freenet AG, Büdelsdorf

As of 31 December 2011, Drillisch AG held a total of 11,540,650 shares in freenet AG. The combined holdings in freenet AG stock of Drillisch AG and MSP Holding GmbH amounted to 26,000,000 shares per 31 December 2011, corresponding to a share in the freenet AG capital of 20.30%. The fair value per share of freenet AG stock as per 31 December 2011 amounted to €10.00, while the book value per share came to €9.09.

Owing to the additional purchases from 14 June 2011 on in the second quarter of 2011, the shares in freenet AG are shown in the balance sheet according to the equity method because unilateral control of the company is now possible. The shares were previously shown in the balance sheet according to the available for sale method.

D. General accounting and evaluation methods

Realisation of income and expenses

In the telecommunications 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 have been delivered and accepted by the customers.

Consolidated Notes

Some of the end customer contracts in the telecommunications sector are multiple-component contracts within the sense of IAS 18.13. In the case of multiple-component contracts, the revenue must be recognised for each of the separately identifiable components. The revenue is recognised on the basis of the fair values of the separate components. Agreements for the sale of bundled products or the performance of bundled services must be broken down into their separate components and a separate contribution to earnings must be recognised for each component. The price for the multiple-component transaction in its entirety is distributed among the various components on the basis of the proportionate fair value (i.e. the fair value of each separate component is set in ratio to the fair value of the bundled services as a whole). However, the proportionate fair value of a single component and therefore the realised revenue for this component is recognised separately from that part of the consideration to be paid by the customer for the multiple-component transaction in its entirety independently of the performance of further services.

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.

The interest in freenet AG is presented in the segment Equity interest. freenet AG is presented in the consolidated annual accounts in accordance with the equity method and the result is disclosed in the Results from financial assets shown in the balance sheet in accordance with the equity method.

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.

Consolidated Notes

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.

Tangible assets

Tangible assets are measured 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 et seq. 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 measured at 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 measured at the attributable fair value without effect on income. The attributable 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 fair value. This value is determined on the basis of market prices (exchange prices). The profits and losses resulting from the valuation at fair value are included in shareholders' equity as non-operating results. This does not apply if there are permanent or major losses in value of financial instruments. When the financial instruments are derecognised, the cumulative profits and losses recorded in shareholders' equity are shown in the income statement effective on income.

Consolidated Notes

Other financial assets

Other financial assets are always measured at acquisition costs less required valuation allowances.

Inventories

The inventories, comprising solely and exclusively merchandise and payments on account, are measured at the lower of acquisition costs or realisable net sales value. The measurement 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 a 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 are also shown as non-operating results in shareholders' equity.

Long-term incentive components

The variable compensation paid to the Management Board contains a long-term incentive component which will not be paid out unless specific indicators are fulfilled in fiscal year 2016. A provision has been created on the basis of the fair value.

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

	2011	2010
	€k	€k
Telecommunications		
Service revenues	303,124	277,483
Other revenues	45,911	84,902
Software services	62	106
	349,097	**362,491**

Service revenues comprise essentially the earnings related to the provision of the ongoing wireless services (voice and data transmission, including subsidies of advertising costs). Other revenues are primarily from sales of devices and prepaid bundles.

2. Other operating income

	2011	2010
	€k	€k
Receipt of written-off receivables	575	881
Reversal of Provisions and Liabilities	495	350
Reimbursement of dunning fees (lawyer and court fees)	25	27
Insurance benefits	18	29
Out-of-court settlement	2	500
Other	402	851
	1,517	**2,638**

3. Cost of materials/expenditures for purchased services

The cost of materials comprises essentially basic fees and fees for the ongoing 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

	2011	2010
	€k	€k
Wages and salaries	18,531	21,541
Social contributions	2,245	2,349
	20,776	**23,890**

Consolidated Notes

The number of employees (excluding Management Board, part-time employees converted to equivalent full-time positions) came to:	**2011**	**2010**
Annual average	327	377
Annual average - vocational trainees	47	41

5. Other operating expenses

	2011	**2010**
	€k	€k
Advertising expenses	17,126	7,303
Legal and professional fees	4,091	3,774
Billing and external work	2,988	1,269
Bad debts and valuation allowances	2,181	3,279
Rent and secondary costs	1,701	1,908
Incidental costs for money transactions	649	596
Motor vehicle expenses	432	484
Postal and telephone fees / Dedicated lines	364	521
Travel and entertainment expenses	333	333
Other	4,435	3,567
	34,300	**23,034**

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

6. Depreciation and amortisation

	2011	**2010**
	€k	€k
Intangible assets		
Own produced software	2,049	2,288
Customer relationships	361	2,162
Purchased software	258	389
Tangible assets	684	889
	3,352	**5,728**

7. Financial results

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

This item contains the portion of the update of the proportionate equity of the freenet AG shares shown in the balance sheet in accordance with the equity method recognised effective on profit.

Consolidated Notes

Other financial results

The disclosed amounts result from payment obligations pursuant to financing transactions, income and expenses related to derivatives on freenet AG stock and expenditures from the valuation of an exchange rate transaction valuated on the closing date.

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 €568k (previous year: €160k).

8. Taxes on income

	2011	2010
	€k	€k
Current taxes on income	11,152	11,704
Deferred tax reimbursements	120	-56
Disclosed expenses for income taxes	**11,272**	**11,648**

Taxes on income which have either been paid or which are owed as well as deferred taxes are 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 not reduced in 2011 by the utilisation of deficits carried forward for MSP Holding GmbH which had previously not been taken into consideration. There were accumulated deficits carried forward relevant for corporate income tax in the amount of €9,870k (previous year: €2,481k) and accumulated deficits carried forward relevant for trade tax in the amount of €6,825k (previous year: €2,085k) at MSP Holding GmbH per 31 December 2011, neither of which has been shown.

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:

	2011	2010
	€k	€k
Profit before taxes on income	52,314	42,622
Tax expenses from application of the Group income tax rate of 30.25% (previous year: 30.25%)	15,825	12,893
Taxes for previous year	-24	-107
Trade tax additions	93	71
Non-deductible expenses and tax-free income	-4,238	-982
Tax effects from accumulated deficits carried forward	-393	0
Other effects	9	-227
	11,272	**11,648**

Consolidated Notes

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%, 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:

	2011	2010
	€k	€k
Deferred tax reimbursements for		
Other intangible assets	265	341
Other current assets	278	594
Financial liabilities	1,977	0
Leasing liabilities	266	344
Market evaluation provision	0	283
Pension provisions	8	11
	2,794	**1,573**
Deferred tax liabilities for		
Other intangible assets	2,254	2,407
Leasing assets	260	343
Trade accounts receivable	1,762	0
Bank loans and overdrafts	102	21
	4,378	**2,771**

The deferred tax reimbursements comprise €2,523k (previous year: €1,132k) on short-term and €271k (previous year: €441k) on long-term assets and liabilities. The deferred tax liabilities comprise €1,075k (previous year: €296k) on short-term and €3,303k (previous year: €2,475k) on long-term assets and liabilities.

Consolidated Notes

Explanatory comments on the consolidated balance sheet

9. Other intangible assets

	Tradebrands	Customer relationships	Own produced software	Purchased software	Total
	€k	€k	€k	€k	€k
Acquisition costs					
As per 01 January 2010	**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**
Additions	0	0	2,209	57	2,266
Disposals	0	0	0	0	0
As per 31 December 2011	**7,367**	**8,650**	**20,254**	**3,785**	**40,056**
Accrued depreciation					
As per 01 January 2010	**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**
Additions	0	361	2,049	258	2,668
Disposals	0	0	0	0	0
As per 31 December 2011	**0**	**8,650**	**16,905**	**3,632**	**29,187**
Book values					
as per 31 December 2010	7,367	361	3,189	354	11,271
as per 31 December 2011	**7,367**	**0**	**3,349**	**153**	**10,869**

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.

Consolidated Notes

10. Goodwill

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

	Acquisition costs	Accrued Amortisation and depreciation to 31 December 2011	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. With the exception of IQ-optimize AG, the goodwill has been allocated to the telecommunications segment.

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 2012 to 2016 and for the time after that is based on a sustained net profit at a constant growth rate of 0.5% (previous year: 1.0%), derived from the budgetary figures for 2016. The budget presumes average growth in gross profit for Drillisch Telecom GmbH and IQ-optimize AG in the lower single-digit percentage range for this period. Average growth in gross profit which barely breaks into the two-digit percentage range at the end of the budgetary scope is expected for eteleon e-solutions AG owing to the expansion of the business model. The major assumption for the planning of the cash-generating entities is the number of subscribers. Discounting on the cash flows for the period 2012 to 2016 was calculated at an interest rate of 11.38% (previous year: 8.30%) and for the following period at an interest rate of 10.88% (previous year: 7.60%) pa (in each case, before taxes). No adjustments in the value of the goodwill were required in fiscal year 2011. There was no value reduction in goodwill from a reduction of the discount interest rate by about 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 2010	**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**
Additions	873	0	873
Disposals	419	0	419
As per 31 December 2011	**6,268**	**244**	**6,512**
Accrued depreciation			
As per 01 January 2010	**4,339**	**200**	**4,539**
Additions	871	18	889
Disposals	772	0	772
As per 31 December 2010	**4,438**	**218**	**4,656**
Additions	682	2	684
Disposals	65	0	65
As per 31 December 2011	**5,055**	**220**	**5,275**
Book values			
as per 31 December 2010	1,376	26	1,402
as per 31 December 2011	**1,213**	**24**	**1,237**

Consolidated Notes

12. Other financial assets

The freenet shares held by MSP Holding GmbH and Drillisch AG since 14 June 2011 have been valuated according to the equity method because of the unilateral control over the company from the voting rights quota. The results from this inclusion amounted to €28.3 million as per 31 December 2011. This item also includes income from the reversal of the market valuation provision. The transition from a classification as "available for sale" to the equity method valuation resulted in the reversal of the market valuation provision effective on profits.

Moreover, the share of the updating of the proportional equity of freenet AG effective on profits in the amount of €19.9 million is included in the "Results from the financial assets shown in the balance sheet according to the equity method". In the previous year, the interest was classified as "Available for sale" in accordance with IAS 39 and was disclosed in the item Other financial assets.

The table below shows the long-term and short-term assets and liabilities in full and the performance indicators for the company freenet AG shown in the balance sheet in accordance with the equity method per 30 September 2011.

	QIII 2011
	€k
Fixed assets	1,821,879
Current assets	624,886
Long-term liabilities	598,843
Short-term liabilities	738,047
Sales	2,375,268
EBT	70,881
Earnings after taxes	77,795
thereof from discontinued operations	140

13. Inventories

	2011	2010
	€k	€k
Merchandise	6,599	5,582
Value allowances for merchandise	-5	-11
Payments on account	2,328	2,134
	8,922	**7,705**

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

	2011	2010
	€k	€k
Gross receivables	42,548	29,543
Valuation allowances on receivables	-852	-1,130
	41,696	**28,413**

Consolidated Notes

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
31/12/2011	41,696	28,047	4,476	1,559	942	5,417
31/12/2010	28,413	15,311	2,938	1,225	2,815	5,676

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 receivables due from customers and suppliers with whom payment in instalments in the amount of €3,810k 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 measured 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.

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

	2011	2010
	€k	€k
Valuation allowances as per 1 January	**1,130**	**1,362**
Additions (expenses for valuation allowances)	7,436	9,746
Consumption / Reversal	-7,714	-9,978
Valuation allowances as per 31 December	**852**	**1,130**

15. Tax reimbursement claims

	2011	2010
	€k	€k
Corporate income tax	1,450	329
Trade tax	18	108
	1,468	**437**

The corporate income tax claims include corporate income tax credits of €116k (previous year: €132k).

Consolidated Notes

16. Other current assets

	2011	2010
	€k	€k
Residual claim from settlement	799	1,604
Payables due to network operators	377	2,936
Security deposits	11	11
Other	1,230	1,678
	2,417	**6,229**

17. Equity

The Company's share capital in the amount of €58,507,916.50 before the repurchase of stock 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 27 May 2011 adopted a resolution to distribute a dividend of €0.50 to each and every share entitled to receive a dividend. The number of shares issued at the point in time of the Annual General Meeting totalled 53,189,015. The distribution consequently amounted to a total of €26,595k.

Management Board and Supervisory Board will propose a dividend of €0.70 to each share entitled to dividends to the Annual General Meeting of the current year.

Treasury stock

The Annual General Meeting on 28 May 2010 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 2010 (5,318,901 shares) on or before 27 May 2015.

In fiscal year 2011, this repurchase right was exercised and 1,286,591 own shares were purchased on the stock exchange at an average price of €6.19, corresponding to a nominal value of €1,415k or 2.4% of the Company's share capital.

The acquisition of treasury stock serves the purpose of using this stock for the financing of possible acquisitions of companies or parts of companies, of holdings in companies or of other assets or of activities related to corporate mergers. Nor is a later redemption or resale of these shares to third parties against cash payment excluded.

Capital surplus

The capital surplus contains the premium over the nominal amount from the issue of shares by Drillisch AG. The amount required for the purchase of treasury stock in excess of the par value of €1.10 was deducted from the capital surplus.

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 or carried forward to a new account from a Group perspective.

Consolidated Notes

Non-controlling shareholders

The item of non-controlling shareholders is related to third-party shares at eteleon e-solutions AG up to the time of the transfer of the shares to Drillisch AG on 16 August 2011.

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) fourth sentence 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) fourth sentence 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) no 8 and Section 186 (3) fourth sentence 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.

Consolidated Notes

18. Leasing agreements

The tangible assets include the following finance leases:

	Fixtures, fittings and equipment
	€k
Acquisition costs	
As per 01 January 2010	**1,388**
Additions	1,218
Disposals	404
As per 31 December 2010	**2,202**
Additions	295
Disposals	95
As per 31 December 2011	**2,402**
Accrued depreciation	
As per 01 January 2010	**877**
Additions	596
Disposals	404
As per 31 December 2010	**1,069**
Additions	474
Disposals	0
As per 31 December 2011	**1,543**
Book values	
as per 31 December 2010	1,133
as per 31 December 2011	**859**

Leasing liabilities	Up to 1 year	1 – 5 years
	€k	€k
Leasing payments	558	373
Interest	29	24
Cash values	**529**	**349**

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 measured 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	2011	2010
	%	%
Calculated interest rate	5.17	5.25
Expected income from scheme assets	2.50	2.50
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 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	2011	2010	2009	2008	2007
	€k	€k	€k	€k	€k
Cash value of pension expectancies for merit-based pension commitments (DBO)	856	955	929	920	952
Fair value of scheme assets	317	309	0	0	0
Shortfall of scheme	**539**	**646**	**929**	**920**	**952**
Adjustment of obligations based on experience	-47	2	-28	25	30
Adjustment of scheme assets based on experience	-8	-8	0	0	0

The reinsurance to be shown in the balance sheet as scheme assets was shown under the Other assets until 2009.

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	2011	2010
	€k	€k
Cash value of pension expectancies for pension commitments (DBO)	856	787
Actuarial profits/losses not considered	7	21
Costs for changes in claims from previous years not considered	0	0
Market value of scheme assets	-317	-309
Pension provisions as per 31 December	**546**	**499**

In the current fiscal year, the obligations were financed exclusively by provisions as in the previous year.

Development of cash value of pension expectancies (DBO)	2011	2010
	€k	€k
As per 1 January	787	929
Costs for pension claims acquired in fiscal year	5	5
Interest	42	42
Pension payments	0	0
Service period expenses to be offset retroactively	0	0
Actuarial profits/losses	22	-21
Other changes	0	-168
As per 31 December	**856**	**787**

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)	2011	2010
	€k	€k
Costs for pension claims acquired in fiscal year	5	5
Interest	42	42
Expected income from scheme assets	-8	-7
Actuarial profits/losses recognised effective for income	0	0
Service period expenses to be offset retroactively	0	0
	39	**40**

Consolidated Notes

The reinsurance developed as follows:

Development of fair value of scheme assets	2011	2010
	€k	€k
As per 1 January	309	294
Expected income from scheme assets	8	7
Actuarial profits/losses	0	8
As per 31 December	**317**	**309**

Actual income from scheme assets	2011	2010
	€k	€k
Expected income from scheme assets	8	7
Actuarial profits/losses	0	8
	8	**15**

No contributions will be made to the reinsurance in fiscal year 2012.

The scheme assets comprise exclusively a reinsurance policy.

In addition, contribution-oriented schemes have been in place. This does not result in any obligations for Drillisch AG beyond the payment of the contributions to external institutes. The expenditures for the funding of these contribution-oriented schemes in the fiscal year amounted to €1.4m (previous year: €1.1m).

20. Bank loans and overdrafts / Financial liabilities

A loan agreement for a total of €100 million was agreed between the Commerzbank Aktiengesellschaft, Frankfurt, and the West LB AG, Düsseldorf, as the arrangers 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 €60 million as per 31 December 2011 (previous year: €57 million). 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 2011, the combined interest rate came to 2.41% (previous year: 2.36%). The term of the loan runs 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.

The applicable margin is 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.

The bank charges of €950k due and payable when the loan became available will be set off according to the effective interest method 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 closing date, the total value of the security was €22.7 million (previous year: €19.7 million); fair value amounted to €25.0 million (previous year: €19.7 million).

Consolidated Notes

The loan is tied to specific financial indicators (degree of indebtedness and equity ratio); 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 €1,592k in fiscal year 2011 (previous year €1,166k).

On 11 February 2011 and 03 May 2011, MSP Holding GmbH concluded financing transactions with the Bank of America N.A. (BANA) of €31.1 million and €58.6 million, respectively, for the additional purchase of stock in freenet AG. Each of these financing transactions consists of three partial amounts ("buckets") which must be repaid with due dates in the years 2015, 2016 and 2017. There will not be any interest payments during the terms.

The interest expenses related to the financing transactions will be provided in the form of ratable discounting until the time of the repayment. Voluntary premature amortisation is possible at any time.

The structuring fee of €600k incurred with the financing transaction will be distributed per schedule according to the effective interest method over the term.

MSP Holding GmbH has pledged 13.3 million shares of the freenet stock it holds directly as security for the loan. As of the closing date, the security had a total value of €120.9 million (fair value: €133.2 million). There are no other securities.

The interest expenses related to the financing transactions amounted to €2,513k in fiscal year 2011 (previous year €0k).

The financial liabilities are related to the closing-date valuation of a hedge transaction concluded as part of the financing of the freenet stock acquired in 2011. The value of the hedging transaction is recalculated as of every closing date and is primarily a result of the price of the freenet stock on the closing date and of the remaining term. A rising stock price tends to lead to a declining value of the hedging transaction. Since the security transaction does not meet the requirements of a hedging pursuant to IAS 39, this finance instrument is measured separately effective on profits.

21. Short-term provisions

	As per 01.01.2011	Utilisations	Reversals	Additions	As per 31.12.2011
	€k	€k	€k	€k	€k
Basic charges	696	696	0	375	375
Commissions	72	52	20	0	0
Litigation risks	183	81	95	131	138
Removals	79	0	0	0	79
Other	323	323	0	154	154
	1,353	**1,152**	**115**	**660**	**746**

The Drillisch Group presumes that there will be an outflow of funds in fiscal year 2012.

Consolidated Notes

22. Tax liabilities

	2011	2010
	€k	€k
Corporate income tax	887	2,390
Trade tax	2,466	3,908
Turnover tax	2,377	898
	5,730	**7,196**

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.

25. Other liabilities

	2011	2010
	€k	€k
Liabilities due to sales partners/customers	5,420	6,483
Payroll	3,276	4,695
Base prices paid in advance	1,204	1,526
Income tax	225	309
Employers' liability insurance association	50	53
Security deposits	14	14
Other	996	1,001
	11,185	**14,081**

Consolidated Notes

26. Analysis of maturity

	2011	Cash flow 2012			Cash flow 2013–2017
	Book value	< 1 month	1 to 3 months	3 months to 1 year	> 1 year
	€k	€k	€k	€k	€k
Bank loans and overdrafts	151,189	231	310	1,395	172,235
Trade accounts payable	25,103	25,103	0	0	0
Liabilities from finance leases	878	46	92	413	356
Financial liabilities	6,536	0	0	0	0

The financial liabilities are related to the fair value of the currency hedging transaction. No scheduled cash flows will result from this in the future.

27. Net profits and losses from valuation categories

	Interest	from subsequent valuation			Net results	
		at fair value	Value allow-ances	From Disposals	2011	2010
	€k	€k	€k	€k	€k	€k
Loans and Receivables (LaR)	517	0	-2,181	575	-1,089	-1,617
Available for Sale (AFS)						
- Operating results	0	0	0	9,493	9,493	0
- non-operating	0	0	0	0	0	0
Derivatives						
- Put option	0	0	0	790	790	0
- Hedge transaction	0	-12,770	0	0	-12,770	0
Financial liabilities measured at amortised cost (FLAC)	-12,595	0	0	0	-12,595	-1,988
thereof from the effective rate of return method	-2,766	0	0	0	-2,766	-399
	-12,078	**-12,770**	**-2,181**	**10,858**	**-16,171**	**-3,605**

Consolidated Notes

28. Other financial obligations

	Rents	Leasing	Total	Previous year
	€k	€k	€k	€k
Due in less than 1 year	1,087	713	1,800	1,920
Due in 1 to 5 years	1,591	581	2,172	3,188
Due in more than 5 years	0	0	0	0
	2,678	**1,294**	**3,972**	**5,108**

In the fiscal year, €1,457k (previous year: €1,625k) from rent and leasing payments was included in expenditures. Furthermore, there are additional financial obligations pursuant to contracts with network operators in the amount of €10.0 million. €5.0 million of these obligations will be due in 2012 and €5.0 million in 2013.

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.

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 or insurance policies. 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 measured 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.

Consolidated Notes

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 measured at fair value. Financial instruments which are measured 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 2011 of ±100 base points, the Group results would be €600k lower or €600k higher.

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

In the event of a change in exchange price of the freenet AG stock per 31 December 2011 of ±€1.00, but no change in any other conditions, the consolidated results/equity would be €7.5 million (after taxes) lower and €7.5 million (after taxes) higher, respectively.

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 shown in the balance sheet in accordance with the equity method 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:

	Valuation category IAS 39	Book value 31/12/2011		Book value 31/12/2010	
		€k	thereof no financial instrument €k	€k	thereof no financial instrument €k
Assets					
Cash	LaR	20,688		27,591	
Trade accounts receivable	LaR	41,696		28,413	
Other financial assets	AFS	0		122,758	
Other current assets	LaR/n.a.	2,417	301	6,229	1,027
Shareholders' equity and liabilities					
Trade accounts payable	FLAC	25,103		24,757	
Bank loans and overdrafts	FLAC	151,189		56,930	
Other liabilities	FLAC	11,185	6,955	14,081	9,108
Financial liabilities (derivatives)	n.a.	6,536		0	
Liabilities from financing leasing	n.a.	878	878	1,138	1,138
thereof aggregated as per valuation categories as per IAS 39					
Loans and Receivables (LaR)		64,500		61,206	
Financial assets available for sale (AFS)		0		122,758	
Financial liabilities measured at amortised cost (FLAC)		180,522		86,660	
Derivatives		6,536		0	
Liabilities from financing leasing		878		1,138	

Financial assets and liabilities measured at fair value can be classified according to the valuation hierarchy of IFRS 7 (so-called fair value hierarchy) as shown here.

The hedging transaction disclosed under financial liabilities is classified in the level "derived from prices (Level 2)" and is shown in the balance sheet at a fair value of €6.5 million.

The basis of the hierarchy levels is the factors used to determine the fair value. Level 1 utilises the quoted price (unadjusted) in active markets for identical assets or liabilities. Level 2 utilises inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 utilises inputs which are not based on observable market data and must be determined on the basis of valuation methods. No measurements have been made at Levels 1 and 3.

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 and the equity interest segment are shown in addition to 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 advance wireless service performances 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.

The interest in freenet AG is presented in the segment Equity interest. freenet AG is presented in the consolidated annual accounts in accordance with the equity method and the profit is disclosed in the Equity results. The management indicator for the segment Equity interest is the equity result.

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

	2011	2010
	€k	€k
Sales		
Telecommunications (sales with third parties)	349,035	362,385
Equity participation	0	0
Software services (sales with third parties)	62	106
Software services (in-house sales)	9,208	9,080
Consolidation	-9,208	-9,080
Group	**349,097**	**362,491**
Segment results (EBITDA)		
Telecommunications	51,436	46,056
Equity participation	0	0
Software services	-2	75
Group	**51,434**	**46,131**
Segment results (equity results)		
Telecommunications	0	0
Equity participation	28,280	0
Software services	0	0
Group	**28,280**	**0**

Consolidated Notes

With the exception of the equity interest of €236.4 million, the financial liabilities of €157.8 million, the equity result of €28.3 million and the other financial results plus interest expenses of -€24.6 million, the assets and liabilities as well as expenses and income of the group must be attributed almost exclusively to the telecommunications sector.

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 (IFRS) are identical for all of the segments.

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 most important non-operating segment expenses and income include the allocations to the provisions and the measurement of the hedging transaction and the equity result.

Rollover

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

	2011	2010
	€k	€k
Total segment profits (EBITDA)	51,434	46,131
Amortisation and depreciation	-3,352	-5,728
Operating result	48,082	40,403
Total segment results (equity results)	28,280	0
Financial results (excluding equity results)	-24,048	2,219
Profit before taxes on income	**52,314**	**42,622**

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:

	2011	2010
	€k	€k
1. Audit	295	253
2. Other certification services	119	49
3. Tax accountant services	68	87
4. Other services	0	0
	482	**389**

Consolidated Notes

33. Related party disclosures

As per 31 December 2011, 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 runs until 30 June 2015. Rent in 2011 came to €507k (previous year: €507k).

Ms Marianne Choulidis and Ms Simone Choulidis received compensation totalling €78k (previous year: €76k) as employees of Drillisch Telecom GmbH.

The company Frequenzplan GmbH, Planegg (shareholder Tobias Valdenaire), realised sales in the amount of €171k with the Drillisch Group in fiscal year 2011.

There were no amounts due to or due from the related parties mentioned above per 31 December 2011.

The company Flexi Shop GmbH, Frankfurt am Main (shareholder Mr Jannis Choulidis), realised sales in the amount of €249k (previous year: €759k) with the Drillisch Group in fiscal year 2011. The amount of €30k was due to this company per 31 December 2011.

The Drillisch Group realised revenues for mediation activities in the amount of €13,266k with freenet AG, Büdelsdorf, in fiscal year 2011. The amount of €187k was due from this company per 31 December 2011.

34. Supervisory Board

Marc Brucherseifer, Dipl.-Kfm.,
Merchant, Frechen
– *Chair* – *(Chair since 04 July 2011)*
Seats held on supervisory boards required by law
or other supervisory bodies:
Drillisch Telecom GmbH, Maintal (Supervisory Board chair since 04 July 2011)
IQ-optimize Software AG, Maintal (Supervisory Board chair)

Dr Hartmut Schenk, Dipl.-Kfm.,
Chartered Public Accountant and Tax Accountant, Saarbrücken
– *Chair* – *(until 30 June 2011)*
Seats held on supervisory boards required by law
or other supervisory bodies:
Drillisch Telecom GmbH, Maintal (Supervisory Board chair until 30 June 2011)
Optima Gruppe AG, Saarbrücken (Supervisory Board chairperson)

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

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

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)

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

Consolidated Notes

The following members of the Supervisory Board were members of the following committees in 2011:

Nominating Committee:
All Supervisory Board members; Chair: Mr Brucherseifer

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

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

35. Management Board

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

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

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

Compensation paid to Management Board members in 2011 totalled €2,885k, thereof variable €1,700k (previous year: €2,288k, thereof €1,400k variable). The variable compensation contains for the first time a long-term incentive component of €500k for each Management Board member which will not be paid unless specific performance indicators are achieved in fiscal year 2016. In addition, the Management Board members received compensation for their activities as Supervisory Board members of subsidiaries in the amount of €20k (previous year €19k).

Compensation paid to the members of the Supervisory Board for their work in the parent company in the reporting period amounted to €180K (previous year: €105k). In addition, the Supervisory Board members received compensation for their activities in subsidiaries in the amount of €65k (previous year €72k).

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 2011, the Management Board members held the following stock in Drillisch AG:

Paschalis Choulidis	1,950,000 shares	via SP Beteiligungs-Gesellschaft mbH
Paschalis Choulidis	50,000 shares	
Vlasios Choulidis	1,840,000 shares	via MV Beteiligungs-Gesellschaft mbH
Vlasios Choulidis	55,000 shares	

Consolidated Notes

The Supervisory Board members held the following stock in Drillisch AG as per 31 December 2011:	
Marc Brucherseifer, Dipl.-Kfm.	3,909,295 shares
Johann Weindl, Dipl.-Kfm.	10,439 shares
Dr Horst Lennertz, Ingenieur	2,407 shares

- Management Board and Supervisory Board hold a total of 14.7% of the stock of Drillisch AG as per 31 December 2011.

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 2011 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.

	2011	2010
Consolidated profit allocated to shareholders in €k	41,014	30,971
Weighted average, less own shares held	53,067,771	53,189,015
Consolidated Profit per Share in €	**0.77**	**0.58**

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 2011:

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

Maintal, 05 March 2012

Drillisch Aktiengesellschaft

Vlasios Choulidis und Paschalis 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 2011 to 31. December 2011. 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, 9 March 2012

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, 5 March 2012

Vlasios Choulidis and Paschalis Choulidis

Publications · Your Contacts
Information and Order Service

Publications

This Annual Report 2011 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:

Oliver Keil, Head of Investor Relations

Wilhelm-Röntgen-Straße 1-5
D – 63477 Maintal
Telefon: +49 (0) 6181 412200
Fax: +49 (0) 6181 412183
E-Mail: ir@drillisch.de

Peter Eggers, Press Spokesman (Products)

Wilhelm-Röntgen-Straße 1-5
D – 63477 Maintal
Telefon: +49 (0) 6181 412124
Fax: +49 (0) 6181 412183
E-Mail: presse@drillisch.de

www.drillisch.de

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.

MVNO (Mobile Virtual Network Operator)
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). These services are based on standardised, unbundled advance services on the procurement side, allowing an MVNO significantly increased room for manoeuvring in the product and sales areas in comparison with an MSP.

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

Company Headquarters:
Wilhelm-Röntgen-Straße 1-5 · D – 63477 Maintal
Telephone: +49 (0) 6181 4123
Fax: +49 (0) 6181 412183

Responsible:
Drillisch AG

Management Board:
Paschalis Choulidis (Spokesperson)
Vlasios Choulidis

Supervisory Board:
Marc Brucherseifer (Chairman), Dipl.-Kfm.
Johann Weindl (Deputy Chairperson), Dipl.-Kfm.
Dr Horst Lennertz, Ingenieur
Michael Müller-Berg, Dipl.-Kfm.
Dr Bernd H. Schmidt

Investor Relations Contact:
Telephone: + 49 (0) 6181 412200
Fax: + 49 (0) 6181 412183
E-mail: ir@drillisch.de

Commercial Register Entry: HRB 7384 Hanau
VAT ID No.: DE 812458592
Tax No.: 03522506037 Offenbach City Tax Office

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Future-oriented Statements:
This report contains certain statements oriented to the future 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 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.