DRILLISCH AG

Report on First Quarter 2017

» **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	I/2017	I/2016	IV/2016	III/2016	II/2016	I/2016
Income Statement						
Revenue in €m	152.9	173.4	187.9	180.9	167.8	173.4
Service Revenues (total) in €m	151.1	124.6	146.9	142.9	136.9	124.6
MBA Service revenues in €m Gross[1]	134.9	90.2	128.9	120.4	105.8	90.2
MBA Service revenues in €m Net[2]	112.8	79.9	108.3	103.0	92.5	79.9
Gross profit in €m	72.1	68.2	73.2	68.6	68.9	68.2
Gross profit in % of revenue	47.2	39.3	39.0	37.9	41.1	39.3
EBITDA in €m	35.1	24.0	37.5	31.6	27.1	24.0
EBITDA margin in % of revenue	23.0	13.8	20.0	17.5	16.2	13.8
Depreciation excluding goodwill in €m	14.5	12.3	15.6	12.1	12.2	12.3
EBIT in €m	20.6	11.7	12.7	19.4	14.9	11.7
EBIT in €m - adjusted*	20.6	11.7	21.9	19.4	14.9	11.7
EBITmargin in % of revenue	13.5	6.7	6.8	10.7	8.9	6.7
EBIT margin % of revenue - adjusted*	13.5	6.7	11.7	10.7	8.9	6.7
EBT in €m	19.7	10.9	12.1	18.6	13.9	10.9
EBT in €m - adjusted*	19.7	10.9	21.3	18.6	13.9	10.9
EBT margin in % of revenue	12.9	6.3	6.4	10.3	8.3	6.3
EBT margin in % of revenue - adjusted*	12.9	6.3	11.3	10.3	8.3	6.3
Consolidated profits in €m	13.7	7.5	-3.9	13.1	9.7	7.5
Consolidated profits in €m - adjusted*	13.7	7.5	14.8	13.1	9.7	7.5
Consolidated profit margin in % of revenue	9.0	4.3	-2.1	7.3	5.8	4.3
Consolidated profit margin in % of revenue - adjusted*	9.0	4.3	7.9	7.3	5.8	4.3
Profit/loss per share in €	0.25	0.14	-0.07	0.24	0.17	0.14
Profit/loss per share in € - adjusted*	0.25	0.14	0.28	0.24	0.17	0.14
Cash flow						
Cash flow from current business operations in €m	12.8	-10.3	22.5	-3.6	71.8	-10.3
Cash flow from investment activities in €m	-5.4	-2.5	-1.3	-19.9	-0.8	-2.5
Cash flow from financing activities in €m	-0.4	-47.9	0.5	-0.4	-38.9	-47.9
Cash in €m	99.8	62.8	92.8	71.1	94.9	62.8
Balance Sheet						
Balance sheet total in €m	582.2	626.5	595.2	582.6	611.7	626.5
Equity in €m	298.7	360.5	283.4	287.5	274.4	360.5
Equity ratio (equity as % of balance sheet total)	51.3	57.5	47.6	49.3	44.9	57.5
Debenture bonds in €m	93.3	92.1	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)	898	928	916	918	923	928
Wireless Services Subscribers (31/03/2017) (in Thousands)	**3,615**	**2,797**	**3,430**	**3,214**	**3,003**	**2,797**
Thereof MVNO subscribers	**3,548**	**2,712**	**3,359**	**3,138**	**2,922**	**2,712**
Thereof budget subscribers	3,068	2,100	2,863	2,600	2,338	2,100
Thereof volume subscribers	480	612	496	538	584	612
Revenue per MBA subscriber						
MBA ARPU Gross[3]	14.54	14.31	15.02	15.44	15.18	14.31
MBA ARPU Net[4]	12.16	12.66	12.63	13.22	13.27	12.66

* Adjusted in Q4 2016 for the effects from the restructuring of Phone House and the sale of the network operator business.
[1] MBA Service Revenues in €m Gross → including customer benefits
[2] MBA Service Revenues in €m Net → after the deduction of discounts
[3] MBA ARPU Gross → including customer benefits
[4] MBA ARPU Net → after the deduction of discounts

Letter from the Management Board

Vlasios Choulidis
Executive-Board, Director of Sales

André Driesen
Director of Finances

Dear Shareholders,

We have made a good start to 2017 and have been able to maintain our course of profitable growth, above all by continuing the ongoing dynamic expansion of our clientele and by focusing on our core business.

Our position as the sole MBA MVNO on the German mobile services market allows us to offer customised, individual mobile services products tailored to the specific needs of our customers that need fear no comparison with the rate plans of network operators with respect to technology and performance. Thanks to the unrestricted access to LTE and all future technologies, we are poised in a solid position to meet what the future brings. Our established online brands in combination with the offline sales of the yourfone brand in more than 200 shop locations lay a solid foundation for our continued success.

The demand for our product "mobile services" is rising steadily as smartphones become increasingly indispensable to many people. According to a representative survey conducted by Bitkom, the smartphone is already today the first choice for reading news online of just under two-thirds of all internet users (63%). The survey shows that the smartphone is in second place when people want to go online for personal reasons. Surfing the internet is the primary use for 30% of the respondents. One year ago, it was only 20%. As a gateway to the internet, the smartphone is second in popularity only to the laptop, which is used by 35%. The corresponding figure of the previous year was 43%. Clearly, the smartphone continues to gain ground.

The data volume transmitted via mobile networks continues to rise sharply. Figures released by the Federal Network Agency and the industry association Bitkom show that traffic exploded from 100 million to 591 million gigabytes between 2011 and 2015. The estimate for 2016 is 860 million gigabytes, and the figure for 2017 is expected to climb to as much as 1,200 million gigabytes.

Revenues from data services are becoming increasingly important earnings sources for mobile services providers and in Germany posted a share of 44.7% in 2016 (2015: 40.0%) of the virtually unchanged total revenues of €26.4 billion.

The continued rise in data consumption is above all a consequence of applications such as the streaming of video content and music. TV streaming is becoming increasingly popular. According to a use study conducted by TNS Infratest and Zattoo, 48% of the respondents in a survey in 2016 could imagine watching television exclusively via TV streaming. In April, right in synch with the deactivation of

Letter from the Management Board

the digital aerial television service DVB-T, Drillisch concluded a cooperation agreement with Zattoo, the leading provider of TV streaming services in Europe, strengthening its portfolio of content. Customers of the Drillisch brands can book Zattoo Premium easily and at an especially favourable price. The charges are simply added to the monthly telephone bill.

Let us now turn to our operating business.

During Q1 2017, we were able to grow dynamically in our core business in a market environment that remains intensely competitive and increase all of the major performance indicators over the results of the same period last year.

The driver of this overall good development of the subscriber base, which increased by 185,000 subscribers (5.4%) to 3.615 million subscribers (Q4 2016: 3.430 million subscribers), was once again the highly dynamic growth in the MVNO budget subscriber segment. The number of new subscribers in this segment rose by 205,000 (7.2%) to 3.068 million subscribers (Q4 2016: 2.863 million subscribers). The number of volume subscribers continued to fall as expected to 480,000 (Q4 2016: 496,000 subscribers). The total number of MVNO subscribers grew by 189,000 (5.6%) to 3.548 million subscribers (Q4 2016: 3.359 million subscribers). In comparison with the corresponding closing date of the previous year, we were able to increase the number of MVNO subscribers by 836,000 (30.8%) within one year. At the same time, the monthly average revenue per user, adjusted for customer benefits (MBA ARPU gross), rose by 23 eurocents in comparison with the same quarter of the previous year to €14.54.

As a consequence, we were able to increase significantly the service revenues as well. In comparison with the period of the previous year, they increased by €26.5 million (21.3%) to €151.1 million (Q1 2016: €124.6 million). Consolidated revenues in the first quarter, on the other hand, declined by €20.5 million (11.8%) to €152.9 million (Q1 2016: €173.4 million) because of the sale of the low-margin distribution business (i.e. the commission-based brokerage of contracts with network operators, including the related hardware business) that had, for instance, been carried out by our subsidiary, The Phone House, until the sale. This transaction was explained in detail in the Annual Report 2016 and executed at the beginning of January 2017. Nevertheless, we generated gross profit of €72.1 million that was significantly higher (€3.9 million; 5.7%) than the level of the same period of the previous year (Q1 2016: €68.2 million).

The EBITDA (earnings before interest, taxes, depreciation and amortisation), one of the most important performance indicators for our business model, rose by €11.1 million (46.4%) in Q1 2017 over the same quarter of the previous year (Q1 2016: €24.0 million) to €35.1 million.

Operating cash flow in Q1 amounted to €12.8 million (Q1 2016: €-10.3 million). The ability to generate sustainably positive payment flows, the cash reserves (which amounted to €99.8 million as of the closing date) and other attractive financing opportunities ensure that we will have the flexibility to continue the expansion of or additions to our business where it appears reasonable and to seize any opportunities which arise in the future.

Letter from the Management Board

Our good start to the new fiscal year bolsters our confidence as we look ahead to the future. We can confirm our guidance and see no reason to change our expectations of a further rise in the EBITDA to between €160 million and €170 million for fiscal year 2017 (2016: €120.2 million).

Supervisory Board and Management Board have proposed a rise in the dividend of 5 eurocents to €1.80 per share, which is entitled to dividend for the past fiscal year 2016 to the Annual General Meeting on 18 May 2017. We want to ensure that shareholder benefit appropriately from the success of the Company in future as well.

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

COMMERCIAL DEVELOPMENT OF THE DRILLISCH GROUP AS PER 31 MARCH 2017

Group Companies

Drillisch AG – Successful Start to Fiscal Year 2017

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).

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 the continuation of its successful corporate development 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 has granted 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”).

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.

Drillisch Online AG

Drillisch Online AG is in charge of the mobile services business operations 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 Düssel-

Group Companies

dorf), 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 209 of them were still operating per 31 March 2017.

GTCom GmbH

GTCom GmbH is a mobile services provider specialising in prepaid products (Galeria-mobil or n-tv go! are among the brands it offers) and operating in Germany as a subsidiary of Drillisch AG.

The Phone House Deutschland GmbH

The Phone House Group is a subsidiary of Drillisch AG supporting both yourfone partner shops as well as yourfone's own shops; it is in charge of the provision of all hardware for online and offline sales. In the same period last year, Phone House also sold original products of the network operators along with the Group's own yourfone rate plans.

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 mobile services business operations 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.

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 2015. 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 yourfone partner shops and yourfone's own shops as well as distribution business and, until the end of 2016, also sold original products from network operators along with the Group's own yourfone rate plans.

Employees

In the first three months of 2017, an average of 898 employees (previous year: 928), including the two members of the Drillisch AG Management Board, was on the payroll of Drillisch Group. The number of vocational trainees, who are not included in the above figure, was 60 (previous year: 47).

The Wireless Services Market

The mobile network market

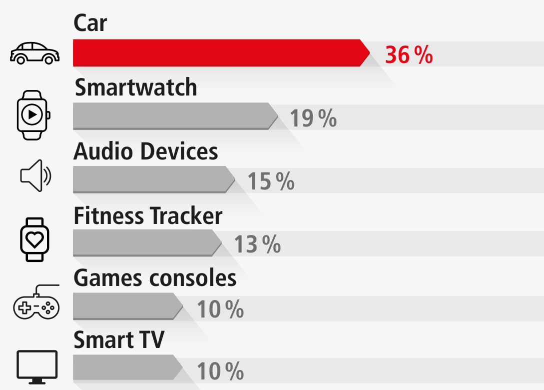
The importance of the smartphone continues to grow. According to a representative survey conducted by Bitkom, the smartphone is already today the first choice for reading news online of just under two-thirds of all internet users (63%). Six out of ten respondents (60%) use their smartphones to listen to music, and more than half (56%) use the available navigation systems on the devices for guidance, according to the industry association. According to a survey conducted by the industry association Bitkom, the smartphone is in second place when people want to go online for personal reasons. 30% of the respondents use it primarily for surfing the internet; a year ago, the corresponding figure was only 20%. As a gateway to the internet, the smartphone is second in popularity only to the laptop, which is used by 35%. The corresponding figure of the previous year was 43%. The smartphone continues to gain ground.

The data volumes transmitted via mobile networks continues to rise strongly. While mobile data volume between 2011 and 2015 rose from 100 million to 591 million gigabytes, the Federal Network Agency and Bitkom expect 860 million gigabytes for 2016 and predict up to 1,200 million gigabytes for 2017. Revenues from data services are becoming increasingly important earnings sources for mobile services providers and posted a share of 44.7% (2015: 40.0%) in 2016 of the virtually unchanged total revenues of €26.4 billion. According to estimates from VATM and DIALOG CONSULT, the share of revenues from voice services and activation fees declined to 48.0% (2015: 52.1%). The remaining revenues came from hardware and other areas.

The continued rise in data consumption is a consequence of applications such as the streaming of video content and music. TV streaming is becoming increasingly popular. According to a use study conducted by TNS Infratest and Zattoo, 48% of the respondents in a survey in 2016 could imagine watching television exclusively via TV streaming. In April, right in synch with the deactivation of the digital aerial television service DVB-T, Drillisch concluded a cooperation agreement with Zattoo, the leading provider of TV streaming services in Europe, strengthening its portfolio of content. Customers of the Drillisch brands can book Zattoo Premium easily and at an especially favourable price. The charges are simply added to the monthly telephone bill.

The Internet of Things will be another driver behind mobile data consumption. A Bitkom survey determined that numerous smartphone users connect their mobile end devices to other devices. In the ranking of these devices, the car is in first place. 36% of the respondents connect their smartphones to their cars. Cars are followed by smartwatches (19%) and audio devices (15%). 13% of the respond-

Mobile Data Consumption
Numerous smartphone users connect their mobile end devices to other devices



Source: BITKOM

The Wireless Services Market

ents connect their smartphones with a fitness tracker, followed by game consoles and smart TVs at 10% each. Connections to household appliances are at the very low end of the scale, posting a mere 8%.

The growing data volume for mobile services is also adding to the demands on the network. The continued development of the current mobile network standard LTE (4G) is characterised technically above all by bandwidths in the GBit/s range and ultra-low latency periods in combination with significantly reduced energy consumption. In its “TMT Predictions 2017” entitled “Digital Evolution”, the consulting company Deloitte assumes that 2017 will be a decisive year for the realisation of the new mobile network standard 5G. The road to the standard will initially go through optimised 4G networks that contain the first 5G components; the major interim stages will be LTE Advanced and LTE Advanced Pro. By the end of 2017, 200 carriers will presumably be operating these networks. Nevertheless, the market implementation of 5G with wide-area coverage is not to be expected before 2020.

Drillisch Group, the only MBA MVNO, has an unrestricted, long-term access and marketing right with regulatory protection to current and all future technologies. Drillisch can perform like a network operator without having to make extensive investments in the expansion of the networks.

Raising the bar with innovative and transparent mobile services products

Drillisch sets standards on the German mobile market. A business model of an MBA MVNO, unique in Europe, that guarantees access to the core network of Telefónica Germany and its latest future technologies (among others) gives Drillisch unique prospects for growth. A differentiated rate plan portfolio that integrates the specific wishes of its clientele (currently numbering 3.6 million), award-winning customer service and qualified, motivated employees are and will remain major pillars of the Company’s commercial success.

New rate plans for Germany and Europe

In the middle of June 2017, the regulations governing roaming will change profoundly in the member states of the European Union. Drillisch has already responded to this development and seized the opportunity to adapt its rate plan portfolio to the differing individual needs of its customers. The previous EU packages in the rate plans of the two premium brands smartmobil.de and yourfone have been replaced with Europe packages. The new Europe package does not limit the proportionate utilisation of data volume to the countries in which the EU regulation applies. It extends beyond the 28 member states of the European Union to include countries belonging to the European Economic Area such as Norway, Iceland and Liechtenstein. smartmobil.de or yourfone customers can now surf the internet on their mobile devices at no additional cost on

The Wireless Services Market

the Isle of Man, in Andorra and in Switzerland as well. Naturally, the Europe package also includes phone calls in the visited country and to Germany. This substantial improvement in the rate plans is especially significant for the non-EU country Switzerland. Other providers charge additional fees of up to €5.99 a day in this popular holiday and transit country.

But Drillisch also thinks about the customers who do not want to travel abroad, who do not need to be reachable when they are there or who are content with communication using the Wi-Fi networks in the hotels or restaurants in other countries. The Drillisch brand DeutschlandSIM introduced rate plans for these customers in February 2017; the plans can be used only in Germany and offer a significantly lower price in comparison with the rate plans that can be used internationally.

A rate plan that can be used only in Germany with 3 GB LTE data volume and unlimited calls and texts for all networks can at this time be purchased for as little as €9.99 a month. On average, customers who do not need or do not want to roam can save at least one-third over the rate plans that can be used in other countries. The national rate plans for people who use their phone very little start at €4.99 a month. If the customer's needs change, that is no problem for DeutschlandSIM. Changes to other rate plans are possible at any time for all Drillisch brands even during the contract terms.

Higher-value rate plan world for the premium brand smartmobil.de

The four all-net rate plans with unlimited calls/texts for the online premium brand smartmobil.de became even more valuable during Q1 2017. They offer to customers large data volumes as well as the higher-value Europe package. A monthly surfing volume of 2 GB is available for €9.99 a month during the first year and €13.99 a month starting in the second year. For a limited time during a campaign in Q1 2017, two smartmobil.de rate plans offered twice the data volume of the basic rate plans at the same price.

Customers who want to be able to surf especially fast can book the turbo as an option to the new all-net rates with unlimited calls/texts. Starting at €5 a month more, the maximum surfing speed increases from 50 MBit/s to the currently highest possible rate of 225 MBit/s. Network operators are the only providers who can offer comparable technology and speed, but their prices for the same service are significantly higher.

smartmobil.de has a new face and does good as well

The name behind the new advertising face of smartmobil.de is Lukas Podolski. The likeable footballer, formerly a member of the German international side, urges people to change to smartmobil.de with the slogan "Wechsel dich smart" in a broadly-designed advertising campaign on hoardings, in TV commercials and via social media on the internet. One of the elements of the cooperation between smartmobil.de and the football star is the support of his charity, the Lukas Podolski Foundation.

yourfone shows its colours on posters and in advertisements

In the segment Offline, the premium brand yourfone has prominently flown its colours. In a number of German cities such as Hanover, Berlin, Munich, Leipzig and Osnabrück, your-

The Wireless Services Market

fone has attracted the attention of potential customers to the campaign offer of the premium offline brand. The focus of the advertising activities is the rate plan yourfone LTE Starter; for €9.99 a month during the first year, it offers 3 GB instead of the usual 2 GB in data volume as well as an all-net rate with unlimited calls and texts.

yourfone the victor of the hotline test conducted by connect

Drillisch makes massive investments in customer service. Among other improvements, the number of agents in the call centre in Krefeld has been increased to over 100 full-time employees, an increase of 62% over the previous year. Unlike other providers who outsource functions like their call centres or relocate them to low-wage countries, Drillisch determinedly counts on its own service employees and Germany as a business location and accepts the higher personnel expenses. The external service providers who support our own customer service employees in answering customer queries are also located in Germany.

And the ongoing investments in customer service yield growing rewards. In a test conducted by the respected journal connect and published in its issue 4/2017, yourfone scored 425 out of 500 possible points in the group of “Alternative Service Providers”, taking first place and receiving a rating of “Excellent”. yourfone also left network operators such as Deutsche Telekom and o2 behind with these test results.

The test rating of the editorial staff was based on a large number of diversified assessment criteria. Service was examined especially closely. yourfone scored points with its friendly and competent staff who considered the needs of each individual caller and proved to be highly competent in their field.

Quality and competence of Drillisch, the price leader, secure a top position

Whether in online trade or brick-and-mortar stores: Drillisch is in an excellent position for the future and for continued growth thanks to its high-quality rate plans offering best value for money in the German market environment coupled with superb counselling competence in the call centre and in its own and partner shops. The Chamber of Industry and Commerce of the Middle Lower Rhine certainly had good reasons for honouring the Krefeld site for its outstanding work in vocational training.

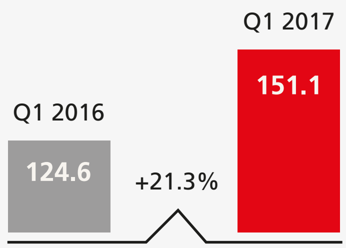
Turnover and Earnings Position

Revenue and earnings position

Drillisch once again emphasises the strength of its operations by increasing further the "service revenues" and significantly raising the EBITDA in Q1 2017 in comparison with the same period of the previous year. 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 subscriber contracts – amounted to €151.1 million gross (adjusted for included customer benefits in the form of one-time or limited-term discounts) in the first three months of 2017 (Q1 2016: €124.6 million). Including theNet (i.e. after deduction of these customer benefits (= cost of sales)), service revenues in Q1 2017 rose by €14.8 million (13.0%) to €129.0 million (Q1 2016: €114.2 million). During the same period, the direct cost of sales included in the service revenues rose correspondingly by €11.7 million to €22.1 million (Q1 2016: €10.4 million).

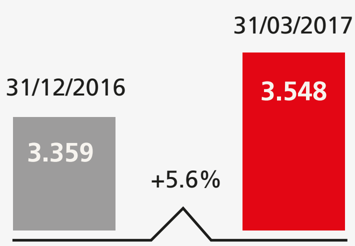
Service Revenues (in €m)



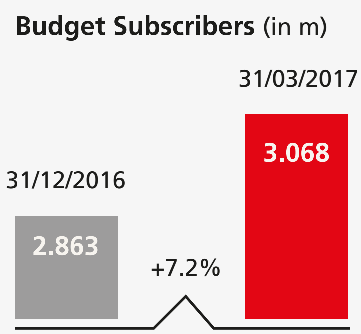
The low-margin "Other revenues" fell by €47.0 million to €1.8 million (Q1 2016: €48.8 million). The change over the same period of the previous year is essentially a consequence of the sale of the distribution business of Phone House in January 2017. Total revenue in in the first three months of 2017 amounted to €152.9 million (Q1 2016: €173.4 million). The decline in total revenues and of sales in the segment Offline result from the sale of the low-margin distribution business of Phone House in January 2017. Revenue in the segment Online increased by €23.4 million (23.1%) to €124.8 million (Q1 2016: €101.4 million). Revenues in the segment Offline and the segment Miscellaneous amounted to €49.3 million (Q1 2016: €81.9) and €0.3 million (Q1 2016: €0.3 million), respectively. The total of the segment revenues contains €21.4 million in sales revenues from intercompany relationships that were eliminated during the consolidation process (Q1 2016: €10.2 million).

The MVNO clientele increased further in Q1 2017 by 189,000 (5.6%) to 3.548 million subscribers (31 December 2016: 3.359 million MVNO subscribers).

MVNO Subscribers (in €m)



Turnover and Earnings Position

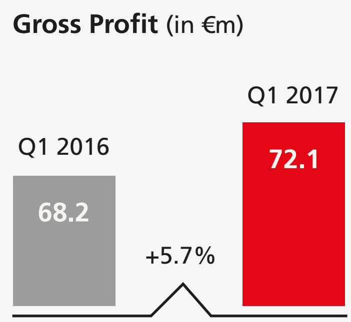


The number of qualitatively higher-value, high-margin budget subscribers increased by 7.2% to 3.068 million subscribers per 31 March 2017 (31 December 2016: 2.863 million subscribers). The number of lower-margin volume subscribers decreased as expected from 496,000 per 31 December 2016 to 480,000 subscribers per 31 March 2017. In comparison with Q1 2016, the MVNO clientele has increased by a total of 836,000 and the budget clientele has risen by 968,000 within one year.

The total number of customers, i.e. including the remaining subscriber contracts in the service provider model, has risen by 185,000 to 3.615 million (31 December 2016: 3.430 million) since the beginning of the year, so the trend to a rise in the total customer numbers continues.

The cost of materials decreased during Q1 2017 by 23.2% to €80.8 million (Q1 2016: €105.2 million). The underlying cause for the decline in the total cost of materials and in the segment Offline is essentially found in the sale of the distribution business of Phone House in January 2017. In the segment Online, the cost of materials rose by €13.5 million (24.1%) to €69.7 million (Q1 2016: €56.2 million). Cost of materials in the segment Offline and the segment Miscellaneous amounted to €32.4 million (Q1 2016: €59.0 million) and €0.1 million (Q1 2016: €0.1 million), respectively. The total of the segment expenses includes expenditures from intercompany relationships in the amount of €21.5 million that were eliminated during the consolidation process (Q1 2016: €10.1 million).

As a consequence of the continued growth in clientele and the qualitative improvement of the rate plan mix, gross profit rose by €3.9 million from €68.2 million in Q1 2016 to €72.1 million per 31 March 2017. The gross profit margin rose to 47.2% (Q1 2016: 39.3%) as a consequence of the decline in the low-margin distribution business.



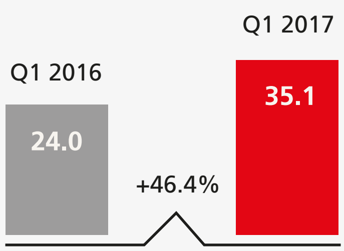
Gross profit in the segment Online in Q1 2017 amounted to €55.1 million (Q1 2016: €45.2 million). The gross profit margin in the segment Online came to 44.2% (Q1 2016: 44.6%). Gross profit in the segment Offline in Q1 2017 came to €16.8 million (Q1 2016: €22.8 million). The gross profit margin came to 34.2% (Q1 2016: 27.9%).

Personnel expenses decreased by 15.0% to €12.2 million (Q1 2016: €14.4 million) as a result of the decline in headcount over the same quarter last year. The personnel expenses ratio decreased slightly by 0.3% to 8.0% (Q1 2016: 8.3%).

Turnover and Earnings Position

Other operating expenses fell in total by €6.8 million to €26.8 million (Q1 2016: €33.6 million). Rent expenses and ancillary costs amounted to €3.7 million (Q1 2016: €4.4 million). Expenditures related to bad debts and valuation allowances on receivables in Q1 2017 increased by €1.1 million to €5.6 million (Q1 2016: €4.5 million). Advertising expenses declined by €4.8 million to €7.3 million (Q1 2016: €12.1 million) primarily because of the shift away from general brand advertising to direct expenditures for new customer acquisition that impact gross profit.

EBITDA (in €m)



Consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation), one of the most important management indicators at Drillisch Group, amounted to €35.1 million (Q1 2016: €24.0 million). The EBITDA margin came to 23.0% (Q1 2016: 13.8%).

EBITDA in the segment Online increased by €9.3 million to €36.8 million (Q1 2016: €27.5 million). In the segment Offline, the segment EBITDA amounted to €-0.6 million (Q1 2016: €-2.4 million). The EBITDA in the segment Miscellaneous per 31 March 2017 amounted to €0.5 million (Q1 2016: €0.1 million).

Amortisation and depreciation rose by €2.2 million to €14.5 million (Q1 2016: €12.3 million). The increase results essentially from the trademark rights acquired in fiscal year 2016 that have been capitalised as intangible assets and will be written off over the expected useful life of 3 years. Write-offs and depreciation totalling €2.5 million (Q1 2016: €0.0) result from this in Q1 2017. The intangible assets identified within the framework of the purchase price allocation of yourfone and of Phone House will be written off over the usual useful life of 6 and 2.5 years, respectively. Write-offs and depreciation in Q1 2017 totalling €5.3 million (Q1 2016: €5.3 million) result from this. Additional depreciation and amortisation of €2.5 million (Q1 2016: €2.5 million) result from Drillisch's contribution pursuant to the MBA MVNO agreement concluded with Telefónica of €150 million to the investments previously made and to be made in future by Telefónica in the expansion of the LTE network and in future technologies; this contribution has been capitalised under Other intangible assets and will be written off over the expected useful life of 15 years.

The EBIT (earnings before interest and taxes) amounted to €20.6 million (Q1 2016: €11.7 million). The EBIT margin rose by 6.8% from 6.7% in Q1 2016 to 13.5% per 31 March 2017.

The interest result amounted to €-0.9 million (Q1 2016: €-0.8 million).

Taxes on income rose by €2.7 million to €6.0 million (Q1 2016: €3.4 million). Consolidated profit amounted to €13.7 million (Q1 2016: €7.5 million). The consolidated total profit per 31 March 2017 also amounted to €13.7 million (Q1 2016: €7.5 million). Undiluted profit per share came to €0.25 (Q1 2016: €0.14).

Assets, Liabilities and Financial Position

Assets, liabilities and financial position

Non-current assets declined in total by €13.3 million to €364.4 million during Q1 2017 (31 December 2016: €377.7 million). The decline resulted primarily from the scheduled write-offs on intangible assets over their usual useful life amounting to €13.6 million in Q1 2017.

Deferred tax assets increased slightly by €0.5 million to €13.2 million (31 December 2016: €12.7 million).

The cash balance increased by €7.0 million to €99.8 million (31 December 2016: €92.8 million). Trade receivables amounted to €95.8 million (31 December 2016: €92.7 million). Other current assets increased by €9.3 million to €14.3 million (31 December 2016: €5.0 million). In total, current assets increased by €17.4 million to €217.9 million (31 December 2016: €200.5 million).

The assets of the disposal group per 31 December 2016 concerned the current assets to be presented separately of Phone House Telecom Vertrieb GmbH, which was sold in January 2017. These assets comprised 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, these assets were classified as being held for sale and presented appropriately as separate items in the balance sheet.

The balance sheet total for Drillisch Group decreased by a total of €13.0 million to €582.2 million per 31 March 2017 (31 December 2016: €595.2 million).

In comparison with 31 December 2016, total equity increased by €15.3 million to €298.7 million (31 December 2016: €283.4 million). As a result of the conversions in January 2017 related to the convertible bond issued by Drillisch AG in December 2013, Subscribed capital rose by €0.1 million and now amounts to €60.3 million (31 December 2016: €60.2 million). The capital reserves increased by €1.5 million to €297.1 million as a further consequence of the conversions. Accumulated deficit declined by €13.7 million to €89.2 million (31 December 2016: €-102.9 million). The item Other equity of €-0.6 million (31 December 2016: €-0.6 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 March 2017 came to 51.3% (31 December 2016: 47.6%).

Long-term liabilities declined by €2.8 million to €138.7 million (31 December 2016: €141.5 million). The deferred tax liabilities declined by €1.6 million to €26.5 million per 31 March 2017 (31 December 2016: €28.1 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. The long-term Other liabilities per 31 March 2017 amounted to €16.5 million (31 December 2016: €16.7 million) and include €14.7 million (31 December 2016: €14.7 million) in liabilities owed primarily to Telefónica pursuant to the 2016 purchase of the trademark rights for the use of the brand 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. 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. Shares with a nominal volume of €1.7 million were converted into new shares of stock in Drillisch AG in

Opportunities and Risk Report of the Future Business Development

January 2017, the first such conversion. A total of 80,999 Drillisch shares were issued for this purpose; they will be entitled to dividends for the first time in fiscal year 2018. The bond was presented in the balance sheet at €93.3 million per 31 March 2017 (31 December 2016: €94.2 million).

Short-term liabilities decreased with respect to the end of fiscal year 2016 by €8.8 million to €144.9 million (31 December 2016: €153.7 million). Above all, trade accounts payable fell by €15.9 million to €29.0 million (31 December 2016: €44.9 million). Other financial liabilities of €5.8 million (previous year: €5.8 million) are related to contingent short-term purchase price liabilities from the acquisition of Phone House. Tax liabilities increased by €2.6 million to €14.0 million (31 December 2016: €11.4 million). Payments received on account declined to €3.9 million (31 December 2016: €4.2 million). Bank loans and overdrafts of €50.0 million (31 December 2016: €50.0 million) result from the utilisation of the credit line that has been available since December 2014. Other liabilities rose by €5.4 million to €31.1 million (31 December 2016: €25.7 million). Short-term provisions per 31 March 2017 amounted to €10.1 million (31 December 2016: €10.7 million).

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

Cash flow

Cash flow from current business activities in the first three months of 2017 amounted to €12.8 million (Q1 2016: €-10.3 million), and this increase over the same period of the previous year reflects the earning power of business operations. Cash flow from investment activities came to €-5.4 million (Q1 2016: €-2.5 million) and concerns €5.6 million in payments for investments in tangible and intangible assets (Q1 2016: €1.2 million) and €0.2 million in interest received (Q1 2016: €0.2 million). Payments for acquisitions in Q1 2016 in the amount of €1.5 million were related to the acquisition of the remaining 2.5% of the shares of GTCom.

Financing activities during the first three months of 2017 led to a total outflow of funds of €0.4 million (Q1 2016: outflow of €47.9 million) resulting from €0.2 million (Q1 2016: €0.1 million) in interest paid and €-0.3 million (Q1 2016: €-0.2 million) related to changes in the investment liabilities. In the same quarter of the previous year, outgoing payments of €47.6 million resulted from the change in the Other financial liabilities.

Opportunity and risk report

The risk management system is an integral component of corporate policy aimed at early exploitation of opportunities and 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

Important events occurring after 31 March 2017 | Outlook

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, which can thus become a strategic success factor for the Company's management for subsidiaries and Drillisch itself.

Opportunities and risks – in comparison with the risks described in the annual report for the year 2016 – of ongoing business operations did not change appreciably during the first three months of fiscal year 2017. In the opinion of the Management Board, adequate precautions have been taken to counter all current existing and identified risks

Important events occurring after 31 March 2017

No important events occurred after the balance sheet date.

Outlook

In view of these general conditions, the Management Board expects 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” for 2017 as a whole. The Management Board expects an increase in adjusted EBITDA to €160 million to €170 million for 2017.

ABRIDGED CONSOLIDATED INTERIM ACCOUNTS AS PER 31 MARCH 2017

Consolidated Comprehensive Income Statement

	I/2017	I/2016
	€k	€k
Sales	152,871	173,403
Other own work capitalised	571	514
Other operating income	1,385	3,175
Raw material, consumables and services used	-80,760	-105,207
Personnel expenses	-12,211	-14,365
Other operating expenses	-26,768	-33,552
Write-offs	-14,453	-12,264
Operating result	**20,635**	**11,704**
Interest income	200	181
Interest and similar expenses	-1,101	-1,008
Financial result	**-901**	**-827**
Profit before taxes	**19,734**	**10,877**
Taxes on income	-6,048	-3,370
Consolidated Earnings	**13,686**	**7,507**
Items which cannot be included in operating results in the future	0	0
Items which can be included in operating results in the future	0	0
Consolidated comprehensive results	**13,686**	**7,507**
Profit per share (in €)		
Undiluted	0.25	0.14
Diluted	0.24	0.14

Consolidated Balance Sheet

ASSETS

	31/03/2017	31/12/2016
	€k	€k
Fixed assets		
Other intangible assets	242,378	255,330
Goodwill	98,546	98,546
Tangible assets	9,664	10,584
Other financial assets	561	561
Deferred taxes	13,234	12,697
Fixed assets, total	**364,383**	**377,718**
Current assets		
Inventories	7,879	9,984
Trade accounts receivable	95,822	92,658
Tax reimbursement claims	38	38
Cash	99,794	92,771
Other current assets	14,317	5,021
Current assets, total	**217,850**	**200,472**
Assets of the disposal group	**0**	**17,014**
ASSETS, TOTAL	**582,233**	**595,204**

Consolidated Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES	31/03/2017	31/12/2016
	€k	€k
Shareholders' equity		
Subscribed capital	60,330	60,241
Capital reserves	297,087	295,559
Earnings reserves	31,123	31,123
Other equity	-636	-636
Unappropriated retained earnings	-89,201	-102,887
Equity, total	**298,703**	**283,400**
Long-term liabilities		
Pension provisions	1,655	1,655
Deferred tax liabilities	26,518	28,062
Debenture bonds	93,300	94,231
Leasing liabilities	665	796
Other liabilities	16,537	16,730
Long-term liabilities, total	**138,675**	**141,474**
Short-term liabilities		
Short-term provisions	10,119	10,712
Tax liabilities	14,012	11,397
Trade accounts payable	29,001	44,940
Payments received on account	3,915	4,179
Other financial liabilities	5,800	5,800
Leasing liabilities	906	1,029
Bank loans and overdrafts	50,011	50,011
Other liabilities	31,091	25,678
Short-term liabilities, total	**144,855**	**153,746**
Liabilities of the disposal group	**0**	**16,584**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	**582,233**	**595,204**

Consolidated Statement of Change in Capital

	Number of shares	Subscribed capital	Capital reserves	Earnings reserves	Other equity	Accumula-ted deficit	Equity, total
		€k	€k	€k	€k	€k	€k
Per 01/01/2016	**54,764,649**	**60,241**	**295,559**	**31,123**	**-417**	**-33,483**	**353,023**
Convertible bond		0	0	0	0	0	0
Consolidated comprehensive results		0	0	0	0	7,507	7,507
Per 31/03/2016	**54,764,649**	**60,241**	**295,559**	**31,123**	**-417**	**-25,976**	**360,530**
Per 01/01/2017	**54,764,649**	**60,241**	**295,559**	**31,123**	**-636**	**-102,887**	**283,400**
Convertible bond	80,999	89	1,528	0	0	0	1,617
Consolidated comprehensive results		0	0	0	0	13,686	13,686
Per 31/03/2017	**54,845,648**	**60,330**	**297,087**	**31,123**	**-636**	**-89,201**	**298,703**

Consolidated Capital Flow Statement

	I/2017	I/2016
	€k	€k
Consolidated earnings before interest and taxes	20,635	11,704
Income tax paid	-5,309	-3,953
Write-offs	14,453	12,264
Results from the disposal of fixed assets	-3	0
Change in inventories	2,105	8,591
Change in receivables and other assets	4,504	-9,766
Change in trade payables, other liabilities and provisions	-23,290	-28,751
Change in payments received on account	-263	-372
Cash flow from current business activities	**12,832**	**-10,283**
Payments for investments in tangible and intangible assets	-5,581	-1,182
Payments for acquisitions less acquired cash	0	-1,500
Interest received	200	181
Cash flow from investment activities	**-5,381**	**-2,501**
Interest paid	-175	-124
Amortisation of Other financial liabilities	0	-47,600
Amortisation of investment liabilities	-253	-171
Cash flow from financing activities	**-428**	**-47,895**
Change in cash	**7,023**	**-60,679**
Cash at end of period	99,794	62,753
Cash at beginning of period	92,771	123,432

Consolidated Notes

1. 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 essentially conducted by the wholly-owned subsidiaries Drillisch Online AG and yourfone AG, both of which are registered in Maintal.

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.

In January 2017, 100% of the shares held in The Phone House Telecom Vertrieb GmbH – i.e. the distribution business, above all with network operator agreements – was sold.

2. Applied accounting principles

The abbreviated consolidated interim accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) as they are to be applied in the EU. All of the applicable IFRS that have been adopted by the EU and became mandatory per 1 January 2017 have been taken into consideration.

The same accounting and valuation methods were applied as to the consolidated annual accounts per 31 December 2016. This abbreviated interim report as per 31 March 2017 has been prepared in accordance with IAS 34, “Interim Financial Reporting”. The rate for the consolidated tax on income remains unchanged at 30.25%. The preparation of the interim report requires management to make a number of assumptions and estimates, a situation that can lead to discrepancies between the values disclosed in the interim report and the actual values.

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 was recognised at the time of its emission 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.

No bonds were repaid during the reporting period. The convertible bond issued in 2013 was converted in the amount of a nominal value of €1.7m during Q1. This resulted in 80,999 new shares that will be entitled to dividends for fiscal year 2017, paid in 2018. The subscribed capital increased by €89k and the capital reserves increased by €1.582m because of the conversion.

Consolidated Notes

3. 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 March 2017, Drillisch AG did not hold any shares of its own stock.

4. 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 effects 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.

	I/2017	I/2016
Consolidated profit in €k	13,686	7,507
Weighted average less own shares held (number)	54,830,348	54,764,649
Undiluted consolidated profit per share in €	**0.25**	**0.14**
Consolidated profit in €k	13,686	7,507
Net effect on results from convertible bond in €k	633	610
Adjusted consolidated profit in €k	**14,319**	**8,117**
Weighted average less own shares held (number)	54,830,348	54,764,649
Shares from convertible bond to be included as average (number)	4,683,719	4,549,942
Adjusted weighted average less own shares held (number)	**59,514,067**	**59,314,591**
Diluted consolidated profit per share in €	**0.24**	**0.14**

Consolidated Notes

5. Explanatory comments on capital flow statement

The liquidity (cash) shown in the cash flow statement includes cash on hand and cash in banks which are shown 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.

6. Segment presentation

The segment reporting is aligned with the internal organisational and reporting structure. The differentiation between the segments Online and Offline is based on the expanded sales structure. The segment Miscellaneous 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 shops, yourfone partner shops and other indirect distribution channels 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, including the provision of hardware and 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, last year, rates of the network operators are calculated on a commission bais in distribution.

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

Consolidated Notes

Segment Report 01/01/2017– 31/03/2017	Online	Offline	Miscellane-ous	Consoli-dation	Total
	€k	€k	€k	€k	€k
Sales with third parties	119,349	33,294	228	0	152,871
Inter-company sales	5,426	15,970	33	-21,429	0
Segment sales	**124,775**	**49,264**	**261**	**-21,429**	**152,871**
Cost of materials external third parties	-62,319	-18,413	-28	0	-80,760
Cost of materials from inter-company relationships	-7,372	-14,026	-48	21,446	0
Cost of materials for segment	**-69,691**	**-32,439**	**-76**	**21,446**	**-80,760**
Gross profit for segment	**55,084**	**16,825**	**185**	**17**	**72,111**
Segment EBITDA	**36,800**	**-583**	**484**	**-1,613**	**35,088**

Segment Report 01/01/2016 – 31/03/2016	Online	Offline	Miscellane-ous	Consoli-dation	Total
	€k	€k	€k	€k	€k
Sales with third parties	93,616	79,540	247	0	173,403
Inter-company sales	7,771	2,333	50	-10,154	0
Segment sales	**101,387**	**81,873**	**297**	**-10,154**	**173,403**
Cost of materials external third parties	-53,830	-51,341	-36	0	-105,207
Cost of materials from inter-company relationships	-2,349	-7,688	-83	10,120	0
Cost of materials for segment	**-56,179**	**-59,029**	**-119**	**10,120**	**-105,207**
Gross profit for segment	**45,208**	**22,844**	**178**	**-34**	**68,196**
Segment EBITDA	**27,469**	**-2,401**	**120**	**-1,220**	**23,968**

*Adjusted

In the corresponding period of the previous year, the business activities of Drillisch AG related to its position as the holding were attributed to the segment Miscellaneous/Holding. In the current reporting period, these activities are recognised in the column Consolidation.

Consolidated Notes

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

	I/2017	I/2016
	€k	€k
Total segment profits (EBITDA)	35,088	23,968
Write-offs	-14,453	-12,264
Operating result	20,635	11,704
Financial result	-901	-827
Profit before taxes on income	**19,734**	**10,877**

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.

7. Relations to relatives and companies

Per 31 March 2017, 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 for the first 3 months of 2017 amounted to €127k (previous year: €127k).

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 for the first 3 months of 2017 amounted to €45k (previous year: €45k).

The company SP Beteiligungs GmbH, Langenselbold (shareholder: Ms Simone Choulidis), realised sales in the amount of €5k (previous year: €0k) with Drillisch Group in the first 3 months of 2017.

There were no amounts due to or due from the related parties mentioned above per 31 March 2017.

8. 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).

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 (31 December 2016: €5.8m) existed per 31 March

Consolidated Notes

2017; they are measured at the attributable fair value. Just as per 31 December 2016, there were financial receivables in the amount of €0.6m; they 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 (31 December 2016: €5.8m) is to be classified at Level 3.

INVESTOR RELATIONS CORNER

Financial Calendar | Current Analyst Assessments

1. Financial Events Calendar

Financial Events 2017*

Date	Subject
Thursday, 11 May 2017	Quarterly Close Q1 2017
Thursday, 18 May 2017	Annual General Meeting, Frankfurt
Thursday, 10 August 2017	Quarterly Close Q2 2017
Tuesday, 14 November 2017	Quarterly Close Q3 2017

* Date is preliminary and subject to change.

2. Dividend Policy

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 shareholder benefit appropriately from the success of the Company in future as well.

3. Current Analyst Assessments (Last Revised 10 April 2017)

In view of the Company's performance (EBITDA of €120.2 million in fiscal year 2016 (slightly outperformed on the EBITDA guidance) and a further increase to between €160 million and €170 million in fiscal year 2017 as well as a long-term dividend policy and the good strategic positioning on the German wireless services market, the capital market rates the Drillisch stock overall as promising.

Latest analyst assessments (per 10 April 2017)

Analysis	Rating	Target	Date
Kepler	„Buy“	€54.00	10 April 2017
Berenberg	„Buy“	€65.00	07 April 2017
NewStreet	„Buy“	€62.00	04 April 2017
Goldman Sachs	„Hold“	€46.00	03 April 2017
Warburg	„Hold“	€44.00	03 April 2017
DZ Bank	„Buy“	€55.00	29 March 2017
UBS	„Buy“	€53.00	29 March 2017
Barclays	„Overweight“	€60.00	27 March 2017
UBS	„Buy“	€50.00	24 March 2017
Commerzbank	„Hold“	€40.00	24 March 2017
HSBC	„Buy“	€50.00	24 March 2017
Kepler	„Buy“	€49.00	24 March 2017
Lampe	„Buy“	€50.00	24 March 2017

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

www.drillisch.de

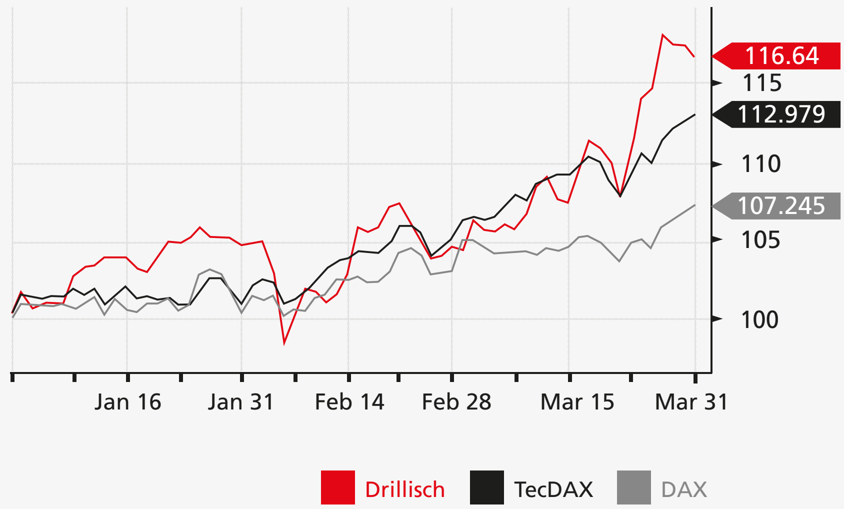
→ Investor Relations
→ Research Notes

Share Price Development | Director's Holdings

4. Share Price Development in Q1 2017

The performance of the Drillisch stock in Q1 2017 in comparison with the indices

	2016 year end	31 March 2017	%-change
Drillisch	€40.895	€47.70	+ 16.6
TecDAX	1,811.72	2,046.86	+ 13.0
DAX	11,481.06	12,312.87	+ 7.3

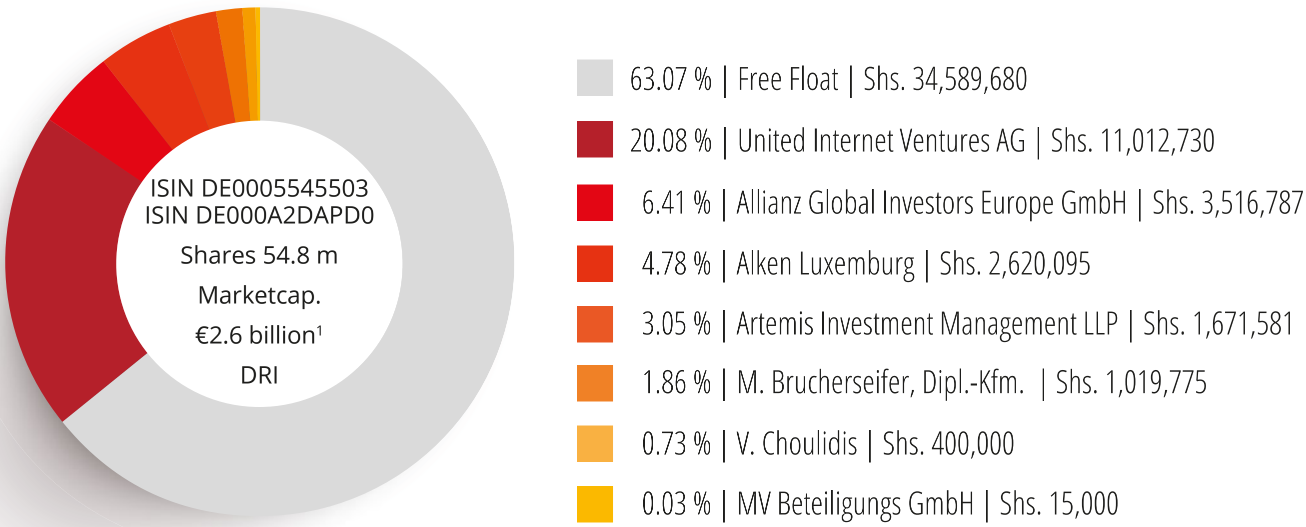


5. Directors' Holdings per 31 March 2017

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 %

Shareholder Structure

6. Shareholder Structure (as of 31 March 2017)



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 €47.70 on 31 March 2017. Free Float acc. to the rule of Dt. Boerse AG: 79.92%.

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

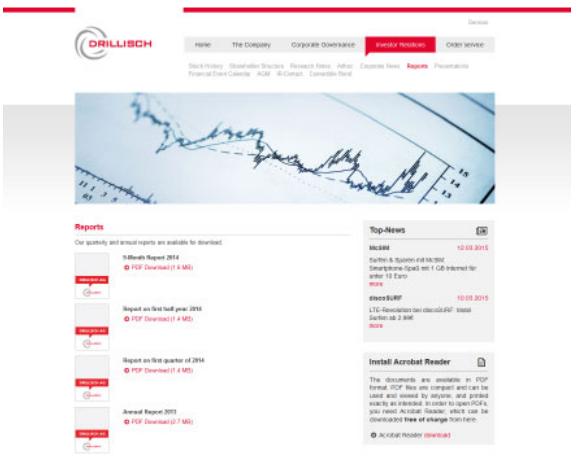
The present report on the first three months of 2017 is also available in a German version.

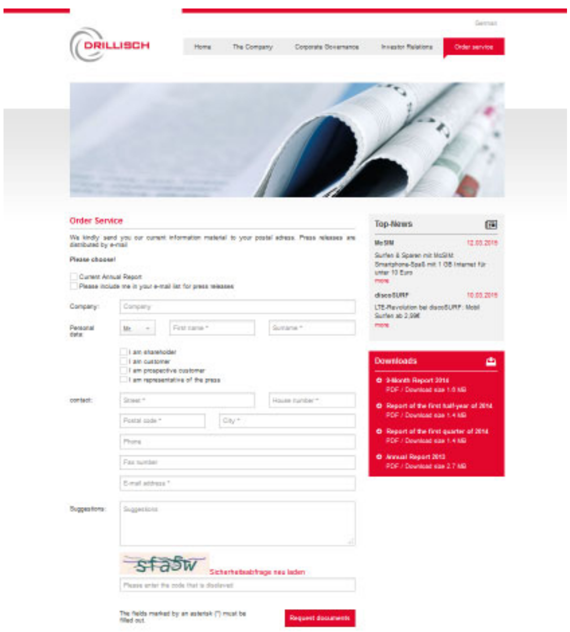
You can view and download our business and quarterly reports, ad-hoc announcements, press releases and other publications about Drillisch AG at **www.drillisch.de**.

Information and Order Service

Please use our online order service in the Investor Relations section on our website at **www.drillisch.de**

We will also be glad to help you with any personal queries by telephone.





Your Contacts

We will also be glad to help you with any queries about Drillisch AG and our brands:

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André Driesen

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Dr Susanne Rückert (Deputy Chair)
Norbert Lang
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Future-oriented Statements:

This report contains certain statements oriented to the future which are based on the current assumptions and projections of the management of the Drillisch Group. Various risks, uncertainties and other factors, both known and unknown, can cause the actual results, financial position, development or performance of the Company to deviate substantially from the assessments shown here. Such factors include those which we described in reports to the Frankfurt securities exchange. 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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