DRILLISCH AG

Annual Report 2016

» **TODAY:** 4G+ LTE

» **TOMORROW:** With The Features of a Network Operator

» **FUTURE:** Only Provider At Eye Level With MNOs

DRILLISCH AG PREMIUM BRANDS

smartmobil.de

www.smartmobil.de

yourfone

www.yourfone.de

Key Indicators of the Drillisch-Group	2016	2015	IV/2016	III/2016	II/2016	I/2016
Income Statement						
Revenue in €m	710.0	629.5	187.9	180.9	167.8	173.4
Service revenues in €m	551.3	433.7	146.9	142.9	136.9	124.6
Gross profit in €m	278.9	254.4	73.2	68.6	68.9	68.2
Gross profit in % of revenue	39.3	40.4	39.0	37.9	41.1	39.3
EBITDA in €m	120.2	105.6	37.5	31.6	27.1	24.0
EBITDA margin in % of revenue	16.9	16.8	20.0	17.5	16.2	13.8
Depreciation excluding goodwill in €m	52.3	36.1	15.6	12.1	12.2	12.3
EBIT in €m	58.7	69.5	12.7	19.4	14.9	11.7
EBIT in €m - adjusted*	67.9	69.5	21.9	19.4	14.9	11.7
EBITmargin in % of revenue	8.3	11.0	6.8	10.7	8.9	6.7
EBIT margin % of revenue - adjusted*	9.6	11.0	11.7	10.7	8.9	6.7
EBT in €m	55.6	66.1	12.1	18.6	13.9	10.9
EBT in €m - adjusted*	64.8	66.1	21.3	18.6	13.9	10.9
EBT margin in % of revenue	7.8	10.5	6.4	10.3	8.3	6.3
EBT margin in % of revenue - adjusted*	9.1	10.5	11.3	10.3	8.3	6.3
Consolidated profits in €m	26.4	46.1	-3.9	13.1	9.7	7.5
Consolidated profits in €m - adjusted*	45.1	46.1	14.8	13.1	9.7	7.5
Consolidated profit margin in % of revenue	3.7	7.3	-2.1	7.3	5.8	4.3
Consolidated profit margin in % of revenue - adjusted*	6.4	7.3	7.9	7.3	5.8	4.3
Profit/loss per share in €	0.48	0.85	-0.07	0.24	0.17	0.14
Profit/loss per share in € - adjusted*	0.82	0.85	0.28	0.24	0.17	0.14
Cash flow						
Cash flow from current business operations in €m	80.5	76.2	22.5	-3.6	71.8	-10.3
Cash flow from investment activities in €m	-24.5	-169.2	-1.3	-19.9	-0.8	-2.5
Cash flow from financing activities in €m	-86.6	-100.7	0.5	-0.4	-38.9	-47.9
Cash in €m	92.8	123.4	92.8	71.1	94.9	62.8
Balance Sheet						
Balance sheet total in €m	595.2	688.7	595.2	582.6	611.7	626.5
Equity in €m	283.4	353.0	283.4	287.5	274.4	360.5
Equity ratio (equity as % of balance sheet total)	47.6	51.3	47.6	49.3	44.9	57.5
Debenture bonds in €m	94.2	91.5	94.2	93.5	92.8	92.1
Financial liabilities in €m	50.0	0.0	50.0	50.0	50.1	0.0
Employees						
Size of staff, annual average (incl. Management Board)	916	733	916	918	923	928
Wireless Services Subscribers (31/12/2016) (in Thousands)	**3,430**	**2,678**	**3,430**	**3,214**	**3,003**	**2,797**
Thereof MVNO subscribers	**3,359**	**2,587**	**3,359**	**3,138**	**2,922**	**2,712**
Thereof budget subscribers	2,863	1,932	2,863	2,600	2,338	2,100
Thereof volume subscribers	496	655	496	538	584	612
Gross Profit per User (AGPPU)						
AGPPU budget subscribers	8.66 €	9.08 €	8.18 €	8.75 €	9.11 €	8.70 €
AGPPU volume subscribers	3.07 €	3.13 €	3.11 €	3.26 €	3.07 €	2.88 €
AGPPU subscribers (total)	**7.58 €**	**7.34 €**	**7.38 €**	**7.75 €**	**7.85 €**	**7.32 €**

*Adjusted in the fiscal year and in Q4 2016 for the effects from the restructuring of Phone House and the sale of the network operator business

Letter from the Management Board

Vlasios Choulidis
Executive-Board, Director of Sales

André Driesen
Director of Finances

Dear Shareholders,

This past year was a very important one for Drillisch AG. Why? Back in 2014, we concluded a very long-term agreement with Telefónica Deutschland concerning access to as much as 30% of that company's network capacities and to all available technologies, a move that has opened enormous opportunities for growth to us because we are the sole MBA (mobile bitstream access) MVNO on the German market. As part of our efforts to take full advantage of these opportunities, we acquired the former yourfone GmbH, The Phone House Deutschland Group and more than 200 shop locations from Telefónica over the course of the year 2015; these acquisitions will enable us to address a significant share of the customer potential in the POS sector as well as to secure accelerated growth in the online sector in future. This laid the cornerstones. In 2016, we felt compelled to prove that these decisions were the right ones and that the strategy could also be successfully realised. And indeed – in fiscal year 2016, we added yet another chapter to the Drillisch AG success story and were able to raise all of the major performance indicators once again, above all the gross profit, the EBITDA and the numbers of MVNO subscribers. The decisive indicators of our core business continuously improved in each of the separate quarters of the past fiscal year as well. These figures indicate that we are also well on our way to reaching the targets we have set for ourselves for 2017 and to expanding our market position for the long term. Before we delve more deeply into the details of fiscal year 2016, however, we would like, as usual, to report to you on developments on the market relevant for us and how we can best profit from the most important trends in our industry.

The telecommunications market in a state of flux – Drillisch, the only MBA MVNO, is independent, yet on a peer level with the network operators

According to a joint market analyse conducted by Dialog Consult and VATM in October 2016 (estimate), the German mobile market posted virtually constant revenues in 2016. While the voice traffic in mobile lines declined slightly, the development in the revenues from mobile data continued to be highly dynamic. Estimates from VATM indicate that the total data volume in 2016 increased by 31.0% from 591 million gigabytes in 2015 to 774 million gigabytes in 2016. The average data volume per user and month rose by 22.8% from 415 megabytes in 2015 to 510 megabytes in 2016. The steady rise in data volumes and new technologies for faster data transmission (e.g. LTE), along with the integration of various media on mobile devices will secure growth potential

Letter from the Management Board

for mobile services providers in future as well. Powerful networks featuring high availability are an important prerequisite as digitalisation continues to expand in both the private arena and in industry.

Drillisch, the only MBA MVNO in Germany, is entitled to a certain share rising to as much as 30% of the used network capacity of Telefónica, assuring the Company of extensive access to the largest mobile services network in this country. We have contractually secured, unrestricted access to not only LTE, the fourth-generation network technology, but to all future technologies as well. Thanks to this situation, unique in Europe, we are able to perform like a network operator, yet do not have the burden of investing billions in the installation and expansion of a network. We are therefore in a position to play a successful role in the transformation of the telecommunications market thanks to maximum flexibility, autonomy and plannability of our operating business.

Raising the bar with innovative and transparent mobile services products

In fiscal year 2016, just as in the past, Drillisch regularly subjected its operations to comprehensive quality audits by third-party institutes and consistently received ratings of "excellent" and "good". During the certification process pursuant to the demanding quality standards of the ISO norm 9001:2015 in September 2016, the high level of quality management at the two major Drillisch subsidiaries Drillisch Online AG and yourfone AG was fully and completely convincing in all points for the auditors.

Customer satisfaction plus consistent transparency and security are important components of the Company's success. The highest levels of transparency and security ensure the compliance of our products and services with the highest standards.

Attractive products and services together with outstanding quality in the segments Online and Offline

Drillisch takes a premium approach, supplemented by a multi-brand strategy, to offer innovative mobile products with great success; transparency and performance are the outstanding characteristics of the products that are right up to date at all times. Every customer finds just the right product to meet his or her needs in our portfolio.

In the age of the mobile internet, our products and services featuring simple, low-price and powerful access to mobile data networks with data volume oriented to each individual's specific needs and a fast connection meet the major criteria determining customers' decisions when selecting a rate plan and provider.

In this constantly changing market environment, Drillisch offers customers overall the "best value for money" – through its established online brands as well as in brick-and-mortar trade.

Letter from the Management Board

Restructuring of Phone House

Following the sale in January 2017 of the distribution activities on behalf of other network operators that are no longer a part of the Company's core business, the remaining Phone House companies now concentrate on their core competencies, which were our motivation for the acquisition of Phone House Group in 2015: the know-how and the years of experience in comprehensive care and operation of shop locations and hardware logistics that will in future serve exclusively our own offline channel operating under the brand name yourfone. Our access to free retail trade is nevertheless preserved by our conclusion of a distribution partnership for the brokerage of mobile contracts for various online and offline brands of Drillisch Group with the buyer of the legacy brokerage business of Phone House. The resulting change in the Company's future earnings position and the related recoverability test of the Phone House goodwill recognised in the balance sheet as part of the purchase price allocation in 2015 resulted in a non-cash reduction in the value of this goodwill of €9.2 million (previous year: €0.0) in the annual accounts that led to an unscheduled increase in amortisation and depreciation. Moreover, the restructuring and revaluation of Phone House caused unscheduled tax expenses in the amount of €9.5 million. Detailed comments can be found on pages 42 to 43 of the management report. The consequence is that consolidated profit is reduced by a total of €18.7m in non-cash one-time expenses related to the Phone House restructuring. We have made a corresponding adjustment of the affected profit indicators in the Data and Facts as well as in the presentation of the earnings position in the management report to ensure clearer understanding of the operating business.

The operating business

Operating in a highly competitive economic sector, Drillisch Group not only achieved the upper end of the EBITDA forecast of €115 million to €120 million, but even exceeded the forecast slightly with an actual result of €120.2 million. The Company also succeeded, as planned, in increasing the number of MVNO subscribers. The profitability and yield indicators relevant for Drillisch of gross profit and EBITDA continued to improve. Business development clearly demonstrates that Drillisch has been pursuing a course of consistently profitable growth for many years, a course that is largely independent of general economic fluctuations.

In comparison with the closing date of the previous year, the number of subscribers rose by a total of 752,000 (28.1%) to 3.430 million (2015: 2.678 million), a consequence of the continuing growth in the MVNO clientele, whose numbers rose by a total of 772,000 (29.8%) to 3.359 million subscribers (2015: 2.587 million). We achieved especially strong growth in the highly profitable budget subscriber segment, posting an increase of 931,000 subscribers (48.2%) to 2.863 million subscribers (2015: 1.932 million). Thanks to

Letter from the Management Board

the improved customer and rate plan mix, the average gross profit per MVNO customer (AGPPU) increased as well over the year and has now reached the mark of €7.58 (2015: €7.34).

Revenues in fiscal year 2016 increased by €80.5 million (12.8%) to €710.0 million (2015: €629.5 million). In particular, a rise of €117.6 million (27.1%) in service revenues to a total of €551.3 million (2015: €433.7 million) enabled us to generate a gross profit in fiscal year 2016 that, at €278.9 million, is €24.5 million (9.6%) higher than the level of the previous year (2015: €254.4 million). The gross profit margin came to 39.3% (2015: 40.4%).

Compared with the same period last year, the consolidated EBITDA, one of the most important performance indicators in our business, increased by €14.6 million (13.9%) to €120.2 million (2015: €105.6 million).

Depreciation rose to €61.5 million in fiscal year 2016 (previous year: €36.1 million). Adjusted for the above-mentioned write-offs on the Phone House goodwill, amortisation and depreciation came to €52.2 million (previous year: €36.1 million).

This rise is primarily a consequence of the following circumstances:

» The purchase price allocations previously described in the quarterly reports for yourfone and Phone House, for which amortisation and depreciation were recognized only pro rata temporis from the time of the acquisition in 2015. The resulting amortisation and depreciation in 2016 totals €20.7 million (previous year: €15.8 million);

» The contribution of Drillisch to the investments in network expansion related to the MBA MVNO model agreed with Telefónica and the trademark rights acquired in fiscal year 2016, both of which were capitalised as Other intangible assets. The resulting amortisation and depreciation totals €15.0 million (previous year: €5.0 million);

» The aforementioned restructuring of Phone House that has been concluded in the amount of €9.2 million, which we describe in more detail on pages 42 and 43 of the management report.

The amortisation and depreciation and the valuation allowances did not have a cash impact and affect neither the guidance nor the dividend disbursement capability of Drillisch AG.

Consolidated profit in fiscal year 2016 amounted to €26.4 million (previous year: €46.1 million) and the undiluted profit per share came to €0.48 (previous year: €0.85). Adjusted for valuation allowances and the tax effects related to the restructuring of Phone House and the sale of the distribution business, consolidated profit came to €45.1 million and the undiluted profit per share correspondingly to €0.82.

Based on the positive development in our earnings position, we generated an operating cash flow of €80.5 million in fiscal year 2016, representing an increase of €4.3 million (5.6%) over the same period last year (2015: €76.2 million).

After disbursement of the dividends in the amount of €95.8 million in Q2 2016 (previous year: €90.4 million), cash and cash equivalents at the end of the fiscal year came to €92.8 million (31 December 2015: €123.4 million). In combination with attractive financing opportunities, Drillisch AG retains adequate flexibility to expand or supplement its business activities.

Letter from the Management Board

Outlook

The successful course of fiscal year 2016 exceeded expected growth in the number of subscribers pursuant to the continued expansion of the segment Online and the establishment of the segment Offline. We will continue our strategy of investing strongly in subscriber acquisition – whether through the granting of subscriber benefits and direct distribution costs affecting gross profit such as commissions for distribution and cooperation partners or through general advertising expenditures – in 2017.

Drillisch is in an excellent position for the future. Our outlook for fiscal year 2017 is optimistic; we expect the number of MVNO customers to continue to rise, leading to a parallel continuation of the Company's successful development, and we confirm the EBITDA forecast for the current year 2017 of €160 million to €170 million (2016: €120.2 million). Moreover, we expect a steady rise in operating cash flow. Foreseeable changes in earnings and costs such as the recently announced changes in the roaming regulation have been taken into account in these forecasts.

We want to ensure that shareholders benefit appropriately from the success of the Company in future as well. Supervisory Board and Management Board propose a rise in the dividend by 5 Cent to €1.80 per dividend entitled share for the past fiscal year 2016. We would like to share the Company's success with its shareholders in a similar scope (as a minimum) in the coming fiscal years as we continue to pursue corporate policies aimed at sustained development.

In conclusion, we would like to take this opportunity to thank our employees expressly and warmly for their continued commitment and their high readiness to perform because dependable collaboration in a spirit of trust is very important for our commercial success. But we are also just as deeply grateful to our shareholders, customers and business partners for the trust they have placed in us.

Best regards from Maintal.

Vlasios Choulidis   André Driesen

Report of the Supervisory Board

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

Dear Shareholders,

During the reporting period 2016, the Drillisch AG Supervisory Board diligently performed the duties required of its members by law, company charter and rules of procedure. It carefully reviewed and monitored the management activities of the Management Board and acted as an advisory body to provide support in the management of the Company. The yardstick for the monitoring function included in particular the legality, correctness, expediency and economic efficiency of the Management Board's management as well as the performance effectiveness of the risk management and the corporate organisation. Moreover, the Supervisory Board closely examined the position and development of the Company and Group as well as the business transactions during fiscal year 2016. The Management Board immediately involved the Supervisory Board in any and all decisions which were of fundamental significance for Drillisch AG or Drillisch Group.

The activities of the Supervisory Board were based on the reports regularly submitted orally and in writing by the Management Board regarding the development of the Company's business and its commercial and financial position; its strategic further development and corporate planning; its risk position and risk management; and the profitability of Drillisch Group. The Management Board addressed any deviations in the course of business from existing plans and targets and explained the causes of the deviations. The Supervisory Board regularly obtained written and oral information from the Management Board, in particular monthly reports and special information bulletins, about ongoing business development and important business incidents during the periods between Supervisory Board meetings as well. The full membership of the Supervisory Board examined and discussed in detail business incidents, especially those of major significance for the Company, on the basis of the Management Board's reports; this was explicitly the case for measures subject to the consent of the Supervisory Board and for transactions which strongly affected profitability and liquidity. The Supervisory Board carefully examined the submitted reports for plausibility and, as necessary, discussed them in detail with the Management Board. In addition, the Supervisory Board requested supplementary information from the Management Board. In particular, the Management Board attended Supervisory Board meetings for the purpose of discussing and answering all questions posed by the Supervisory Board. The Supervisory Board chairperson was in regular contact with the Management Board outside of Supervisory Board meetings as well and obtained information about the current business position and major business incidents, which he discussed in detail with the Management Board. The Supervisory Board chairperson and the Management Board also regularly discussed strategic issues and risk management issues, the risk position, planning and compliance.

Report of the Supervisory Board

Supervisory Board activities, meetings

A total of nine meetings of the full Supervisory Board were held during the reporting period 2016. The members attended six meetings (on 23 March 2016, 11 May 2016, 19 May 2016, 10 August 2016, 9 November 2016 and 12 November 2016) and three meetings were held in the form of phone conferences (on 16 June 2016, 30 June 2016 and 31 October 2016). Moreover, two resolutions were adopted outside of Supervisory Board meetings during the reporting period 2016 (on 1 February 2016 regarding the approval of the acquisition of the remaining 2.5% shares in GTCom GmbH, Dusseldorf and on 5 October 2016 regarding the approval of an advisory agreement entered into between Drillisch AG and Mr Paschalis Choulidis).

The most important point of the Supervisory Board activities in the reporting period concerned the consultations related to, and adoption of, resolutions regarding the status of the Company as MBA MVNO (mobile bitstream access) as well as the measures and transactions executed so far in this context. The Supervisory Board particularly supervised the integration of the The Phone House Companies, the conclusion of a further amendment agreement with Telefónica and the status of the yourfone shop chain respectively the offline business. In this regard, the Supervisory Board approved the selling of the sales business of The Phone House Telecom GmbH to DeinHandy GmbH, the acquisition of the remaining 2.5% shares in GTCom GmbH as well as changes in the management of The Phone House Deutschland GmbH. Furthermore, the Supervisory Board intensively engaged in the strategic further development of Drillisch Group. Here, the Supervisory Board among others particularly discussed with the Management Board cooperation opportunities of Drillisch Group, the status of activities and co-operations of Mobile Ventures GmbH, including management issues, as well as several marketing measures. These subjects were the focal points of deliberations in a total of six Supervisory Board meetings during the reporting period; in the other meetings, the Board also received information regarding the current status of the offline and online segments.

Furthermore, the Supervisory Board addressed several individual subjects, which include the appointment of Mr Vlasios Choulidis as new board spokesman and the conclusion of an advisory agreement with Mr Paschalis Choulidis who resigned with effect of 30 June 2016 as member and spokesman of the Management Board. The Supervisory Board also addressed the variable remuneration of the Management Board for fiscal year 2015 and approved agreements concluded between DiaLOGIKa GmbH, a company related to Supervisory Board member Dr. Bernd H Schmidt, and Drillisch AG respectively IQ-Optimize Software AG as well a change to the Supervisory Board of IQ-Optimize Software AG. In addition, the Supervisory Board, in consultation with the Personnel Committee, discussed the executive situation within the Group.

In addition, the Supervisory Board regularly received information about key points concerning the commercial development and position of the Company and the Group, es-

Report of the Supervisory Board

pecially the development of sales and profits, the development in the number of subscribers, the gross profit indicators, the AGPPU (average gross profit per user) and the liquidity position and development as well as the Management Board's planning and discussed these matters with the Management Board in consideration of current market changes. In particular, the Supervisory Board examined in detail the separate financial statements for every quarter, discussed a more stringent separation of audit and advisory services of the auditor and resolved on the tendering of the audit mandate for fiscal year 2018.

Supervisory Board activities focused as well on the reporting from the committees, in particular from the Audit Committee and the Personnel Committee, and the monitoring of the risk management, the risk analysis and documentation of the risk control system. At this time, the Supervisory Board reviewed the composition of the committees, discussed the reporting of the Management Board to the Supervisory Board as well as measures to assess the efficiency of the Supervisory Board's work. Furthermore, the Supervisory Board and Management Board jointly deliberated on the cooperation of the governing bodies.

In addition, the Supervisory Board considered the accounting for fiscal year 2016, the audit of the annual accounts 2015, the Annual General Meeting 2016 (including the proposal for the appropriation of profits for submission to the Annual General Meeting), the Declaration on Corporate Management and the joint Declaration of Conformity, and the Supervisory Board report for fiscal year 2015.

The Supervisory Board has set up a total of three committees: the Audit Committee, the Personnel Committee and the Nominating Committee.

The Personnel Committee of the Supervisory Board, whose members are Mr Marc Brucherseifer (committee chair), Dr Susanne Rückert (deputy committee chair) and Dr Horst Lennertz, held one meeting with the members present in fiscal year 2016 (on 1 February 2016). At this meeting the Personnel Committee discussed and appraised the Management Board's work and its membership as well as the long-term succession planning for the Management Board, taking into account the executive planning of the Company.

The Audit Committee of the Supervisory Board, whose members are Mr Frank Rothauge (committee chair), Dr Bernd H Schmidt and Dr Horst Lennertz, held four meetings with members present during the reporting period (on 15 March 2016, 19 May 2016, 10 August 2016 and 9 November 2016). Moreover, one resolution was adopted outside of Audit Committee meetings during the reporting period 2016 (on 28 December 2016 regarding the services supplementary to the audit rendered by BDO AG Wirtschaftsprüfungsgesellschaft). The Audit Committee monitored the accounting and the accounting process, the efficiency of the internal control system with a special focus on the improvement potential at The Phone House as well as the efficiency of the risk management system and the compliance system established at the Company. The most important point of the Audit Committee's activities formed the audit of the annual accounts 2015 and the audit review of the group half year report 2016. Furthermore, the Audit Committee inter alia reviewed the independence of the auditor, discussed the supplementary services of the auditor, made a recommendation for the (re-)election of the auditor for 2016 and engaged in respect of the key audit issues for the annual audit 2016, the audit remuneration

Report of the Supervisory Board

agreements for 2016 and 2017 and the tendering of the audit mandate for 2018. Finally, the Audit Committee intensively supervised the risk management system of Drillisch AG.

The Nomination Committee, whose membership includes all of the Supervisory Board members (chair: Mr Marc Brucherseifer), met once during the reporting period (on 23 March 2016) and addressed, as required by the Company's Articles of Association, the election of Mr Norbert Lang as Supervisory Board member (who was appointed by the Hanau Local Court before) as well as the composition of the Supervisory Board.

Personnel changes on the Management Board and Supervisory Board

Regarding the Management Board, Mr Paschalis Choulidis on 23 March 2016 resigned as member and spokesman of the Management Board of Drillisch AG with effect of 30 June 2016 for private reasons. Against this background, the Supervisory Board in its meeting on 23 March 2016 appointed Mr Vlasios Choulidis as spokesman of the Management Board as of 1 July 2016 and changed the allocation of the responsibilities in the light of the resignation of Mr Paschalis Choulidis. The Management Board is thus currently composed of Mr Vlasios Choulidis and Mr André Driesen. The Supervisory Board for the time being did not amend the Management Board due to its proven composition, which means that the proportion of women in the Management Board is still 0% but in line with the objectives set. Furthermore, the Supervisory Board on 5 October 2016 approved the conclusion of an advisory agreement between Drillisch AG and Mr Paschalis Choulidis. Regarding the Supervisory Board, the shareholders meeting on 19 May 2016 elected Mr Norbert Lang as Supervisory Board member for the remaining term of former Supervisory Board member Mr Johann Weindl (Section 10 (3) of the Company's Articles of Association). The terms of office of the other Supervisory Board members (Mr Marc Brucherseifer, Dr Susanne Rückert, Dr Horst Lennertz, Mr Frank Rothauge and Dr Bernd H Schmidt) remain unchanged. They were elected on 16 May 2013 for a term of office lasting until the closing of the Annual General Meeting that adopts a resolution discharging them for fiscal year 2017. The Supervisory Board, in accordance with Section 96 (1), Section 101 (1) AktG and Section 10 (1) of the Company's Articles of Association, is thus composed of six members who are to be elected by the shareholders meeting and complies with the targeted competence profile; in particular there are at least two independent Supervisory Board members as Mr Frank Rothauge and Dr Susanne Rückert particularly did not previously engage in the management of the Group, do not maintain any business relationship with the Company and its group companies and do not represent any material shareholders. The proportion of women in the Supervisory Board of 16.66% is also in line with the target objective. The Supervisory Board was chaired again in the reporting period 2016 by Mr Marc Brucherseifer; deputy chair of the Supervisory Board was Dr Susanne Rückert.

Annual accounts and consolidated annual accounts

The annual accounts and the consolidated annual accounts per 31 December 2016, the management reports for the stock corporation and the Group for fiscal year 2016 (including the explanatory report on the information pursuant to Section 289 (4) and Section 315 (4) HGB [German Commercial Code]), were prepared and submitted on time by the Management Board, and the accounting and risk management system were examined by BDO

Report of the Supervisory Board

AG Wirtschaftsprüfungsgesellschaft, the firm appointed by the Annual General Meeting to be the auditors, and certified by an unqualified auditor's opinion.

The separate annual accounts and the consolidated annual accounts, the management report and consolidated management report and the relevant audit reports from the auditor were submitted to all members of the Supervisory Board. Focal points of the audit engagement to the auditor included in particular the internal controlling system regarding The Phone House, the consequences of the Bilanzrichtlinie-Umsetzungsgesetz (BilRUG) in the accounts under HGB [German Commercial Code], impairment test regarding goodwill and intangible assets (group accounts) and investment book values (individual accounts) as well as the valuation of deferred tax assets, the revenue recognition and the audit of the completeness of the restructuring reserve for The Phone House and the spin-off and sale of the The Phone House sales business. The closing documents were finally gone through and discussed during a meeting of the Audit Committee on 14 March 2017 in the presence of the auditor. At that time, the auditor reported on the most significant results of his audit and explained the results; he also gave detailed answers to questions posed by the members of the Audit Committee. This discussion revolved in particular around the results of the audit related to the defined focal points of the audit and the accounting process. The internal controlling system, the risk report and the risk management system were intensively discussed with the auditors in the meeting of the Audit Committee on 10 August 2016. Concerning the Company's system for the early detection of risks, the auditor determined that the Management Board had appropriately taken measures required pursuant to Section 91 (2) AktG, especially for the installation of a monitoring system, and that the monitoring system is suitable for the early detection of developments that could threaten the continued operation of the Company. Following its own audit, the Supervisory Board agreed with the audit results concluded by the auditor and, after considering the final results of its own audit, which were prepared by the Supervisory Board Audit Committee, does not raise any objections. In a resolution adopted during its meeting on 22 March 2017, the Supervisory Board approved the annual accounts and consolidated annual accounts 2016. The annual accounts have therefore been adopted pursuant to Section 172 AktG.

During the Supervisory Board meeting on 22 March 2017, Management Board and Supervisory Board adopted a joint resolution to propose the disbursement of a dividend in the amount of €1.80 per share to the Annual General Meeting. The dividend proposal is in line with the previous dividend strategy to allow the shareholders a maximum possible participation in the profit. The Company's position, specifically its financing and capital structure, was discussed and reviewed at that time.

Corporate governance

None of the Supervisory Board members participated in fewer than half of the Supervisory Board meetings during the reporting period. Except for the Supervisory Board meeting on 9 November 2016, at which Supervisory Board member Mr Norbert Lang was excused, all

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members took part in the total of nine Supervisory Board meetings. All committee members also part in each of their respective committee meetings.

The Supervisory Board regularly reviewed critically the efficiency of its work, namely, the availability of the Supervisory Board members, the frequency of its meetings and the preparation and conduct of the meetings and their minutes. The Supervisory Board concluded that its performance is efficient

The Supervisory Board did not conduct any investor talks.

No conflicts of interest within the sense of Clause 5.5.3 of the Corporate Governance Codex arose during the reporting period.

Management Board and Supervisory Board report on corporate governance pursuant to Clause 3.10 of the German Corporate Governance Codex within the context of the Declaration on Corporate Management. During the reporting period, Management Board and Supervisory Board submitted a joint Declaration of Conformity pursuant to Section 161 AktG, most recently on 21 March 2017, which by and large followed the recommendations of the German Corporate Governance. The declarations and related explanatory comments are permanently available to the shareholders on the Company's internet site. In all other respects, reference is made here to the remarks in the corporate governance report included in the Annual Report 2016.

The Supervisory Board wishes to express its thanks to the members of the Management Board and to all of the Company associates for their successful work for, and commitment to, Drillisch Group in the past fiscal year as in the years before. Our special thanks go to our customers and shareholders for the trust they have placed in the Company.

Maintal, 22 March 2017

On behalf of the Supervisory Board

Marc Brucherseifer, Dipl.-Kfm.

Chairperson of the Supervisory Board

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, which has always enjoyed a position of high priority at Drillisch AG and is a major factor for a company's success.

In the following declaration, both, the Management Board and the Supervisory Board, reports on the corporate governance of the Company in accordance with Clause 3.10 of the German Corporate Governance Codex (DCGK) 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 most recent Declaration of Conformity issued by the Management Board and Supervisory Board on 21 March 2017, 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 acted, and continues to act, 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 Federal Gazette, subject to the following exceptions. This declaration is made pursuant to the Codex as revised on 5 May 2015:

Clause 3.8 (2) and (3)
Agreement of an excess for Supervisory Board members in a D&O insurance policy for the Supervisory Board

The Company has concluded a liability insurance policy covering pecuniary loss along with an excess of loss agreement for the Supervisory Board which does not include an excess.

The Management and Supervisory Boards of Drillisch AG do not believe that the motivation and sense of responsibility of the officers and directors would be enhanced by the agreement of an excess. Equally, the Management and Supervisory Boards at Drillisch AG fear that 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.

Clause 4.2.3 (3)
Determination of a pension level target when making pension commitments, giving due consideration to the annual and long-term expenses for the Company

The agreements with the Management Board members regarding company pensions were concluded in part before the entry into effect of the above recommendation; the Supervisory Board has not issued any pension commitments since the entry into force of the above recommendation. It cannot be determined from the Codex whether this recommendation requires the Supervisory Board to make any determinations when no decisions regarding pensions have been made. We are

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therefore, as a precaution, declaring an exception to this recommendation just as in the previous years. The pension benefits for the Management Board members are oriented to contributions. Defined components of the salary are contributed to a pension fund as deferred compensation. There has been no definition of a concrete pension level target. Nevertheless, the Supervisory Board can obtain a sufficiently precise picture of the annual and long-term expenses for the Company on the basis of the contractual provisions.

Clause 5.4.6 (1) second sentence
Inclusion of the membership on committees in determining the compensation paid to Supervisory Board members

In accordance with Section 14 of the Drillisch AG Company Charter, an attendance fee is paid to Supervisory Board members for their activities on committees; the amount of the fee is dependent on the function of the specific member on the relevant committee. The Supervisory Board at Drillisch AG is of the opinion that this compensation system gives due regard to the chairmanship of and membership on the committees within the sense of the Codex. The special compensation for attendance at committee meetings simultaneously takes the committee membership into account. But since the possibility that other opinions will be held in this respect cannot be excluded, a deviation from the aforementioned recommendation of the Codex is hereby declared as a precautionary measure.

Maintal, 21 March 2017

On behalf of the Supervisory Board
Marc Brucherseifer, Dipl.-Kfm.

The Management Board
Vlasios Choulidis *André Driesen*

Targets for the composition of the Supervisory Board

In accordance with Clause 5.4.1 of the German Corporate Governance Codex, the Drillisch AG Supervisory Board defined the following targets for its composition, and these targets were given due consideration during the election of the complete Supervisory Board by the Annual General Meeting 2013 and during the by-election of a Supervisory Board member by the Ordinary Annual General Meeting 2016:

» The Supervisory Board should include at least two industry representatives from the sectors telecommunications, media and/or IT. At this time, five Supervisory Board members have relevant industry knowledge, namely Messrs Marc Brucherseifer (Dipl.-Kfm.), Norbert Lang, Horst Lennertz (Dr.-Ing.) and Frank Rothauge (Dipl.-Kfm.) in the telecommunications sector and Messrs Marc Brucherseifer (Dipl.-Kfm.) and Dr Bernd H Schmidt in the IT sector.

» The Supervisory Board should have at least one member with international experience (e.g. in the sector financial engineering, telecommunications, M&A). All members of the Supervisory Board fulfil these target criteria.

» No more than two former members of the Management Board should belong to the Supervisory Board. This target criterion is also met because only Mr Marc Brucherseifer (Dipl.-Kfm.) was active as a Management Board member and CEO before his election to the Supervisory Board. Furthermore, the Supervisory Board members should reveal immediately to the Supervisory Board any conflicts of interest which have currently arisen and, in the event of a permanent conflict of interest, resign their position on the Supervisory Board.

» The Supervisory Board should have at least two members who do not have a personal or commercial relationship to the Compa-

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ny, its officers and directors, a controlling shareholder or a company affiliated with the latter which can lead to a major conflict of interest which is not only temporary. In the estimation of the Supervisory Board, at least two members are independent: Dr Susanne Rückert and Mr Frank Rothauge (Dipl.-Kfm.).

» Supervisory Board members should resign from the Supervisory Board upon conclusion of the Annual General Meeting following their 75th birthday. This target criterion is also observed.

» At least one member of the Supervisory Board should be a woman. This target criterion is fulfilled by the membership of Dr Susanne Rückert on the Supervisory Board.

In addition, the Supervisory Board set targets for the proportion of women on the Supervisory Board – and Management Board – pursuant to Section 111 (5) first sentence AktG in fiscal year 2015 and determined a target for the proportion of women on the Supervisory Board of 16.66% and for the proportion of women on the Management Board of 0%. Independently of these decisions, the selection of the potential members of the boards, while taking these targets for the proportion of women into account, should always be based on the individual competence profiles of the candidates; nevertheless, the Supervisory Board will strive to give preference to women candidates whenever the qualifications of multiple candidates are equivalent. Furthermore, the Supervisory Board has established a general limit of a maximum of 25 years for the total length of membership on the Supervisory Board pursuant to Clause 5.4.1 of the German Corporate Governance Codex. These target criteria have also been taken into account. The Supervisory Board's nominations of candidates for election to the Supervisory Board, while taking these goals into account, will continue to be oriented to the welfare of the Company.

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 on detailed and constant flow of information – this is in line with the common understanding of good corporate governance held by Management and Supervisory Boards at Drillisch.

The current Management Board has two members. Mr Paschalis Choulidis has resigned from his positions on the Management Board and left the Company for personal reasons. The current members of the Management Board are shown in the consolidated notes (page 103 of the Annual Report 2016). The Management Board established targets for the proportion of women at the two management levels below the Management Board in fiscal year 2015 in accordance with Section 76 (4) sentence 1 AktG and determined that the proportion of women at the two management levels below the Management Board should be 0%, which has been achieved. Currently, the proportion of women at the two management levels below the Management Board is 5.3% in total. Notwithstanding this, potential executives are always to be selected based on their individual competence profile, but the Management Board will endeavor to give preference to women candidates in cases where qualifications are equivalent. The members of the Management Board manage the Company on their own responsibility and define, in consultation with the Supervisory Board, the strategic direction of 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 Company on his sole authority within the framework of the business units assigned to him by the rules of procedure. Measures of special significance or which involve unusual risks always require

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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.

Legal provisions stipulate that the Supervisory Board must have six members. The current members of the Supervisory Board are shown in the consolidated notes (page 103, item 34 of the Annual Report 2016). Five of the six Supervisory Board members were elected by the Company's Annual General Meeting on 16 May 2013, namely: Marc Brucherseifer (Dipl.-Kfm), Dr Susanne Rückert, Horst Lennertz (Dr.-Ing.), Frank A. Rothauge (Dipl.-Kfm.) and Dr Bernd H Schmidt; Mr Norbert Lang was elected to the Drillisch AG Supervisory Board by the Annual General Meeting on 19 May 2016 for the remaining term of the already resigned former member of the supervisory board, Johann Weindl.

The term of office of all of the current Supervisory Board members will end upon the adjournment of the Ordinary Annual General Meeting which adopts a resolution discharging the Supervisory Board members for fiscal year 2017. The Board has, in its appraisal, an appropriate 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 commercial or personal relationship to the Company, its officers and directors, a controlling shareholder or a company affiliated with the latter.

The Supervisory Board carries out its duties as a supervisory body both by monitoring the Management Board and by advising the latter's members in the conduct of business. The Supervisory Board meets at least twice in every calendar half-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 10 to 15 of the Annual Report for fiscal year 2016. 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 103, item 34 of the consolidated notes.

Working methods and composition of the committees

The Supervisory Board has formed three committees, namely, a Nominating Committee, an Audit Committee and a Personnel Committee. The Audit Committee has adopted its own rules of procedure. Moreover, 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 this and to all other committees.

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

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The Audit Committee consists of Mr Rothauge (chairperson), 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, owing to his previous professional activities, is also qualified as an authority in the field of accounting.

The members of the Personnel Committee are Mr Brucherseifer, Dipl.-Kfm. (chairperson); Dr Lennertz; and Dr Rückert (vice-chairperson). 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 two members of the Management Board, it has not formed any committees.

Information regarding corporate management practices within the sense of Section 289a (2) no. 2 HGB– Risk management/Compliance

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 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 controlling system and of the risk management system – as well as the internal risk reporting – 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 48 and 49 of the Annual Report 2016) pursuant to Section 315 (2) no. 5 HGB. The Management Board also reports in detail in this document on current risks and their development.

Compliance is an important element of the management and corporate culture at Drillisch Group. For Drillisch AG, compliance encompasses the totality of all measures and actions aimed at ensuring conformity with legal statutes and regulations as well as with the Company's own in-house standards, principles and rules. In the eyes of Drillisch AG, conduct that is legally and ethically beyond reproach lays the groundwork for all long-term company success. To this end, the Management Board has implemented a compliance management system that begins with, and builds on, a central compliance directive. The compliance directive applies to all of the officers, directors and employees of Drillisch Group and ensures that the values system is consistently and continuously lived across the full breadth of the Company.

Key elements of the compliance directive concern a fair, respectful and trustworthy approach when dealing with colleagues and business partners as well as the conduct displayed toward competitors. Bribery and corruption are not tolerated at Drillisch AG; the compliance directive unambiguously realises this attitude through appropriate prohibitions and instructions. Violations of compliance requirements are unacceptable for us. We rigorously follow up on any indications of violations and obtain clarification of the root causes. Whenever any violations are determined, they are

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immediately rectified and, if necessary, strictly sanctioned as appropriate.

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 and Supervisory Boards in fiscal year 2016 are shown in the management report and notes and in the consolidated management report on pages 53 to 56 of the Annual Report 2016 (compensation report) and in the consolidated notes ob Page 104, item 36 of the Annual Report.

Reportable transactions with financial instruments and holdings of officers and directors

Officers and directors of Drillisch AG in their role as persons who exercise management functions as well as persons in close relationship to these people are obligated to disclose to the Company (and to BaFin [German Federal Financial Supervisory Authority]) their own transactions with stock or debt securities of Drillisch AG or any financial instruments related thereto if and when the total amount of the transactions carried out by a person obligated to reporting amounts to or exceeds a total of €5,000 within one calendar year.

The following transactions with financial instruments were reported to Drillisch AG in fiscal year 2016:

Date	Financial instrument	Type of transaction	Shares	Price/€	Reporting person
22/01/2015	Stock	Sale	2,407	25.67	H Lennertz, Supervisory Board
24/03/2016	Stock	Purchase	12,000	39.43	P Choulidis, Management Board
24/03/2016	Stock	Purchase	25,000	39.43	SP Beteiligungs GmbH, Management Board
18/04/2016	Stock	Purchase	10,000	34.33	P Choulidis, Management Board
19/04/2016	Stock	Purchase	15,000	34.89	MV Beteiligungs GmbH, Management Board
21/04/2016	Stock	Purchase	20,000	36.05	P Choulidis, Management Board

The stock holdings of officers and directors that are to be reported pursuant to Clause 6.2 of the German Corporate Governance Codex are shown below:

Directors' Holdings per 31/12/2016

Per 31/12/2016, the Management Board members currently in office held the following stock in Drillisch AG:

Management Board	Shares
Vlasios Choulidis	400,000 no-par shares
MV Beteiligungs GmbH	15,000 no-par shares

At the time of his withdrawal from the Management Board (30/06/2016), Mr Paschalis Choulidis held directly 467,000 no-par shares in Drillisch AG. Per 30/06/2016, 25,000 no-par shares of Drillisch AG were indirectly attributable to him via SP Beteiligungs GmbH.

The Supervisory Board members held the following stock in Drillisch AG as per 31/12/2016:

Supervisory Board	Shares
Marc Brucherseifer, Dipl.-Kfm.	1,019,775 no-par shares

Maintal, 21 March 2017

THE DRILLISCH GROUP AND THE MARKET ENVIRONMENT

Provider of innovative voice and data rate plans on Germany's largest mobile services network

Drillisch Group and the market environment

Drillisch has been a driving force on the German mobile services market for many years, pioneering innovative voice and data rate plans for smartphone and tablet users. Thanks to management's many years of experience, the strong commitment of the associates to performance and its lean cost structures, the Company has been able to realise successfully its corporate strategy even in this highly competitive market environment and to increase corporate value over the long term. The early decision to focus on groundbreaking market developments is another major factor for our success.

The mobile services market in Germany has undergone fundamental change in the last ten years. An innovative mover on the German mobile services market, Drillisch continues to generate new trends repeatedly. The Drillisch brand simply, for instance, was the first provider on the German mobile market to offer mobile customers a choice between the 2-year contracts that were the norm at that time and a new product with contracts that could be terminated from one month to the next. From Drillisch's perspective, the proposition that the offer of a fair rate without the usual contract term of 24 months would lead to higher customer loyalty in most cases has proved to be true.

In the age of the mobile internet, simple, low-price and powerful access to mobile data networks with data volume oriented to each individual's specific needs and a fast connection are the major criteria determining customers' decisions when selecting a rate plan and provider.

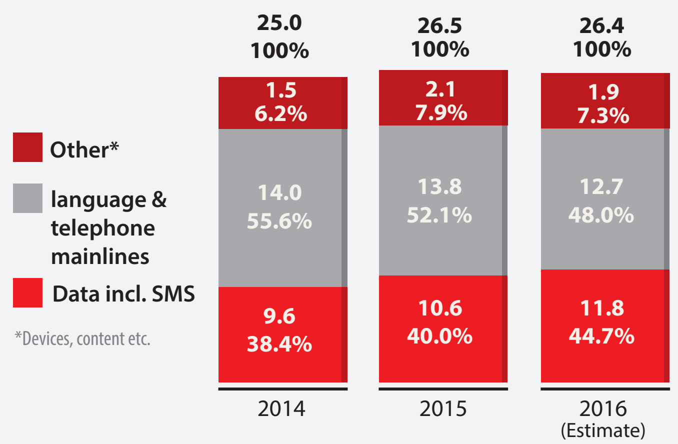
In this constantly changing market environment, Drillisch, being the only MBA MVNO, offers customers the "best value for money" – through its established online brands as well as in brick-and-mortar trade.

More mobile lines in Germany, data revenues grow by about 5%

The Federal Network Agency issues quarterly reports on the number of SIM cards in Germany on its website. These figures show the number of active SIM cards in Q3 2016 increasing in comparison with Q3 2015 by 1.52 million to a total now of 128.6 million cards.

One important growth driver for the mobile market is the access to the mobile internet via fast data connections. While total revenue remains stable at €26.4 billion (2015: €26.5 billion), the share of revenues attributable to data services will rise by about 5% from 40.0% in 2015 to 44.7% in 2016. This is the conclusion of the market study conducted by VATM and DIALOG CONSULT that was presented in October 2016. The projection is that revenues of €11.8 billion will be realised with data services in 2016 (2015: €10.6 billion).

SMS revenues and mobile internet revenues
(in € bn)



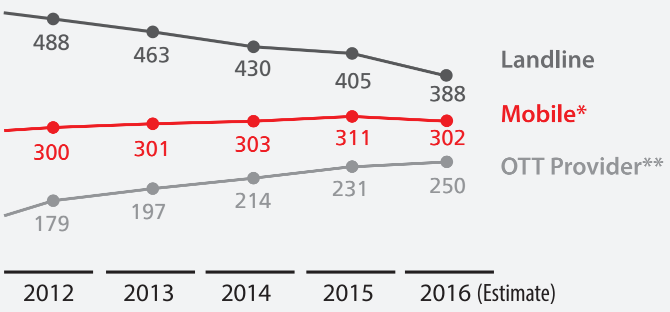
Source: DIALOG CONSULT-/VATM-Analysen und Prognosen

Voice traffic on mobile networks is in slight decline for the first time. While 2015 saw 311 million minutes in phone calls from mobile devices every day, the corresponding figure for 2016 was only 302 million minutes. During the same period, the landline connections fell

Data revenues and data volume growing steadily

from 405 million to 388 million minutes a day. Calls via the OTT providers, on the other hand, were able to increase substantially. Connection minutes using software-based telephony that is not billed through a connection network operator (such as Skype, FaceTime or WhatsApp) rose from 231 million minutes in 2015 to 250 million minutes a day in 2016 and utilise the data packages of mobile subscribers as well. The trend to OTT connections for voice transmission is also confirmed by the annual market study (October 2016) conducted by the industry association VATM in collaboration with DIALOG CONSULT.

Outgoing minutes
(per day in million)



* Excluding roaming traffic (German SIM cards in foreign networks or foreign SIM cards in German networks)

** OTT traffic = Call minutes that are not billed by a line network operator (Skype, FaceTime, vtok and many more)

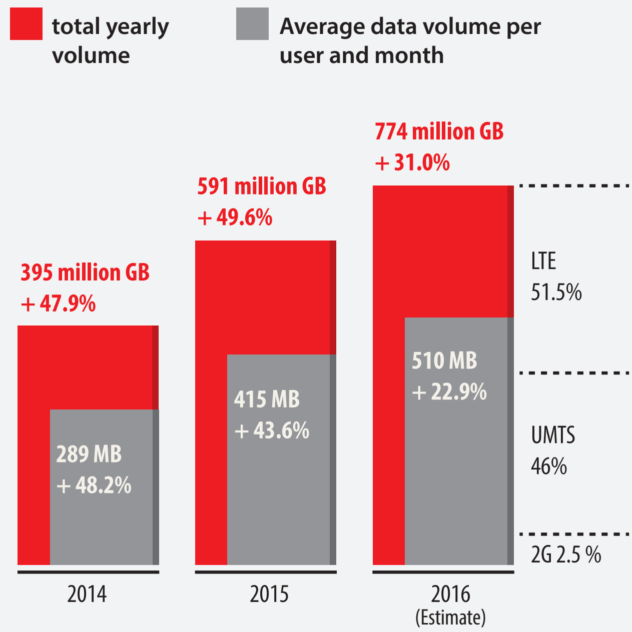
Source: DIALOG CONSULT-/VATM-Analysen und -Prognosen

The share in revenue of voice services has declined from 52.1% to 48%. The forecast assumes that revenue in 2016 will fall to €12.7 billion (2015: €13.8 billion). The assumptions in the market study are that revenues from other services such as the sale of devices or content will presumably decrease from €2.1 billion in 2015 to €1.9 billion in 2016.

Mobile data volume is expected to increase by 45% annually up to 2022

The market study from VATM and DIALOG CONSULT assumes a total volume in mobile data of 774 million gigabytes in 2016, corresponding to growth of 31% in comparison with the previous year (591 million GB). The average monthly volume transmitted via a SIM card will rise by a good 23% to 510 MB (previous year: 415 MB/month) in the estimation of industry experts. Fast LTE connections and the data volumes using this technology will continue to drive dynamic growth in the future. In 2016, more than 50% of the total mobile data volume was transmitted via the LTE standard.

Data traffic over wireless networks in Germany



Source: DIALOG CONSULT-/VATM-Analysen und Prognosen

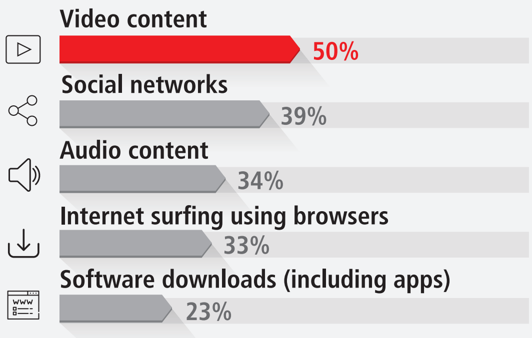
The Mobility Report presented by the network outfitter Ericsson back in November 2015 assumes a ten-fold increase in monthly data traf-

Mobile data traffic according to application

fic by the year 2022. The average data traffic per SIM card will reach 22 GB a month. Total mobile data traffic will grow by an average of about 45% annually, according to the Mobility Report. The reasons given for this development are the continuing expansion of performance capability of the devices, the spread of LTE (4G) and the successor technology 5G and the use of data-intensive applications.

The viewing and sending of videos will lead all other applications and represent a large share of the future data traffic. Ericsson projects that total worldwide mobile volume will reach 8.5 million gigabytes in 2016. Uploads and downloads of content with moving images already has a share of 50% in this volume today. In 2022, video content is expected to have a share of 75% – about 52 million gigabytes – in the mobile data traffic totalling 69 million gigabytes. Along with videos, other applications

Mobile data traffic according to application
(annual growth rate in percent)



Source: Ericsson Mobility Report 2016

will contribute to the rise in data quantities, although not in the same magnitude. The Top 5 with the highest average annual growth rates:

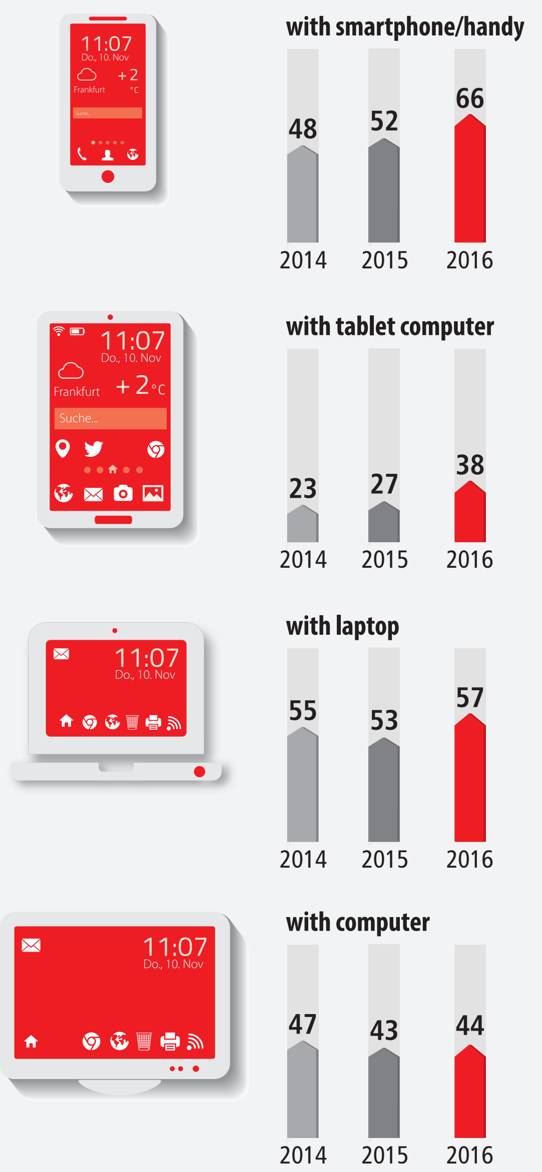
Taking and sending videos via social networks and the streaming of video and audio content using mobile devices has become an established part of internet use in Germany as well. At the time of the leading trade fair Photokina in the middle of September 2016, Bitkom issued a press release noting that two-thirds of German smartphone users (66%) film short videos on their devices and that six of ten users share these videos via WhatsApp, Snapchat or Facebook. In addition, more and more people, especially young people, are turning away from classic media. The UAS Fresenius in Cologne, in cooperation with the WIK Institute (*Wissenschaftliches Institut für Infrastruktur und Kommunikationsdienste*), presented a study at the beginning of August 2016 in which 21% of the 18- to 21-year-olds state that they had not watched television in the last six months. In contrast, 57% watched video content on their laptops/PCs, 24% on their smartphones and 14% on tablets.

Eight out of ten Germans use internet-capable smartphones

Messenger apps are far and away the most important functions for smartphone users. In a survey conducted by TNS Infratest on behalf of the network operator Telefónica and published in the middle of September 2016, more than 80% of the respondents noted that they regard messaging services such as WhatsApp to be an indispensable app on their smartphones. These applications were followed at some distance by surfing on the Internet (69%), sending and receiving emails (65%) and sending pictures (60%). In total, the prevalence of internet-capable mobile phones rose by 4% to a current level of 78% within one year, according to Bitkom. The recent online study by ARD and ZDF from October 2016 concludes as well that smartphones are the most commonly used devices for internet access, having a share of 66%.

The smartphone – assistant and companion for everyday life

Internet usage/device in Germany (in %)



Base: German-speaking population age 14 and older (2016: n=1,508; 2015: n=1,800; 2014: n=1,814).

Source: ARD/ZDF - Onlinestudien 2014-2016

Smartphones becoming assistants in everyday life, the Internet of Things will ensure continued dynamic development in data use

Smartphones serve primarily communication and entertainment, but more and more people are using their smartphones for other purposes such as shopping. A representative survey presented by the Bitkom association at the beginning of October 2016 revealed that the number of smartphone shoppers had almost doubled to a current level of 39% within two years. More than one-fourth of the respondents (27%) also use tablets for online shopping for products, services or digital activities such as filming.

As the Consumer Electronics Show (CES) held in Las Vegas in January 2017 demonstrated, the networking of devices in the home will be one of the major points of future focus. According to a representative survey conducted by Bitkom in the middle of July 2016, more than 28% of all smartphone users could imagine using their smartphones as the primary device for managing household appliances or systems. Breaking down the results according to age group reveals that interest is greatest among the 30- to 49-year-olds (34%). Among 14- to 29-year-olds, 29% are open to the idea of mobile smart home applications; the corresponding figure among 50- to 64-year-olds is 20% and even 17% of the smartphone users over the age of 65 could imagine such a use.

But the communication of more and more devices and machines with one another in the future will not be limited to the private sphere. Digitalisation (key word: Industry 4.0) and the Internet of Things (IoT) will create new forms of communication in industrial processes in particular. In its latest Visual Networking Index (most recently updated in June 2016),

New technology 5G poised for launch/Positive outlook for software industry

Cisco projects that the next four years will see ten interconnected devices for every person in the Germany. This will mean a doubling in the number of interconnected devices to 800 million by the year 2020.

New wireless technology "5G" poised for launch

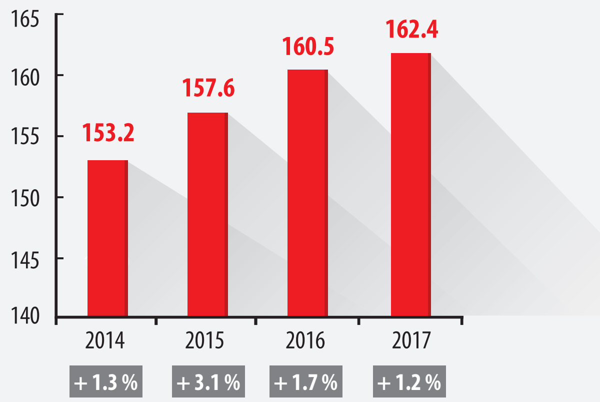
Network providers and telecommunications companies are working at top speed on the implementation of the LTE successor technology "5G". The evolvement of the LTE (4G) standard (which continues to spread rapidly) will include as a major feature the interconnection of many single devices with one another (point-to-multipoint). In addition, transmission rates of up to 10 GBit/s will be 100 times faster than today's LTE standard. Data transmission rates that are up to one thousand times faster are expected by the year 2030. Up to now, the industry has presumed that the first 5G networks and applications will become available from the year 2020, but currently a 4.5G standard regarded as a transition technology is being tested in various German cities. Its implementation could begin as early as 2017. The Chinese outfitter ZTE announced in January 2017 that it intends to start operation of a pre-5G standard in Germany at some point during 2017. This standard is expected to offer an improvement in network capacity for network operators by fully utilising the available spectrum resources.

Drillisch will profit from the technological evolvement of the networks because it is the only MBA MVNO to have an unrestricted, long-term access and marketing right with regulatory protection to current and all future technologies on the largest German mobile services network.

Outlook remains positive: German ITC market grows to over €160 billion

As the digital association Bitkom announced in its autumn economic forecast in Berlin at the end of October 2016, revenues from information technology, telecommunications and entertainment electronics (ITC) will grow to €160.5 billion by the end of 2016. The association has thus reaffirmed its growth projection of 1.7% for the German market. The growth in revenue will also have a positive effect on the labour market. As of the end of the year, the ITC industry employed 1,030,000 people, making it the second-largest industrial employer in Germany.

Revenue with ITC products and services in Germany (in €bn)



Source: Bitkom, EITO, IDC, GfK

Information technology continues to be the growth driver in the industry and will, according to Bitkom, increase by 3.6% to €84 billion in 2016. Revenues in the software sector are growing the strongest; software providers can record a plus of 6.2% to €21.6 billion. Revenues from IT services will increase by 2.7% to €38.2 billion while revenues from IT hardware will rise by 2.8% to €24.3 billion.

MARKETING REPORT

Drillisch offers innovative mobile rate plans with added value and sets the bar for price and service

Drillisch offers innovative mobile rate plans with added value

Drillisch takes a premium approach, supplemented by a multi-brand strategy, to market innovative mobile products with great success; transparency and performance are the outstanding characteristics of the products that are always right up to date. Every type of user will find just the right product for his or her needs.

During the past fiscal year 2016, top results were regularly posted in surveys, studies and audits for the two premium brands smartmobil.de in the segment Online and yourfone in the segment Offline as well as for the other strong brands and cooperative activities in distribution.

Clearly, Drillisch meets the high standards it has set for itself: offering the best value for money on the German mobile services market without accepting any compromises with respect to quality and service.

The Company's product portfolio and its orientation to customer requirements ensure that Drillisch is always in line with current trends. Reliable and fast mobile internet access is of fundamental importance for most mobile phone users. Drillisch provides mobile phoning and surfing that always utilise state-of-the-art mobile technology on Germany's largest mobile network.

smartmobil.de once again improved its LTE rate plan portfolio in the middle of March 2016. The new all-net flat rates have featured even more high-speed data volume since that time. All of the current plans include unlimited calls and texts to all German networks as well as LTE data packages at a top speed of 50 MBit/s. Users selecting the smallest rate plan variation, LTE XS, receive 2 GB of data volume for only €7.99 a month. LTE S offers 4 GB of LTE volume for €12.99 a month, LTE M at €17.99 features 5 GB. The largest all-net flat rate LTE L with 6 GB

LTE Tarifportfolio

Tarif	Telefonie-Flat	SMS-Flat	LTE Datenvolumen	EU Inklusivleistung
LTE XS	✓	✓	3 GB	
LTE S	✓	✓	4 GB	
LTE M	✓	✓	5 GB	
LTE L	✓	✓	6 GB	Telefonie- und SMS-Flat + 1 GB Datenvolumen

for €27.99 is the perfect companion for travel in other EU countries thanks to the inclusion of the EU package when abroad. The unlimited phone calls that are part of the package include calls to mobile and landline networks within the EU country being visited and to Germany. Moreover, 1 GB data volume for surfing in other EU countries is also provided.

Powerful surf options: Data Snack and LTE Turbo 225

The mobile rate plans from Drillisch turn mobile surfing into a genuine experience. A fundamental component of them all is generous LTE data volume at speeds up to 50 MBit/s. Users who suddenly feel additional hunger for data can satisfy their desire with the Data Snack. An additional 1 GB of LTE data volume is provided in the current month for less than five euros. Booking the extra volume could not be simpler. If both the data volume included in the package and the volume provided by the automatic data service have been consumed, users simply send a text message to request the Data Snack. The option is available to customers of all Drillisch brands and can be booked once a month.

Drillisch offers innovative mobile rate plans with added value and sets the bar for price and service

New customers of the premium brands smartmobil.de and yourfone also have the opportunity to surf while on the go at 4.5 times the previous maximum speed of 50 MBit/s. The option "LTE Turbo 225" can, upon request, be booked in addition to every all-net flat rate with LTE. Besides the mobile network operators, Drillisch is the only MVNO to offer this top speed on the German mobile services market.

Added value from attractive rate plan options: BILDplus and Napster Music-Flat

Customers seeking even more value than the powerful LTE rate plans can add to the various Drillisch brands if desired. The option "BILDplus" secures full access to all of the content on BILD.de for users for only €4.99 a month, including exclusive background reports, videos and photos. BILDplus is included in the rate plans for BILDconnect, the joint mobile product from BILD and Drillisch. The option "Napster Music-Flat" for €7.99 a month will attract users who enjoy listening to music. More than 40 million songs and thousands of audio books are available for selection. helloMobil customers can choose from among various all-net flat rates that include Napster Music-Flat. The service can be booked as an option if desired for all of the other Drillisch brands.

Successful distribution cooperation with Springer-Verlag

Springer-Verlag and Drillisch have been successful in recent years in jointly realising distribution cooperation activities. This established cooperation of the last few years has been intensified by the addition of BILDconnect. This is a new mobile service focusing on smartphone rate plans with large LTE data volumes and the inclusion of the BILDplus option. One special feature of the rate plans is the practical data reset function. Users wishing to avoid the throttling of data speeds when the included volume has been consumed can simply reset the data counter to 0 for a small additional monthly charge and continue to surf at LTE high speed. The rate plans were expanded by the addition of two data rate plans in December. "Data 1000" is an internet flat rate with 1 GB LTE at speeds up to 50 MBit/s for only €5.95 a month (€6.95 a month for a term of one month). Frequent surfers will choose "Data 3000" featuring 3 GB LTE for €12.95 (€14.95 monthly for a term of one month).

yourfone launches new rate plan portfolio

yourfone introduced new all-net flat rate plans in April. Entry rate plan is "LTE XS" offering 2 GB LTE data volume for €7.99. "LTE S" comes with 4 GB for €12.99, "LTE M" with 5 GB for €17.99

Online and offline products: Award-winning Drillisch brands recipients of multiple honours

and "LTE L" with 6 GB for €22.99. The package price for all of these rate plans increases by €7 a month from the 13th month. By introducing these rate plans, yourfone has set standards for the brick-and-mortar trade. In comparison with the competition, yourfone customers save up to €564 over the two-year term of the contract (in comparison with RED 6 GB from Vodafone for 24 months).

yourfone opens up additional distribution channels

yourfone is present in more than 200 mono-brand shops across the country and is steadily increasing its distribution range by the addition of further partners. The mobile provider is now cooperating with Brodos AG, einsAmobile GmbH, Euronics Deutschland eG, Herweck AG, Komsa Kommunikation Sachsen AG, netcom GmbH, Stahlgruber GmbH and others.

Award-winning: Drillisch brands recipients of multiple honours

Drillisch brands regularly receive recognition from impartial observers for their outstanding value for money. The year 2016 was no different in this respect. For the second time in succession, the Tariftipp.de editorial staff and their readers selected the online premium brand smartmobil.de as the "Provider of the Year" in the category "All-Net Flats". The grounds given by the rate plan experts: smartmobil.de's offer of the LTE XS for €7.99 a month has been setting "the benchmark for popular all-net flat rates for months."

The study "Mobile Providers 2016" conducted by the Deutsche Institut for Service-Qualität (DISQ) produced no fewer than 3 test winners from Drillisch.

- » smartmobil.de took first place in each of the sub-categories "Price" and "Lowest Complaint Rate".
- » yourfone stood right at the top of the winner's podium in the category "Service".

Another award from DISQ went to simply, the pioneer among the mobile discount service providers. It was proclaimed as one of "Germany's Savings Champions 2016" in the category of mobile providers. What makes the DISQ study special: the winners are not determined by a limited, one-time price comparison; the price level is monitored over a period of four years. The market researchers compared 350 companies in various sectors with 18,000 prices in 21 categories. Providers who offer their products and services at especially low prices were awarded the laurels. The study appraised 19

yourfone, Number 1 in mobile shop test

mobile services providers. One key finding is that the alternative providers have overtaken the network operators in the customer assessment.

Another outstanding placement serves as confirmation that yourfone can do more than just keep pace with the giants of the industry. On behalf of the journal WirtschaftsWoche, the Deutsches Kundeninstitut (DKI) scrutinised 16 mobile network providers and their rate plans in the course of the study “Best Mobile Services Provider 2016”. Besides the providers themselves, 23,000 customers were surveyed about offered products and services, customer service and terms and conditions. In the overall result, yourfone came in ahead of providers such as T-Mobile, O_2, Blau or klarmobil.

TÜV Saarland gave the top mark of “EXCELLENT” to no fewer than 11 Drillisch brands. Along with smartmobil.de, brands such as simply, winSIM, maXXim or helloMobil gave convincing evidence of their outstanding value for money. During its critical audits, TÜV Saarland looks not only at pricing and the innovative strength of the products being audited, but also at additional factors such as the ordering process, delivery or advising help from customer service.

yourfone Number 1 in mobile shop test

In January 2017, the Deutsches Institut für Service-Qualität (DISQ) conducted a survey on behalf of n-tv, sending mystery shoppers to test 15 shops of each of the providers yourfone, Telekom, Vodafone, Telefónica and Mobilcom-Debitel with respect to their advising service. yourfone emerged as the winner of the advising test. In the course of the test, the yourfone employees demonstrated the greatest advising competence; all of the customer’s questions about rate plans and hardware were answered correctly. It was also emphasised that the advisers asked about details of the

customer’s personal needs and gave advice that was above-average in its consideration of the individual. The friendliness and willingness to help of the shop clerks as well as the short waiting times in the shops were also given special mention. yourfone’s performance confirms the results of the nationwide study of mobile services providers conducted by Stiftung Warentest in spring 2016. yourfone took first place in the categories Price and Customer Orientation plus second place in the overall rating during this test as well. These outstanding results put yourfone far ahead of providers such as Deutsche Telekom, Vodafone or Mobilcom-Debitel.

CONSOLIDATED MANAGEMENT REPORT

Business Report

1. General information about the Company

1.1. Drillisch Group

Drillisch AG, Maintal, along with its subsidiaries, (collectively: "Drillisch") is a mobile services provider and virtual network operator operating exclusively in Germany with guaranteed access to a specific share of the network capacity of Telefónica in Germany (a so-called mobile bitstream access mobile virtual network operator = MBA MVNO). During fiscal year 2016, the Company added to the many years of its success story of profitable growth.

One of the most profitable and innovative providers of rate plans for voice and data communications in Germany, Drillisch is a regular source of new pioneering ideas on the German mobile services market. Operating as an MBA MVNO, Drillisch compiles packages of flexible services based on its own product ideas, drawing on standardised and unbundled advance services from the network operators Telefónica Germany GmbH & Co. OHG ("Telefónica") and Vodafone GmbH ("Vodafone"). The most important sales channels are the internet, the firm's own shop channel operating under the brand name yourfone and a network of independent distributors and cooperation partners. Drillisch expects its successful corporate development to continue in fiscal year 2017.

Drillisch – sole MBA MVNO on the German mobile market

Pursuant to the MBA MVNO agreement concluded with Telefónica in June 2014, Telefónica grants to Drillisch (as the only competitor on the German mobile market) access to up to 30% of the utilised network capacity of Telefónica in the mobile network of Telefónica and E-Plus that is controlled after the merger of the two companies. This right applies to all future as well as current technologies. At the same time, Drillisch obtains access rights to the so-called "Golden Grid Network" of Telefónica that has been created by the merger. This means access to the enhanced footprint of the mobile network of Telefónica, including all necessary technical specifications and the technical capability to reduce speed and restrict transport in the event of excessive data utilisation by end customers.

In accordance with the concluded agreement, there are also the following options: (1) becoming a so-called full MVNO in the mobile network of Telefónica, that is, a mobile provider that operates its own full core network and uses solely the access network of Telefónica ("Full MVNO"), and/or (2) becoming a licensed mobile network operator ("MNO").

Raising the bar with innovative and transparent mobile services products

Drillisch takes a premium approach, supplemented by a multi-brand strategy, to offer innovative mobile products with great success; transparency and performance are the outstanding characteristics of the products that are right up to date at all times. Every type of user will find a product that is just right for his or her needs.

In the age of the mobile internet, simple, low-price and powerful access to mobile data networks with data volume oriented to each individual's specific needs and a fast connection are the major criteria determining customers' decisions when selecting a rate plan and provider.

In this constantly changing market environment, Drillisch, being the only MBA MVNO, is unrivalled in offering customers the "best value for money" – through its established online brands as well as in brick-and-mortar trade.

smartmobil.de, for instance, the premium brand in the segment Online, offers unlimited calls and texts in all German networks along with LTE data volumes at speeds up to 50

Business Report

MBit/s for all of its rate plans. And smartmobil.de showed that the change to a new mobile services provider can also be a smart move in its new campaign featuring the professional footballer Lukas Podolski called "Wechsel Dich smart!" For as little as €6.99 a month (for the first 12 months of the contract; subsequently €9.99 a month), customers can have 750 MB in data volume and unlimited calls and texts in the rate plan LTE Special. Users requiring more data volume can choose between the LTE rate plans LTE Starter (1.5 GB), LTE All (3 GB) or LTE Pro (5 GB). All of these rate plans include unlimited calls and texts. Anyone who wants to surf even faster can more than quadruple surfing speed to 225 MBit/s instead of 50 MBit/s for the low additional charge of €5.00 a month. All of these rate plans can be selected with various contract terms as well as monthly termination periods.

The range of rate plans offered by Drillisch, however, is not restricted to all-net flat rates with LTE, but includes as well rate plans for users who primarily want to surf a lot at high speed on mobile devices. They have the choice, for example, of taking winSIM or maXXim rate plans with data volumes of 1, 2 or 3 GB as well as voice minutes and unlimited texts for as low as €5.99 a month.

Drillisch puts in an appearance in bustling pedestrian zones and shopping centres with yourfone, the premium brand in the segment Offline. The yourfone shops score points with their striking appearance as well as their top locations. The brand addresses new target groups with its memorable brand message *"yourfone und Du"* and a direct approach to customers such as "*Du kannst jetzt richtig aufdrehen*"; moreover, it offers a new shop experience as well as competent and customer-centric advising in all areas of mobile communication.

Moreover, the attractive rate plans available in the shops that can also be combined with the latest models of the top smartphones make a convincing argument with their outstanding price-performance ratio. Options include unlimited calls and texts in combination with various LTE data packages from 500 MB to 10 GB. If customers decide to take a complete package comprising rate plan and smartphone, they can decide whether they wish to purchase the smartphone straight away or by making a one-time payment and a monthly hardware surcharge.

Product transparency and customer service

Drillisch has in the past regularly requested the performance of extensive quality tests by independent third parties. The awarded certificates have all featured the ratings "Excellent" and "Good". During the certification process pursuant to the demanding quality standards of the ISO norm 9001:2015 in September 2016, the high level of quality management at the two major Drillisch subsidiaries Drillisch Online and yourfone was fully and completely convincing in all points for the auditors.

Drillisch products satisfy the very highest national and international standards with the highest level of transparency and security. Our sustained work to achieve this transparency and security as well as customer satisfaction are important elements of our corporate success. Drillisch Group will continue to request these extensive audits in the future as well.

Drillisch AG is the Group's holding

Within Drillisch Group, 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.

Business Report

Drillisch Online AG

Drillisch Online AG is in charge of the operating mobile services business in the segment Online and operates all of the established online brands of the Group such as smartmobil.de, maXXim, sim.de, winSIM, DeutschlandSIM or simply.

yourfone AG

yourfone AG operates under its brand name and is responsible for the full range of offline sales. The company's wholly-owned subsidiaries, yourfone Retail AG and yourfone Shop GmbH (registered offices of both in Düsseldorf), have been in charge of shop operations since July 2015. During this time, yourfone has opened a total of more than 250 of its own and partner shops. About 220 of them were still operating at the end of 2016.

GTCom GmbH

GTCom GmbH is a mobile services provider with brands like Galeria-mobil or n-tv go!, specialising in prepaid products and operating in Germany as a subsidiary of Drillisch AG.

The Phone House Deutschland GmbH

Phone House Group, a subsidiary of Drillisch AG, is a distributor for mobile communications operating in Germany. In September 2016, Drillisch and the former shareholder, Dixons Carphone PLC, London, UK, agreed on a final purchase price payment in the amount of €18.0 million. This payment satisfies all of the unresolved claims from the variable earn-out component agreed during the purchase of Phone House in 2015 and all of the other mutual claims, with the exception of a remaining obligation in the amount of €5.8 million that will become due only if, and to the extent that, payments are received from litigation that was initiated before the time at which Phone House was purchased. There are no risks for Drillisch related to these circumstances. Subsequent to the agreement, Drillisch decided as well to outsource the distribution business of Phone House, above all pursuant to network operator agreements, to a new company, The Phone House Telecom Vertrieb GmbH, and to sell the new company to DeinHandy GmbH, Obertshausen, effective per 1 January 2017. The Phone House companies remaining in Drillisch Group (The Phone House Deutschland GmbH and The Phone House Telecom GmbH) are in charge of both partner and own yourfone shops and provide the complete range of hardware supplies for online and offline sales.

IQ-optimize Software AG is the IT service provider for the Group

The IT competence of Drillisch Group is bundled in the subsidiary IQ-optimize. This company provides in particular virtually all of the IT services for the Group's mobile services providers.

Segment Online

Drillisch Online AG and its broad range of established online brands are in charge of the operating mobile services business in the segment Online. Drillisch Online AG and its brands offer high-performance LTE rate plans tailored to match customer needs in Germany's largest mobile services network. Every customer will find the combination of unlimited calls and texts along with various data packages at maximum speed of up to 225 MBit/s in the current rate plan portfolio that is just right for him or her and suits his or her mobile communication needs. Moreover, customers can go to the online shops and select from a broad range of the latest smartphones and accessories that will best serve their purposes.

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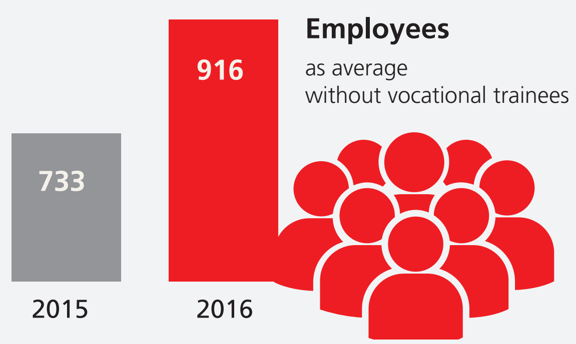
Segment Offline

yourfone AG operates under its brand name and is responsible for the full range of offline sales. Its two subsidiaries yourfone Retail AG and yourfone Shop GmbH have been handling shop operations since July 2015. Drillisch has been operating at top locations in bustling pedestrian zones and shopping centres under the name of yourfone, the premium brand for the segment Offline, since the middle of last year. The attractive rate plans available in the shops that can also be combined with the latest models of the top smartphones make a convincing argument with their outstanding value for money.

The Drillisch AG subsidiary Phone House takes care of both partner and own yourfone shops as well as distribution business and, until the end of the year, also sold original products from network operators along with the Group's own yourfone rate plans.

Employees

In fiscal year 2016, an average of 916 employees – including the two members of the Drillisch AG Management Board – was on the payroll of Drillisch Group (previous year: 733).



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 high-performance flat-rate products. In the estimation of the Management Board, high-performance, transparent rates in the LTE technology represent the greatest opportunities for growth on the German market. The highest growth rates are expected in data communications. The Company has placed its own successful brands: the premium brands smartmobil.de and yourfone along with the other online brands. Drillisch also offers attractive rate plan packages in combination with smartphones and tablets, enabling the Company to benefit from the continuing boom in demand for high-end mobile devices. Drillisch also offers an optimal rate plan without long-term contract obligations for every user group to the growing number of potential customers who already own such a mobile phone and are now looking for a high-performance and simultaneously low-price rate plan. The expansion of current sales activities and the opening of new distance trade channels by means of attractive product lines are at the forefront of the Company's efforts. Proactive quality management ensures that products and services as well as distribution channels are continuously monitored with the goal of increasing absolute profitability on the basis of gross profit and EBITDA.

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 indicators are the adjusted consolidated EBITDA based on IFRS (earnings before interest, taxes, depreciation and amortisation, adjusted for extraordinary and one-off factors) and gross profit.

Business Report

Major elements of value-oriented management include the following:

1. Thanks to its lean structure, Drillisch is highly efficient in terms of costs. This has enabled the Group to increase its EBITDA continuously over the past 15 years. Drillisch achieves this high level of economic efficiency by consistently optimising business processes and by making efficient use of its personnel.
2. All of the major IT services required at Drillisch are performed by its subsidiary IQ-optimize so that the Company is not dependent on external providers. The structure enables fast and flexible action and response on the market.
3. Drillisch is innovative in the design and development of new products and rate plans. For example, in 2005 the Company became one of the first providers to sell mobile services under its own discount brand name. Similarly, Drillisch began as early as in 2010 to align its product portfolio with the ongoing changes in the way smartphone customers used their phones. The budget and package plans containing a certain volume of call minutes, text messages and data for a fixed monthly charge were new creations at that time; today they are commonly available on the market. 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 channels, taking advantage of its competence and new ideas so that the Company can successfully market its innovative products.
5. Moreover, long years of experience in the Company and on the mobile services market are available to Drillisch at the first and second management levels.

2. Business report

2.1. General conditions in the industry

Mobile revenues in Germany in 2016 virtually constant

In 2016, revenues on the German mobile services market – according to a joint TC market analysis by Dialog Consult and VATM from October 2016 (estimate) – remained virtually constant at €26.4 billion in comparison with €26.5 billion in 2015. This development is being driven by the continued dynamic growth in revenues with mobile data, which rose by 11.3% from €10.6 billion in 2015 to about €11.8 billion in 2016. The number of activated SIM cards increased by 3.4 million over the previous year to 128.1 million (2015: 124.7 million). Voice traffic over mobile lines declined slightly from 311 million minutes a day in 2015 to 302 million minutes in 2016. Call minutes via landlines posted a continued decline in 2016 from 405 million to 388 million call minutes a day. The study estimates that call minutes using OTT (over-the-top) providers rose from 231 million minutes in 2015 to 250 million minutes in 2016. Contrary to the development of voice traffic on mobile networks, VATM estimates indicate that total data volume in 2016 rose by 31.0% from 591 million gigabytes in 2015 to 774 million gigabytes in 2016. Average data volume per user and month increased substantially once again by 22.8% from 415 MB in 2015 to 510 MB in 2016. The demand for higher data volumes and new technologies for faster data transmission (e.g. LTE) along with the integration of various media on mobile devices will secure growth potential for mobile services providers in the future as well.

Business Report

IT industry growth continues in 2016

The IT industry was able to seamlessly continue the positive development of previous years in 2016. According to information from BITKOM (October 2016, estimate), revenues in Germany rose by about 1.7% to €160 billion. Press information from BITKOM issued in October 2016 notes that 1.03 million people are employed in the IT industry. This figure means that the IT industry in Germany employs more people than the automotive or chemical industries. The IT industry is one of the job engines of the German economy and turns growth directly into new jobs.

Drillisch holds its position on the mobile services market

Drillisch is in competition with the three remaining network operators (Vodafone, Telekom and Telefónica) as well as with other service providers and MVNOs. The network operators have a market share of about 81.4% in Germany as shown in a TC market analysis from VATM in 2016. The remaining market is essentially shared by the service provider freenet AG and the independent service providers Drillisch and United Internet. Despite intense competition, Drillisch was able to increase its clientele of MVNO customers by about 29.8% in 2016.

2.2. General economic conditions

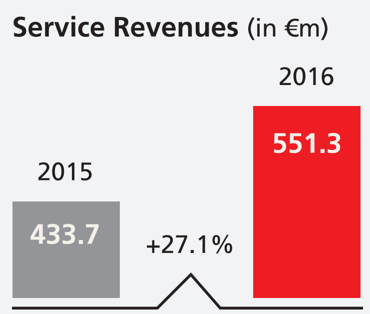
Economic development and growth of the gross domestic product (GDP) of 1.9% in 2016 were marked by the problematic conditions in the international environment and by the financial crisis and the loss of trust in Europe. A positive development in employment figures, rising incomes from employment and the continued strength of consumption demand from private households and government budgets in Germany, however, contributed to further economic growth in 2016. The German government expects growth of 1.4% in 2017. According to the annual assessment of the Council of Experts regarding the appraisal of overall economic development from November 2016, 0.4% of the decline in growth is a consequence of a lower number of workdays in 2017.

Nonetheless, the Drillisch Management Board has noticed little impact on the Company's own mobile services business from the rise and fall of the economy in recent years. The steady growth in the use of the mobile internet has had greater impact.

2.3. Revenue and earnings position

Further EBITDA growth in fiscal year 2016 is impressive evidence that Drillisch has maintained its operating earning power. This good development of our business is supported by the ongoing dynamic developments in the fields of mobile services and mobile internet. Drillisch uses innovative products in conjunction with efficient marketing and distribution concepts to maintain its top position in the German telecommunications industry.

The "service revenues", essentially the income from the provision of the ongoing mobile services (voice and data transmission) and their billing on the basis of the current customer relationships, rose by €117.6 million (27.1%) in fiscal year 2016 to €551.3 million (previous year: €433.7 million).



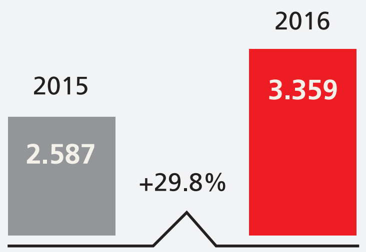
Business Report

The low-margin "Other revenues" amounted to €158.7 million (previous year: €195.9 million). As a consequence of changes in the distributor partner structure of Phone House and the decline in distribution business, "Other revenues" fell in comparison with the same period of the previous year by €37.2 million. The impact of this development in "Other revenues" on the EBITDA in the group, however, is very limited.

Total revenue in 2016 amounted to €710.0 million (previous year: €629.5 million). Revenue in the segment Online increased by €111.5 million (31.1%) to €469.7 million (previous year: €358.2 million). Revenues in the segment Offline and the segment Miscellaneous/Holding amounted to €307.2 million (previous year: €290.7 million) and €14.8 million (previous year: €9.8 million), respectively. Revenue in the segment Offline in the previous year included €25.0 million that was paid by the seller in connection with the acquisition of yourfone Retail. Total segment revenues contain €81.6 million in sales revenues from intercompany relationships that were eliminated during the consolidation process (previous year: €29.1 million).

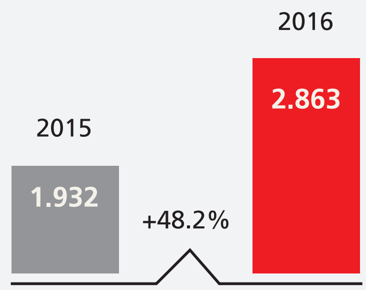
The MVNO clientele increased further over the course of the year by 772,000 (29.8%) to 3.359 million subscribers (31 December 2015: 2.587 million MVNO subscribers).

MVNO Subscribers (in m)



The number of qualitatively higher-value, high-margin budget subscribers increased by 48.2% to 2.863 million subscribers per 31 December 2016 (31 December 2015: 1.932

Budget Subscribers (in m)



million subscribers). The number of lower-margin volume subscribers decreased as expected from 655,000 per 31 December 2015 to 496,000 subscribers per 31 December 2016.

The total number of customers, i.e. including the remaining subscriber contracts in the service provider model, rose by 752,000 to 3.430 million (31 December 2015: 2.678 million), so the trend to a rise in the total customer numbers continues.

In fiscal year 2016, cost of materials increased by 14.9% to €431.1 million (previous year: €375.1 million). In the segment Online, the cost of materials rose by €93.6 million (53.6%) to €268.3 million (previous year: €174.7 million). The overproportional rise in cost of materials (in percentage terms) in comparison with growth in revenue in the segment Online reflects above all the direct investments in customer growth (e.g. commissions to distribution and cooperation partners). Cost of materials in the segment Offline and the segment Miscellaneous/Holding amounted to €230.3 million (previous year: €220.4 million) and €0.5 million (previous year: €0.6 million), respectively. The total of the segment expens-

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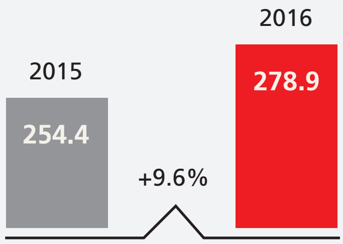
es includes expenditures from intercompany relationships in the amount of €68.1 million that were eliminated during the consolidation process (previous year: €20.6 million).

Gross profit increased by €24.5 million from €254.4 million in fiscal year 2015 to €278.9 million per 31 December 2016, primarily a

Gross Profit
(in €m)



consequence of the continued growth in the subscriber base and the qualitative improvement of the AGPPU (average gross profit per user) from €7.34 in 2015 to €7.58 in 2016. This improvement in gross profit occurred despite the significantly higher direct expenses related to new customer acquisition such as retailer commissions, the reduction of package and activation fees or the granting of Friends Recruit Friends or MNP bonuses (MNP: mobile number portability), which, in contrast to advertising expenditures, have a direct impact on gross profit. This is reflected as well in the gross profit from the MVNO subscriber base (average number of MVNO subscribers multiplied by the AGPPU), which continues to rise. The gross profit margin per 31 December 2016 came to 39.3% (previous year: 40.4%).

In fiscal year 2016, gross profit in the segment Online increased by 9.7% to €201.4 million (previous year: €183.5 million). The gross profit margin in the segment Online came to 42.9% (previous year: 51.2%). Gross profit in the segment Offline in 2016 came to €76.8 million (previous year: €70.3 million). The gross profit margin came to 25.0% (previous year: 24.2%). Gross profit in the segment Miscellaneous/Holding for the fiscal year came to €14.3 million (previous year: €9.1 million) and the gross profit margin amounted to 96.5% (previous year: 93.6%).

Other operating income of €18.5 million (previous year: €20.2 million) contains one-time income of €8.3 million (previous year: €0.0) from the premature repayment or reversal of a major part of the remaining purchase price liabilities related to the earn-out components agreed in 2015 as part of the acquisition of Phone House resulting from the expected percentage compensation on the monthly revenues from the end customers brokered by The Phone House Deutschland GmbH before the acquisition. This income is contrasted by expenditures of a comparable magnitude that are reflected in personnel expenses and Other operating expenses and that are also related to the acquisition of Phone House or the restructuring of Phone House.

As a consequence of the significant increase in the average number of employees in comparison with the previous year and one-time expenses from the creation of a restructuring provision related to the re-orientation of the subsidiary Phone House in the amount of €5.0 million (previous year: €0.0), personnel expenses rose by 27.3% to €59.7 million (previous year: €46.9 million). The personnel expenses ratio increased by 0.9% to 8.4% (previous year: 7.5%).

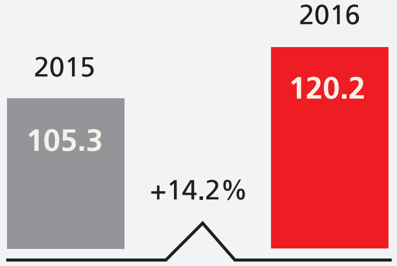
Other operating expenses declined in total by €5.2 million to €119.5 million (previous year: €124.7 million). Expenses for rent and ancillary rent costs rose by €6.3 million to €16.7

Business Report

million (previous year: €10.4 million). This increase is essentially a consequence of the fact that the rent expenses from the operation of own shops in the previous year were incurred only pro rata temporis from 1 July 2015. Expenditures related to bad debts and valuation allowances on receivables in fiscal year 2016 amounted to €16.4 million (previous year: €10.5 million). Advertising expenses declined by €31.1 million to €33.4 million (previous year: €64.5 million) primarily because of the shift away from general brand advertising to direct expenditures for new customer acquisition that impact gross profit. One-time Other operating expenses of about €3.2 million (previous year: €0.0) were incurred pursuant to the settlement concerning the final instalment of the earn-out components and the simultaneous waiver of any and all other mutual claims (with the exception of a remaining obligation of €5.8m that will become due only if and when, and to the extent that, payments result from litigation that commenced before the time Phone House was acquired) concluded with Dixons Carphone PLC.

The consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation), one of the most important management indicators in Drillisch Group, rose by €14.9 million (14.2%) to €120.2 million (previous year: €105.3 million) in 2016. The EBITDA margin amounted to 16.9% (previous year: 16.7%).

EBITDA
from the ongoing business divisions
(in €m)



The EBITDA in the segment Online increased by €42.5 million (49.6%) to €128.3 million (previous year: €85.8 million). In the segment Offline, the EBITDA amounted to €-4.2 million (previous year: €25.9 million). The EBITDA of the previous year was positively influenced by an allowance for advertising expenses in the amount of €25 million granted by Telefónica as part of the acquisition of yourfone Retail AG. The EBITDA in the segment Miscellaneous/Holding per 31 December 2016 amounted to €-3.8 million (previous year: €-6.4 million). In the previous year, the EBITDA of this segment was influenced largely by higher legal and professional fees incurred within the framework of the company acquisitions.

Amortisation and depreciation rose by €25.4 million to €61.5 million (previous year: €36.1 million). Among other factors, the increase in amortisation and depreciation results from the intangible assets identified within the framework of the purchase price allocations of yourfone and the Phone House in the previous year; these assets will be depreciated over the usual useful life of 6 or 2.5 years, and the write-off in 2015 was recognised only pro rata temporis since the acquisition. The resulting amortisation and depreciation in 2016 totals €20.7 million (previous year: €15.8 million). Depreciation and amortisation of €15.0 million (previous year €5.0 million) result in addition from Drillisch's contribution of €150 million agreed with Telefónica in the previous year as part of the MBA MVNO model to the investments previously made and to be made in future by Telefónica in the expansion of the LTE network and in future technologies and from the two trademarks acquired in fiscal year 2016 that have both been capitalised under Other intangible assets and will be written off over the expected useful life of 15 and 3 years. The restructuring of Phone House and subsequent sale of the distribution business (i.e. above all from the brokerage of original

Business Report

contracts from other network operators) per 1 January 2017 results in a related change in the Company's future earnings position. The related recoverability test of the Phone House goodwill recognised in the balance sheet as part of the purchase price allocation in 2015 resulted moreover in a reduction in the value of this goodwill of €9.2 million (previous year: €0.0) that also increased the amortisation and depreciation. None of the write-offs and value allowances affected cash.

The EBIT (earnings before interest and taxes) amounted to €58.7 million (previous year: €69.2 million). The increase in amortisation and depreciation led to a decline in the EBIT margin of 2.7% from 11.1% in 2015 to 8.3% per 31 December 2016.

The interest result amounted to €-3.2 million (previous year: €-3.4 million).

Taxes on income rose by €9.1 million to €29.1 million (previous year: €20.0 million). One of the factors causing the increase in comparison with the previous year is that the write-off on the goodwill of Phone House in the consolidated annual accounts 2016 does not permit the recognition of deferred tax assets. This leads to additional expenses for taxes on income and the lack of recognition of deferred tax assets totalling €2.8 million (previous year: €0.0). Second, the restructuring of Phone House and the sale of the distribution business, including the network operator contracts, meant that the deferred tax assets created on the accumulated deficit carried forward for Phone House had to be revaluated. Pursuant to the strict requirements of IAS 12.34 et seqq. for convincing evidence that sufficient taxable profit will be available against which deferred tax assets can be utilised when there is a history of deficits, the deferred tax assets effective on earnings created in the previous year in the amount of €5.6 million (previous year: €0.0) were reversed as effective expenditures and deferred tax assets in the amount of €1.1 million on new deficits relevant for taxes in 2016 were not created. In total, the tax result in 2016 was affected by the restructuring of Phone House and the sale of the distribution business in the amount of €9.5 million (previous year: €0.0). Further details can also be found in the transition statement of the expenses for taxes on income in the consolidated notes on page 77 of this Annual Report.

Consolidated profit amounted to €26.4 million (previous year: €45.8 million). The consolidated profit from closed divisions came to €0.0 (previous year: €0.3 million) and included in the previous year the profit from the sale of the participation in The Phone House Management GmbH, which was acquired with the intent to resell at the beginning of May 2015. The consolidated total profit per 31 December 2016 amounted to €26.2 million (previous year: €46.2 million). The undiluted profit per share came to €0.48 (previous year: €0.85). Adjusted for the above mentioned value allowances and the negative tax effects related to the restructuring of Phone House and the sale of the distribution business, consolidated profit came to €45.1 million. The undiluted profit per share would have correspondingly amounted to €0.82.

General statement on business development

Operating in a favourable, although highly competitive, economic sector, Drillisch Group not only achieved the upper end of the EBITDA forecast of €115 million to €120 million, but even exceeded the forecast slightly with an actual result of €120.2 million. The Company also succeeded, as planned, in increasing the number of MVNO subscribers again.

Business Report

The profitability and yield indicators relevant for Drillisch of gross profit and EBITDA continued to improve. Business development clearly demonstrates that Drillisch has been pursuing a course of consistently profitable growth for many years, a course that is largely independent of general economic fluctuations. Management Board and Supervisory Board therefore intend to propose a dividend of €1.80 for each share entitled to dividends to the Annual General Meeting.

2.4. Assets, liabilities and financial position

Long-term assets declined in total by €27.1 million to €377.7 million (31 December 2015: €404.8 million) during fiscal year 2016. Reasons for the decline (among others) include the scheduled depreciation in fiscal year 2016 of the intangible assets identified during the purchase price allocations for yourfone and Phone House in the previous year over their usual useful life of 6 or 2.5 years in the amount of €20.6 million. Goodwill declined by €8.5 million to €98.5 million (31 December 2015: €107.0 million). The change over the previous year is essentially a consequence of the write-offs described above in the section on the earnings position on the goodwill of Phone House that was provisionally identified in the previous year per 31 December 2015. The remaining goodwill of Phone House in the amount of €9.3 million (31 December 2015. €17.7 million) represents essentially the access to free retail trade for establishment and expansion of the Company's own offline sales obtained with the acquisition of Phone House as well as the know-how and yearslong experience in comprehensive operation of shop locations and hardware procurement inherent in the takeover of the Phone House workforce. In future, Phone House will concentrate on these core competencies within Drillisch Group.

Deferred tax reimbursements decreased by €2.3 million to €12.7 million (31 December 2015: €15.0 million).

The cash balance declined by €30.6 million to €92.8 million (31 December 2015: €123.4 million). The decline was caused primarily by the dividend disbursement in May 2016, the reduction in supplier payables and outflow from the payment of Other financial liabilities. The reduction in inventories and income from the operating mobile business had a positive effect. Trade receivables amounted to €92.7 million (31 December 2015: €88.5 million). Other current assets declined by €27.1 million to €5.0 million (31 December 2015: €32.1 million) and comprised in the previous year essentially receivables due from network operators in the amount of €24.0 million (31 December 2016: €0.0). In total, current assets decreased by €83.4 million to €200.5 million (31 December 2015: €283.9 million).

The assets of the disposal group concern the current assets to be recognised separately of Phone House Telecom Vertrieb GmbH, which was sold in January 2017. These assets comprise essentially receivables due from network operators in the amount of €16.9 million from the Phone House brokerage activities. In accordance with the provisions of IFRS 5, assets that are classified as being held for sale must be recognised as separate items in the balance sheet.

The balance sheet total for Drillisch Group decreased by a total of €93.5 million to €595.2 million per 31 December 2016 (31 December 2015: €688.7 million).

Business Report

In comparison with the previous year, equity decreased by a total of €69.6 million to €283.4 million (31 December 2015: €353.0 million). Subscribed capital remains unchanged at €60.2 million; capital reserves are also unchanged at €295.6 million. Owing to the dividend disbursement in May 2016, accumulated deficit (balanced against the consolidated profit totalling €69.4 million) increased to €-102.9 million (31 December 2015: €-33.5 million). The item Other equity of €-0.6 million (31 December 2015: €-0.4 million) reflects the actuarial gain or loss from the measurement of the pension provisions recognised as non-operating results in accordance with IAS 19. The equity ratio per 31 December 2016 came to 47.6% (31 December 2015: 51.3%).

Long-term liabilities rose by €6.9 million to €141.5 million (31 December 2015: €134.5 million). The deferred tax liabilities declined by €3.1 million to €28.1 million per 31 December 2016 (31 December 2015: €31.2 million) and result essentially from the assets and liabilities identified within the framework of the purchase price allocations of yourfone and Phone House in 2015. Other long-term financial liabilities comprised in the previous year long-term liabilities of €9.9 million from the acquisition of Phone House within the framework of long-term earn-out components. Long-term Other liabilities rose by €16.6 million to €16.7 million (31 December 2015: €0.1 million). The increase results mainly because of liabilities owed to Telefónica from the acquisition in 2016 of the trademark rights for the utilisation of the trade name Telefónica.

In December 2013, Drillisch AG issued a non-subordinated convertible bond with a total volume of €100.0 million and a term of five years; this bond was recognised in the balance sheet per 31 December 2016 at a value of €94.2 million (31 December 2015: €91.5 million). The convertible bond includes an annual coupon of 0.75%. The bond was issued at 100% of the nominal value and will also be redeemed at 100%. The term of the bond ends on 12 December 2018.

Short-term liabilities decreased with respect to the end of fiscal year 2015 by €47.4 million to €153.7 million (31 December 2015: €201.1 million). Above all, trade accounts payable fell by €36.0 million to €44.9 million (31 December 2015: €80.9 million). Other financial liabilities of €5.8 million (previous year: €64.7 million) are related to contingent short-term purchase price liabilities from the acquisition of Phone House. In the previous year, this item included a cash agreement with a large supplier in the amount of €40.0 million as well as the contingent short-term purchase price liabilities from the acquisition of Phone House and GTCom in the total amount of €24.7 million. Tax liabilities increased by €6.3 million to €11.4 million (31 December 2015: €5.1 million). Payments received on account declined to €4.2 million (31 December 2015: €5.4 million). Bank loans and overdrafts of €50.0 million (31 December 2015: €0.0) result from the utilisation of the credit line that has been available since December 2014. Other liabilities fell by €6.5 million to €25.7 million (31 December 2015: €32.2 million). Short-term provisions per 31 December 2016 amounted to €10.7 million (31 December 2015: €12.2 million).

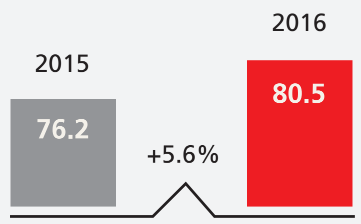
The debts of the disposal group are related to the short-term debts of Phone House Telecom Vertrieb GmbH, which was sold in January 2017, that must be recognised separately; they comprise essentially trade liabilities due to distribution partners in the amount of €16.4 million. In accordance with the provisions of IFRS 5, debts that are classified as being held for sale must be recognised as separate items in the balance sheet analogously to the assets.

Business Report

Cash flow

Cash flow from current business activities in fiscal year 2016 amounted to €80.5 million (previous year: €76.2 million), and this further increase over the previous year reflects the earning power of the operating business.

Cash flow from current business activities
(in €m)



Cash flow from investment activities in the amount of €-24.5 million (previous year: €-169.2 million) is related in the amount of €19.5 million (previous year: €7.3 million) to payments for acquisitions within the framework of the payment of contingent purchase price liabilities from the acquisition of Phone House and GTCom. Payments of €5.8 million (previous year: payments of €162.7 million) were effected for investments in tangible and intangible assets. Received interest payments amounted to €0.8 million (previous year: €0.4 million).

During fiscal year 2016, there was overall an outflow of funds from financing activities of €86.6 million (previous year: outflow of funds of €100.7 million) resulting largely from €95.8 million (previous year: €90.4 million) in dividend disbursements paid in May 2016 and from €-40.0 million (previous year: €-7.6 million) in the change in Other financial liabilities and from €1.4 million (previous year: €1.8 million) in interest paid. This outflow of funds is in contrast to payments received from the utilisation of financing loans in the amount of €50.0 million (€0.0) from the first-time utilisation of the credit line that has been available since December 2014.

2.5. Principles and objectives of the financial and capital management

The financing of the Group is 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 Drillisch Group. In cases in which contractual provisions must be observed, equity is managed additionally in accordance with the principles defined in these provisions. In cases in which no special provisions need be observed, the equity being managed is the equity as disclosed 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.

2.6. Non-financial performance indicators

In addition to the development in the number of subscribers explained in the business report, the non-financial performance indicators described below along with efficient, value-oriented corporate management are major factors contributing to Drillisch's success.

Risk Report

Quality of the products: All of the Drillisch Group brands have been awarded an ISO certificate pursuant to DIN EN ISO 9001:2015 for outstanding quality management in the areas of online product marketing and customer service. Nationally and internationally, this is the most commonly applied and important standard for defining the quality of processes in a company.

Knowledge of the markets: As a consequence of the more than 20 years of activities by Drillisch and its predecessor companies on the mobile services market, the Company has established a position of trust among customers and network providers. This 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 at an early stage which meet the needs of the customers. One important objective is increasing the subscriber base with long-term value by securing 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 mobile services provider. Not content just to maintain these standards, the Company has succeeded in improving them even further through consistent quality management.

Efficiency of business processes: Drillisch works constantly on the improvement of efficiency in business processes, efforts which have led to permanent increases in productivity. In the Company's own estimation, Drillisch is one of the most profitable mobile services providers in Germany.

3. Forecast, opportunity and risk report

3.1. Risk management system

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 that 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 instruments of risk management, They 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 operating 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:

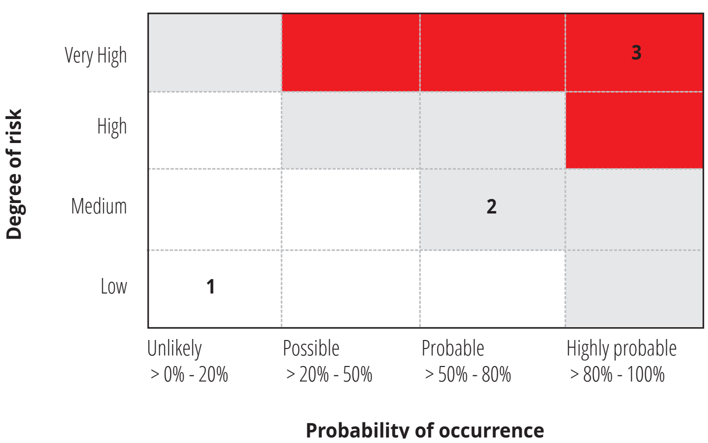
- » The internal controlling system
- » The daily, weekly and monthly management reporting, especially in the areas controlling, cash management and the operating business segments

Risk Report

- The continuous monitoring of the market
- The quarterly risk inventory

The coordination of risk management is handled at the group level by Group Controlling and Legal. 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 operating and strategic areas can be recognised early and incorporated into the risk portfolio by implementation of suitable measures. Lines of responsibility and accountability are clearly regulated at Drillisch and are based on the corporate structure of 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. Risks are assessed as far as possible by determining the probability of their occurrence and possible impact on earnings and assets. The probability of occurrence and the impact are classified and assessed appropriately. The assessment of the degree of the risk and the possible financial impact are based on the criteria low, medium, high and very high; the assessment of the probability of occurrence is classified according to unlikely, possible, probable and highly probable.

RISK ASSESSMENT MATRIX



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

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

The internal controlling system in Drillisch Group includes all of the principles, procedures and measures needed 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 risk management system in Drillisch Group as a component of the internal controlling system is oriented, with respect to the accounting, to the risk of incorrect representation in the bookkeeping and the external reporting. A “monitoring system for the early recognition of risks threatening the Company’s existence” has been set up in 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, which is adapted without delay to any and all changes in the environment. The bookkeeping software from the manufacturer Sage is used for the posting

Risk Report

of accounting items in 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 are subject to 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 recognised, measured and disclosed 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 Drillisch Group and ensues the application of any new or amended legal provisions for the accounting.

In addition to the internal controlling system, the auditor and other auditing bodies are indirectly incorporated into the controlling environment of Drillisch Group by means of auditing activities independent of processes. The audit of the separate and consolidated annual accounts by the auditor is especially important as major monitoring measures with respect to the accounting process.

3.3. Market-related risks

The major cross-segment risks related to the market are as follows:

- Drillisch operates in a market environment which is by and large saturated and consequently highly competitive. Substantial increases in overall turnover cannot be expected on the German mobile services market in 2017.
- Drillisch may possibly not be successful in acquiring and maintaining a satisfactory share of this market.
- The broad availability of low-cost rates and products may cause the prices which can be charged for mobile services to decline.
- A decline in prices on the market for mobile services or further reductions in the termination charges could result in falling sales 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.
- Mobile services providers are dependent on network operators in offering their products and services because they do not have their own network.

The occurrence of one of these risks would have corresponding effects on the assets and liabilities, the financial position and earnings. From today’s perspective, the Management Board does not consider the risks to be existential threats because the risks described above are currently located in a low to moderate range.

Risk Report

3.4. Company-specific risks

The effects of the risks described below could have a low to major impact, depending on the probability of occurrence of each specific risk.

The major cross-segment 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 on the Company's ability to disburse dividends and to take out new loans.
- Drillisch utilises in part credit lines with variable interest rates for short-term financial dispositions. The variable interest rates are oriented to financial indicators agreed in advance and other factors. An increase in the agreed basic interest rate or changes in the financial indicators could have a negative impact on the earnings position.
- The maintenance of the functional capability and the regular evolvement of the software systems used by the Company, which it has in part developed 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 failure of the software and the loss of data, and prevent the Company from developing and offering new mobile service products within a short period of time.
- Drillisch is highly dependent on the Management Board members and on employees in key positions.
- There is a fundamental possibility that there will be changes for assessment periods that have not been finally reviewed resulting in tax back payments or changes in the accumulated deficits carried forward if and when tax authorities, in the course of their tax audits, should decide on different interpretations of tax statutes or deviating measurements of the circumstances on which the assessments are based. This is also true of types of expenditures that have in part never been audited, especially because they are usually not the subject of an audit by tax authorities. Furthermore, changing legal precedents based on court decisions or changes in the interpretation of legal statutes can result in retroactive corrections in the types of taxes and lead to tax risks.

Furthermore, the following major risks specific to Drillisch exist for the segments Online and Offline:

- As Drillisch does not operate its own network, it is, first of all, dependent for its range of services on the network access guaranteed by Telefónica, including the provision of any and all present and future mobile service technologies which are available. Second, whenever accounts are activated in another network, Drillisch is also dependent on the provision of all of the necessary preliminary mobile services.
- Drillisch is vulnerable to the risk that contract customers will not meet their payment obligations under their mobile service contracts.
- Owing to the future obligation to take over at least 20% of the present and future network capacity of Telefónica for new customers as well as additional defined capacity for existing customers, there is a risk that Drillisch may not be able to utilise fully the purchased volume in future. Unused capacities can cause expenses that are not covered by direct income or rebates.
- The operation of the Company's own shops can result in fixed costs that are not initially met by direct income in comparable amounts.

Risk Report

However, Drillisch does not regard the resulting cross-segment risks and the risks for the segments Online and Offline to be of an existential nature because the above mentioned risks are located in a low to mid band (risk assessment 1 and 2).

3.5. Opportunities

The major cross-segment opportunities specific to Drillisch are as follows:

- The design of its own rate plans in the MVNO model gives Drillisch the opportunity to respond quickly and flexibly to changes on the market. This situation repeatedly creates opportunities to exploit or realise this competitive advantage to increase earnings.
- Drillisch now has the opportunity to improve its market position as well as its business volume significantly in the years to come on the basis of all products and technologies available on the Telefónica network at the moment and in future.
- Unrestricted access to LTE as well as to even more sophisticated future technologies guarantees Drillisch the long-term flexibility it needs to be absolutely independent in the design of new products, thus allowing fair competition on equal footing with the three remaining German network operators.
- The basic term of the MBA agreement of 5 years and the option of extending this term twice to a total of 15 years offer Drillisch the opportunity for continuing long-term, successful corporate development as well as a high degree of planning security.
- In addition, the agreement concluded with Telefónica gives Drillisch the opportunity to become a full MVNO on the Telefónica mobile network or even to become a licensed mobile network operator. The latter can initially and with technical support from Telefónica (“national roaming”) be limited to specific regions in Germany.
- The increase in mobile data traffic and the related demand for mobile services rate plans including data volume offer Drillisch the opportunity to continue to influence and guide the market proactively with its flexible rate plan concepts.
- The growing prevalence of mobile applications such as music streaming, online games or film and video streaming will continue to produce high demand for mobile data rate plans in future as well.
- The good operating results and the related cash flow will also provide opportunities in future to disburse attractive dividends and, if necessary, to obtain loans with good terms and conditions.
- The utilisation and steady further development of software systems developed by the Company itself for the management of customers and billing of performed service mean almost total independence from any third-party services. The related efficiency, speed and flexibility give Drillisch a competitive advantage over other companies.

There is an additional opportunity for Drillisch in the segment Offline:

- The operation of brick-and-mortar sales locations offers Drillisch the chance to expand substantially its wide-area distribution capacity at central, established locations.

Forecast Report

3.6. Summary of opportunity and risk position

There were not any significant changes in the opportunities and risks of ongoing business operations in 2016 in comparison with the previous year. The opportunities and risks described here are the major opportunities and risks which have been identified at this time. The possibility that additional major opportunities and risks that at this time have not been recognised by management exist or that the probability of the occurrence of such opportunities and 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.

3.7. Outlook

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.

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. Despite the ongoing economic weakness of the European environment and the special effects arising from the lower number of workdays in 2017, the German government are assuming economic growth in Germany of 1.4% for 2017. The *Deutsches Institut für Wirtschaftsforschung* expects economic growth of about 1.2% for 2017. The ifo Economic Forecast 2016/2017 is assuming growth in the real gross domestic product of 1.6% for 2017. Thanks to the domestic German economy, which remains very healthy, real economic development in Germany is remarkably resilient.

Drillisch Management Board forecast regarding development on the German mobile services market

The Drillisch Management Board expects the telecommunications and IT markets in Germany to remain important innovation drivers for the German economy. However, there will presumably not be any significant growth in revenues in the telecommunications industry because, although use is on the rise, price sensitivity will remain at the same level. Mobile data communications will remain the most important growth segment in telecommunications. Network quality and the availability of fast data connections continue to gain in importance for consumers. Moreover, the displacement of the landline network by mobile services will continue. Simplicity in making phone calls and "surfing" at low prices will remain the focus of interest for mobile services customers. The virtually full-area availability of mobile high-speed Internet, the continuing growth in popularity of powerful smartphones and of services such as cloud applications, streaming services for photos or music, "near-field" and "machine-to-machine communication" along with the spread of LTE give rise to the expectation that growth rates in the use of mobile data communications will continue to be high. The greatest turnover growth and growth potential are predicted for this segment of the mobile services market. Drillisch intends to make use of its customer-friendly portfolio to profit from this development.

In the segment Online, Drillisch is aiming to increase significantly its MVNO clientele and improve further its mix of rate plans in the coming fiscal year, thereby continuing the positive

Compensation Report

development of gross profit in its operating business and a substantial rise in turnover in the area of "service revenues".

In the segment Offline, Drillisch is aiming to increase significantly its MVNO clientele, improve further its mix of rate plans and achieve a substantial rise in turnover in the area of "service revenues" as well. These steps, in conjunction with the ongoing expansion of offline sales, are the basis for the Management Board's assumption of a positive development in gross profit and EBITDA in the coming fiscal year.

In view of these general conditions, the Management Board expects overall a significant increase in MVNO clientele and a related continuation of the positive development of gross profit in its operating business and a substantial rise in turnover in the area of "service revenues". The Management Board expects an increase in adjusted EBITDA to €160 million to €170 million for 2017.

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 not contingent on success and merit-based elements. The elements not contingent on success comprise fixed compensation as well as payment in kind and other benefits.

The fixed compensation as basic compensation not contingent on success is paid monthly as a salary and reviewed annually. In addition, the Management Board members receive other benefits, in particular allowances for health and long-term care insurance, as well as payments in kind comprising essentially the use of a company vehicle. The Management Board's compensation always includes variable merit-based compensation elements. These elements are redefined every year by the Supervisory Board on the basis of targets.

Mr Paschalis Choulidis voluntarily stepped down from the Drillisch AG Management Board per 1 July 2016. For the purpose of the following remarks, Mr Paschalis Choulidis is included as a Management Board member for the period from 1 January 2016 to 30 June 2016.

Establishing a long-term incentive component, the Supervisory Board in 2016 concluded a "long-term incentive bonus" (LTI) agreement for a period of three years with the two Management Board members Paschalis Choulidis and Vlasios Choulidis and in 2015 a "bonus 2015–2017" agreement with the Management Board member André Driesen for a period of three years. The parameter for determining success is the consolidated EBITDA. In the event of a premature termination of the service relationship within the agreed period, the Management Board members receive a defined amount dependent on the time of their withdrawal.

The agreements with the Management Board members have been concluded to 31 March 2018 (Mr André Driesen) and to 31 December 2018 (Mr Vlasios Choulidis). In the event of a premature termination of the service relationship, Mr Vlasios Choulidis' Management Board contract does not contain any express settlement commitment with the exception of the following regulation. In the event that

Compensation Report

there is a change in the Drillisch shareholder structure of more than 30% (change of control), a part of the compensation not based on success and merit-based compensation of the Board Member Vlasios Choulidis will be deemed earned. Mr Vlasios Choulidis will receive a retention bonus for every fiscal year between 2016 and 2018 in which he has been active on behalf of the Company pursuant to his appointment and service agreement over the entire period. Mr Paschalis Choulidis received a retention bonus for the period of fiscal year 2016 during which he was active on behalf of the Company pursuant to his appointment and service agreement. The Management Board members receive compensation in the amount of €39k (previous year: €33k) for their supervisory board activities on behalf of various subsidiaries. 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:

Compensation for the members of the Company's Management Board 2016

Paid compensation (in €k)	Paschalis Choulidis Chief Finance Communications and IT Officer (until 30/06/2016)				Vlasios Choulidis CEO, Chief Sales, Marketing, Customer Care Officer				André Driesen Chief Financial Officer			
	2015	**2016**	**2016 (Min)**	**2016 (Max)**	**2015**	**2016**	**2016 (Min)**	**2016 (Max)**	**2015**	**2016**	**2016 (Min)**	**2016 (Max)**
Fixed compensation	630	362	362	362	630	700	700	700	300	400	400	400
Fringe benefits	0	0	0	0	17	20	20	20	7	12	12	12
Total	**630**	**362**	**362**	**362**	**647**	**720**	**720**	**720**	**307**	**412**	**412**	**412**
One-year variable compensation	720	400	0	400	720	800	0	800	200	240	0	240
Multiannual variable compensation												
- LTI 2011 - 2015	790	0	0	0	790	0	0	0	0	0	0	0
- LTI 2016 - 2018	0	275	275	275	0	1,080	550	1,080	0	0	0	0
- Bonus 2015 - 2017	0	0	0	0	0	0	0	0	100	100	0	100
- Retention bonus	0	200	0	200	0	400	0	400	0	0	0	0
Total	**1,510**	**875**	**275**	**875**	**1,510**	**2,280**	**550**	**2,280**	**300**	**340**	**0**	**340**
Pension expenses	2	1	1	1	2	2	2	2	1	**2**	**2**	**2**
Total compensation	**2,142**	**1.238**	**638**	**1,238**	**2.159**	**3,002**	**1,272**	**3,002**	**608**	**754**	**414**	**754**

Compensation Report

Compensation for the members of the Company's Management Board 2016

Payments (in €k)	**Paschalis Choulidis** Chief Finance Communications and IT Officer (until 30/06/2016)				**Vlasios Choulidis** CEO, Chief Sales, Marketing, Customer Care Officer				**André Driesen** Chief Financial Officer			
	2015	**2016**	**2016 (Min)**	**2016 (Max)**	**2015**	**2016**	**2016 (Min)**	**2016 (Max)**	**2015**	**2016**	**2016 (Min)**	**2016 (Max)**
Fixed compensation	630	362	362	362	630	700	700	700	300	400	400	400
Fringe benefits	0	0	0	0	17	20	20	20	7	12	12	12
Total	**630**	**362**	**362**	**362**	**647**	**720**	**720**	**720**	**307**	**412**	**412**	**412**
One-year variable compensation	720	400	0	400	720	800	0	800	200	240	0	240
Multiannual variable compensation												
- LTI 2011 - 2015	0	2,220	0	2,220	0	2,220	0	2,220	0	0	0	0
- LTI 2016 - 2018	0	0	0	0	0	0	0	0	0	0	0	0
- Bonus 2015 - 2017	0	0	0	0	0	0	0	0	0	0	0	0
- Retention bonus	0	200	0	200	0	0	0	0	0	0	0	0
Total	**720**	**2,820**	**0**	**2,820**	**720**	**3,020**	**0**	**3,020**	**200**	**240**	**0**	**240**
Pension expenses	2	1	1	1	2	2	2	2	1	2	2	2
Total compensation	**1,352**	**3,183**	**363**	**3,183**	**1,369**	**3,742**	**722**	**3,742**	**508**	**654**	**414**	**654**

The compensation paid to the Management Board member André Driesen was related in the previous year to his time as Management Board member.

In fiscal year 2016, deferred compensation in the amount of €165k (pro rata temporis to 30 June 2016) for the Management Board member Paschalis Choulidis and in the amount of €230k for Vlasios Choulidis was paid into a pension fund.

The multiannual compensation refers to a long-term incentive component which will be paid out in fiscal year 2018 or 2019.

The members of the Supervisory Board receive fixed 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 and the chairperson of the Audit Committee each receive €12.5k in addition to the regular compensation. Moreover, attendance fees are paid per meeting and Supervisory Board member for each personal and physical participation in a physical meeting of the Supervisory Board and as a member of its committees. 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. One-quarter of the fixed compensation is payable upon the expiration of each and every quarter. The attendance fees as accrued are payable upon the expiration of each and every quarter. The 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. In its own interest, the Company provides reasonable insurance at its own expense to the members of the Supervisory Board to cover the exercise of their activities as Supervisory Board.

Supplemental Information in Accordance with Section 315 (4) HGB

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

Supervisory Board Compensation (in €k)	2016	2015
Marc Brucherseifer, Dipl.-Kfm.	74.0	77.0
Dr Susanne Rückert	53.5	55.5
Norbert Lang	37.0	3.4
Horst Lennertz, Dr.-Ing.	49.0	51.0
Frank Rothauge, Dipl.-Kfm.	63.5	63.5
Dr Bernd H Schmidt	47.0	47.3
Johann Weindl, Dipl.-Kfm.	0.0	20.6
	324.0	318.3

5. Supplementary information

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

The subscribed capital amounts to €60,241,113.90 and is distributed in 54,764,649 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. 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. Per 31 December 2016, United Internet Ventures AG, Montabaur, held 20.11% of the Drillisch AG stock.

Approved Capital I

Pursuant to a resolution adopted by the Annual General Meeting on 21 May 2014, the Management Board is authorised to increase the Company's share capital by a total of €23,403,166.60 by single or multiple issue of new no-par shares against cash and/or contributions in kind (approved capital) by 20 May 2019, subject to the consent of the Supervisory Board. There is a balance of €21,669,969.20 subsequent to the capital increase of May 2015. In the event of cash contributions, the new shares may also be taken over by one or more banks or other companies fulfilling the prerequisites of Section 186 (5) first sentence AktG, subject to the obligation to offer them for subscription 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 consent 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 with the exclusion of subscription rights pursuant to Section 186 (3) fourth sentence AktG may not exceed in total 10% of the share capital, either at the point in time of their becoming effective or at the point in time of the exercise of the authorisation. 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. Fur-

Supplemental Information in Accordance with Section 315 (4) HGB

thermore, shares that are issued or sold in exclusion of subscription rights during the term of this authorisation on the basis of an authorisation to utilise own shares pursuant to Section 71 (1) no. 8, Section 186 (3) fourth sentence AktG must be included in this figure.

- To the extent that, as protection from dilution, it is necessary to grant to the holders or creditors of option or conversion rights from option or convertible bonds that have been, or will be, issued by the Company and/or subordinate group undertakings subscription rights in the scope to which said persons would be entitled after the exercise of their conversion or option rights or after fulfilment of the conversion obligation;
- 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.

This authorisation is restricted to the extent that, after exercise of the authorisation, the total value of the shares subject to exclusion of a subscription right issued for this approved capital may not exceed 20% of the share capital at the time the authorisation enters into effect or – if this value is lower – at the time the authorisation is exercised. Shares subject to exclusion of a subscription right that are issued to compensate fractional amounts and/or as protection from dilution for holders or creditors of option or convertible bonds or as staff shares are excluded from consideration. Shares that are issued subject to exclusion of a subscription right from other approved capital during the term of the above authorisation must also be included in this 20% limit, as must shares that are issued pursuant to the exercise of option and/or convertible bonds or option/conversion rights or obligations associated with convertible bonds, provided that the corresponding option and/or convertible bonds are issued subject to exclusion of a subscription right during the term of this authorisation. Exclusions of subscription rights for the compensation of factional amounts and/or as protection from dilution for holders or creditors of option or conversion rights associated with option or convertible bonds and/or for the issue of staff shares are not included in the 20% limit.

Furthermore, the Management Board is authorised, subject to the consent 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.

Approved Capital II

The Management Board is authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital by as much as €5,850,791.65 by a single or multiple issue of new no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2020 (Approved Capital II). In the event of cash contributions, the new shares may also be taken over by one or more banks or other companies fulfilling the prerequisites of Section 186 (5) first sentence AktG, subject to the obligation to offer

Supplemental Information in Accordance with Section 315 (4) HGB

them for subscription solely and exclusively to the shareholders (indirect subscription right). On principle, a subscription right is to be granted to the shareholders. The Management Board is authorised, however, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights for new no-par shares from Approved Capital II if and when the capital increase is undertaken against contributions in kind for the purpose of granting shares within the context of corporate mergers or for the purpose of acquiring companies, parts of companies, holdings in companies or other assets.

Furthermore, the Management Board is authorised, subject to the consent 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 Approved Capital II or after the expiration of the authorisation.

Contingent Capital 2013

The authorisation granted to the Management Board during the Annual General Meeting of 16 May 2013 to issue option and/or convertible bonds with a total nominal value not to exceed €100.0m was exercised in full (contingent capital 2013). In December 2013, Drillisch AG issued a non-subordinated convertible bond with a total volume of €100.0m and a term of five years. The term of the bond ends on 12 December 2018.

Contingent Capital 2015

There has been a contingent increase in capital of up to €17,600,000.00 by the issue of up to 16,000,000 no-par value bearer shares with profit entitlement from the beginning of the fiscal year of their issue. The contingent capital increase serves the purpose of granting shares to the holders or creditors of option bonds, convertible bonds, profit-sharing rights and/or income bonds or combinations of these instruments that, pursuant to the authorisation of agenda item 10 of the Annual General Meeting of 21 May 2015, are issued against cash by the Company or by a company in which the Company, directly or indirectly, holds a majority interest and that grant a conversion or option right to no-par bearer shares of the Company or that determine a conversion/option obligation. The contingent capital increase is to be carried out solely to the extent that the option and/or conversion rights from the debenture bonds are exercised or that option/conversion obligations from the debenture bonds are fulfilled, and provided that cash compensation is not paid or that treasury stock or stock from another listed company is not utilised for this purpose. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the details of the conduct of the contingent capital increase (Contingent Capital 2015).

Treasury stock

The Annual General Meeting on 21 May 2015 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 2015 on or before 20 May 2020 (including the use of derivatives). Per the closing date 31 December 2016, Drillisch AG did not hold any shares of its own stock.

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

Drillisch has published the statement on corporate management pursuant to Section 289a HGB, which also contains the Declaration of Conformity pursuant to Section 161 AktG, on the Company's internet site at www.drillisch.de → Drillisch AG → Corporate Governance → Declaration of Conformity. Moreover,

Important Events After the End of the Fiscal Year

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 the 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

Reference is made here to section 16 of the consolidated notes regarding the effects of the sale of The Phone House Telecom Vertrieb GmbH in January 2017. No further important events occurred after the balance sheet date.

Maintal, 21 March 2017

CONSOLIDATED ANNUAL ACCOUNTS

FOR THE FISCAL YEAR FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

Consolidated Comprehensive Income Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2016 to 31 December 2016

	Exhibit no.	2016 €k	2015 €k
Sales	1	710,012	629,546
Other own work capitalised		1,922	2,238
Other operating income	2	18,528	20,175
Raw material, consumables and services used	3	-431,104	-375,101
Personnel expenses	4	-59,672	-46,860
Other operating expenses	5	-119,480	-124,741
Depreciation and amortisation	6	-61,480	-36,074
Operating result		**58,726**	**69,183**
Interest income		1,151	643
Interest and similar expenses		-4,321	-4,029
Financial result	**7**	**-3,170**	**-3,386**
Profit before taxes		**55,556**	**65,797**
Taxes on income	8	-29,122	-19,998
Consolidated profit from ongoing divisions		**26,434**	**45,799**
Consolidated profit from closed divisions	**16**	**0**	**310**
Consolidated profit		**26,434**	**46,109**
Actuarial gains/losses from pensions		-314	182
Taxes on income		95	-49
Items which cannot be included in operating results in the future		-219	133
Items which can be included in operating results in the future		0	0
Consolidated comprehensive results		**26,215**	**46,242**
Profit per share (in €) from ongoing divisions			
Undiluted	39	0.48	0.85
Diluted	39	0.48	0.82

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 1 January 2016 to 31 December 2016

ASSETS

	Exhibit no.	31.12.2016 €k	31.12.2015 €k
Fixed assets			
Other intangible assets	9	255,330	271,341
Goodwill	10	98,546	106,994
Tangible assets	11	10,584	11,012
Other financial assets		561	499
Deferred taxes	8	12,697	14,977
Fixed assets, total		**377,718**	**404,823**
Current assets			
Inventories	12	9,984	32,384
Trade accounts receivable	13	92,658	88,504
Tax reimbursement claims	14	38	7,475
Cash	31	92,771	123,432
Other current assets	15	5,021	32,084
Current assets, total		**200,472**	**283,879**
Assets of the disposal group	**16**	**17,014**	**0**
ASSETS, TOTAL		**595,204**	**688,702**

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 1 January 2016 to 31 December 2016

SHAREHOLDERS' EQUITY AND LIABILITIES		31.12.2016	31.12.2015
	Exhibit no.	€k	€k
Shareholders' equity			
Subscribed capital		60,241	60,241
Capital reserves		295,559	295,559
Earnings reserves		31,123	31,123
Other equity		-636	-417
Unappropriated retained earnings/Accumulated deficit		-102,887	-33,483
Equity, total	**17**	**283,400**	**353,023**
Long-term liabilities			
Pension provisions	19	1,655	1,361
Deferred tax liabilities	8	28,062	31,169
Debenture bonds	20	94,231	91,457
Other financial liabilities	20	0	9,930
Leasing liabilities	18	796	518
Other liabilities	25	16,730	111
Long-term liabilities, total		**141,474**	**134,546**
Short-term liabilities			
Short-term provisions	21	10,712	12,162
Tax liabilities	22	11,397	5,104
Trade accounts payable	23	44,940	80,911
Payments received on account	24	4,179	5,440
Other financial liabilities	20	5,800	64,670
Leasing liabilities	18	1,029	694
Bank loans and overdrafts	20	50,011	0
Other liabilities	25	25,678	32,152
Short-term liabilities, total		**153,746**	**201,133**
Liabilities of the disposal group	**16**	**16,584**	**0**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**595,204**	**688,702**

Consolidated Change in Equity Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2016 to 31 December 2016

	Number of shares	Subscribed capital	Capital reserves	Earnings reserves	Other equity	Unappropriated retained earnings/ Accumulated deficit	Equity, total
		€k	€k	€k	€k	€k	€k
Per 01/01/2015	**53,189,015**	**58,508**	**231,232**	**31,123**	**-550**	**10,830**	**331,143**
Dividend payments		0	0	0	0	-90,422	-90,422
Capital increase	1,575,634	1,733	64,327	0	0	0	66,060
Consolidated comprehensive results		0	0	0	133	46,109	46,242
Per 31/12/2015	**54,764,649**	**60,241**	**295,559**	**31,123**	**-417**	**-33,483**	**353,023**
Per 01/01/2016	**54,764,649**	**60,241**	**295,559**	**31,123**	**-417**	**-33,483**	**353,023**
Dividend payments		0	0	0	0	-95,838	-95,838
Capital increase		0	0	0	0	0	0
Consolidated comprehensive results		0	0	0	-219	26,434	26,215
Per 31/12/2016	**54,764,649**	**60,241**	**295,559**	**31,123**	**-636**	**-102,887**	**283,400**

Consolidated Cash Flow Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2016 to 31 December 2016

	2016	2015
	€k	€k
Consolidated earnings before interest and taxes	58,726	69,493
Income tax paid	-26,675	-23,573
Income tax received	6,664	2,427
Depreciation and amortisation	61,480	36,074
Results from the disposal of fixed assets	-121	82
Change in inventories	22,401	-17,269
Change in receivables and other assets	9,818	-35,396
Change in trade payables, other liabilities and provisions	-50,564	45,263
Change in payments received on account	-1,262	-892
Cash flow from current business activities	**80,467**	**76,209**
Payments for investments in tangible and intangible assets	-5,842	-162,721
Payments for acquisitions less acquired cash	-19,500	-7,310
Payments from the resale of financial assets	0	569
Outgoing payments for investments in other financial assets	0	-103
Interest received	837	355
Cash flow from investment activities	**-24,505**	**-169,210**
Dividend payments	-95,838	-90,422
Incoming payments from the taking out of loans	50,000	0
Interest paid	-1,398	-1,750
Amortisation of Other financial liabilities	613	-885
Incurrence/amortisation of investment liabilities	-40,000	-7,600
Cash flow from financing activities	**-86,623**	**-100,657**
Change in cash	**-30,661**	**-193,658**
Cash at end of period	92,771	123,432
Cash at beginning of period	123,432	317,090

explanation in Section 31

Consolidated Notes

A. General information

Drillisch AG is a listed stock corporation that offers telecommunication services. Drillisch was founded in 1997. The core business of Drillisch Group is telecommunications and is located essentially in the wholly-owned subsidiaries Drillisch Online AG, yourfone AG (registered office of both in Maintal) and Phone House Deutschland GmbH (registered office in Münster) and its subsidiaries.

The Group has concluded an MBA MVNO agreement with the network operator Telefónica and an MVNO agreement with the network operator Vodafone; in addition to these agreements, it has service provider licences from the networks Telekom, Vodafone and Telefónica. The Drillisch business comprises essentially the marketing of postpaid and prepaid products in the Telefónica and Vodafone networks.

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 Hanau Local Court under HRB 7384. The consolidated annual accounts are submitted to the operator of the [German] Federal Gazette and subsequently published in the Federal Gazette.

The Management Board prepared the consolidated annual accounts and the consolidated management report per 31 December 2016 on 21 March 2017 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 [German Commercial Code] 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 broken down into long-term and short-term assets and 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.

Consolidated Notes

Beginning in fiscal year 2016, application of the following standards and interpretations as revised or newly published by the IASB was mandatory:

Standards/Interpretations

		Mandatory application for fiscal years beginning with
Standards		
IFRS 11	Accounting for Acquisition of Interests in Joint Operations (Amendment)	01.01.2016
IAS 16, IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendment)	01.01.2016
IAS 16, IAS 41	Agriculture: Bearer Plants (Amendment)	01.01.2016
IFRS 10/12, IAS 28	Investment Entities: Applying the Consolidation Exception (Amendment)	01.01.2016
IAS 1	Disclosure Initiative (Amendment)	01.01.2016
Miscellaneous	Improvements to IFRS 2012-2014	01.01.2016
IAS 27	Equity Method in Separate Financial Statements (Amendments)	01.01.2016

The new regulations did not materially affect the consolidated annual accounts.

The IASB and IFRIC (International Financial Reporting Interpretations Committee) have issued the following standards, interpretations and amendments to current standards. However, their application is not yet mandatory, and Drillisch AG does not apply them prematurely. The application of these IFRS presumes that they have been 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 2016:

Standards/Interpretations

		Mandatory application for fiscal years beginning with	Adoption by EU Commission
Standards			
IFRS 15	Revenue from Contracts with Customers	01.01.2018	Yes
IFRS 9	Financial Instruments	01.01.2018	Yes
IFRS 16	Leases	01.01.2019	No
IAS 7	Statement of Cash Flows (Amendment)	01.01.2017	No
IAS 12	Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendment)	01.01.2017	No

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Drillisch is currently examining the possible impact from the amendment of IFRS 15 (Revenue from Contracts with Customers), IFRS 9 (Financial Instruments) and IFRS 16 (Leases) on future financial reporting.

The new provisions of IFRS 15 include a requirement for the capitalisation of contract costs. If and when certain prerequisites are met, the costs for the successful conclusion of the contract (e.g. commissions) must be capitalised and allocated across the estimated useful life.

The Group presumes at this time that the initial application of IFRS 16 will lead to an increase in fixed assets (utilisation rights) and a simultaneous rise in financial liabilities (payment obligations) because of current leases for distribution shops and commercial properties with a term of more than twelve months. A reliable statement on the possible effects cannot be made at this time.

From today's perspective, no major effects are to be expected on the consolidated annual accounts from the future application of further new regulations.

C. Consolidation

Consolidation principles and consolidated companies

Corporate mergers are measured according to the acquisition method. The purchase price is distributed among the identified assets and liabilities, including contingent liabilities, of the acquired subsidiary. The value relationships at the point in time at which the control over the subsidiary is obtained are authoritative. The measurable assets and the assumed liabilities, including contingent liabilities, are measured in full at their fair values irrespective of the amount of the holding. Any remaining positive difference is recognised as goodwill. Any remaining negative difference is recognised directly as operating results after being reviewed once again. 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.

Minor holdings and holdings on which no decisive control is exercised are disclosed in the balance sheet at cost of acquisition carried forward.

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 are eliminated, as are 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 per 31 December 2016. 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 commercial benefits.

A company is included in the consolidated accounts for the first time from the moment at which control can be exercised or the criteria for joint ventures and associated companies are met. Companies which are not included are severally and in their totality of only minor importance, both from quantitative and qualitative perspectives, and the balance sheets are prepared in accordance with IAS 39.

Consolidated Notes

The following companies are included in the consolidated annual accounts:

		Share of Held	capital by
		%	No.
1.	Drillisch AG, Maintal		
2.	Drillisch Online AG, Maintal	100	1
3.	IQ-optimize Software AG („IQ-optimize AG"), Maintal	100	1
4.	Drillisch Netz AG, Düsseldorf	100	1
5.	The Phone House Deutschland GmbH, Münster	100	1
6.	GTCom GmbH, Düsseldorf	100	1
7.	yourfone AG, Maintal	100	1
8.	Mobile Ventures GmbH, Maintal	100	2
9.	The Phone House Telecom GmbH, Münster	100	5
10.	The Phone House Services GmbH, Münster	100	5
11.	The Phone House Telecom Vertrieb GmbH, München	100	9
12.	yourfone Retail AG, Düsseldorf	100	7
13.	yourfone Shop GmbH, Düsseldorf	100	12

The distribution business of The Phone House Telekom GmbH was divested to The Phone House Telecom Vertrieb GmbH at the and of 2016; a ready-made company was acquired for this purpose.

D. General accounting and evaluation methods

Realisation of income and expenses

In the segments Online and Offline, revenues are generated from the offered mobile services, one-time activation charges and the sale of mobile devices and accessories. Revenues from mobile services include monthly service charges, charges for special features and connection and roaming charges. Revenues from mobile services are realised on the basis of usage units actually used and contractual fees, less any credit notes and adjustments pursuant to reduced prices. The revenues from the sale of mobile telephones, mobile data devices and accessories and the related expenditures are realised as soon as the products have been delivered and accepted by the customers. Moreover, revenues are generated for the brokerage of mobile services rate plans to other providers and from the receipt of advertising cost subsidies.

Some of the end customer contracts are multiple-component contracts. In the case of multiple-component contracts, the revenue must be recognised for each of the separately identifiable 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. If mobile services rate plans include the provision of a mobile device, the revenue is realised on the basis of the fair value of the individual components. 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). With respect to mobile services rate plans brokered by third parties, the proportionate fair value

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of a single component and therefore the revenue realised 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. For this reason, the outstanding basic fees for these mobile services rate plans proportionately attributable to the mobile device are allocated to this device.

In the segment Miscellaneous/Holding, revenues are generated from the offering of custom software solutions, maintenance and support services, holding services and (to a slight extent) the offering of mobile services. Revenues from software solutions, revenues from maintenance and support services and revenues from holding services are based on contractual provisions.

Operating expenses are recognised at the time the service is utilised or at the moment the expenses are incurred.

Interest expenses are recognised 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 corresponding to the net book value.

Intangible assets

Other intangible assets in Fixed assets are disclosed in the balance sheet at cost of acquisition or manufacturing less any scheduled depreciation calculated by the straight-line method. A useful life of three to fifteen years is taken as the basis. The manufacturing costs include overhead costs as well as the immediately attributable direct costs. Borrowing costs are measured in the period in which they are incurred as expenditures because there are no qualifying assets pursuant to IAS 23.5.

Intangible assets with an indeterminate useful life are not written off according to a schedule. They are subjected to an annual test to determine the recoverability of their value and, in addition, whenever there are indications of a loss of value. As appropriate, cash-generating units are used for comparison. If the book value of the intangible asset or of the underlying cash-generating unit is higher than the recoverable value, the difference is written off.

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

In accordance with IFRS, there is no scheduled depreciation of goodwill.

During the review of possible value depreciation, the goodwill acquired during a corporate merger is attributed to the cash-generating units which will presumably profit from the non-measurable assets determining the value. 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 unit. If the book value of the cash-generating entity exceeds its recoverable value, the goodwill attributed to this cash-generating unit is depreciated by the amount of the difference. Any loss of value will not be reversed.

The recoverable value for a cash-generating unit which corresponds to the legal entity is calculated on the basis of its value in use. The value in use 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.

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Tangible assets

Tangible assets are disclosed at cost of acquisition less scheduled straight-line depreciation. The depreciation period for fixtures, fittings and equipment varies between two and nineteen years. The depreciation period for tenant installations varies between two and five 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 pursuant to 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 to the financial instrument. In the case of purchases and sales usual on the market, however, the day of performance is relevant for the initial recognition and derecognition in the balance sheet.

A financial asset is derecognised when the conditions of IAS 39.17 and seqq. have been fulfilled. If and when the Group has assigned its contractual rights to payment flows from an asset and retained essentially all of the risks and opportunities associated with the ownership of this asset, the Group continues to recognise the asset in the scope of the Group's ongoing involvement.

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, bank loans and overdrafts, liabilities from finance leasing relationships and derivative financial liabilities. Financial assets and financial liabilities are disclosed 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 fair value as non-operating results. The fair values measured in the balance sheet correspond as a rule to the market prices of the financial assets and liabilities.

The subsequent valuation depends on whether a financial instrument is held for trading or until its final maturity, whether it is available for sale or whether it comprises loans and receivables extended by the company. Financial instruments held for trading are measured at the fair value as operating results. 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 measured in accordance with the effective interest rate method with the acquisition costs carried forward. All other original financial assets, provided that they are not loans or receivables, are classified as available for sale and measured at fair value. The fair value is determined on the basis of market prices (exchange prices). Any profit and loss resulting from the measurement at fair value is posted as non-operating results in equity. 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 as operating results in the income statement.

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Other financial assets

Other financial assets are always disclosed at cost of acquisition less required valuation allowances.

Inventories

The inventories comprise solely and exclusively merchandise and payments on account. They are measured at acquisition costs or the lower realisable net sale value. The measurement of the merchandise is based on the FIFO (first in, first out) principle.

Receivables and other assets

Receivables and other assets are measured at nominal value in the balance sheet. Valuation allowances are created for default risks. Receivables and liabilities related to the network operators Telekom, Vodafone and Telefónica are disclosed in the balance sheet as balances in each case. Any receivables that result from the calculation of the balance are disclosed in the other current assets; any liabilities are disclosed under the trade accounts payable.

Liabilities

Liabilities are disclosed at cost of acquisition carried forward in accordance with IAS 39. Directly attributable issue costs are deducted when the liabilities are assumed and distributed as operating results 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. All other leases must be classified as operating leases.

Assets held within the framework of finance leases are capitalised at the beginning of the lease at attributable fair value or, if this value is lower, at the cash value of the minimum leasing instalment and written off subsequently over a straight-line schedule. The corresponding liability to the lessor is recognised 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. Payments from operating leases are recognised according to the straight-line method as operating results 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 disclosed in the balance sheet on the basis of an assessor’s valuation on the balance sheet date.

The actuarial gains and losses are recognised immediately in the year in which they occur. The disclosure of the actuarial gains and losses is measured directly in equity as a component of Other equity items. They are not recognised in the income statement, either in the year of their occurrence or in later periods, in accordance with IAS 19.93D.

The scheme assets offset against the cash value of the pension provisions come from reinsurance policies covering a part of the claims from the pension commitments. The reinsurance policies are severally pledged to the beneficiary in each case; the offset against the cash value of the provisions is based on fair value.

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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.

Deferred taxes

Deferred taxes are recognised according to the liability method for 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.

Deferred tax claims are recognised for all temporary deductible differences and tax-related accumulated deficits carried forward that have not yet been utilised to the extent that it is likely that taxable income against which the deductible temporary differences and the tax-related accumulated deficits carried forward can be applied will be available.

The book value of the deferred tax claims is reviewed on every closing date and reduced by the amount for which sufficient taxable profit is no longer likely to be available. Deferred tax claims that have not been recognised are reviewed on every closing date and recognised in the amount to which it has become likely that a future taxable profit will make the realisation of the deferred claim possible.

Regarding the sale of held assets/disposal groups

Fixed assets or disposal groups that encompass assets and debts are classified as held for sale or for disbursement if and when it is extremely likely that they will by and large be realised by sale or disbursement and not by continued utilisation.

In general, these assets or disposal groups are recognised at the lower of their book value and attributable fair value, less any costs of sale. Any impairment expenses of a disposal group will initially be attributed to goodwill and then to the remaining assets and debts on a proportionate basis. Impairment expenses at the time of the initial classification as held for sale or disbursement and later profits and losses during revaluation are recognised in profit or loss.

Intangible and tangible assets are no longer subject to scheduled depreciation once they have been classified as held for sale or disbursement.

Long-term incentive components

The variable compensation for Management Board members and other executive employees contains a long-term incentive component that will not be paid until fiscal years 2018, 2019 or 2020. A provision has been created on the basis of the fair value.

Factoring

Receivables from the provision of mobile devices provided to customers as part of a mobile services contract have been sold in part to a bank in the form of a factoring transaction since fiscal year 2016. By taking this step, Drillisch secures for itself the cash benefit at the time the contract is concluded. Cash outflows

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over the term of the contracts are in contrast to this benefit. The sale takes place quarterly. The agreement does not have a definite term, and Drillisch can freely decide whether, and in what scope, the nominal volume agreed with the bank will be exploited. The opportunities and risks related to the sold receivables relevant for the assessment of opportunities and risks are transferred in full upon the sale of the receivables to the bank, taking into account a fixed and a variable purchase price discount. Drillisch recognises the purchase price payments that are received in its operating cash flow.

Application 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 recognised 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 concern the recoverability of goodwill, trademark rights, inventories and receivables, the measurement 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 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 discount factor for calculation of the pension provisions and the measurement of inventories, trade receivables and other provisions when disclosing them in the balance sheet.

Drillisch Group has a central approach to 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.

Explanatory comments on the consolidated comprehensive income statement

1. Sales

	2016	2015
	€k	€k
Telecommunications		
Service revenues	551,324	433,679
Other revenues	158,688	195,867
	710,012	**629,546**

Service revenues comprise essentially the earnings related to the provision of the ongoing mobile services (voice and data transmission).

Other revenues comprise essentially revenue from brokerage and hardware sales, income from commissions, advertising cost subsidies, bonuses from network operators and sales from software services.

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2. Other operating income

	2016	2015
	€k	€k
Income from the reversal of contingent purchase price liabilities	8,300	0
Reversal of provisions and liabilities	3,314	696
Rent income shop	2,557	3,262
Receipt of written-off receivables	811	935
Insurance benefits/Reimbursement of dunning fees	553	3,023
Compensation payment leasing	0	10,000
Miscellaneous	2,993	2,259
Other operating income from ongoing business operations	**18,528**	**20,175**
Remaining other operating income from closed business divisions	**0**	**631**
Other operating income, total	**18,528**	**20,806**

3. Cost of materials/Expenditures for purchased services

Cost of materials essentially concerns the fees for the ongoing use of the network operators' mobile networks (air time), expenditures from the capacity model within the framework of the MBA MVNO agreement with Telefónica, commissions and bonuses paid to distribution partners and expenditures from business with goods (purchase of mobile devices, SIM cards).

4. Personnel expenses

	2016	2015
	€k	€k
Wages and salaries	53,172	41,759
Social security	6,500	5,101
	59,672	**46,860**

The number of employees (excluding Management Board) came to:	2016	2015
Annual average	913	730
Annual average - vocational trainees	58	51

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5. Other operating expenses

	2016	2015
	€k	€k
Advertising expenses	33,428	64,542
Rent and secondary costs	16,654	10,374
Bad debts and valuation allowances	16,422	10,463
Billing and external work	13,341	15,544
Expenditures from commitments	10,611	0
Legal and professional fees	6,558	7,930
Ancillary expenses for money transactions	2,602	2,165
Vehicle costs	1,651	1,173
Postal and telephone fees / Dedicated lines	1,627	1,677
Licences	758	1,006
Travel and entertainment expenses	719	815
Miscellaneous	15,109	9,052
Other operating expenses from ongoing business operations	**119,480**	**124,741**
Other operating expenses from closed divisions	**0**	**321**
	119,480	**125,062**

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

6. Depreciation and amortisation

	2016	2015
	€k	€k
Intangible assets		
Own produced software	2,438	1,640
Customer relationships	20,674	15,808
Purchased software/licences/utilisation rights	25,496	14,857
Goodwill	9,200	0
Tangible assets	3,672	3,769
	61,480	**36,074**

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7. Financial results

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 of acquisition.

Interest and other expenses include bank charges and commissions in the amount of €726k (previous year: €732k).

8. Taxes on income

	2016	2015
	€k	€k
Current taxes on income	29,853	16,434
Deferred taxes	-731	3,564
Disclosed expenses for income taxes	**29,122**	**19,998**

Taxes on income which have either been paid or which are owed as well as deferred taxes are disclosed 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 rollover from the expected expenditures for taxes on income which would result from application of the Group’s income tax rate to the disclosed tax expenditure is presented below:

	2016	2015
	€k	€k
Earnings before taxes on income (from ongoing business operations)	**55,556**	**65,797**
Tax expenses from application of Group’s income tax rate of 30.25% (previous year 30.25%)	16,806	19,903
Depreciation on goodwill Phone House	2,783	0
Taxes for previous year	640	-104
Trade tax additions	387	329
Non-deductible expenses and tax-exempt income	73	52
Tax effects from reversal of deferred taxes on accumulated deficits carried forward Phone House 2015	5,600	0
Tax effects from the reversal of other deferred taxes	641	0
Tax effects from deferred taxes not created on accumulated deficits carried forward Phone House 2016	1,110	0
Tax effects from other accumulated deficits carried forward – taxes on income	303	0
Other effects	779	-182
	29,122	**19,998**

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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:

	2016	2015
	€k	€k
Deferred tax reimbursements for		
Other intangible assets	206	87
Tangible assets	1,405	1,405
Financial assets	699	699
Other current assets	7,774	3,428
Leasing liabilities	552	367
Trade accounts receivable	0	353
Pension provisions	1	1
Short-term provisions	623	3,037
Accumulated deficits carried forward	1,437	5,600
	12,697	**14,977**
Deferred tax liabilities for		
Other intangible assets	26,514	30,255
Tangible assets	962	321
Leasing assets	546	360
Other equity	-276	-190
Pension provisions	37	48
Debenture bonds	279	375
	28,062	**31,169**

Of the deferred tax reimbursements, €8,203k (previous year: €6,899k) is related to short-term and €3,057k (previous year: €2,478k) to long-term assets and liabilities as well as €1,437k (previous year: €5,600k) to accumulated deficits carried forward. Of the deferred tax payments, €6,204k (previous year: €6,421k) is related to short-term and €21,858k (previous year: €24,748k) to long-term assets and liabilities.

Pursuant to the strict requirements of IAS 12.34 et seqq. for convincing verification of sufficiently positive future taxable income for the recognition of deferred tax reimbursements when there is a history of deficits, the deferred tax reimbursements effective on earnings on the accumulated deficits carried forward of The Phone House Deutschland created in the previous year in the amount of €5.6 million (previous year: €0.0) were reversed as effective expenditures.

The translated deficits attributable to The Phone House Deutschland amount to €24,568k (previous year: €19,341k). The accumulated deficits carried forward relevant for taxes are not subject to expiration.

Consolidated Notes

Explanatory comments on the consolidated balance sheet

9. Other intangible assets

	Trade-marks	Customer relation-ships	Own produced software	Purchased software/ licences	Total
	€k	€k	€k	€k	€k
Acquisition and manufacturing costs					
Per 1 January 2015	**7,367**	**8,650**	**26,530**	**40,317**	**82,864**
Additions	0	0	2,238	150,633	152,871
Additions Change in consolidated companies	40,610	73,060	268	29,384	143,322
Disposals	0	0	0	6,967	6,967
Per 31 December 2015	**47,977**	**81,710**	**29,036**	**213,367**	**372,090**
Additions	0	0	1,922	31,132	33,054
Additions Change in consolidated companies	0	0	0	0	0
Disposals	0	0	27	1,463	1,490
Per 31 December 2016	**47,977**	**81,710**	**30,931**	**243,036**	**403,654**
Accrued depreciation					
Per 1 January 2015	**0**	**8,650**	**23,248**	**19,664**	**51,562**
Additions	0	15,808	1,640	14,857	32,305
Additions Change in consolidated companies	0	0	35	19,790	19,825
Disposals	0	0	0	2,943	2,943
Per 31 December 2015	**0**	**24,458**	**24,923**	**51,368**	**100,749**
Additions	0	20,674	2,438	25,496	48,608
Additions Change in consolidated companies	0	0	0	0	0
Disposals	0	0	3	1,030	1,033
Per 31 December 2016	**0**	**45,132**	**27,358**	**75,834**	**148,324**
Book values					
Per 31 December 2015	47,977	57,252	4,113	161,999	271,341
Per 31 December 2016	**47,977**	**36,578**	**3,573**	**167,202**	**255,330**

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

The additions of purchased software/licences and utilisation rights in 2015 concerned basically Drillisch's contribution of €150.0m agreed with Telefónica (as part of the MBA MVNO model) to the investments previously made and to be made in future by Telefónica in the expansion of the LTE network and in future technologies.

Per 31 December 2016, the book value of the utilisation right was €135m and has a remaining amortisation period of 13.5 years.

The additions in purchased software/licences and utilisation rights in 2016 essentially relate to investments made in utilisation rights for the use of certain Telefónica trademarks.

The customer relationships identified within the framework of the purchase price allocations in 2015 have a book value of €36.6m per 31 December 2016 and an average remaining amortisation period of 1 to 4 years.

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The depreciation on the purchased software/licenses and utilisation rights essentially concerns investments related to the establishment and expansion of the MBA MVNO business model to utilisation rights for the use of certain Telefónica trademarks.

During the purchase price allocation process for Telco GmbH in 2007 and for eteleon AG in 2009, for yourfone AG in 2015 and for GT-Com GmbH in 2015, customer relationships, own produced software and the trademarks Telco, eteleon and yourfone were identified.

The trademarks are intangible assets with an indefinite 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.

The trademarks Telco and eteleon are recognised in the cash-generating unit Drillisch Online AG at a book value of €7.4m and the trademark yourfone is disclosed in the cash-generating unit yourfone AG at a book value of €40.6m.

10. Goodwill

The goodwill was attributed to the cash-generating units as shown below:

	Acquisition costs	Addition	Accrued depreciation per 31 December 2016	Book Value 2016	Book Value 2015
	€k	€k	€k	€k	€k
Drillisch Online AG	90,120	0	22,976	67,144	67,144
IQ-optimize AG	103	0	41	62	62
yourfone AG	19,185	0	0	19,185	19,185
GTCom GmbH	2,888	0	0	2,888	2,888
TPH Deutschland GmbH	17,715	752	9,200	9,267	17,715
	130,011	**752**	**32,217**	**98,546**	**106,994**

The value of the goodwill was reviewed using the amounts realisable for these cash-generating entities, calculated on the basis of their values of use. The values of use result from the discounted future cash flows. The company budget approved by management for the years 2017 to 2021 and for the time after that is based on a sustained net profit at a constant growth rate of 0.5% (previous year: 0.5%) derived from the budgetary figures for 2021. The major fundamental assumption for the planning of the cash-generating units is the number of subscribers and the gross profit planning based on this subscriber number, our experience and discounting rates assumed for this purpose. Rising subscriber numbers and increasing gross profits are expected in the coming years.

The cash flow was discounted using a weighted average capital cost rate before taxes (wacc):

	Detailed budget period	Subsequent period	Detailed budget period	Subsequent period
	2016	2016	2015	2015
Drillisch Online AG	5.78	5.28	5.59	5.09
IQ-optimize AG	5.78	5.28	5.74	5.24
yourfone AG	5.66	5.16	5.51	5.01
GTCom GmbH	5.82	5.32	5.45	4.95
TPH Deutschland GmbH	9.44	8.94	5.63	5.13

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The restructuring of Phone House and subsequent sale of the distribution business, including the network operator contracts, per 1 January 2017 results in a change in the Company's future earnings position. The related recoverability test of the Phone House goodwill recognised in the balance sheet as part of the purchase price allocation in 2015 resulted moreover in a reduction in the value of this goodwill of €9.2 million (previous year: €0.0) that is to be attributed to the segment Offline.

No further devaluations of goodwill were required in fiscal year 2016. There was no devaluation of goodwill even from an increase in the discount interest rate by about 1% and in consideration of a lump-sum deduction of 25% from the expected cash flow.

11. Tangible assets

	Fixtures, fittings and equipment	Tenant installations	Total
	€k	€k	€k
Acquisition costs			
Per 1 January 2015	**7,104**	**244**	**7,348**
Additions	3,743	1,515	5,258
Additions Change in consolidated companies	25,857	5,604	31,461
Disposals	1,754	0	1,754
Per 31 December 2015	**34,950**	**7,363**	**42,313**
Additions	4,511	603	5,114
Additions Change in consolidated companies	0	0	0
Disposals	5,080	19	5,099
Per 31 December 2016	**34,381**	**7,947**	**42,328**
Accrued depreciation			
Per 1 January 2015	**4,528**	**224**	**4,752**
Additions	3,734	35	3,769
Additions Change in consolidated companies	20,499	3,838	24,337
Disposals	1,557	0	1,557
Per 31 December 2015	**27,204**	**4,097**	**31,301**
Additions	3,439	233	3,672
Additions Change in consolidated companies	0	0	0
Disposals	2,888	341	3,229
Per 31 December 2016	**27,755**	**3,989**	**31,744**
Book values			
Per 31 December 2015	7,746	3,266	11,012
Per 31 December 2016	**6,626**	**3,958**	**10,584**

Finance leases are disclosed in the tangible asset as explained in Section 18.

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12. Inventories

	2016	2015
	€k	€k
Merchandise	7,469	30,219
Value allowances for merchandise	-874	-231
Payments on account	3,389	2,396
	9,984	**32,384**

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

13. Trade accounts receivable

	2016	2015
	€k	€k
Gross receivables	104,016	107,383
Valuation allowances on receivables	-11,358	-18,879
	92,658	**88,504**

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 December 2016	92,658	69,747	5,416	4,681	6,678	6,136
31 December 2015	88,504	75,285	4,630	3,399	1,574	3,616

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

Receivables that as of the closing date were not devaluated, but that were overdue, comprise receivables (i.a.) due from customers and suppliers with whom payment in instalments in the amount of €414k (previous year: €655k) has been agreed. As long as the debtors are in compliance with their payment obligations, no valuation allowances will be taken and the receivables will continue to be measured at cost of acquisition.

In 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 custom-

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ers 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:

	2016	2015
	€k	€k
Valuation allowances per 1 January	**18,879**	**2,177**
Additions from the change in the group of consolidated companies	0	13,948
Additions (expenses for valuation allowances)	12,541	28,094
Consumption / Reversal	-20,062	-25,340
Valuation allowances per 31 December	**11,358**	**18,879**

14. Tax reimbursement claims

	2016	2015
	€k	€k
Corporate income tax	38	3,551
Trade tax	0	3,924
	38	**7,475**

15. Other current assets

	2016	2015
	€k	€k
Other receivables due from network operators	0	23,970
Other receivables acquisition yourfone	1,129	2,149
Advance payments	2,085	2,126
Miscellaneous	1,807	3,839
	5,021	**32,084**

Other receivables due from network operators in 2015 essentially comprised receivables from commissions and bonuses due from all of the mobile network operators in Germany from brokerage business conducted by the subsidiary The Phone House, which is not classified as the core business of Drillisch Group. They are consequently not disclosed under trade receivables, but under assets of the disposal group in 2016.

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16. Assets and liabilities of the disposal group/Consolidated profit from closed divisions

In May 2015, Drillisch acquired The Phone House Deutschland GmbH, Münster, and its subsidiaries from Dixons Carphone PLC. In September 2016, Drillisch decided to divest the distribution business of Phone House, above all pursuant to network operator agreements from 1 October 2016 on, to a new company, The Phone House Telecom Vertrieb GmbH, and to sell the new company to DeinHandy GmbH, Obertshausen. The sale was completed in January 2017. The core Phone House companies remaining in Drillisch Group (The Phone House Deutschland GmbH and The Phone House Telecom GmbH) will in future be in charge exclusively of yourfone partner and own yourfone shops and continue to provide the complete range of hardware supplies for online and offline sales.

The current assets of the disposal group in the amount of €16.9m comprise essentially receivables due from network operators from commission claims related to the divested brokerage business. The short-term liabilities of the disposal group include €16.4m that comprise essentially trade liabilities. There are no fixed assets and long-term liabilities. The comprehensive income statement includes €9k that is attributable to The Phone House Telecom Vertrieb GmbH for the period from 1 October to 31 December 2016. Since the segments are not steered according to assets and liabilities, no statements about the segment classification of the disposal group can be made.

The profit from closed divisions in the previous year included income from The Phone House Management GmbH, Münster, that was sold in November 2015. This company was acquired in combination with the acquisition of Phone House Group at the beginning of May 2015 and was intended for resale as of its acquisition. The share of the total profit from ongoing divisions to which Drillisch AG shareholders are entitled amounts to €27,425k (previous year: €45,799k) and the share from discontinued activities comes to €0k (previous year: €310k). Income tax due on the profit from closed divisions amounts to €0k (previous year: €4.7k).

17. Equity

The Company's share capital in the amount of €60,241,113.90 (previous year: €60,241,113.90) is distributed in 54,764,649 (previous year: 54,764,649) no-par shares issued to the bearer with an unchanged proportionate share in the share capital of €1.10.

The Annual General Meeting of 19 May 2016 adopted a resolution to distribute a dividend of €1.75 for 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 54,764,649, The disbursement consequently amounted to a total of €95.8m.

Management Board and Supervisory Board will propose a dividend of €1.80 for each share entitled to dividends to this year’s Annual General Meeting. Based on the share capital entitled to dividends, the calculated disbursement will amount to €98.6m.

Capital reserves

The capital reserves contain the premium over the nominal amount from the issue of shares by Drillisch AG. The amount in excess of the par value of €1.10 for the sale of new shares in 2015 was attributed to the capital reserves.

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Furthermore, the capital reserves contain the equity component of the conversion bond described in the subheading “Debenture bond” under Section 20.

Earnings reserves

The earnings reserves contain the profits realised in the past by the companies included in the consolidated annual accounts that were not distributed or carried forward to a new account from a Group perspective.

Approved Capital I

The Annual General Meeting of 21 May 2014 authorised the Management Board, subject to the approval of the Supervisory Board, to increase the Company's share capital by as much as €23,403,166.60 by a single or multiple issue of new no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2019 (Approved Capital). There is a balance of €21,669,969.20 subsequent to the capital increase of May 2015. In the event of cash contributions, the new shares may also be taken over by one or more banks or other companies fulfilling the prerequisites of Section 186 (5) first sentence AktG, subject to the obligation to offer them for subscription 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 consent 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 (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 option 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;
- To the extent that, as protection from dilution, it is necessary to grant to the holders or creditors of option or conversion rights from option or convertible bonds that have been, or will be, issued by the Company and/or subordinate group undertakings subscription rights in the scope to which said persons would be entitled after the exercise of their conversion or option rights or after fulfilment of the conversion obligation;

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- 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.

This authorisation is restricted to the extent that, after exercise of the authorisation, the total value of the shares subject to exclusion of a subscription right issued for this approved capital may not exceed 20% of the share capital at the time the authorisation enters into effect or – if this value is lower – at the time the authorisation is exercised. Shares subject to exclusion of a subscription right that are issued to compensate fractional amounts and/or as protection from dilution for holders or creditors of option or convertible bonds or as staff shares are excluded from consideration. Shares that are issued subject to exclusion of a subscription right from other approved capital during the term of the above authorisation must also be included in this 20% limit, as must shares that are issued pursuant to the exercise of option and/or convertible bonds or option/conversion rights or obligations associated with convertible bonds, provided that the corresponding option and/or convertible bonds are issued subject to exclusion of a subscription right during the term of this authorisation. Exclusions of subscription rights for the compensation of factional amounts and/or as protection from dilution for holders or creditors of option or conversion rights associated with option or convertible bonds and/or for the issue of staff shares are not included in the 20% limit.

Furthermore, the Management Board is authorised, subject to the consent 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.

Approved Capital II

The Management Board is authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital by as much as €5,850,791.65 by a single or multiple issue of new no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2020 (Approved Capital II). In the event of cash contributions, the new shares may also be taken over by one or more banks or other companies fulfilling the prerequisites of Section 186 (5) first sentence AktG, subject to the obligation to offer them for subscription solely and exclusively to the shareholders (indirect subscription right). On principle, a subscription right is to be granted to the shareholders. The Management Board is authorised, however, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights for new no-par shares from Approved Capital II if and when the capital increase is undertaken against contributions in kind for the purpose

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of granting shares within the context of corporate mergers or for the purpose of acquiring companies, parts of companies, holdings in companies or other assets.

Furthermore, the Management Board is authorised, subject to the consent 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 Approved Capital II or after the expiration of the authorisation.

Contingent Capital 2013

The authorisation granted to the Management Board during the Annual General Meeting of 16 May 2013 to issue option and/or convertible bonds with a total nominal value not to exceed €100.0m was exercised in full (Contingent Capital 2013). In December 2013, Drillisch AG issued a non-subordinated convertible bond with a total volume of €100.0m and a term of five years. The term of the bond ends on 12 December 2018.

Contingent Capital 2015

There has been a contingent increase in capital of up to €17,600,000.00 by the issue of up to 16,000,000 no-par value bearer shares with profit entitlement from the beginning of the fiscal year of their issue. The contingent capital increase serves the purpose of granting shares to the holders or creditors of option bonds, convertible bonds, profit-sharing rights and/or income bonds or combinations of these instruments that, pursuant to the authorisation of agenda item 10 of the Annual General Meeting of 21 May 2015, are issued against cash by the Company or by a company in which the Company, directly or indirectly, holds a majority interest and that grant a conversion or option right to no-par bearer shares of the Company or that determine a conversion/option obligation. The contingent capital increase is to be carried out solely to the extent that the option and/or conversion rights from the debenture bonds are exercised or that option/conversion obligations from the debenture bonds are fulfilled, and provided that cash compensation is not paid or that treasury stock or stock from another listed company is not utilised for this purpose. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the details of the conduct of the contingent capital increase (Contingent Capital 2015).

Treasury stock

The Annual General Meeting on 21 May 2015 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 2015 on or before 20 May 2020 (including the use of derivatives). Per the closing date 31 December 2016, Drillisch AG did not hold any shares of its own stock.

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18. Leases

The tangible assets include the following finance leases:

	Fixtures, fittings and equipment
	€k
Acquisition costs	
Per 1 January 2015	**2,888**
Additions	0
Disposals	824
Per 31 December 2015	**2,064**
Additions	1,349
Disposals	824
Per 31 December 2016	**2,589**
Accrued depreciation	
Per 1 January 2015	**805**
Additions	894
Disposals	824
Per 31 December 2015	**875**
Additions	733
Disposals	824
Per 31 December 2016	**784**
Book values	
Per 31 December 2015	1,189
Per 31 December 2016	**1,805**

Leasing liabilities	Up to 1 year	1–5 years
	€k	€k
Leasing payments	1,074	816
Interest	45	20
Cash values	**1,029**	**796**

Various fixed assets were sold to GEFA-Leasing GmbH, Wuppertal, 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 contain options for extension or purchase.

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19. Pension provisions

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

Pension provisions are measured and disclosed in the balance sheet in accordance with IAS 19. The future commitments are measured 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	2016	2015
	%	%
Calculated interest rate	1.70	2.40
Expected income from scheme assets	1.70	2.40
Expected development of income	0.00	0.00
Expected development of pensions	0.00	0.00
Fluctuation	0.00	0.00

During fiscal year 2013, the method for the disclosure of pension provisions for merit-based pension schemes (so-called defined benefit plans) in the balance sheet was changed. The actuarial gains and losses are recognised immediately in the year in which they occur. The disclosure of the actuarial gains and losses is measured directly in equity as a component of Other equity items. They are not recognised in the income statement, either in the year of their occurrence or in later periods, in accordance with IAS 19.93D.

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 expected income from scheme assets is oriented to the calculated interest rate.

Analysis of pension model	2016	2015
	€k	€k
Cash value of pension expectancies for merit-based pension commitments (DBO)	2,162	1,792
Fair value of scheme assets	507	431
Shortfall of scheme	**1,655**	**1,361**
Adjustment of obligations based on experience	13	-5
Adjustment of scheme assets based on experience	63	-2

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

Balance sheet obligations	2016	2015
	€k	€k
Cash value of pension expectancies for pension commitments (DBO)	2,162	1,792
Actuarial profits (+)/losses (-) not considered	0	0
Costs for changes in claims from previous years not considered	0	0
Market value of scheme assets	-507	-431
Pension provisions per 31 December	**1,655**	**1,361**

In the current fiscal year as in the previous year, the obligations were financed essentially by scheme assets.

Development of cash value of pension expectancies (DBO)	2016	2015
	€k	€k
Per 1 January	**1,792**	**1,868**
Addition to consolidated companies	0	59
Costs for pension claims acquired in fiscal year	13	9
Interest	43	38
Pension payments	0	0
Service period expenses to be offset retroactively	0	0
Actuarial profits (-)/losses (+)	314	-182
Other changes	0	0
Per 31 December	**2,162**	**1,792**

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

Pension expenditures (NPPC)	2016	2015
	€k	€k
Costs for pension claims acquired in fiscal year	13	9
Interest	43	38
Expected income from scheme assets	-13	-10
Actuarial gains/losses recognised in operating results	0	0
Service period expenses to be offset retroactively	0	0
	43	**37**

Amounts approximately equivalent to those of the current fiscal year are expected for the coming fiscal year. In consideration of standard retirement age, the first payments of benefits are expected in 2019.

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The reinsurance developed as follows:

Development of fair value of scheme assets	2016	2015
	€k	€k
Per 1 January	**431**	**343**
Addition to consolidated companies	0	79
Expected income from scheme assets	13	10
Actuarial profits (+)/losses (-)	63	-1
Per 31 December	**507**	**431**

Actual income from scheme assets	2016	2015
	€k	€k
Expected income from scheme assets	13	10
Actuarial profits (+)/losses (-)	63	-1
Per 31 December	**76**	**9**

No contributions were made to the reinsurance for fiscal year 2016. The scheme assets derive exclusively from two reinsurance policies.

Sensitivity analysis

In the event of a change in life expectancy of +1 year and a change in interest rates of ±0.5%, all other conditions remaining unchanged, the cash value of the pension expectancies would be €229k higher or €185k lower, respectively.

In the event of a change in life expectancy of -1 year and a change in interest rates of ±0.5%, all other conditions remaining unchanged, the cash value of the pension expectancies would be €211k higher or €200k lower, respectively.

Schemes oriented to contributions exist as well. This does not result in any obligations for Drillisch AG beyond the payment of the contributions to external institutes. Expenses for schemes oriented to contributions of this type amounted to €2.8m in the fiscal year (previous year: €3.0m).

20. Bank loans and overdrafts, Debenture bonds and Other financial liabilities

Bank loans and overdrafts

A revolving loan agreement for a total of €100.0m was agreed between the Commerzbank Aktiengesellschaft, Frankfurt, and the BHF-Bank Aktiengesellschaft, Frankfurt, as the arrangers and Drillisch AG on 19 December 2014. An amount of €50.0m of the credit line was utilised in fiscal year 2016. The interest rate comprised two components: the EURIBOR applicable to the relevant interest period and a margin agreed in the loan agreement. The loan agreement runs until 19 December 2019.

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The applicable margin is 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 0.85% which is reached for a ratio of consolidated net financial debt to consolidated EBITDA of less than 0.5 to 1. If this ratio is greater than 2 to 1, the maximum possible margin of 1.1% applies.

The loan is tied to a specific financial indicator (degree of indebtedness); in the event of failure to comply with this indicator, the loan agreement may be terminated. The Company was in compliance with these criteria in fiscal year 2016.

The total interest expenses related to the loan amounted to €221k in fiscal year 2016 (previous year: €0k).

Debenture bonds

In December 2013, Drillisch AG issued a non-subordinated convertible bond with a total volume of €100.0m and a term of five years. The convertible bond includes an annual coupon of 0.75%. The bond was issued at 100% of the nominal value and will also be redeemed at 100%. The conversion right is recognised in the capital reserves at a value of €12.4m. An interest rate of 3.47% was applied for the allocation and led to an initial measurement of the bond of €86.1m. It has been possible to convert the bonds with a nominal value of €100k each into Drillisch AG shares since 22 January 2014. In accordance with the terms and conditions of the bonds, the conversion price was adjusted from the original €24.2869 to €20.9876 per share following the disbursement of a cash dividend in May 2014, May 2015 and May 2016, corresponding to 4,764.718 (previous year: 4,549.942) shares per partial debenture. The term of the bond ends on 12 December 2018.

Interest will accrue to the liability for the bond in accordance with the effective interest rate method.

Other financial liabilities

Other financial liabilities include a contingent price liability in the amount of €5.8m (previous year: €34.6m).

21. Short-term provisions

	Per 01/01/2016	Utilisations	Reversals	Creations	Per 31/12/2016
	€k	€k	€k	€k	€k
Commissions	5,130	150	80	170	5,070
Deconstruction actions	1,833	49	0	139	1,923
Litigation risks	3,491	1,025	817	1,279	2,928
Miscellaneous	1,708	1,051	0	134	791
	12,162	**2,275**	**897**	**1,722**	**10,712**

Drillisch Group presumes that there will be an outflow of funds in fiscal year 2017.

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22. Tax liabilities

	2016	2015
	€k	€k
Corporate income tax	2,906	1,368
Trade tax	8,491	3,736
	11,397	**5,104**

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 prepaid customers which had not yet been used for phone calls as of the balance sheet date.

Payments received on account declined, essentially a consequence of the decrease in prepaid accounts and the reduction in voucher sales.

25. Other liabilities

	2016	2015
	€k	€k
Liabilities utilisation right	24,686	0
Payroll	12,220	14,801
Deferred income	1,428	15,388
Income tax	633	305
Security deposits	624	11
Miscellaneous	2,817	1,758
	42,408	**32,263**

Payroll liabilities include €1.4m (previous year: €0.1m) in long-term liabilities from bonuses 2015–2017, an LTI programme 2016–2018 and an LTI programme 2016–2019.

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26. Analysis of maturity

	2016 book value	Cashflow 2017			Cash flow 2017–2021
		< 1 month	1–3 months	3 months to 1 year	> 1 year
	€k	€k	€k	€k	€k
Bank loans and overdrafts	50,011	50,011	0	0	0
Debenture bonds	94,231	0	0	750	100,750
Trade accounts payable	44,940	44,940	0	0	0
Liabilities from finance leasing	1,825	90	179	806	816
Other financial liabilities	5,800	0	5,800	0	0
Other liabilities	42,408	5,287	5,972	14,519	17,043

The total value of the debenture bonds at maturity amounts to €100,000k; the total value of the Other liabilities at maturity amounts to €42,722k.

27. Net profits and losses from valuation categories

	Interest	from subsequent valuation			Net results	
		at fair value	valuation allowances	from disposal 3 months to 1 year	2016	2015
	€k	€k	€k	€k	€k	€k
Loans and receivables	199	0	-16,422	811	-15,412	-9,408
Salable assets	0	0	0	0	0	0
Trade assets	0	0	0	0	0	0
Liabilities at cost of acquisition (carried forward)	-3,684	0	0	0	-3,684	-3,420
	-3,485	**0**	**-16,422**	**811**	**-19,096**	**-12,828**

28. Other financial obligations/Availability for use

Other financial obligations

	Rents	Leasing	Total	Previous year
	€k	€k	€k	€k
Due in less than 1 year	9,296	3,383	12,679	21,323
Due in 1 to 5 years	22,221	805	23,026	29,007
Due in more than 5 years	206	0	206	3,646
	31,723	**4,188**	**35,911**	**53,976**

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In the fiscal year, €13,872k (previous year: €7,959k) for rent and leasing payments was included in expenditures.

In addition, other financial liabilities are related to the procurements of supplies and services and amount to €16m. Of this amount, €8m will be due each year in 2017 and 2018.

Drillisch has acquired network capacities comprising data volume as well as voice and text message allotments from Telefónica pursuant to binding provisions of the MBA MVNO agreement for the basic term of the agreement (July 2015 to June 2020). The capacity which must be purchased will rise according to a glide path over the basic term of the agreement to 20% of the total capacity of the Telefónica network. Moreover, Drillisch has accepted an obligation to purchase a fixed allotment for existing clientele independently of network usage. The payments during the basic term are in the middle to high hundreds of millions range. An exact amount cannot be specified because the payments are dependent on a number of contractual variables. Among other factors, the payment obligation is dependent on the future actual usage of all subscribers on the Telefónica network.

Availability for use

There are receivables due from end customers related to the provision of devices within the scope of mobile service contracts per 31 December 2016 that have not yet been realised. The payments are due in the following years:

	2016	2015
	€k	€k
Due in less than 1 year	2,434	2,018
Due in 1 to 5 years	89	2,013
Due in more than 5 years	0	0
	2,523	**4,031**

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 implemented throughout 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 issued by the Management Board.

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. In cases in which no special provisions must be observed, the taxable equity is the equity as disclosed in the balance sheet. Capital management is described under Section 2.5 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

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the on-time fulfilment of the Group's existing payment obligations. Market risks occur in the Group in the form of interest 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 middle-term 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.

Financial instruments that are measured at costs of acquisition carried forward 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. No such financial instruments existed on the balance sheet closing date.

As of the closing date, bank loans and overdrafts were subject to a variable interest rate based on the EURIBOR plus a company-specific margin; however, an EURIBOR rate of at least 0% is to be applied.

If the market interest level increases by 10 base points, there would be a negative effect on the profit before taxes of €4k monthly (previous year: €0k). If the market interest level declines by 10 base points, there would at this time be an effect on the profit before taxes of €0k (previous year: €0k) because of the aforementioned minimum EURIBOR.

The company-specific margin is oriented to the ratio of consolidated net financial debt to consolidated EBITDA on the basis of the 12 months prior to the relevant quarterly closing date. If this margin increases by 0.5 units, there would be a negative effect on the profit before taxes of €2k monthly (previous year: €0k). If this margin decreases by 0.5 units, there would at this time be an effect on the profit before taxes of €0k (previous year: €0k). The minimum margin was effective per 31 December 2016.

Miscellaneous disclosures about financial instruments

None of the financial assets were reclassified into another valuation category pursuant to IAS 39 during the reporting period. None of the financial assets and financial liabilities were designated as operating results at fair value during the reporting period. The pertinent book value for short-term financial assets and liabilities that are not derivatives is a reasonable approximation of the fair value within the sense of IFRS 7.29(a).

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

Consolidated Notes

		Measurement according to IAS 39			
	Book value 31/12/2016	Cost of acquisition (carried forward)	Fair value non-operating results	Fair value operating results	Fair value 31/12/2016
	€k	€k	€k	€k	€k
Assets					
Trade accounts receivable	92,658				
Loans and receivables	92,658	92,658			92,658
Other current assets	5,021				
Loans and receivables	2,937	2,937	0		2,937
No financial instrument	2,085				
Cash	92,771				
Loans and receivables	92,771	92,771	0		92,771
Other financial assets	561				
Available for sale	561		561		561
Total financial assets	**188,927**	**188,366**	**561**	**0**	**188,927**
Shareholders' Equity and Liabilities					
Trade accounts payable	44,940				
Loans and receivables	44,940	44,940			44,940
Bank loans and overdrafts	50,011				
Loans and receivables	50,011	50,011			50,011
Debenture bonds	94,231				
Loans and receivables	94,231	94,231			94,231
Other financial liabilities	5,800				
Loans and receivables	5,800		0	5,800	5,800
Other liabilities	42,408				
Loans and receivables	25,342	25,342	0	0	25,342
No financial instrument	17,066				
Total financial liabilities	**220,324**	**214,524**	**0**	**5,800**	**220,324**

Summarised according to valuation categories of IAS 39		**Measurement according to IAS 39**			
Financial assets					
Loans and receivables	188,366	188,366		0	188,366
Available for sale	561		561		561
Total financial assets	**188,927**	**188,366**	**561**	**0**	**188,927**
Financial liabilities					
Loans and receivables	220,324	214,524	0	5,800	220,324
Total financial liabilities	**220,324**	**214,524**	**0**	**5,800**	**220,324**

Consolidated Notes

		Measurement according to IAS 39			
	Book value 31/12/2015	Cost of acquisition (carried forward)	Fair value non-operating results	Fair value operating results	Fair value 31/12/2015
	€k	€k	€k	€k	€k
Assets					
Trade accounts receivable	88,504				
Loans and receivables	88,504	88,504			88,504
Other current assets	32,084				
Loans and receivables	29,958	29,958			29,958
No financial instrument	2,126				0
Cash	123,432				
Loans and receivables	123,432	123,432	0		123,432
Other financial assets	499				
Available for sale	499		499		499
Total financial assets	**242,393**	**241,894**	**499**	**0**	**242,393**
Shareholders' Equity and Liabilities					
Trade accounts payable	80,911				
Loans and receivables	80,911	80,911			80,911
Bank loans and overdrafts	91,457				
Loans and receivables	91,457	91,457			91,457
Debenture bonds	74,600				
Loans and receivables	74,600	40,000		34,600	74,600
Other financial liabilities	32,333				
Loans and receivables	42	42			42
No financial instrument	32,291				0
Total financial liabilities	**247,010**	**212,410**	**0**	**34,600**	**247,010**

Summarised according to valuation categories of IAS 39		**Measurement according to IAS 39**			
Financial assets					
Loans and receivables	241,894	241,894		0	241,894
Available for sale	499		499		499
Total financial assets	**242,393**	**241,894**	**499**	**0**	**242,393**
Financial liabilities					
Loans and receivables	247,010	212,410	0	34,600	247,010
Total financial liabilities	**247,010**	**212,410**	**0**	**34,600**	**247,010**

Consolidated Notes

Financial assets and liabilities measured at fair value must be classified according to various valuation levels (so-called fair value hierarchy). The hierarchy levels are based on the factors used to determine the attributable fair value. Level 1 utilises the quoted price (unadjusted) on 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.

Financial liabilities in the amount of €5.8m (previous year: €34.6m) existed per 31 December 2016; they are measured at the attributable fair value. There were financial receivables in the amount of €0.6m (previous year: €0.5m) that are measured at the attributable fair value.

The variable purchase price liability from the acquisition of The Phone House Deutschland GmbH was measured in accordance with Level 3 (no observable market values, valuation based on valuation models). The variable purchase price liabilities arise from legal disputes related to Phone House that are still pending. If and when further payments are received, Drillisch must (pursuant to the purchase contract) forward them to the seller.

The measurement is oriented to the maximum amount that in all likelihood must be paid. In total, €5.8m (previous year: €34.6m) is to be classified at Level 3.

The financial instruments included in Level 3 developed as shown below during the fiscal year:

	2016
	€k
1 January	**34.1**
Additions to Other financial assets	0.1
Amortisation and depreciation	19.5
Other operating income	8.3
Other operating expenses	-1.2
31 December	**5.2**

Regarding the sale of available financial assets, no allocation to the AFS (available for sale) reserves was recognised in the fiscal year, as was the case in the previous year as well.

Drillisch, acting through its subsidiary yourfone AG, has sold part of the receivables from the provision of mobile devices to customers in relation to mobile contracts to a bank and has in this way secured the cash benefit at the time of the conclusion of the contract. Cash outflows over the term of the contracts are in contrast to this benefit. The volume of sold receivables during fiscal year 2016 amounted to €11.5m (previous year: €0.0). Purchase price discounts and other fees (interest and bank margin) related to the sale of the receivables totalling €0.4m (previous year: €0.0) were recognised as effective expenditures. Provisions for expenses from the claims management to be conducted by Drillisch have not been created owing to a lack of materiality. There are no further risks or payment obligations in this context.

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30. Segment reporting

The segment reporting is aligned with the internal organisation and reporting structure. The differentiation between the segments Online and Offline is based on the expanded sales structure. The segment Miscellaneous/ Holding is described in addition to the segments Online and Offline.

The Group's activities in the area of mobile services, differentiated according to the sales structure, are shown in the segments Online and Offline.

In the segment Online, mobile services of the network operators Telefónica Germany GmbH & Co. OHG and Vodafone D2 GmbH are marketed via online distribution channels and are provided to the acquired customers on the basis of mobile services contracts. The advance services acquired from the two network operators are resold to end consumers for the Company's own account and at rates that Drillisch defines itself based on its own calculations.

In the segment Offline, mobile services on the network of Telefónica Germany GmbH & Co. OHG are marketed basically via own and partner shops and provided to the customers acquired via these channels on the basis of mobile services contracts. Moreover, the segment Offline encompasses all of the activities related to the full operation of own and partner shops and the provision of hardware in the segment Offline, including the distribution business. The advance services acquired from the network operator Telefónica Germany GmbH & Co. OHG are resold to end consumers for the Company's own account and at rates that Drillisch defines itself based on its own calculations. In addition, rates of the network operators are calculated on a commission basis in distribution.

The segment Miscellaneous/Holding comprises all of the activities related to the offering of custom software solutions, maintenance and support services, holding services and (to a small extent) mobile services as well.

Segment Report 01/01/2016 – 31/12/2016	Online	Offline	Miscellaneous/ Holding	Consolidation	Gesamt
	€k	€k	€k	€k	€k
Sales with third parties	432,536	276,485	991	0	710,012
In-company sales	37,141	30,670	13,786	-81,597	0
Segment sales	**469,677**	**307,155**	**14,777**	**-81,597**	**710,012**
Cost of materials external third parties	-237,194	-193,777	-133	0	-431,104
Cost of materials from inter-company relationships	-31,109	-36,558	-390	68,057	0
Cost of materials for segment	**-268,303**	**-230,335**	**-523**	**68,057**	**-431,104**
Gross profit for segment	**201,374**	**76,820**	**14,254**	**-13,540**	**278,908**
Segment EBITDA	**128,253**	**-4,227**	**-3,820**	**0**	**120,206**

In the segments Offline and Online, sales revenues of €80.5m (more than 10% of the Group sales revenues) were achieved with one external customer/business partner.

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Segment Report 01/01/2015 – 31/12/2015	Online	Offline	Miscellaneous/ Holding	Consolidation	Gesamt
	€k	€k	€k	€k	€k
Sales with third parties	342,729	285,688	1,129	0	629,546
In-company sales	15,485	4,993	8,638	-29,116	0
Segment sales	**358,214**	**290,681**	**9,767**	**-29,116**	**629,546**
Cost of materials external third parties	-169,588	-205,154	-359	0	-375,101
Cost of materials from in-ter-company relationships	-5,126	-15,219	-266	20,611	0
Cost of materials for segment	**-174,714**	**-220,373**	**-625**	**20,611**	**-375,101**
Gross profit for segment	**183,499**	**70,308**	**9,142**	**-8,505**	**254,444**
Segment EBITDA	**85,761**	**25,901**	**-6,405**	**0**	**105,257**

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

	2016	2015
	€k	€k
Total segment profits (EBITDA)	120,206	105,257
Depreciation and amortisation	-61,480	-36,074
Operating result	58,726	69,183
Financial result	-3,170	-3,386
Profit before taxes on income	**55,556**	**65,797**

All business relations within and/or between the segments are eliminated in the course of consolidation. Such relations are essentially the offsetting of the expenses and income within the Group. The accounting principles (IFRS as they are to be applied in the EU) are identical for all of the segments.

The transfer prices correspond on principle to the prices determined by arm's length comparison. The major segment expenditures and income without effect on payments contain the allocations to the provisions.

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 that is disclosed under Cash in the consolidated balance sheet.

The cash flow statement has been prepared in compliance with IAS 7 and breaks down the changes in cash according to payment flows from current business, investment and financing activities. Cash flow from current business activities is calculated using the indirect method.

Consolidated Notes

The disclosure in the cash flow from investment activities to payments for acquisitions less acquired cash concerns payments made within the framework of the agreements on earn-out components for investments of the previous year.

The disclosure in the Cash flow from financing activities under Other financial liabilities concerns a pre-financing (cash agreement) by a business partner of The Phone House Telecom GmbH.

The initial amount of the "Consolidated earnings before interest and taxes" can be derived from the comprehensive income statement as shown below:

	2016	2015
	€k	€k
Consolidated earnings	26,434	46,109
Taxes on income	29,122	19,998
Financial result	3,170	3,386
Consolidated EBIT	**58,726**	**69,493**

32. Auditor's fee

	2016	2015
	€k	€k
1. Audit services	493	445
2. Other certification services	57	3
3. Tax accountant services	199	152
4. Other services	3	294
	752	**894**

33. Related party disclosures

Per 31 December 2016, there were amounts (income and expenses) owed from and owed to relatives and companies as shown below:

The Baugemeinschaft Maintal, consisting of the shareholders Paschalis Choulidis and Marianne Choulidis, has let office space in Maintal to Drillisch Group. The lease runs until 31 December 2020. Rent expenses in 2016 came to €507k (previous year: €507k).

The company VPM Immobilien Verwaltungs GmbH, Maintal (shareholders: Vlasios Choulidis, Paschalis Choulidis and Marc Brucherseifer), has let office space in Maintal to Drillisch Group. The lease runs until 31 December 2020. Rent expenses in 2016 came to €179k (previous year: €179k).

Ms Marianne Choulidis and Ms Simone Choulidis (until 30 June 2016) received compensation totalling €75k (previous year: €94k) as employees of Drillisch Online AG.

The company SP Beteiligungs GmbH, Langenselbold (shareholder: Ms Simone Choulidis), realised sales in the amount of €35k (previous year: €0k) with Drillisch Group in fiscal year 2016.

The company DIaLOGIKa GmbH, Saarbrücken (shareholder Dr Bernd H Schmidt), realised sales in the amount of €10k (previous year: €10k) with Drillisch Group in fiscal year 2016.

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There were no amounts due to or due from the related parties mentioned above per 31 December 2016.

The company JPC Beteiligungs- und Verwaltungsgesellschaft mbH, Gelnhausen, (shareholder Mr Jannis Choulidis), the legal successor to Flexi Shop GmbH, Frankfurt am Main (shareholder Mr Jannis Choulidis), realised sales in the amount of €7k (previous year: €13k) with Drillisch Group in fiscal year 2016. The amount of €0.4k (previous year: €0k) was owed to this company per 31 December 2016.

34. Supervisory Board

Marc Brucherseifer, Dipl.-Kfm.
Merchant, Köln
- Chairperson -

Dr. Susanne Rückert
Lawyer, Meerbusch
- Vice Chairperson -

Norbert Lang
Merchant, Waldbrunn
Seats held on supervisory boards required by law or other supervisory bodies:
Rocket Internet SE, Berlin
(Supervisory Board Vice Chairperson)
HI-Media SA, Paris (until 14 September 2016)

Horst Lennertz, Dr.-Ingenieur
Consultant, Meerbusch

Frank A Rothauge, Dipl.-Kfm.
Managing Partner, Wetzlar

Dr Bernd H Schmidt
Managing Partner, Saarbrücken
Seats held on supervisory boards required by law or other supervisory bodies:
IQ-optimize Software AG, Maintal
(Supervisory Board Chairperson)

The following members of the Supervisory Board were members of the following committees in 2016:

Nominating Committee:

Mr Brucherseifer, Dr Rückert, Mr Rothauge, Dr Schmidt, Dr Lennertz, Mr Lang; *chair: Mr Brucherseifer*

Audit Committee:

Mr Rothauge, Dr Lennertz, Dr Schmidt; *chair: Mr Rothauge*

Personnel Committee:

Mr Brucherseifer, Dr Rückert and Dr Lennertz; *chair: Mr Brucherseifer*

35. Management Board

Paschalis Choulidis, Langenselbold,
- Executive Officer Finance Communications and IT - (until 30 June 2016)
CEO (until 30 June 2016)
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Online AG, Maintal
Drillisch Netz AG, Düsseldorf (until 2 February 2016)
yourfone AG, Maintal
yourfone Retail AG, Düsseldorf

Vlasios Choulidis, Gelnhausen,
- Executive Officer Sales, Marketing and Customer Care -
CEO (since 30 June 2016)
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Online AG, Maintal
The Phone House Deutschland GmbH, Münster (Supervisory Board Chairperson)
yourfone AG, Maintal
yourfone Retail AG, Düsseldorf
Drillisch Netz AG, Düsseldorf (since 2 February 2016)

Consolidated Notes

André Driesen, Krefeld,
- CFO -
Seats held on supervisory boards required by law or other supervisory bodies:
The Phone House Deutschland GmbH, Münster
IQ-optimize Software AG, Maintal
Drillisch Netz AG, Düsseldorf (Supervisory Board Chairperson) (since 3 February 2016)
yourfone Retail AG, Düsseldorf (Supervisory Board Chairperson) (since 6 July 2016)

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

Compensation paid to Management Board members in 2016 totalled €4,994k, thereof €3,495k variable (previous year: €4,909k, thereof €3,320k variable).

The variable compensation includes long-term incentive components (LTI 2016–2018 or bonus 2015–2017) for fiscal year 2016 in the amount of €1,455k (previous year: €1,680k). The LTI programme has a term from 1 January 2016 to 31 December 2018, the bonus 2015–2017 from 1 April 2015 to 31 December 2017. The total provisions for the LTI programme and bonus 2015–2017 amount to €1,555k. Payments will not be made until the expiration of the LTI programme in fiscal year 2019 or (for the bonus 2015–2017) in fiscal year 2018. In addition, the Management Board members received compensation for their activities as Supervisory Board members of subsidiaries in the amount of €39k (previous year: €33k).

Compensation paid to the members of the Supervisory Board for their work in the parent company in the reporting period amounted to €324K (previous year: €318k).

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 2016, the Management Board members held the following stock in Drillisch AG:	
Vlasios Choulidis	415,000 no-par shares (thereof 15,000 no-par shares via MV Beteiligungs GmbH)

The Supervisory Board members held the following stock in Drillisch AG as per 31 December 2016:	
Marc Brucherseifer, Dipl.-Kfm.	1,019,775 no-par shares

» Management Board and Supervisory Board hold a total of 2.62% of the stock of Drillisch AG per 31 December 2016.

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 23 March 2016 and made it permanently accessible to shareholders at the Internet address www.drillisch.de.

39. Profit per share

The undiluted profit per share is calculated in accordance with IAS 33.9 et seqq. by dividing the consolidated profit from continuing business operations by the weighted average of the number of ordinary shares outstanding.

The diluted profit per share is calculated in accordance with IAS 33.30 et seqq. by dividing the consolidated results from continuing business operations, adjusted for the after-tax ef-

Consolidated Notes

fects of any interest recognised in the period related to potential ordinary shares, by the weighted average number of shares outstanding plus the weighted number of shares which would be issued on the conversion of all dilutive potential shares into ordinary shares.

	2016	2015
Consolidated profit in €k	26,434	45,799
Weighted average less own shares held (number)	54,764,649	54,022,158
Undiluted consolidated profit per share in €	**0.48**	**0.85**
Consolidated profit in €k	26,434	45,799
Net effect on results from convertible bond in €k	0	2,386
Adjusted consolidated profit in €k	**26,434**	**48.185**
Weighted average less own shares held (number)	54,764,649	54,022,158
Shares from convertible bond to be included as average (number)	0	4,549,942
Adjusted weighted average less own shares held (number)	**54,764,649**	**58,572,100**
Diluted consolidated profit per share in €	**0.48**	**0.82**

Dilution effects can result because of potential ordinary shares from the issue of the convertible bond. The calculation of the diluted profit per 31 December 2016 did not include consideration of 4,764,718 shares because they would have counteracted a dilution.

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 provision in fiscal year 2016:

» Drillisch Online AG, Maintal

» IQ-optimize Software AG, Maintal

Maintal, 21 March 2017

Drillisch Aktiengesellschaft

Vlasios Choulidis André Driesen

Affidavit 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, 21 March 2017

Vlasios Choulidis André Driesen

Auditor´s Report

We have audited the consolidated financial statements prepared by the Drillisch Aktiengesellschaft, Maintal, comprising the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the financial year from 1. January 2016 to 31. December 2016. 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 § 315a(1) of the HGB *(and the supplementary provisions of the shareholder agreement/articles of association/articles of incorporation)* are the responsibility of the legal representatives of the parent company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the HGB and the 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 financial information of those components consolidated, the scope of the consolidation, the accounting and consolidation principles used and the 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 § 315a(1) of the HGB (and the supplementary provisions of the shareholder agreement/articles of association/articles of incorporation) 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, complies with the legal requirements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 21 March 2017

BDO AG Wirtschaftsprüfungsgesellschaft

signed Fritz	signed Ahrend
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

INVESTOR RELATIONS CORNER

Financial Calendar | Dividend Policy | Current Analyst Assessments

1. Financial Events Calendar

Finacial Events 2017*

Date	Subject
Thursday, 23rd March 2017	Annual Report 2016
Thursday, 11th May 2017	Quarterly Close Q1 2017
Thursday, 18th May 2017	Annual General Meeting, Frankfurt
Thursday, 10th August 2017	Quarterly Close Q2 2017
Tuesday, 14th November 2017	Quarterly Close Q3 2017

* These provisional dates are subject to change.

2. Dividend Policy

The Annual General Meeting on 19 May 2016 adopted a resolution to disburse a dividend of €1.75 per voting share for the past fiscal year 2015, the seventh dividend increase in succession. For fiscal 2016, both the supervisory board and the management board, propose the eighth increase in the dividend to €1.80 to the Annual General Meeting on 18 May 2017. We want to ensure that shareholders benefit appropriately from the success of the Company in future as well.

3. Current Analyst Assessments (Last Reveised 20 February 2017)

In posting an EBITDA for fiscal year 2016 in the amount of €120.2 million, we exceeded the forecast (EBITDA forecast 2016: €115 million to €120 million) and surpassed the figure of €105.6 million in fiscal year 2015. We expect a further increase in the profitable development to an EBITDA of €160 million to €170 million in fiscal year 2017. Overall, the capital market views the Drillisch stock as promising because of our long-term dividend policy and good strategic positioning on the German mobile network market.

Latest analyst assessments (per 20 February 2017)

Analysis	Rating	Target	Date
DZ Bank	„Buy“	€50.00	20 February 2017
ODDO	„Hold“	€44.00	20 February 2017
UBS	„Buy“	€50.00	15 February 2017
Kepler	„Buy“	€49.00	13 February 2017
Barclays	„Overweight“	€60.00	07 February 2017
HSBC	„Buy“	€48.00	07 February 2017
Macquarie	„Buy“	€53.00	07 February 2017
Warburg	„Hold“	€40.00	01 February 2017

A constantly updated overview of the analysts' recommendations can be found on the Drillisch AG IR home page

www.drillisch.de

→ Investor Relations
→ Research Notes

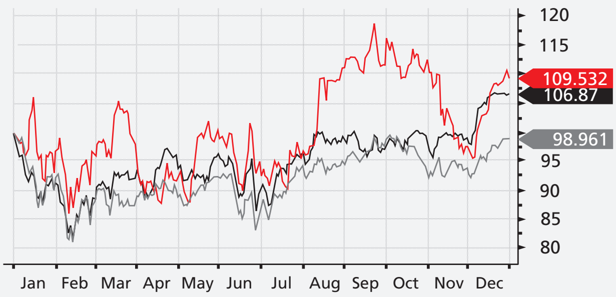
Share Price Development | Middle- and Long-term Dividend Development

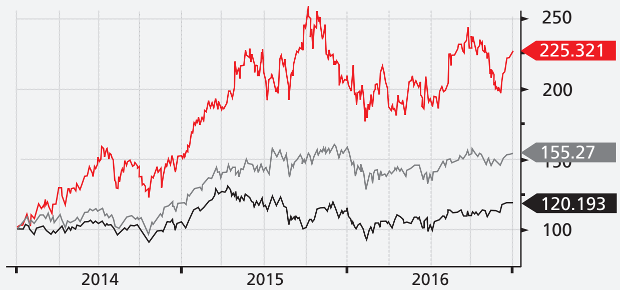
4. Share Price Development in Trading Year 2016

The performance of the Drillisch stock during 2016 in comparison with the indices

	2015 year end	2016 year end	%-change
Drillisch	€39.09	€40.895	+ 4.6
TecDAX	1,830.74	1,811.72	- 1.0
DAX	10,743.01	11,481.06	+ 6.9

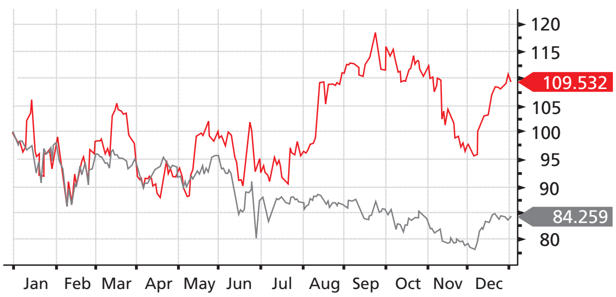
Middle- and long-term price performance of the Drillisch stock significantly better than DAX and TecDAX*





Drillisch DAX TecDAX

Middle- and long-term price performance of the Drillisch stock significantly better than EUROSTOXX 600*



Drillisch EUROSTOXX 600 Telecommunication

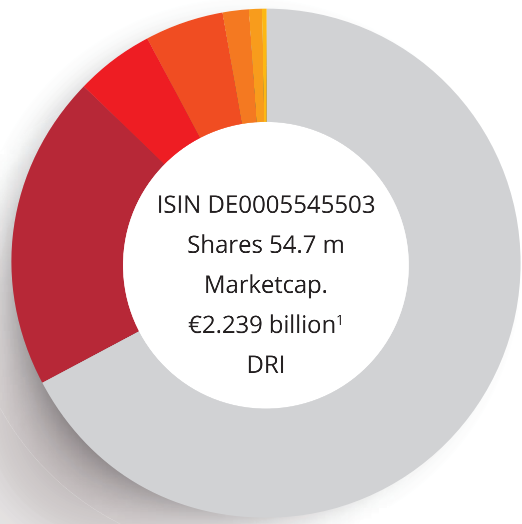
* Indices and the Drillisch-Share show a dividend adjusted performance

Director´s Holdings | Shareholder Structure

5. Directors' Holdings per 31 December 2015

Management Board	No-par-shares
Vlasios Choulidis	400,000 ▶ 0.73 %
MV Beteiligungs GmbH	15,000 ▶ 0.03 %
Supervisory Board	**No-par-shares**
Marc Brucherseifer, Dipl.-Kfm. (Chair)	1,019,775 ▶ 1.86 %

6. Shareholder Structure (as of 31 December 2016)



- 66.06 % | Free Float | Shs. 36,180,262
- 20.11 % | United Internet Ventures AG | Shs. 11,012,730
- 6.42 % | Allianz Global Investors Europe GmbH | Shs. 3,516,787
- 4.78 % | Alken Luxemburg | Shs. 2,620,095
- 1.86 % | M. Brucherseifer, Dipl.-Kfm. | Shs. 1,019,775
- 0.73 % | V. Choulidis | Shs. 400,000
- 0.03 % | MV Beteiligungs GmbH | Shs. 15,000

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 €40.895 on 31 December 2016. Free Float acc. to the rule of Dt. Boerse AG: 79.89%.

7. Investor Relations

Communications are conducted in conformity with the fair disclosure principle, i.e. all shareholders and interested parties are simultaneously provided with the same type of information about all important developments. The ongoing work can be followed and tracked equally by all investor groups on our investor relations home page where all of our relevant reports can be viewed. Many of the people interested in our Company also take advantage of the opportunity for personal contact via email and/or telephone.

SERVICE CORNER

Publications | Contacts | Information and Order Service

Publications

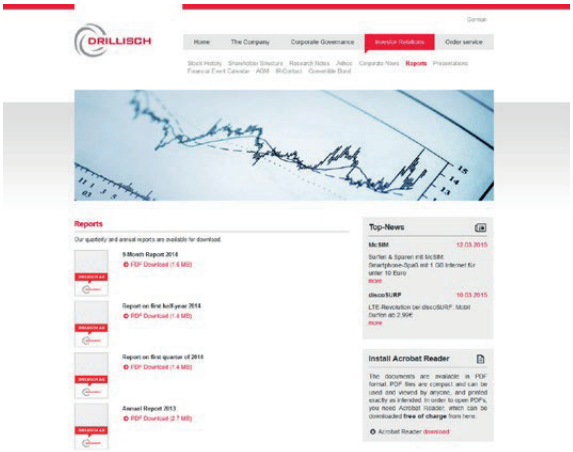
This Annual Report 2016 is also available in German.

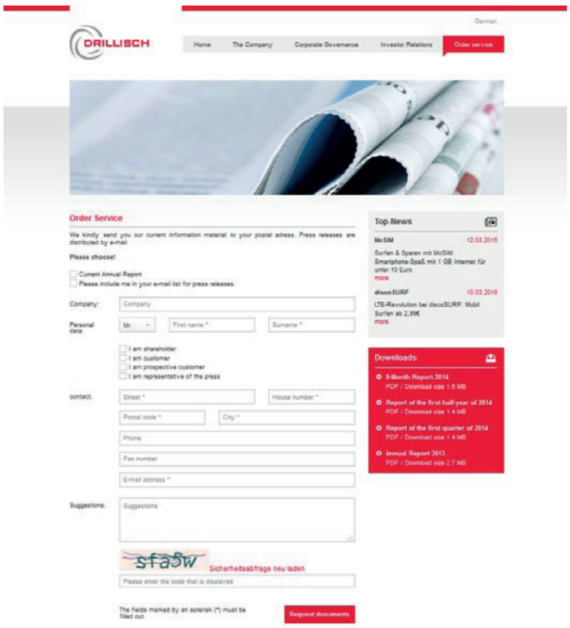
You can view and download our business and quarterly reports, ad-hoc announcements, press releases and other publications about Drillisch AG at www.drillisch.de → Investor Relations

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.





Your Contacts

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

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E-Mail: presse@drillisch.de

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

AGPPU
(Abbreviation for *average gross profit per user*)

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.

Apps
Apps (or mobile apps) is the short form for applications, small software programs for mobile end appliances, such as ➔ smartphones or ➔ tablet computers. These programs range from simple tools and fun games offering just one function right up to entire suites offering a comprehensive range of functions.

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.

Glossary

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
LTE stands for Long Term Evolution and describes the internationally coordinated development of existing wireless communication technology. It offers higher data rates than GSM or UMTS. LTE is classified as the 3rd wireless communication generation, with the chronological name 3.9 G. As with the other wireless communication generations, operation requires a network comprised of base stations that service a specific area and appropriately compatible end appliances. In the frequency ranges that are earmarked in Germany for LTE, the network structure that still has to be established is very similar to the cell structure currently used by the existing wireless communication networks. As such, numerous existing wireless communication sites will also be used for LTE technology. (Source: http://emf2.bundesnetzagentur.de/tech_lte.html)

M

MBA MVNO (Mobile Bitstream Access Mobile Virtual Network Operator)
An MBA MVNO is a telephone company that is comparable to an MVNO (see MVNO); however, in contrast to an MVNO, it has entered into an obligation to purchase network capacity (percentage share of the utilised network capacity of a network operator). An MBA MVNO operates on equal footing with the network operator and has unlimited access to all current and future technologies.

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

Near field communication (NFC)
Near field communication, or NFC, is a wireless transmission technology for enabling contactless data exchange between appliances that are just a few centimetres apart. For example, it can be used to provide access to content, or to offer services such as cashless payments or ticketing. (Source: http://www.elektronik-kompendium.de/sites/kom/1107181.htm)

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.

Glossary

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.

Smartphone
A mobile phone with more advanced computer functions and connectivity than offered by a standard mobile phone. Equipped with high-resolution touch screen and internet connection via mobile broadband or WLAN, smartphones can display web pages, for example, or receive and send e-mails.

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

Tablet computer
A tablet computer, or tablet PC, is a portable flat and particularly lightweight computer that is equipped only with a touch screen, but does not have a mechanical keyboard. As with a ➔ smartphone, it accesses the internet via mobile broadband or wireless LAN. Tablet computers are mainly used for studying media while on the move, as e-readers, and for mobile internet access.

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.

Legal Information

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Drillisch AG

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(Spokesperson, until 30 June 2016)

Vlasios Choulidis
(Spokesperson from 1 July 2016)

André Driesen

Supervisory Board:
Marc Brucherseifer
(Chairman), Dipl.-Kfm.

Dr Susanne Rückert
(Deputy Chairperson)

Norbert Lang

Dr Horst Lennertz, Ingenieur

Frank Rothauge, Dipl.-Kfm.

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Disclaimer:

The information provided in this publication has been checked carefully. However, we cannot guarantee that all specifications are complete, correct and up to date at all times.

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.

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