DRILLISCH AG | **Annual Report 2013**

Key Indicators of the Drillisch Group	2013	2012	IV/2013	III/2013	II/2013	I/2013
Revenue in €m	290.5	323.7	72.6	70.9	72.3	74.7
Revenue, adjusted, in €m*	298.3	313.9	74.8	72.9	74.2	76.4
Service Revenues in €m	277.2	301.8	70.0	68.2	69.1	69.9
Service Revenues, adjusted in €m*	285.1	292.1	72.2	70.2	71.1	71.6
Other Revenues in €m**	13.2	21.9	2.6	2.7	3.2	4.8
Gross Profit in €m	119.0	108.9	31.9	31.0	29.6	26.6
Gross profit in % of revenue	41.0%	33.6%	44.0%	43.8%	40.9%	35.5%
EBITDA in €m	70.8	61.9	18.7	18.0	17.9	16.2
EBIT in €m	61.2	55.5	16.3	15.6	15.5	13.7
EBT in €m	178.0	20.8	16.5	12.7	22.0	126.9
Consolidated profits in €m	155.8	23.5	8.7	7.8	17.6	121.8
Profit/loss per share in €	3.24	0.46	0.18	0.16	0.37	2.53
EBITDA margin in % of revenue	24.4%	19.1%	25.7%	25.4%	24.8%	21.7%
EBIT margin in % of revenue	21.1%	17.1%	22.5%	22.1%	21.4%	18.4%
EBT margin in % of revenue	61.3%	6.4%	22.7%	17.8%	30.4%	169.8%
Consolidated profit margin in % of revenue	53.6%	7.2%	12.0%	11.0%	24.3%	162.9%
Equity in €m	217.6	120.2	217.6	196.1	184.6	236.0
Balance Sheet total in €m	352.3	522.6	352.3	236.5	319.6	533.6
Equity ratio (equity as % of balance sheet total)	61.8%	23.0%	61.8%	82.9%	57.8%	44.2%
Return on equity (ROE) (ratio consolidated result to equity in %)	129.6%	14.2%	7.2%	6.5%	14.6%	101.3%
Cash in €m	187.0	77.3	187.0	52.7	43.6	89.4
Convertible Bond	86.2	118.7	86.2	0.0	15.6	119.4
Financial Liabilities in €m	0.0	213.6	0.0	0.0	70.6	125.8
Cash flow from current business operations in €m	57.0	27.7	25.9	18.0	18.9	-5.9
Depreciation excluding goodwill in €m	9.6	6.4	2.4	2.4	2.4	2.4
Payments for investments (in tangible and intangible assets) in €m	19.9	23.0	0.8	9.9	0.8	8.3
Staff as annual average (incl. Management Board)	358	342	358	357	356	350
Wireless services customers (in thousands)(1)	1,900	1,910	1,900	1,855	1,823	1,851
thereof MVNO subscribers	**1,705**	**1,470**	**1,705**	**1,648**	**1,593**	**1,531**
thereof budget subscribers(2)	856	505	856	733	657	580
thereof volume subscribers(3)	848	965	848	915	936	951
AGPPU(4) budget subscribers	9.40 €	9.98 €	9.33 €	9.90 €	9.72 €	9.35 €
AGPPU(4) volume subscribers	3.81 €	4.17 €	3.58 €	3.74 €	3.77 €	3.76 €
AGPPU(4) subscribers (total)	**6.23 €**	**5.67 €**	6.38 €	6.40 €	6.16 €	5.80 €

(1) - thereof 123,000 prepaid subscribers and 72,000 postpaid service provider subscribers per 31/12/2013
(2) - Rate plans with included volume (voice, text messages, data)
(3) - Rate plans with billing based on usage "Pay as you go"
(4) - AGPPU = average gross profit per user

*Revenue and service revenues adjusted for the sale of prepaid subscribers and changes in forwarding charges
**Other revenues include sales of devices and other revenues

Letter from the Management Board

Management Board

Vlasios Choulidis
Director of Sales, Marketing and Customer Care

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

Dear Shareholders,

2013 was the most successful year in our Company's history. We continued our dynamic growth and were able to build seamlessly on the positive developments of previous years. Results exceeded the targets we had set for ourselves, and all of the major performance indicators rose in comparison with the previous year once again. Our operations in a market environment which as a whole is characterised by increasing competitive pressures are highly successful. Thanks to the positive course of business and the good cash position at Drillisch AG, we and the Supervisory Board are in agreement with a proposed dividend of €1.60 per share, an increase by 23% in comparison with the previous year's figure of €1.30 per share.

We still do not wish to comment on the large-scale merger on the German wireless services market of Telefónica Deutschland and E-Plus planned for the near future. Although the issue of which government authority will conclusively examine the proposed merger and decide about its fate has now been clarified, there is still no concrete or binding information about the final results. We will presumably know more in May 2014.

The products offered by Drillisch provide comprehensive and transparent rate concepts for low, normal and heavy users and are directed at the full range of the German wireless services market. We are the price leader, and our established brands on the market for wireless services have secured a strong competitive position – for both voice communications and in the sector of mobile data. Along with outstanding value for money, we offer quality of service which is regularly audited by impartial external authorities; the results are used to assure the continuing improvement of our products and processes.

For example, certification according to the strict standard DIN EN ISO 9001:2008 – awarded for the first time in 2010 – was renewed in September 2013. Customer service and back-office performance were in complete conformity with the high standards of the audit.

Letter from the Management Board

Another aspect important for us is the stability of both the security of our services and the trust placed in us by our customers. We have worked hard over the years to earn this trust and prove that we deserve it. The awarding of the quality seal "s@fer-shopping" by TÜV Süd in February 2014 is not a fleeting snapshot. Drillisch Group and all of the tested brands gave a convincing performance during this comprehensive certification process comprising more than 100 specific criteria and a look at the online webshops from the customer perspective, above all with respect to data and system security. The high standards of our quality management and security during the ordering process in our online shops are very important to us, which is why we will continue to submit to these thorough audits in the future.

We concentrate on the wireless services market in Germany and on low-cost and transparent products in this county, especially in the sector of budget rates. Our plans range from various packages of minutes, text messages and data volume to so-called full flat-rate plans. The opportunity to utilise the internet from mobile devices is included in all of our rate plans without the risk of exorbitant costs. We believe that simple and low-cost utilisation of the mobile internet will continue to be the growth driver in our industry for years to come.

This statement is backed up by a number of recent studies and analyses. Estimates from VATM (October 2013), for example, show that the total data volume in wireless networks rose by one-fifth from 140.6 million gigabytes in 2012 to 170.1 gigabytes in 2013. The average data volume per (postpaid) user apparently increased to 261 MB a month (2012: 227 MB). (Dialog Consult/VATM Analyses and Forecasts, October 2013)

According to another study (source: Activities Report from the German Federal Network Agency, December 2013), the share of users accessing the internet via a mobile device in Germany increased by 13 percentage points to 40% during the same period. Data transmission on wireless networks in Germany will rise in total by more than 28% to over 200 million GB in 2013. The Federal Network Agency expects a further increase in 2014. The study shows that the proportion of mobile surfers in Germany increased by nine percentage points to 43% of the respondents. But in comparison with growth in the EU 27 countries (+14 percentage points to 49% of the respondents), development of data business in Germany is apparently still lagging.

We recognised these trends at an early stage and have aligned our strategy as well as our products with this development, pursuing a determined course of evolvement. Our success corroborates this decision. Our figures speak for themselves.

Operating on this highly competitive wireless services market, we have continued to concentrate on our MVNO business. During the past fiscal year 2013, we exploited our innovative products to solidify our position, which was already excellent, and grew even more in terms of quality and profitability.

During fiscal year 2013, Drillisch AG was able to increase the MVNO subscriber base by 16% (235,000 subscribers) to 1.705 million subscribers (2012: 1.470 million subscribers). Growth was especially strong in the sector of the higher-value budget subscribers, which increased by 351,000 (69.5%) to 856,000 subscribers

Letter from the Management Board

(2012: 505,000 subscribers), leading to a qualitative improvement in the customer mix and a substantial improvement in profitability. Average gross profit per user (AGPPU) for all MVNO subscribers increased by 9.9% to €6.23 a month (2012: €5.67) in the past year. The AGPPU for budget subscribers reached a mark of €9.40. As a consequence, the EBITDA target, which had been raised during the year to €70 million, was not only reached, but exceeded slightly (€70.8 million). We are full of confidence as we head into 2014 and have budgeted a further increase in the EBITDA to between €82 million and €85 million.

Moreover, the proportion of higher-value postpaid subscribers in the total customer base of 1.90 million (2012: 1.91 million) increased by another five percentage points during the year and has now reached the level of 94% (2012: 89%).

During the past fiscal year, the 358 (2012: 345) associates at Drillisch AG achieved turnover of €290.5 million (2012: €323.7m). Service revenues (resulting primarily from billing on the basis of existing customer relationships), adjusted for the prepaid subscribers sold in the previous year and the reduction in the forwarding charges in December 2012, declined by 2.4% to €285.1 million (2012: €292.1 million). In comparison with the overall market, this decline is moderate.

Gross profit came to €119.0 million at the end of the year, an improvement over the previous year (2012: €108.9 million) of 9.4% (€10.2 million). The gross profit margin rose by 7.4 percentage points to 41.0% (2012: 33.6%) and exceeded the mark of 40% for the first time in Company history. The EBITDA posted a rise of 14.4% (€8.9 million) to €70.8 million (2012: €61.9m), corresponding to a 5.3 percentage points increase in the EBITDA margin to 24.4% (2012: 19.1%). Consolidated results rose by €564.2% (€132.3 million) to €155.8 million (2012: € 23.5m) and the profit per share came to €3.24 (2012: €0.46).

As described in detail in the 9-month report, we repaid in full the debenture bond issued in April 2012 on the basis of the freenet AG ordinary shares in the past year after more than 85% of the creditors exercised their exchange option in Q2. We sold the 500,000 shares of freenet stock still remaining per 30 September 2013 in December 2013, and as of the end of the year, we no longer held any shares of stock in freenet.

In December 2013, we successfully placed a convertible bond with a volume of €100 million on the capital market to ensure our flexibility and independence in the future; it will also enable us to continue to play a proactive role in directing the future development of the market. Our issue – in an environment in which the rating agencies have reclassified many governments as “Watch” and SMB bonds are subject to higher risk surcharges – was oversubscribed several times, and we were able to obtain outstanding conditions, including a coupon of only 0.75%, a conversion premium of 22.5% and a term of five years, and secure these conditions long-term. Thanks to the revenue from this issue, the steady cash contribution from our strong operations and the inflow of funds from the sale of the last freenet stock, we had cash inventory of €187.0 million at the end of the year. We would like to mention in particular the operative cash flow, which increased significantly by 105.5% in fiscal year 2013 to €57.0 million (2012: €27.7 million).

Letter from the Management Board

Our corporate policy is based on the objective of sustained development because we want to offer to our shareholders an attractive and uninterrupted return on their investment. As has already been stated, we will join our Supervisory Board in proposing a dividend of €1.60 per share for the past fiscal year 2013 to the Annual General Meeting, the fifth increase in succession. We have budgeted a dividend of at least this amount for 2014 and 2015 and will strive to increase our MVNO subscriber base even further. We expect a continuation of the positive development in earnings in business operations, including an EBITDA of about €82 million to €85 million in fiscal year 2014 and of between €95 million and €100 million in fiscal year 2015.

In conclusion, we would like to take this opportunity to express our sincere thanks. We are indebted to our associates for their commitment and their performance. Dependable collaboration in a spirit of trust with our staff is very important for commercial success. But we are also grateful to our shareholders, customers and business partners for the trust they have placed in us.

Best regards from Maintal.

Vlasios Choulidis and Paschalis Choulidis

Report of the Supervisory Board

Dear Sir or Madam

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

During the reporting period 2013, 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 situation and development of the Company and Group as well as the business transactions during fiscal year 2013. 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 Supervisory Board's activities were based on the reports submitted regularly, both orally and in writing, by the Management Board regarding corporate planning, the development of business and the business and financial position, the strategic evolvement and corporate planning as well as the risk situation, risk management and 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 discussed regularly strategic issues and risk management issues, the risk position, planning and compliance. The Supervisory Board did not exercise its audit right pursuant to Section 111 (2) AktG [German Company Law] because the reporting by the Management Board rendered this action unnecessary.

Report of the Supervisory Board

Supervisory Board activities, meetings

Strategic issues were a major focus of the Supervisory Board's activities during the reporting period. Besides the thorough discussion of market developments and the positioning of Drillisch Group, special focus was on the middle- and long-term planning of the Management Board. The Supervisory Board examined closely potential future projects and the Management Board project Mobile Ventures (venture capital company with a focus on investments in the wireless services sector) and approved a budget for these activities. Moreover, the Supervisory Board deliberated in detail regarding the continued holding of the freenet AG stock.

Based on the discussions revolving around strategy, another major focal point for the activities of the Supervisory Board during the reporting period was related to the financing of the Company. Particular treatment was given to the necessity and the opportunities for the acquisition of loans. And in consequence of these discussions, the required consent was given (change of the Collar I and II structures followed by reversal of Collar I and II prematurely). Furthermore, the Supervisory Board gave its consent to the repurchase of as much as 50% of the exchangeable bond on freenet stock and the exercise of the authorisation for the issue of a convertible bond, at the same time setting the terms and conditions for the issue. Among other points, the current status of the deliveries related to the exchangeable bond on freenet shares was discussed.

In addition, the Supervisory Board obtained regular information regarding commercial development and the position of the Company and Group, especially the development of revenues and profit, the changes in subscriber numbers, the gross profit indicators, the AGPPU (average gross profit per user) and the cash situation and development and discussed these issues with the Management Board. In particular, the Supervisory Board examined the separate financial statements in detail for every quarter. Moreover, the Supervisory Board enquired about the status of the tax audit covering the years 2007 to 2010.

The Supervisory Board considered the sale of the receivables due from VS-GmbH, the conclusion of a D&O excess of loss agreement and the conclusion of a lease for office space with a company owned by the Management Board members and Mr Marc Brucherseifer and, following detailed discussion, adopted a resolution to take these steps. Consent was also given to the granting of full power of commercial representation (Prokura) to the chief financial officer. The Supervisory Board also learned about the current developments in legal decisions and the development of the German Corporate Governance Codex.

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. The full Supervisory Board also talked about issues related to the SEPA transition. The Supervisory Board, in consultation with the Personnel Committee, deliberated extensively on the manager situation.

Moreover, the Supervisory Board examined the accounting for fiscal year 2013, the audit of the annual accounts, the preparation for the Annual General Meeting, the declaration regarding corporate management, the proposal for the appropriation of

Report of the Supervisory Board

profits to be submitted to the Annual General Meeting and the goals for the composition of the Supervisory Board. Furthermore, the Supervisory Board adopted resolutions during its constituting meeting on 16 May 2013 determining the chair and deputy chair of the Supervisory Board and the membership in its committees.

There were a total of twelve meetings of the full Supervisory Board in the reporting period 2013, six of them physical meetings (21 March 2013, 8 May 2013, 16 May 2013, 8 August 2013, 18 September 2013 and 14 November 2013) and six telephone conferences (4 February 2013, 15 March 2013, 3 December 2013, 4 December 2013) and two conferences on 5 December 2013. In addition, three resolutions were adopted outside of Supervisory Board meetings during the reporting period 2013 (on 5 February 2013, 18 March 2013 and 24 June 2013).

The Supervisory Board's work is supported by three committees: the Audit Committee, the Personnel Committee and the Nominating Committee.

The Supervisory Board Personnel Committee, whose members are Mr Marc Brucherseifer (committee chair), Dr Horst Lennertz and Dr Susanne Rückert (from 31 January 2013), met only once in fiscal year 2013 (on 17 September 2013). The focus of its discussions was on the manager situation and the planning of succession. The Personnel Committee urged in particular the implementation of chief officer positions, initially a chief financial officer. In other respects, the responsibilities of the Personnel Committee were carried out by the full Supervisory Board.

The Supervisory Board Audit Committee, whose members are Mr Johann Weindl (committee chair), Dr Bernd H Schmidt, Mr Marc Brucherseifer (until 16 May 2013), Dr Horst Lennertz (until 16 May 2013) and Mr Frank Rothauge (from 16 May 2013) convened for a total of two meetings during the reporting period (on 24 January 2013 and 14 November 2013). The Audit Committee was especially concerned with the monitoring of the accounting process, the effectiveness of the internal controlling system and risk management and with issues related to internal audit and the final audit. Deliberations concerned the focal points of the audits and, in addition, questions about IT security and the compliance structure.

The Nominating Committee, to which all Supervisory Board members belong (chair: Mr Marc Brucherseifer) met once during the reporting period, on 21 March 2013. The Nominating Committee was concerned in particular with filling the Supervisory Board position left vacant by the departure of Mr Michael Müller-Berg and, in general, with the nomination of candidates for the Supervisory Board election during the ordinary Annual General Meeting 2013. Since all of the Supervisory Board members belong to the Nominating Committee, these topics were also the subject of discussion during some of the full Supervisory Board meetings.

Personnel changes on the Management Board and Supervisory Board

There were no personnel changes on the Management Board during the fiscal year.

The Annual General Meeting on 16 May 2013 adopted a resolution electing Mr Frank Rothauge as a new member of the Supervisory Board. He is the successor to Mr Michael Müller-Berg, who resigned his Supervisory Board position effective per

Report of the Supervisory Board

30 September 2012. The previous Supervisory Board members Mr Marc Brucherseifer, Mr Johann Weindl, Dr Horst Lennertz, Dr Bernd H Schmidt and Dr Susanne Rückert were re-elected to the Supervisory Board by the Annual General Meeting on 16 May 2013. The term of office for these Supervisory Board members expires upon the conclusion of the Annual General Meeting which adopts a resolution for their discharge for fiscal year 2017. The Supervisory Board was chaired again in the reporting period 2013 by Mr Marc Brucherseifer; deputy chair of the Supervisory Board until 16 May 2013 was Johann Weindl and Dr Susanne Rückert from 16 May 2013.

Annual accounts and consolidated annual accounts

The annual accounts and the consolidated annual accounts per 31 December 2013, the management reports for the stock corporation and Group for fiscal year 2013 (each including the explanatory report on the disclosures pursuant to Section 289 (4) and Section 315 (4) HGB [German Commercial Code]) prepared in good time by the Management Board and the accounting and risk management system were audited by BDO AG Wirtschaftsprüfungsgesellschaft, the accounting firm appointed by the Annual General Meeting for this task, and an unqualified auditor's opinion was issued to the documents.

Regarding the system for the early detection of threats, the auditor determined that the Management Board had implemented the measures required pursuant to Section 91 (2) AktG, in particular with respect to the setup of a monitoring system, in an appropriate manner and that the monitoring system was suitable to detect in good time developments which could jeopardise the continued existence of the Company.

The separate and consolidated annual accounts, the management report and the consolidated management report and the related audit reports from the auditor were submitted to all of the Supervisory Board members. Focal points of the audit designated upon the engagement of the auditor included in particular impairment tests for investments / goodwill / brands, the sale of the freenet AG stock and repayment of the exchangeable bond, the audit of the revenue process (internal controlling) with a focus on the new All-in rates and the forecasts contained in the management report. The audit documents were examined and discussed during a meeting of the Audit Committee on 7 March 2014 in the presence of the auditor. During these meetings, the auditor reported on the major results of the audits and explained them in detail. The auditor also answered questions from the Board. The subject of these discussions included especially the audit planning and the major points of the audit as well as the accounting process, the internal controlling system and the risk management system. 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 20 March 2014, the Supervisory Board approved the annual accounts and consolidated annual accounts 2013. The annual accounts have thus been adopted pursuant to Section 172 AktG.

During the Supervisory Board meeting on 20 March 2014, Management Board and Supervisory Board adopted a joint resolution proposing to the Annual General Meeting the disbursement of a dividend in the amount of €1.60 per share. The Company's position, specifically its financing and capital structure, was discussed and reviewed at that time.

Report of the Supervisory Board

Corporate governance

None of the Supervisory Board members participated in fewer than half of the Supervisory Board meetings during the reporting period. Only one member failed to take part in one of the total of twelve Supervisory Board meetings (Mr Johann Weindl was excused from participation in the telephone conference on 15 March 2013). All of the committee members participated in all of their 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. The Supervisory Board concluded that its performance is efficient.

In view of possible conflicts of interest and dealing with them within the sense of Clause 5.5.3 of the Corporate Governance Codex as last revised on 13 May 2013, the Supervisory Board chair, Mr Marc Brucherseifer, abstained from the discussion and adoption of a resolution regarding the conclusion of a lease with a company whose shares are held by Mr Brucherseifer and the Management Board members during the meeting on 18 September 2013. No other conflicts of interest 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. Management Board and Supervisory Board most recently submitted a joint Declaration of Conformity pursuant to Section 161 AktG on 21 March 2013 of the reporting period, showing that the Company is in compliance with most of the recommendations of 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 2013.

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 in 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, 20 March 2014

On behalf of the Supervisory Board

Marc Brucherseifer, Dipl.-Kfm.

Chairperson of the Supervisory Board

Statement 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 and is a major factor for a company's success.

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

Declaration of Conformity Pursuant to Section 161 AktG [Germany Company Law]

The most recent Declaration of Conformity issued by the Management Board and Supervisory Board on 20 March 2014, which has been made permanently accessible on the internet at the site www.drillisch.de (to be found there under the section “Corporate Governance”, subsection “Declaration of Conformity”), reads as follows:

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

Management Board and Supervisory Board of Drillisch AG hereby declare that the Company has been, and continues to be, 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 issued in accordance with the version of the Codex of 15 May 2012 for the period from 21 March 2013 to 9 June 2013. This Declaration is issued in accordance with the version of the Codex of 13 May 2013 for the period since 10 June 2013.

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 at this time does not include an excess. In the opinion of the Management Board and Supervisory Board at Drillisch AG, there is a risk that the agreement of an excess for negligent actions and the related liability risks would counteract the efforts of Drillisch AG to obtain the services of highly qualified persons to serve on the Supervisory Board. This is the reason for the basic decision not to agree to an excess. The Company will review the issue of an excess for Supervisory Board members in the event that additional

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insurance policies are concluded on their behalf. At this time, there is no legal obligation to provide for an excess in a D&O insurance policy for the Supervisory Board.

Clause 4.2.2 (2) third sentence (revised) Consideration of the ratio of the management board compensation to the compensation paid to associates in terms of the total compensation paid to individual management board members

The current service contracts with the Management Board members were concluded before the above recommendation entered into effect; however, the Supervisory Board annually makes a new decision regarding the merit-based bonuses for the Management Board members on the basis of individually defined annual targets. In making this decision, the Supervisory Board took the compensation structure within the Company into account. However, no concrete comparison was made between the compensation of the top management personnel and the associates as a whole, including the development of compensation over time, when the current merit-based bonuses were determined. As a precaution, we are therefore declaring an exception to this recommendation.

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

The current service contracts with the Management Board members, including the agreements regarding company pensions, were concluded before the entry into effect of the above recommendation; the Supervisory Board has not issued any pension commitments during the period the above recommendation has been in force. 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. As a precaution, we are therefore declaring an exception to this recommendation. 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 (formerly Clause 5.4.6 (1) third sentence) Consideration 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 com-

Statement on Corporate Management / Corporate Governance Report

mittee. Management and Supervisory Boards at Drillisch AG are 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, 20 March 2014

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

The Management Board
Paschalis Choulidis   Vlasios Choulidis

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:

- The Supervisory Board should include at least two industry representatives from the sectors telecommunications, media and/or IT.
- The Supervisory Board should have at least one member with international experience (e.g. in the sector financial engineering, telecommunications, M&A).
- No more than two former members of the Management Board should belong 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 Company, 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.
- Supervisory Board members should withdraw from the Supervisory Board upon conclusion of the Annual General Meeting following their 75th birthday.
- At least one member of the Supervisory Board should be a woman.

The Supervisory Board´s nominations of candidates for election to the Supervisory Board will continue to be oriented to the welfare of the Company, while taking these goals into account.

Statement on Corporate Management / Corporate Governance Report

Working Methods of Management Board and Supervisory Board

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

The Management Board currently has two members; the membership on the Management Board at this time is shown in the consolidated notes (page 105, point 35 of the Annual Report 2013). They 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 business units of the Company assigned to him by the rules of procedure on his sole authority. Measures of special significance or which involve unusual risks always require the prior agreement of the entire Management Board. The rules of procedure contain in addition a catalogue of the major transactions and events which require approval by the Supervisory Board. The Management Board regularly and contemporaneously notifies the Supervisory Board in written and oral form about the course of business, the position and profitability of the Group, the planned business policies and other fundamental issues of corporate planning as well as about transactions which may be of major significance for the profitability or liquidity of the Group. Moreover, the Management Board reports to the chairperson of the Supervisory Board as required by other important events.

As required by statutory provisions, the Supervisory Board comprises six representatives who are elected solely and exclusively by the shareholders. The current membership of the Supervisory Board is shown in the consolidated notes (page 104, point 34 of the Annual Report 2013). The six members of the Supervisory Board (Marc Brucherseifer, Dipl.-Kfm.; Dr Susanne Rückert; Horst Lennertz, Dr.-Ing.; Frank Rothauge, Dipl.-Kfm.; Dr Bernd H Schmidt; and Johann Weindl, Dipl.-Kfm.) were elected by the ordinary Annual General Meeting of the Company on 16 May 2013.

The term of office 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 an adequate 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 advising the latter's members in the conduct of business. The Supervisory Board meets at least twice in every six-month period of a calendar year. It is quorate if and when announcements have been properly sent to all of the members and a minimum of three members participate in the adoption of resolutions. Unless otherwise provided by law or company charter, the Supervisory Board's decisions are made by simple majority vote. The Supervisory Board's working methods are regulated in detail in rules of procedure adopted by the Supervisory Board. The Supervisory Board reports

Statement on Corporate Management / Corporate Governance Report

on the Board’s work in a separate Supervisory Board report. This report is printed on pages 8 to 12 of the Annual Report for fiscal year 2013. 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 104, point 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. Unless otherwise mandated by legal provisions, the provisions of the Company Charter applicable to the Supervisory Board as well as the Supervisory Board's rules of procedure apply mutatis mutandis to the committees.

The Nominating Committee comprises all of the members of the Supervisory Board, chaired by the Supervisory Board chairperson, and is responsible for nominating suitable candidates to the Supervisory Board for the latter's candidate nominations to the annual general meeting.

The Audit Committee consists of Mr Weindl (Chairperson), Mr Rothauge 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, being a chartered public accountant and tax accountant, is qualified as an authority in the fields of accounting, final audits and internal controlling procedures.

The members of the Personnel Committee are Mr Brucherseifer, Dipl.-Kfm. (chair); Lennertz, Dr.-Ing.; and Dr Rückert. 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

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

Statement on Corporate Management / Corporate Governance Report

Additional Information on Corporate Governance

Risk Management

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

The major features of the internal controlling and risk management system with regard to the accounting process are described in detail in the management report pursuant to Section 289 (5) HGB and in the consolidated management report (page 49 of the Annual Report 2013) pursuant to Section 315 (2) no. 5 HGB. The Management Board also reports in detail in this document on current risks and their development.

Compensation of Management Board and Supervisory Board

The compensation paid to members of the Management and Supervisory Boards is commensurate with their tasks and the responsibility which has been assigned to them. The compensation system and the compensation paid to Management Board and Supervisory Board in fiscal year 2013 are shown in the management report and notes and in the consolidated management report on pages 53 and 54 of the Annual Report 2013 (compensation report) and in the consolidated notes on page 105, point 36, of the Annual Report.

Stock Transactions and Holdings of Officers and Directors

According to Section 15a WpHG [German Securities Trade Act], officers and directors of the Company and people with management tasks must disclose the purchase and sale of Drillisch AG stock to the Company. Drillisch AG was notified of the following purchase and sales transactions, which in accordance with Clause 6.3 of the German Corporate Governance Codex must be reported in the Corporate Governance Report, during fiscal year 2013.

Statement on Corporate Management / Corporate Governance Report

Directors' Dealings in 2013

Date	Type of transaction	Shares	Price/€	Reporting person
23 April	"Purchase"	1,050,000	€14.33	P. Choulidis Management Board
23 April	"Purchase"	1,045,000	€14.33	V. Choulidis Management Board
23 April	"Sale"	1,950,000	€14.33	SP Beteiligungs GmbH Management Board
23 April	"Sale"	1,840,000	€14.33	MV Beteiligungs GmbH Management Board
05 June	"Sale"	541,730	€12.51	Colonia Private Equity GmbH Supervisory Board

Aktienbesitz von Organmitgliedern

Directors´ Holdings in 2013

Management Board	Shares
Paschalis Choulidis	1,100,000 Shares
Vlasios Choulidis	1,100,000 Shares
Supervisory Board	**Shares**
Marc Brucherseifer, Dipl.-Kfm.	3,177,565 Shares
Johann Weindl, Dipl.-Kfm.	10,439 Shares
Horst Lennertz, Dr.-Ing.	2,407 Shares

Investor Relations Report

The Drillisch Stock – Key Data | ISIN: DE0005545503 | Stock abbreviation: DRI

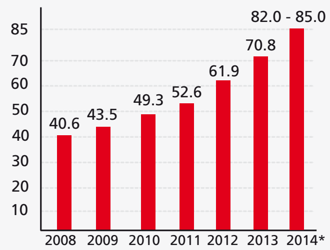
Description/Characteristic value		Description/Characteristic value	
Index	TecDAX, Tech All Share	Initial quotation	22 April 1998
Stock market sector	Prime Standard	Number of shares	53,189,015
Year-end price	€21.00 (Xetra)	Treasury stock (31 Dec)	5,189,015 (9.76%)
Highest price (18 Nov)	€22.11 (Xetra)	Free Float (Dt. Börse AG)	84.27%
Lowest price (2 Jan)	€11.26 (Xetra)	Average traded shares	359,245 (day) Xetra

Investor Relations

We accept the requirements of our investors and the financial markets. Our goal is to raise the value of our company permanently.

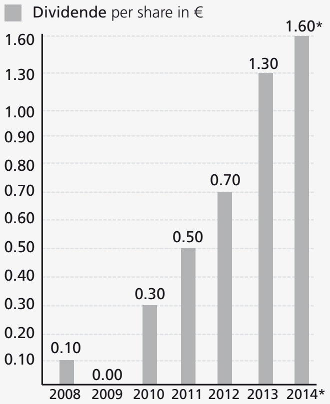
One of the most important responsibilities of Investor Relations is the dialogue with the capital market and to conduct this dialogue without making any distinctions between institutional and private investors. We pursue a policy of open and frank communication with all sectors of the capital market so that all of the shareholders and potential investors are notified of important developments in the same manner and without discrimination. We have explained in detail the corporate strategy of Drillisch AG to the capital market at several national and international road shows, during a number of meetings at the Company headquarters in Maintal, at various presentations and in interviews. The continuing work can be followed and tracked equally by all investor groups on our home page. In addition to a detailed financial calendar, all of the relevant reports can be viewed in the sense of fair disclosure. Many investors also take advantage of the opportunity for personal contact via email and/or telephone.

EBITDA (adjusted) in €m



*forecast

Dividende per share in €



*forecast

The Drillisch stock – rising profits and attractive disbursement policy

Our corporate strategy is aimed at achieving a sustained rise in company value and builds on organic growth. The dividend policy alignment is long-term as well. The operating business of Drillisch AG continued to develop steadily in a positive direction over the past fiscal year. In Q4, we raised our original EBITDA guidance of between €67 million and €70 million to €70 million. In actual fact, we achieved €70.8 million, corresponding to an increase by 14.4% over the previous year. For 2014, we have increased the original EBITDA forecast of between €77 million and €80 million to between €82 million and €85 million. At the same time, we will continue our efforts to increase the number of MVNO subscribers.

The Company has steadily raised the dividend in recent years parallel to the successful growth in profits.

The realisation of the disbursement policy described here is contingent upon Drillisch AG having at its disposal the corresponding balance sheet profit in its separate financial state-

Investor Relations Report

ments prepared under commercial law for the respective fiscal years and upon the responsible governing bodies adopting the corresponding resolutions, bearing in mind the current situation of the Company at each respective point in time.

The performance of the Drillisch stock during the stock market year 2013 in comparison with TecDAX

The development of the Drillisch stock in stock market year 2013 was better than that of the market as a whole. This is also reflected in its placement in the index ranking of the TecDAX. Since its inclusion in the index of the 30 leading technology stocks in Germany in September 2009, the index criteria figures of the Drillisch stock have steadily risen, and at the end of the past year 2013 it was ranked 9th (2012: 14th) for "Market Capitalisation" and 10th (2012: 11th) for "Revenue".

The performance of the Drillisch stock during the stock market year 2013 in comparison with the indices:

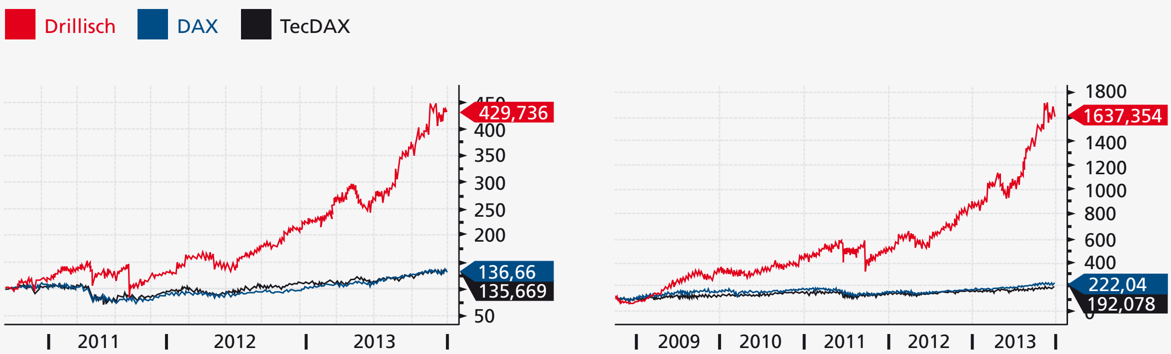
	Close-out 2013	Close-out 2012	% change
Drillisch	€21.00	€11.15	+88.4
TecDAX	1,166.82	828.11	+40.9

The Drillisch stock has displayed better development than the leading indices, both in the past fiscal year 2013 and in the long-term comparison.

Drillisch stock in comparison with DAX and TecDAX (3 and 5 years)

While the TecDAX rose by 35.7% in the period from 2011 to 2013, the Drillisch stock improved by 329.7%. The DAX improved by 36.7% over the same period.

In the 5-year comparison (2009 to 2013), the Drillisch stock was able to increase by 1,537.4%. Over the same period, the TecDAX improved by 92.1% and the DAX by 122.0%.



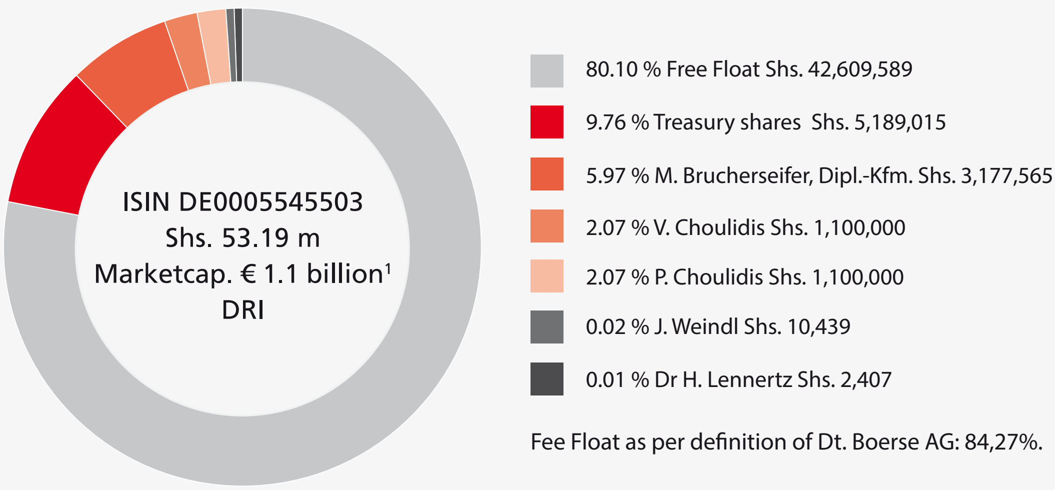
As of the conclusion of the most recent stock repurchase programme on 21 January 2013, Drillisch AG holds 9.76% (5,189,015 shares) of its own stock. The General Meeting adopted a resolution (carried by the vote of 99.74% of the capital in attendance) authorising the repurchase of additional stock.

Investor Relations Report

Latest analyst assessments 2013/2014 (as per 31 January 2014)

Analysis	Rating	Price Target	Date
Hauck & Aufhäuser	"Hold"	€21.50	06 December 2013
Equinet	„Accumulate"	€24.00	06 December 2013
LBBW	„Hold"	€21.00	06 December 2013
Berenberg	„Buy"	€20.00	02 December 2013
Warburg Research	„Hold"	€22.00	27 November 2013
Kepler Cheuvreux	„Buy"	€24.00	19 November 2013
Commerzbank	„Hold"	€21.00	19 November 2013
Bankhaus Lampe	„Buy"	€25.00	18 November 2013

Shareholder structure of Drillisch AG (Last revised 31 December 2013)



Fee Float as per definition of Dt. Boerse AG: 84,27%.

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 €21.00 on 31 December 2013. Free Float acc. to the rule of Dt. Boerse AG: 84.27%.

IR Goals 2014

One of the most important goals will remain the securing of a commensurate rating for the Drillisch stock and simultaneously the reduction of its volatility. Open, non-discriminating and sustained communication with all of the target groups is given high priority so that this objective is achieved. We will be glad to give consideration to any suggestions from our shareholders for the further improvement of communication.

THE DRILLISCH GROUP AND THE MARKET ENVIRONMENT

Drillisch revolutionises mobile tariffs
Wireless services subscriptions still rising

Drillisch began focusing on the smartphone market and its dynamic growth at an early stage. By introducing innovative voice and data rates for smartphone and tablet users, the Company has raised the value of the enterprise. 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.

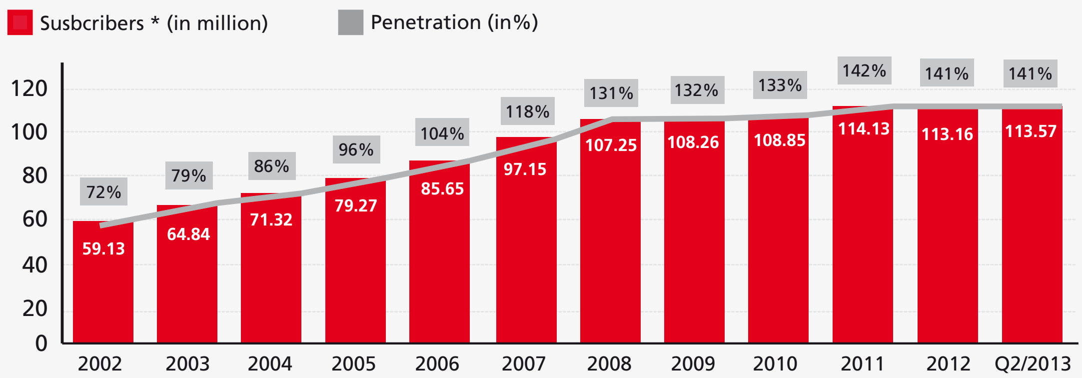
Mobile communication has become an essential component in our daily lives – whether at work or in our leisure time, a world without mobile phones and smartphones is virtually unimaginable. What is more, they have in the meantime become a growth driver for the whole economy, as revealed in a study conducted by the Institute of the German Economy Cologne (IW) at the end of September 2013. The IW believes that about 6% of the gross domestic product (GDP) between 2010 and 2012 had its origins in the rapidly spreading use of wireless services.

Mobile data services are clearly growth drivers in the telecommunications sector. Estimates from the industry association BITKOM from October 2013 indicate that revenues in 2013 rose by more than 5% to €9.1 billion. In contrast, stiff price competition, a powerful trend in the direction of flat rates and regulatory intervention – especially the lowering of the termination rates in Germany and international roaming charges – have led to a decline in revenues from mobile voice services by about 9% to €11.6 billion.

Wireless services subscriptions in Germany still rising – mobiles overtake landline telephones

In its activities report published in December 2013, the Federal Network Agency spoke of 113.57 million wireless service connections, corresponding to a penetration rate of 141% and representing an increase of about 40,000 subscribers over the previous year.

Subscribers and Penetration in Mobile



*SIM-cards acc to the reports of the MNOs

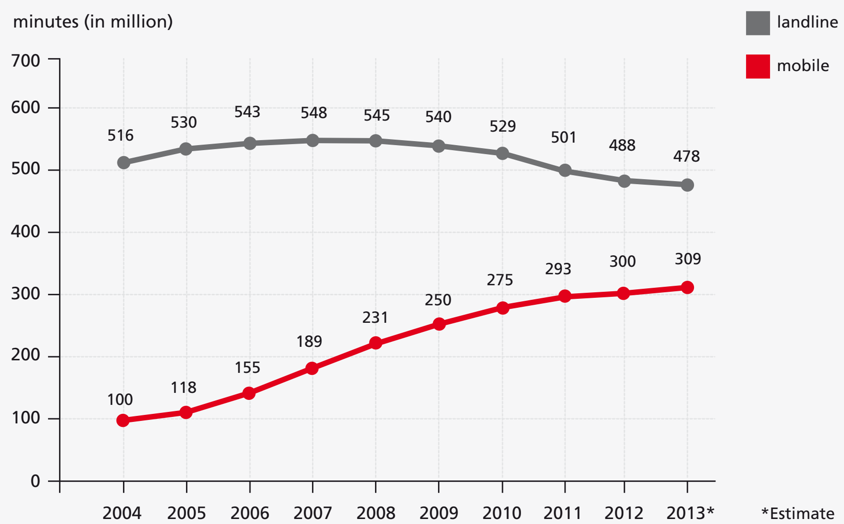
Source: Bundesnetzagentur, Tätigkeitsbericht Telekommunikation 2012-2013

Mobile is overtaking landline

A market study from October 2013 shows that the competitors' association VATM and DIALOG CONSULT expect an even higher total of 114.1 million SIM cards for the year. This total includes a proportion of 3% for SIM cards utilised in machine-to-machine (M2M) communication, the exchange of information via wireless channels and (in part) the internet among end devices such as machines, dispensers, motor vehicles or containers both among the devices themselves and with a central control point. Along with these industrial applications, the "Internet of Things" is gaining in significance. Even the most insignificant everyday products such as household appliances or heating control elements are connected to the internet and will be able in the future to exchange information online, initiate actions and mutually exchange informations.

For the first time since the introduction of wireless services in Germany, more people have mobile phones than landline connections. The German Federal Statistical Office announced in the middle of November 2013 that there is at least one mobile phone in 93% of the approximately 40 million private households while only 90% have a landline phone. According to BITKOM, two such devices are used in 36% of households and more than five devices are used in almost 20%. The exception has become the rule: 15 years ago, 97% of the 37 million households had a landline phone and only 11% used a mobile, but today mobile phones have overtaken the classic telephone. The comparison of voice minutes from landline service and wireless networks underscores the dynamics of mobile communication. The current market study from VATM and DIALOG CONSULT calculates that the daily call volume from mobile devices in Germany (309 million units) has now reached a level of about 65% of landline volume. In 2008, the corresponding figure was only about 42%. Moreover, the total call minutes made from landlines in Germany have declined by 12.3% since 2008 while minutes made from mobile connections have simultaneously increased by 33.7%.

Outgoing minutes landline and mobile in million per day



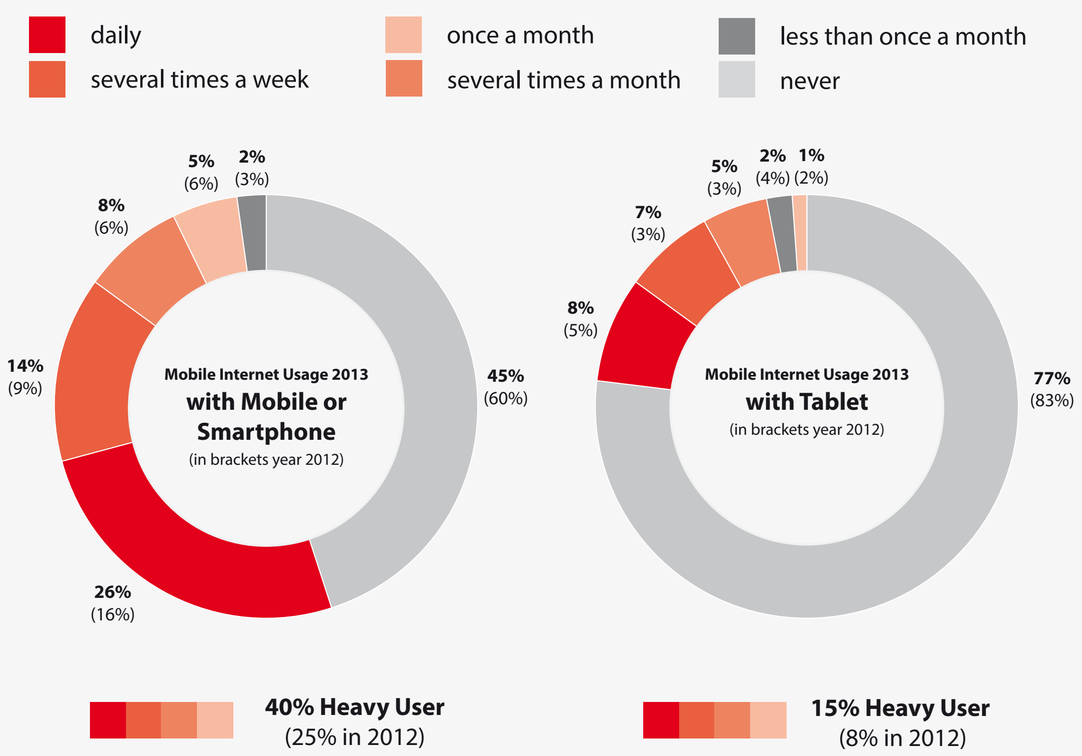
Source: VATM / Dialog Consult, Marktstudie 2013

Smartphone and tablets demandon record level

Boom in smartphones and tablets unabated – mobile data traffic exploding

The strong demand for smartphones in Germany continues. BITKOM calculates that 26.4 million devices were sold in 2013, an increase of about 23% over the previous year. Revenues rose by 12% from €7.5 billion to €8.4 billion over the same period. In other words, both revenues and the sale of smartphones have risen an average of approximately 37% a year since 2010. The trend is clear: more than 80% of all of the mobile phones sold in 2013 were smartphones, according to a projection from the market research institute EITO. Expectations for tablet computers are similarly positive. Projections based on the latest calculations from EITO released by the high-tech association BITKOM at the beginning of October indicate that 8 million devices were sold in 2013. In comparison with the previous year, when about 5 million tablet computers were sold, sales grew by 59%. New smartphones and tablet models in various sizes with even higher resolution displays and more added functions as well as completely new types of devices such as smartwatches or data glasses will spur growth even more strongly in 2014.

Mobile Internet Usage 2013
With which device you use the internet and how often?



Source: NORDLIGHT research

19 million internet users to go online daily

The good sales figures for mobile end devices of the youngest generation go hand in hand with a substantial increase in internet usage. One out of two Germans (55%) who use the internet now uses a smartphone or tablet for internet access. Only 45% of all “onliners” limit themselves to strictly stationary use of the internet at a PC; in 2012, this figure was still 60%. This is revealed in a trend study entitled “Mobile Internet Usage 2013” presented in October and conducted by the independent market research institute Nordlight Research in cooperation with the online survey provider Webfrager GmbH.

The results also show that the number of internet users who use mobile end devices to go online daily or several times a week has risen significantly since 2012 from 13 million to the current 19 million. The growth in so-called “heavy users” is found in all age groups:

- The size of the group grew by 10% among “digital natives” (born after 1980)
- Their share rose by 6% among “digital immigrants” (30–55 years old)
- Growth was strongest (over 10%) among the “silver surfers” (over the age of 50)

The recent online study from ARD and ZDF in September 2013 came up with similar results. It shows that 77% of the German population spends an average of about 169 minutes a day online, meaning that mobile internet usage has almost doubled within one year. Two years ago, just under two-thirds (62%) of all mobile phone owners would not have left home without their mobiles; the figure has climbed to three-fourths (75%) today, and in the age group of the 14- to 29-year-olds, it is even higher (83%).

But the use of a mobile end device is interesting for more than just the classic applications of phoning and writing emails. Here are just a few examples which illustrate the tremendous diversity of usage scenarios and give a taste of future developments.

➡ Shopping

In 2013, 62% of the tablet users went shopping online with their devices. More than half of the smartphone users have made purchases on their mobile phone (BITKOM study “Trends in E-Commerce”, 2013).

➡ Social networks

Almost half (49%) of all active users of social networks such as Facebook, Twitter, Google+ or Xing access their online community while on the go. (BITKOM survey, October 2013)

The network outfitter Ericsson has determined that smartphone users spend an average of 13.1 hours in social networks, 8.2 hours using entertainment services (including video) and 5.9 hours playing digital games every month. (Mobility Report, November 2013)

➡ Video

The share of hits from mobile devices on the video platform YouTube increased by 40% in 2013. In 2011, only 6% of users accessed the service from mobile devices. (Press release Google, October 2013.) Data traffic through video usage increased by 55% annuall and should reach 50% of the whole mobile data traffic in the year 2019. (Ericsson Mobility Report 2013).

Mobile data volume expected to rise by tenfold until 2019 Availability of LTE has reached the mass market

➡ Text messages: WhatsApp vs. SMS

Even though another SMS (short message service) record was posted in Germany in 2013 (63 billion SMS texts, an increase of 6% over 2012), SMS revenues declined by 13% to €2.8 billion because of the stiff price competition. In the long term, BITKOM foresees a substitution of internet-based messaging services for SMS text messages. (BITKOM, press release November 2013)

At the same time, WhatsApp announced that it had 30 million active users in Germany. (WhatsApp founder Jan Koum via Twitter, January 2014)

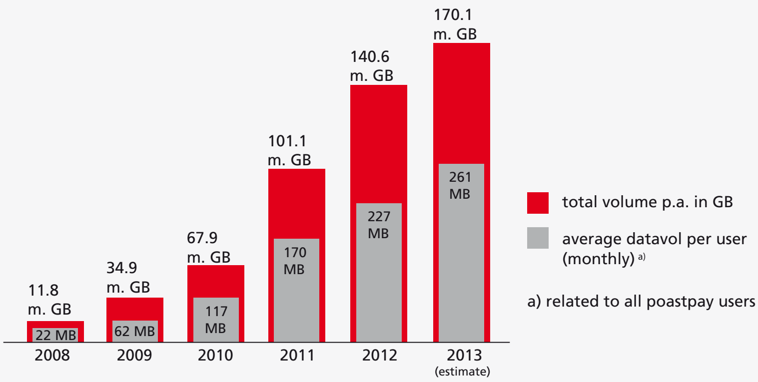
Continuing growth in the numbers of users, many of whom are "always online", and the powerful increase in data-intensive services is causing an explosion in mobile data transmission. The data volume generated by smartphone usage will rise by a factor of ten to just under 10 petabytes (about 10.5 million gigabytes) per month between 2013 and 2019. This is the forecast of the network outfitter Ericsson in its Mobility Report 2013, which was published in November. In the year 2013, both VATM and Dialog Consult do expect a total volume of 170 million Gigabyte. This translates to an average monthly usage of 260 MB per mobile customer.

The availability of the new wireless standard LTE has reached the mass market

According to the latest analysis of the information portal 4G.de, 67% of all locations in Germany had been provided with LTE (Long-Term Evolution) coverage in Q4 2013. The comparison with Q4 2012 (44% LTE coverage) and Q1 2013 (50%) shows that the 4G network coverage has grown substantially in the last twelve months.

Moreover, customers have become aware of the term LTE and its significance. During a survey in 2012, more than 40% of the respondents had never heard of LTE; the figure today is only 17%. The massive advertising done by the network operators is undoubtedly the primary reason for this increased awareness.

Development Data Traffic from Mobile Networks



Source: DIALOG CONSULT-/VATM-analyses and -prognoses

MARKETING REPORT

Drillisch sets new standards for transparency and flexibility

The introduction of new rate plans by Drillisch sets new standards for transparency and flexibility in mobile data usage

In April 2013, Drillisch introduced a new and transparent concept for all of its brands known as the product family "*All-in*". Customers can select the rate plan which best fits their individual requirements while continuing to take advantage of the high product quality of the price leader. In introducing the new rate plans, Drillisch becomes the first provider to drop completely the obligatory 24-month contracts otherwise customary in the industry. All of the rate plans can be selected with a term of one month.

New subscribers will find that the Drillisch Group brands offer complete packages starting at €4.95 a month for 100 MB in data volume and including 50 minutes for calls and 50 texts. Heavy users can sign up at Drillisch for a phone and text flat rate to all networks in combination with a maximum data package up to 1 GB running at high speed before being throttled, all for only €24.95.

The product lines all feature the quality management certified by independent auditors, who regularly repeat their impartial assessments. The ratings of good to excellent were once again affirmed in 2013.

No Contract Maturity – Best Net – D-Net / O_2

All-in XS 4.95 Euro monthly
... for first time user

- ✓ 50 free minutes per month
- ✓ 50 free-SMS per month
- ✓ Internet-Flatrate (100 MB) (7.2 MBit/s)
- ✓ Upgrade to 500 MB possible

All-in XM 7.95 Euro monthly
... the Allround tarif

- ✓ 100 free minutes per month
- ✓ 100 free-SMS per month
- ✓ Internet-Flatrate (300 MB) (7.2 MBit/s)
- ✓ Upgrade to 500 MB / 1 GB possible

All-in XL 14.95 Euro monthly
... the new Top-Tarif

- ✓ 250 free minutes per month
- ✓ 250 freei-SMS per month
- ✓ Internet-Flat (500 MB) (7.2 MBit/s)
- ✓ Upgrade to 1 GB possible

Flat XS ab 16.95 Euro monthly
... cheapest Allnet-Flat

- ✓ Flatrate in all mobile networks
- ✓ Flatrate to landline
- ✓ Internet-Flatrate (500 MB) (up to 14.4 MBit/s)

Price and innovative leadership in attractive German market

Flat XM ab 24.95 Euro monthly
... Full-Flat at the best price

- ✓ Voice-Flat
- ✓ SMS-Flat
- ✓ Internet-Flat (1GB) (up to 14.4 MBit/s)

Innovative MultiSIM solution for multiple devices and up to 2 GB high-speed volume

In contrast with the competition, Drillisch is the first provider to offer to its customers the opportunity to use a number of mobile end devices with a single phone number and a single invoice, but without simultaneously having to sign a long-term contract. If, for instance, a customer needs a second SIM card for hands-free phoning in the car or wants to be able to surf on a tablet PC as part of the smartphone contract, he or she will find a perfect solution at Drillisch. Drillisch offers a flat rate for surfing on mobile phones with a high-speed volume of 2 GB as an additional option with all brands for the top all-net flat rate *Flat XM* as the right supplement to these expanded possible uses.

Surf faster, experience more – Drillisch introduces LTE rates
New service areas for even greater user friendliness

New accessory sets supplement hardware line

The boom in sales is not limited to smartphones themselves; useful accessories related to the digital all-rounders are also in demand. *simply*, *maXXim*, *helloMobil*, *McSIM*, *Phonex*, *smartmobil.de*, *DeutschlandSIM*, *discoTEL*, *discoPLUS* and *winSIM* have all been supplementing their lines of hardware with high-quality, practical accessories since July 2013. Shoppers selecting a smartphone package or a smartphone in the mobile phone shop automatically receive a recommendation for the starter set which best fits their selection. But our current customers can also order the accessory packages of their choice by going to the service section. The additions make the customer-oriented service portfolio of the Drillisch Group brands even more appealing.

Surf faster, experience more – Drillisch introduces LTE rates

As early as January 2013, Drillisch introduced the LTE rate plans *RED M* and *RED L* from Vodafone for its brands *McSIM* and *Phonex*. A new website of Drillisch Telecom GmbH featuring expanded services in RED rate plans was launched in August, *PremiumSIM*. Customers of the brands *simply*, *maXXim*, *helloMobil* and *Phonex* can use LTE rate plans with data speeds of up 50 Mbit/s in combination with the plans *O_2 Blue All-in M* (for €21.99 a month), *O_2 Blue All-in L* (for €31.99 a month) and *O_2 Blue All-in XL* (for €41.99 a month). Drillisch is the market price leader with these rate plans as well, and customers enjoy a contract which, in comparison with the competition's services over a period of 24 months, represents savings of about €185.

New web designs and mobile service areas for even greater user friendliness

Yet another important success factor is the user friendliness of the online shops, which is continuously being optimised on the basis of customer feedback and other information. For example, the online shops feature new and striking navigation elements along with clearly structured information boxes to support customers who are looking for the right wireless services rate plan, a smartphone bundle or other services.

More and more potential and current customers are using mobile end devices to visit the webshops and service areas. New designs have made the sites simpler and the navigation more intuitive; for instance, the end device being used is automatically recognised when *www.simplytel.de* is entered, eliminating the need to enter a special URL for the website.

Innovative rate plans at Drillisch verified by numerous awards

The personal online account section – the service area – for all Drillisch brands can be addressed using mobile devices. Users can see how much of their high-speed data volume they have used in the current month, for instance. The brand helloMobil is testing the functionality of the service area with its own app – available in the Apple App Store for iOS devices and in Google Play Store for the Android operating system.

Chat function and ordering by phone help to select a rate plan

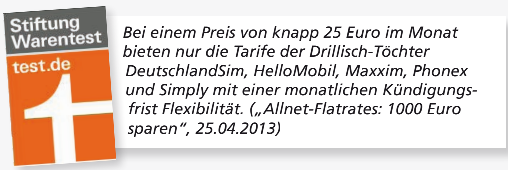
The online ordering process has become even simpler: Drillisch offers an order assistant, including live chat. Potential subscribers can speak to service associates from 8.00 a.m. to 8.00 p.m. every day and clarify all of their questions, e.g. about the selection of a rate plan, transfer of a current phone number or the order procedure. After successful completion of the test phase, this service became available for *maXXim* and *smartmobil.de* in the middle of the year and for *simply*, *helloMobil* and *Phonex* in the fourth quarter.

McSIM the first provider to offer student rate plans

Student discounts on current rate plans are available from other providers as well, but the *McSIM* brand has specifically oriented its portfolio to the requirements of this target group. *McSIM* offers special rate plans for students featuring high-speed data volume and without a minimum contract term. The entry level rate plan *McSPAR* is available for phone calls and texts for 8 eurocents per minute or text without any basic fee. The flexible student rate plan *McFLEX* for only €9.95 a month includes 250 units and 500 MB of high-speed data volume. The complete package *McFLAT* has been tailored to fit the needs of heavy users and offers a phone and text message flat rate to all German networks along with 1 GB of high-speed data volume at a rate of up to 7.2 Mbit/s. The SIM-only price plans are supplemented by *SPARFöG*, an offer that changes each month and combines a top smartphone with a discount rate plan at an especially low student price.

Innovative rate plans at Drillisch verified by numerous awards

Over the course of 2013, Drillisch products were once again the recipients of awards from leading consumer magazine and portals for rate comparisons because of the price, quality and offered service.



The new rate plan programme "*All-in*" and its budget rates have been given highly positive ratings in numerous journals, portals for rate comparisons and consumer magazines. Immediately after their launch, Stiftung Warentest called special attention to the *simply*, *maXXim*, *helloMobil*, *smartmobil.de* and *Phonex* rate plans without a fixed-term contract. In comparisons conducted by the computer magazine CHIP (print edition and online portal) in April and November and in a number of market overviews by the telecommunications portal teltarif.de in April, May and December, the

Innovative rate plans at Drillisch verified by numerous awards

new Drillisch rate plans were again the subject of highly favourable mention. In an overview of the 10 most cost-effective smartphone rate plans published in the online edition of the magazine Computerbild (June 2013), Drillisch was the leader in seven positions. In another smartphone rate plan comparison, this time from teltarif.de (June 2013), the *All-in XS* entry level rate plan came out clearly on top. The rate plan seal from Stiftung Warentest awarded in the categories heavy users and heavy phone users on 28 June 2013, the rating of “Excellent” from tariftipp.de (October 2013) and awards from inside-handy.de (April and August 2013), handyflatrate-preisvergleich.de (October 2013) or allnetflat-vergleich-24.de (September 2013) are proof that Drillisch provides optimal rate plans tailored to meet the specific requirements of all consumers.

The 6-eurocent discount rate introduced by helloMobil in March 2012 demonstrates the long-term viability of low-price mobile phone rates without a monthly basic fee: the rate plan experts from tariftipp.de have given *helloMobil* a rating of “Excellent” for its *6-eurocent rate* for almost two years. The industry portal inside-handy.de also repeated its appraisal of the *6-eurocent rate* plan at *helloMobil* as the “Lowest-price Discount Rate” in 2013.

Im Netz von Vodafone erhalten Sie das beste Angebot bei Deutschland-SIM mit der Flat M sowie Maxxim mit der Flat XM. Hier kostet die Flatrate für unbegrenzte Gespräche, SMS sowie einer Internet-Flat mit 1 GByte Highspeed-Datenvolumen günstige 27,95 Euro pro Monat. Sehr gut: Beide Angebote kommen ohne Mindestvertragslaufzeit aus und sind monatlich kündbar. („Die besten Tarife für Ihr Netz“, 20.11.2013)

Dauerhaft unter 20 Euro ohne Laufzeit oder Preisfalle: Für 19,95 Euro im Monat bietet Maxxim (sowie die verwandten Marken Hellomobil, Simply, McSIM und Phonex) eine Allnet-Flat für alle Telefonate und Internet mit Drosselung ab 500 MB. („Das sind die günstigsten Allnet-Flatrates unter 20 Euro“, 22.06.2013)

Im Vodafone-Netz teilen sich gleich sechs Mobilfunkmarken den ersten Platz: McSIM, Smartmobil.de, Maxxim, Simply, hellomobil und Deutschland-SIM. […] Mit einer Download-Geschwindigkeit von 14,4 Mbit/s, bietet die Flat XM smart zudem eine schnellere Verbindung als die 7,2 Mbit/s der anderen Anbieter. („Tarif-Awards: Die günstigsten Allnet-Flatrates im August“, 06.08.2013)

Die günstigsten Drillisch-Aktions-Angebote gibt es derzeit bei Phonex, hellomobil und WinSIM. Für aktuell 9,95 statt der regulären 14,95 Euro im Monat gibt es hier 250 Frei-Minuten und 250 Frei-SMS in alle deutschen Netze sowie eine Handy-Internet-Flatrate mit einem ungedrosselten Inklusiv¬volumen von 500 MB. („Aktions-Tarife bei Drillisch: Sparen bei Allnet-Flat & Co.“, 19.12.2013)

Impartial certifications and customer opinion show that price, performance and service at Drillisch are tops

But besides the awards for specific products and the price leadership in conjunction with high service quality, all of the operating subsidiaries successfully completed an audit based on the strict quality standard DIN EN ISO 9001:2008 in the middle of the year. The ISO seal awarded for the first time in 2010 was renewed once again.

In addition, TÜV Saarland conducted an extensive review of the product line, the order procedure and customer service of the Drillisch brands. Respondents in the related customer survey praised above all the wide range of innovative rate models and the especially high value for money as well as the simple order procedures. Our competent and friendly customer service agents were given top ratings. In addition, more than 85% of the customers would recommend their own rate plan to their friends because of their extraordinarily high level of satisfaction.

Impartial certifications and customer opinion ITC industry remains at a record level in 2013

Drillisch subscribers confirmed their high level of customer satisfaction in a survey conducted by Trusted Shops as well. All of the brands scored more than 4.6 out of a maximum of 5 points and received a solid rating of "Excellent".

ITC industry remains at a record level in 2013 – software and outsourcing grow over-proportionately

According to a forecast from the industry association BITKOM issued in October 2013, revenues from products and services in information technology, telecommunications and entertainment electronics in 2013 remained stable at a record level of €152 billion. Even though the overall results in the industry grew by only 0.1% in comparison with 2012, various segments posted substantially greater growth. Business with software grew by 4.9% to €18.1 billion, and revenues from IT services such as outsourcing and maintenance rose by 2.4% to €35.7 billion. Based on market estimations and forecasts from the European Information Technology Observatory (EITO) in October 2013, the industry expects growth of 1.6% to €154.4 billion in the current year.

CONSOLIDATED MANAGEMENT REPORT

Business Report

1. General Information About the Company

1.1. Drillisch Continues Its Successful Corporate Story

Drillisch AG, Maintal, ("Drillisch") together with its subsidiaries, is a mobile virtual network operator (MVNO) operating solely in Germany. During fiscal year 2013, Drillisch continued its dynamic growth of the past and increased its operating profit further.

One of the most profitable and innovative providers of rate plans for voice and data communication in Germany, Drillisch is a regular source of new driving ideas on the German wireless services market. Operating as an 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 ("O_2") and Vodafone GmbH ("Vodafone"). The internet is its most important sales channel. Moreover, Drillisch successfully works with selected distribution and cooperation partners as well as with some classic wireless services retailers. Drillisch expects its successful corporate history to continue in fiscal years 2014 and 2015 as well.

Drillisch serves current customers in the Telekom Deutschland GmbH ("Telekom") and E-Plus Mobilfunk GmbH ("E-Plus") networks on the basis of existing service provider agreements. However, the share of the clientele in this less profitable segment is declining as planned.

Drillisch and its innovative rate plan models are in an outstanding position to meet the demands of mobile data society. The study entitled "Mobile à la carte" published by Deloitte in November 2013 concludes that the changes which have occurred in wireless services usage render the introduction of new rate structures necessary. This is especially important with regard to product transparency and individuality in customer use. According to the Deloitte study, about 62% of the German population own a smartphone, but only three-fourths of them use these devices in combination with a mobile data rate plan.

In other words, just under half of German consumers take advantage of the opportunity to use the mobile internet. Sales of smartphones and tablet continue to grow at a rapid pace, so the need for transparent and low-cost rate plans remains unchanged at a high level.

Price leader with innovative and transparent products

Optimal performance, good service at the best price. The current concept for its rate plans lays the groundwork which enables the Drillisch brands to offer an optimal combination of monthly data volume, maximum surfing speed and minute/text message packages or flat rates to match the personal needs of each and every customer.

The findings from the Deloitte study in November confirm the validity of the innovative rate plan concept for more than just the features of product transparency and individuality. Drillisch is the first independent provider to drop the obligatory 24-month contracts otherwise customary in the industry; all of the rate plans can be selected for a term of one month.

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Its own product family and innovative rate plan models are Drillisch's way of responding accurately to the changed requirements and, even more, of proactively shaping the wireless services market in Germany in the future as it has always done in the past. The flexibility of the MVNO model plays an important role in this respect. Our marketing activities will continue to focus on innovative voice and data products via the internet and in cooperation with carefully selected partners.

Awards for product transparency and customer service

Drillisch has in the past regularly requested the performance of extensive quality tests by independent third parties. The certificates which have been awarded, consistently with ratings of "excellent" and "good", were confirmed without exception in the latest audits per 30 September 2013. In the course of the renewal of the certification in accordance with the demanding quality requirements of the ISO norm 9001:2008 in September 2013, the high standard of quality management at the Drillisch subsidiaries Drillisch Telecom GmbH and MS Mobile Services GmbH satisfied the auditors fully and completely in every respect.

The products offered by Drillisch attain the highest levels of transparency and security in accordance with the strictest national and international standards. 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. The subsidiaries Drillisch Telecom GmbH, Maintal ("Drillisch Telecom"); MS Mobile Services GmbH, Maintal ("MS Mobile"); and eteleon AG, Munich ("eteleon"); are responsible for the operational wireless services business. The IT knowhow of Drillisch Group has been concentrated in IQ-optimize Software AG, Maintal ("IQ-optimize"). MSP Holding GmbH, Maintal ("MSP"), is a subsidiary of Drillisch AG set up with the objective of holding and administrating investments.

Streamlining of the corporate structure

Effective upon entry of the transactions in the Commercial Register on 20 and 22 August 2013, the wholly-owned subsidiaries b2c.de GmbH and Intelligram GmbH, both headquartered in Munich, were merged with eteleon. Drillisch's intention in carrying out this organisational merger of the three companies is to enhance further their efficiency and clout. eteleon, b2c.de and Intelligram will continue to be used as established brand names on the market.

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Strong brands in mobile communications

Drillisch offers attractive rate plans customised to meet specific customer needs through its subsidiaries, which operate the online brands *McSIM*, *helloMobil*, *simply*, *PHONEX*, *smartmobil.de*, *maXXim*, *winSIM*, *DeutschlandSIM*, *discoTEL* and *discoSURF* plus the premium brands *VICTORVOX* and *Telco*. Every subscriber can find a combination of mobile communication services which is a perfect fit for his/her demands in the "*All-in X*" product family. Drillisch now offers to its customers the opportunity to subscribe to *PremiumSIM* for surfing on mobile devices at rates of up to 100 Mbit/s and to experience the speed of the 4th generation of wireless services ("LTE"). Anyone using a number of mobile devices while on the go can choose the UltraCard from *smartmobil.de*, for instance, and simultaneously utilise smartphone, tablet and hands-free device in the car with only one phone number, one mailbox and one bill. UltraCard users enjoy optimal reachability and can use whichever device is most suitable for the particular situation at any time, whether at home or on the go.

What is more, customers can go to the online shops of the various brands to choose the equipment best suited for their purposes from a large selection of the latest smartphones, tablet PCs and notebooks and to add useful accessories.

IQ-optimize guarantees IT expertise

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

MSP Holding

MSP, a subsidiary of Drillisch AG, held the stock in eteleon and in Mobile Ventures GmbH, Maintal ("Mobile Ventures"), per 31 December 2013. It sold all of the stock previously held in freenet AG, Büdelsdorf, in fiscal year 2013.

Employees

As an average for the year, Drillisch employed a workforce, including Management Board, of 358 (previous year: 342).

1.2. Company Management – Objectives and Strategies

The Company´s strategy emphasises profitable growth. The focus for new business is on the marketing of innovative and low-cost products. In the estimation of the Management Board, low, transparent rates represent the greatest opportunities for growth on the German market. The highest growth rates here are expected in the data communications sector. The Company has placed its own successful brands, including *simply*, *maXXim*, *McSIM*, *helloMobil*, *smartmobil.de*, *DeutschlandSIM*, *discoPLUS* and *discoTEL*. Drillisch also offers attractive rate plans in combination with smartphones and tablets, enabling the Company to benefit from the continuing boom in demand for mobile high-end devices. The growing number of potential users who already own a mobile phone of this type and are now looking for a high-level, yet low-cost, rate plan, can come to Drillisch, which offers an ideal plan without long-term contracts to every user segment.

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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. Our quality management staff actively and continuously review products and services, working to raise the gross profit and EBITDA margins.

Value-oriented management system

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

Major elements of value-oriented management include the following:

1. Thanks to its lean structure, Drillisch is highly efficient in terms of costs. This approach has enabled the group to increase its EBITDA continuously over the past eleven years. Drillisch achieves this high level of economic efficiency by consistently optimising business processes and by making efficient use of its personnel.
2. The major IT services required at Drillisch are performed by its subsidiary IQ-optimize so that the Company is not dependent on external providers. 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 wireless 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 usage behaviour of smartphone customers. The budget and package plans containing a certain volume of 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 paths, 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 wireless services market are available to Drillisch at the first and second management levels.

Business Report

2. Business Report

2.1. General Conditions in the Industry

Wireless services sales in Germany rise slightly again in 2013

According to a TC market analysis conducted jointly by Dialog Consult and VATM, sales on the German wireless networks market rose slightly from €24.8 billion in the previous year to €25.1 billion in 2013. This rise in turnover is only slight and results from dynamic growth of 17.3% in revenues from mobile data and a slight overall decline in revenues from text messages. The number of active SIM cards rose from 113.2 million in the previous year to 114.1 million in 2013. Voice transmission using wireless services increased from 300 million minutes a day in 2012 to 309 million minutes in 2013 and compensated almost completely the declining call minutes on landline phones, which fell from 488 million to 478 million minutes. Estimates from the VATM indicate that the total data volume in 2013 increased by 21% from 140.6 million gigabytes in 2012 to 170.1 million gigabytes in 2013. The share of revenue from mobile data transmission in the sector of non-voice sales grew from 65% in 2012 to 69.3% in 2013. This translates to about €6.1 billion in wireless services revenues for mobile data transmission. The demand for higher data volumes and technologies for faster data transmission (e.g. LTE) along with the integration of various media on mobile end devices will secure growth potential for wireless services providers in the future as well.

IT industry growth continues in 2013

The IT industry was able to continue the positive development of the previous year without even a hiccough in 2013. According to information from BITKOM (October 2013), sales in Germany rose by about 2.0% to €74.7 billion, substantially faster than the overall economy. Further growth in revenues of about 2.8% is expected in 2014. A press release from BITKOM published on 9 January 2014 shows that there is currently a shortage of 39,000 IT specialists in Germany. One out of ten German companies is consequently planning to hire specialists and managers during the next twelve months. The IT industry remains one of the job engines in the German economy and is one of the most innovative branches of business.

Drillisch holds its position on the wireless services market

Drillisch is in competition with the four network operators (Vodafone, O_2, Telekom and E-Plus) as well as with other service providers and MVNOs. The network operators have a market share of about 84.8% in Germany as shown in a TC market analysis from VATM in 2013. The remaining market is essentially shared by the service provider freenet AG and the independent service providers Drillisch and United Internet.

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2.2. General Economic Conditions

Economic development and growth of the gross domestic product (GDP) of 0.4% in 2013 were marked, just as in 2012, by the weak development of the global economy and by the loss of trust and the financial crisis in Europe. The ongoing weakness of important trade partners in Europe could not be compensated by the demand from overseas. Positive employment figures, rising earned income and the continuing strength of consumer demand from private households will ensure further economic growth in Germany in 2014. The German government expects growth of 1.7% in 2014.

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

2.3. Turnover and Earnings Position

Further EBITDA growth in fiscal year 2013 is impressive evidence that Drillisch has maintained its operative earning power. This good development of our business is supported by the ongoing dynamic developments in the fields of wireless services and mobile internet. Drillisch uses innovative products in conjunction with efficient marketing and sales concepts to sustain its top position in the German telecommunications industry.

The "service revenues", essentially the income from the provision of the ongoing wireless services (voice and data transmission) and their billing on the basis of the current customer relationships, amounted to €277.2 million in 2013 (previous year: €301.8 million). This difference in comparison to last year is partly attributable to the prepaid clientele sold in May 2012 who were still contributing to group sales in 2012. Another factor contributing to the decline in earnings is the reduction in forwarding charges from 3.36 eurocents or 3.39 eurocents per minute in December 2012 to a standard 1.85 eurocents a minute. Taken together, these circumstances caused a negative change of €17.6 million. Adjusted for these two effects, service revenues in fiscal year 2013 amounted to €285.1 million in comparison with €292.1 million in the previous year.

"Other revenues", which include low-margin business such as sales of devices and prepaid bundles, declined as expected in comparison with the same period last year by €8.7 million to €13.2 million (previous year: €21.9 million). In addition, this item also includes the sales from the software services segment in the amount of €69k (previous year: €75k).

Total turnover in 2013 amounted to €290.5 million (previous year: €323.7 million).

The MVNO clientele increased further from the beginning of the year by 235,000 (16.0%) to 1.705 million subscribers (31 December 2012: 1.470 million MVNO subscribers). The total number of subscribers in the postpaid sector rose by 84,000 to 1.777 million (31 December 2012: 1.693 subscribers).

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The number of subscribers in the prepaid sector decreased as expected to 123,000 (31 December 2012: 217,000). Overall, the ratio of postpaid to prepaid subscribers improved to 93.5% to 6.5%, an increase of 4.8 percentage points for postpaid compared to the end of 2012 (31 December 2012: 88.7% postpaid to 11.3% prepaid). The total number of subscribers has declined slightly by 10,000 to 1.900 million (31 December 2012: 1.910 million).

The cost of materials declined, overproportionately to the decline in revenues, by 20.2% to €171.4 million in fiscal year 2013 (previous year: €214.8 million). Gross profit improved as a consequence by €10.1 million, from €108.9 million in 2012 to €119.0 million in 2013. The gross profit margin increased by 7.4 percentage points to 41.0% (previous year: 33.6%). Personnel expenses increased by 5.4% to €23.8 million (previous year: €22.6 million). Correspondingly, the personnel expenses ratio in 2013 rose by 1.2 percentage points to 8.2% (previous year: 7.0%). Other operating expenses declined in total by €3.9 million to €30.5 million (previous year: €34.4 million). The decline in comparison with the previous year results mainly from lower costs for third-party services in the amount of €2.7 million (previous year: €3.8 million), which were strongly impacted by one-off expenditures related to the transfer of the subscriber base to the MVNO model during the first months of 2012, reduced expenditures from bad debts and value allowances on accounts receivable of €3.9 million (previous year: €5.4 million), lower legal and professional fees of €2.9 million (previous year: €3.7 million) and lower miscellaneous expenditures posted under Other operating expenses.

The consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation), one of the most important management indicators in Drillisch Group, rose by €8.9 million (14.4%) to €70.8 million (previous year: €61.9 million). The EBITDA margin came to 24.4% (previous year: 19.1%). Depreciation and amortisation increased, primarily a consequence of the investments in intangible assets in Q3 2012, by €3.2 million to €9.6 million (previous year: €6.4 million). Despite the higher depreciation and amortisation, the EBIT (earnings before interest and taxes) rose by €5.7 million to €61.2 million (previous year: €55.5 million). The EBIT ratio improved by 4.0 percentage points to 21.1% (previous year: 17.1%).

The shares in freenet AG held by MSP and Drillisch AG were measured according to the equity method until 20 March 2013 because of the significant influence on the company from the voting rights quota of more than 20%. The profit from this inclusion in 2013 amounted to €10.3 million (previous year: €54.3 million) and comprised the profit of €10.9 million attributable to Drillisch up to 20 March 2013 less expenses from scheduled depreciation as part of the purchase price allocation in the amount of €0.6 million.

Other financial results in fiscal year 2013 amounted to €155.6 million (previous year: €-78.3 million). Effective per 20 March 2013 and 30 September 2013, MSP sold a total of 17.3 million shares of freenet stock and immediately repaid its loan obligations in full. As a consequence of the reduction in voting rights quota for Drillisch per 20 March 2013, the holding in freenet AG was disclosed in the balance sheet as an AFS asset (available for sale asset) from then until 20 December 2013. The change

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in classification initially led to a realisation of hidden reserves in the amount of €115.9 million. This effect was reduced by €6.0 million by the disposal of additional freenet stock during Q2 and Q3 at prices below the price on 20 March 2013. The acquisition of this freenet stock in 2011 and 2012 was simultaneously tied to the conclusion of hedging transactions which resulted in a liability of €54.2 million when measured on the closing date per 31 December 2012. The repayment of the loan obligations resulted in the reversal of these hedging transactions, previously measured as operating expenses, and their disclosure as operating profit. This reversal and the disclosure of a closing-date measurement of a hedging transaction conducted in part during the year resulted on balance in non-cash income of €25.9 million (previous year: non-cash expenditures of €53.7 million). Owing to the change in the balance sheet disclosure of the freenet holding in accordance with the AFS method from 20 March 2013 on, changes in the value for the closing-date measurement of the freenet holding were recognised directly in equity under the item Other equity until the sale of the remaining freenet AG stock on 20 December 2013. Another consequence of the AFS measurement was that the dividend of €11.7 million paid by freenet AG in May 2013 was recognised as profit. In the previous year, there was a deduction of capitalised assets as part of the equity measurement. Additional expenses of €5.6 million (previous year: €17.4 million) were incurred with respect to payment obligations agreed within the context of a financing transaction. The reversal of liabilities from financial derivatives related to the issue of a debenture bond led to non-cash income in the amount of €13.6 million (previous year: non-cash expenditures of €7.2 million). The paragraph below contains further explanatory remarks about this debenture bond.

In April 2012, Drillisch issued an exchangeable bond against freenet shares in a scope of 1,250 debenture bonds with a nominal value of €100,000 each. Among other provisions, the terms and conditions of issue granted to each and every creditor the right to exchange the bonds at any time according to a specified exchange ratio. The steady rise in the price of the freenet stock in 2013 prompted more than 85% of the investors to exercise this right in Q2 2013, exchanging the shares in the debenture bond which they had subscribed in the previous year. Once the number of outstanding bonds had in this way been reduced to less than 15% of the original issue volume by the end of May 2013, Drillisch called the remaining bond units on 29 May 2013 in accordance with Section 5 (3) of the terms and conditions of issue. The bond was repaid in cash. Repayment was based on the market value of the freenet shares on which the bond was based. Additional variable interest expenses in the amount of €37.5 million resulted from the difference between the nominal value of the bonds and the amount required for the repayment. As described in the explanatory comments to the financial results, the disclosure of this debenture bond in the balance sheet per 31 December 2012 resulted in a liability of €13.6 million arising from the closing-date measurement of financial derivatives. This liability created as an expense in the previous year was also completely reversed and recognised as profit. This resulted in non-cash income in the amount of €13.6 million (previous year: non-cash expenditures of €7.2 million).

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The interest result declined by €38.4 million to €-49.1 million (previous year: €-10.7 million). The change over the previous year is primarily a consequence of the variable interest expense of €37.5 million described above in the context of the debenture bonds. Additional expenses pursuant to the premature repayment of bank loans of €3.2 million were incurred.

Taxes on income rose by €24.9 million to €22.2 million (previous year: tax reimbursement of €2.7 million). The rise was essentially a consequence of the reversal of deferred tax reimbursements as operating expenses which in the past had been created as operating profit in the course of the closing-date measurement of hedging transactions and financial derivatives. In the fiscal year, income from the realisation of hidden reserves pursuant to the reclassification of the freenet holding, income from equity measurement and dividend earnings had the effect of reducing the tax rate because this income was not subject to taxation or only a substantially smaller amount was subject to taxation.

Consolidated profit amounted to €155.8 million (previous year: €23.5 million). Ignoring the effects from disclosure of equity in the balance sheet, conversion of the measurement to the AFS method, market valuation of hedging transactions and derivatives and interest and tax expenses attributable to the freenet holding, the consolidated profit in fiscal year 2013 amounted to €46.9 million (previous year: €39.0 million). The consolidated comprehensive result per 31 December 2013 amounted to €155.8 million (previous year: €23.2 million). The undiluted profit per share amounted to €3.24 (previous year: €0.46) or, excluding the freenet holding, €0.98 (previous year: €0.76).

General statement on business development

Operating in a friendly, although highly competitive, industrial environment, Drillisch Group achieved the EBITDA forecast of €70.0 million confirmed again in November 2013 and more by posting a figure of €70.8 million. The Company also succeeded in increasing the number of MVNO subscribers again. The profitability and yield indicators relevant for Drillisch of gross profit and gross profit margin, along with EBITDA and EBITDA margin, continued to improve. Business development clearly demonstrates that Drillisch has been pursuing a course of consistently profitable growth for many years which is largely independent of general economic fluctuations. Management Board and Supervisory Board will therefore propose a dividend of €1.60 for each share entitled to dividends to the Annual General Meeting.

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2.4. Assets, Liabilities and Financial Position

Long-term liabilities declined in total by €281.4 million to €110.3 million (31 December 2012: €391.7 million). Intangible assets declined by €6.5 million to €34.2 million (31 December 2012: €40.7 million). The complete Drillisch holding in freenet AG of €259.8 million disclosed according to the equity method in the financial assets of the balance sheet per 31 December 2012 was sold in the fiscal year. In the past, deferred tax reimbursements were created primarily as operating profit during the closing-date measurement of hedging transactions and financial derivatives. The decline in deferred tax reimbursements by €15.2 million to €7.4 million per 31 December 2013 (31 December 2012: €22.6 million) results largely from the reversal of liabilities from hedging transactions and financial derivatives in the course of repayment of loans and of the liabilities from the debenture bonds in fiscal year 2013. The deferred tax reimbursements created as operating profit in the past have now been reversed as operating expenses.

Cash rose by €109.7 million to €187.0 million (31 December 2012: €77.3 million). Trade receivables rose slightly by €3.2 million to €45.2 million (31 December 2012: €42.0 million). In total, current assets increased by €111.3 million to €242.1 million (31 December 2012: €130.8 million).

The balance sheet total for Drillisch Group fell by a total of €170.3 million to €352.3 million per 31 December 2013 (31 December 2012: €522.6 million).

In comparison with 31 December 2012, total equity increased by €97.4 million to €217.6 million (31 December 2012: €120.2 million). The accumulated deficit resulting from the change in stock market value of the freenet AG shares in 2008 declined by €55.8 million to €0 (31 December 2012: €55.8 million). As a consequence of the good results realised in 2013, unappropriated retained earnings of €37.6 million remained after the offset of the dividends of €62.4 million disbursed in May 2013. The item Other equity of €-0.2 million (previous year: €-0.2 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 improved to 61.8% per 31 December 2013 (31 December 2012: 23.0%).

Long-term liabilities declined by a total of €243.2 million to €93.3 million (31 December 2012: €336.5 million). This was primarily caused by the repayment of all bank loans and overdrafts (31 December 2012: €142.6 million) and the reversal of the hedging transactions and liabilities from financial derivatives related to the issue of a debenture bond disclosed under Financial liabilities per the end of 2012 to the extent that their disclosure at current market value on the liabilities side of the balance sheet was required. This measurement resulted in liabilities totalling €67.9 million per 31 December 2012. No more hedging transactions or derivatives existed per 31 December 2013 so that the Financial liabilities could be reversed accordingly as operating profit. Furthermore, the liabilities arising from the debenture bond issued in 2012 (31 December 2012: €118.7 million) were repaid in full during the reporting period. 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 disclosed in the balance sheet at a value of €86.2 million per 31 December 2013. The convertible bond includes an annual coupon of 0.75%. The bond was issued at 100% of

Business Report

the nominal value and will also be redeemed at 100%. The term of the bond ends on 12 December 2018.

Short-term liabilities declined by €24.5 million to €41.4 million in comparison with the end of fiscal year 2012 (31 December 2012: €65.9 million). Trade payables decreased by €0.3 million to €15.8 million (31 December 2012: €16.1 million). Tax liabilities increased by €0.3 million to €9.7 million (31 December 2012: €9.4 million). Payments received on account fell by a total of €1.7 million to €7.5 million (31 December 2012: €9.2 million). Other financial liabilities declined from €3.1 million per 31 December 2012 to €0 per 31 December 2013. Other liabilities decreased by €19.0 million to €7.6 million (31 December 2012: €26.6 million). This decrease resulted mainly from the repayment of investment liabilities incurred by the investments in intangible assets in Q3 2012. These investment liabilities were paid back in full when the final instalment was made in July 2013.

Cash flow

Cash flow from current business activities in fiscal year 2013 amounted to €57.0 million (previous year: €27.7 million) and reflects the operating earning power of Drillisch.

Positive cash flow from investment activities totalling €350.5 million (previous year: €8.4 million) results primarily from payments received from the sale of freenet stock in the amount of €357.3 million (previous year: €67.7 million) and received dividends of €11.7 million (previous year: €38.4 million) and payments for investments in tangible and intangible assets of €19.9 million (previous year: €23.0 million).

In 2013, there was a total outflow of funds of €297.7 million (previous year: inflow of €20.5 million) from financing activities. This outflow of funds came essentially from outgoing payments related to the repayment of a debenture bond in the amount of €125.0 million (previous year: €0.0), incoming payments from the issue of a debenture bond in the mount of €100.0 million (previous year: €123.0 million) and from the taking out and repayment of financing loans with a bottom-line figure of €-158.3 million (previous year: €-30.7 million), dividend disbursements of €62.4 million (previous year: €36.2 million), interest payments of €43.7 million (previous year: €4.0 million) and payments for the acquisition of treasury stock in a scope of €8.4 million (previous year: €31.9 million).

2.5. Principles and Objectives of the Financial and Capital Management

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

Business Report

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

2.6. Non-financial Performance Indicators

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

Quality of the products: All of the Drillisch Group brands have been awarded an ISO certificate pursuant to DIN EN ISO 9001:2008 for outstanding quality management in the areas of online product marketing and customer service. Nationally and internationally, this is the most widespread 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 wireless services market, the Company has established a position of trust among customers and network providers. This proximity is what enables Drillisch to recognise upcoming trends in good time and to utilise them to raise value. Realising innovative marketing ideas and alternative distribution solutions has repeatedly led to Drillisch's success in offering products at an early stage which meet the needs of the customers. Important objectives are increasing the subscriber base of long-term value and obtaining a greater market share in the relevant segments.

First-class customer service: Drillisch sets high standards for its own customer service, based on its many years of experience as a wireless services provider. Not content just to maintain these standards, the Company has succeeded in improving them even further through consistent quality management.

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

Risk Report

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

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

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

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 both operational and strategic areas can be recognised early so that a risk portfolio can be created and implemented in the appropriate measures. Responsibilities 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.

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.

Risk Report

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 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 the Drillisch Group as a component of the internal controlling system is oriented to the risk of incorrect representation by the bookkeeping and the external reporting possible in the accounting. A “monitoring system for the early recognition of risks threatening the Company´s existence” has been set up in 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 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 include a latent risk. The measures of the internal controlling system oriented to the correctness of the accounting ensure that all of the business transactions are recorded completely and contemporaneously in conformity with legal and statutory requirements. Furthermore, it is assured that assets and debts are correctly measured, appraised and 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 the 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 and review of the semi-annual reports by the auditor are especially important as major monitoring measures with respect to the accounting process.

Risk Report

3.3. Market-related Risks

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

- Drillisch operates in a market environment which is by and large saturated and consequently highly competitive. Substantial increases in overall turnover cannot be expected on the German wireless services market in 2014.
- 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 wireless services to decline.
- A decline in prices on the market for wireless services or further reductions in the forwarding 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.
- Wireless services providers are dependent on network operators in offering their products and services because they do not have their own network.

3.4. Company-specific Risks

The major risks specific to Drillisch are as follows:

- The net financial debt of Drillisch could increase, e.g., as a consequence of the takeover of companies, leading to a worsening of the financial results and the equity ratio. This could have a long-term effect on the Company's ability to disburse dividends and to take out new loans.
- 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 crash of the software and the loss of data, and prevent the Company from developing and offering new wireless service products within a short period of time.
- Drillisch and its services are dependent on the granting of network access and the provision of all wireless technologies, both current and future, by the network operators because the Company does not have its own network.
- Drillisch is subject to the risk that contract customers will not meet their payment obligations from their wireless service contracts.
- Drillisch is highly dependent on members of the Management Board and on employees in key positions.

Risk Report

3.5. Opportunities

The major 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.
- The increase in mobile data traffic and the related demand for wireless services rate plans including data volume offer Drillisch the opportunity to continue to influence and guide the market proactively through its flexible rate plan concepts.
- The spreading utilisation of mobile applications such as music streaming, online games or the streaming of films and videos will continue to raise the demand for mobile data applications in the future.
- The good operating results and the related cash flow will also provide opportunities in the 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.

3.6. Summary of Opportunity and Risk Position

There were no major changes in the risk situation in 2013 in comparison with the previous year with the exception of the elimination of the risks resulting from the previous freenet AG holding and the loan agreements related to this holding. 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 which 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. Forecast Report

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

Prediction Report

General economic conditions

In the opinion of the German government and the great majority of the most important economic research institutes, the economic upswing in Germany is not yet at an end. Owing to the ongoing economic weakness of the European environment, the German government expects economic growth of 1.7% in Germany in 2014. The Macroeconomic Policy Institute (IMK) expects economic growth of about 1.2% for 2014. The ifo Economic Forecast 2013/2014 is assuming growth in the real gross domestic product of 1.9% for 2014. Thanks to the domestic German economy, which remains very healthy, real economic development in Germany is remarkably resilient.

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

The Drillisch Management Board expects the telecommunications and IT markets in Germany to continue to serve as important innovation drivers for the German economy. However, there will presumably not be any significant growth in revenues in the telecommunications industry because, although usage is increasing, the price sensitivity will remain at the same level. Moreover, the reduction in the forwarding charges in December 2012 and December 2013 will, as an overall effect, remove revenues in a significant volume from the market. A further reduction must be expected for 2014. The most important growth segment in telecommunications will continue to be mobile data communications. Moreover, the displacement of the landline network by wireless services will continue.

Simplicity in making phone calls and "surfing" at low prices will remain the focus of interest for wireless services customers. The virtually full-area availability of mobile high-speed Internet, the accelerating distribution of smartphones and services such as cloud applications, streaming services for photos or music, "near-field" and "machine-to-machine communication" give rise to the expectation that growth rates in the use of mobile data communications will continue to be high. The greatest growth in turnover and growth potential are predicted for this segment of the wireless services market. Drillisch intends to make use of its customer-friendly portfolio to profit from this development. The Management Board does not expect an increase in sales in the "service revenues" in 2014 because of yet another reduction in the forwarding charges. But at the same time, this reduction will cause costs to decline and have a positive effect on gross profit. By increasing the MVNO clientele and improving further the rate plan mix, Drillisch will seek to continue the parallel positive earnings development in operating business. The Management Board expects an EBITDA (adjusted) of about €82 million to €85 million for 2014.

Compensation Report

4. Compensation Report

The structure of the compensation system for the Management Board is determined by the Supervisory Board. The criteria for the reasonableness of the compensation include in particular the duties and responsibilities of each of the Management Board members; their personal performance; the performance of the Management Board as a whole; and the economic position, the success and the future prospects of the Company, taking into account its comparative environment. The compensation for the Management Board members comprises short-term components and factors with long-term incentive components. The short-term components consist of elements independent of success and elements contingent on success. The elements independent of success comprise fixed compensation as well as payment in kind and other benefits. The fixed compensation as basic compensation independent of success is paid monthly as a salary and reviewed annually. In addition, the Management Board members receive other benefits, in particular allowances for 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 compensation elements which are components contingent on success. These elements are redefined every year by the Supervisory Board on the basis of targets.

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

The term of the contracts with the Management Board expires on 31 December 2015. The Management Board contracts do not contain any express commitments for severance pay – with the exception of the following regulation for a change of control clause – in the event that the employment relationship is terminated. In the event that Drillisch experiences a change in the shareholder structure of more than 30% (change of control), a part of the compensation independent of success and a part contingent on success will be deemed earned. The Management Board members receive total compensation of €19k for their Supervisory Board activities at IQ-optimize and eteleon. The Management Board members did not receive any loans or advance payments in the reporting period. No pension commitments have been made to the Management Board.

Compensation for the members of the Company's Management Board comprises the following elements:

Management Board

Management Board Compensation 2013 (in €k)	Fixed compensation	Short-term variable compensation	Long-term variable compensation	Total Compensation
Paschalis Choulidis	656	650	305	1,611
Vlasios Choulidis	649	650	305	1,604
	1,305	**1,300**	**610**	**3,215**

Compensation Report

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

The long-term variable compensation contains an incentive component of €305k for each Management Board member; it will not be paid unless certain performance indicators are achieved in fiscal year 2016.

Pursuant to a resolution adopted by the Annual General Meeting on 16 May 2013, the Supervisory Board compensation was adjusted in accordance with the modifications of the Corporate Governance Code (merit-based compensation of the Supervisory Board). 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. Furthermore, the members of the Supervisory Board received variable compensation for fiscal year 2012 in 2013. The variable compensation for all Supervisory Board members was dependent on the disbursed dividends per share which exceed €0.10 in dividends per share. However, the variable compensation for each Supervisory Board member was capped in the amount of the fixed compensation which the relevant Supervisory Board member receives.

The compensation for the Supervisory Board members in 2013 comprised the following elements.

Supervisory Board Compensation

Supervisory Board Compensation 2013 (in €k)	Fixed compensation	Variable compensation (for 2012)	Total Compensation
Marc Brucherseifer, Dipl.-Kfm.	77.0	24.0	101.0
Johann Weindl, Dipl.-Kfm.	57.5	14.0	71.5
Dr Susanne Rückert	48.9	7.2	56.1
Dr Bernd H. Schmidt	43.0	12.0	55.0
Frank Rothauge, Dipl.-Kfm.	25.8	0.0	25.8
Horst Lennertz, Dr.-Ing.	43.0	12.0	55.0
	295.2	**69.2**	**364.4**

Supplemental Information in Accordance with Section 315, Subsection 4 HGB

Michael Müller-Berg, Dipl.-Kfm., a former member of the Supervisory Board, received variable compensation of €9k in 2013 for his activities on the Supervisory Board in 2012.

5. Supplementary Information

5.1. Supplementary Information in Accordance with Section 315 (4) HGB

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

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

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

Treasury stock

The Annual General Meeting on 28 May 2010 adopted a resolution authorising the Drillisch AG Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2010 (5,318,901 shares) on or before 27 May 2015. This authorisation was exercised in fiscal years 2011 and 2012, and treasury stock in the amount of 4,482,501 shares was repurchased, reducing the share capital by €4,930,751.10.

This repurchase right was exercised in fiscal year 2013 as well and 706,514 shares of treasury stock were purchased on the stock exchange at an average price of €11.84 per share. Per 31 December 2013, Drillisch AG held 5,189,015 shares of treasury stock representing 9.76% or €5,707,916.50 of the share capital. The stock repurchase programme was concluded on 21 January 2013.

In the Annual General Meeting on 16 May 2013, the current authorisation was revoked and the Company was once again authorised to acquire (using derivatives as necessary) and to utilise treasury stock so that the acquired treasury stock can continue to be used and additional shares of treasury stock can be acquired in the interest of the Company. Pursuant to Section 71 (1) no. 8 AktG, the Company is therefore authorised to acquire treasury stock within the limits of statutory provisions which is not to exceed a total of 10% of the share capital existing at the point in time of the adoption of the resolution and subject to the condition that no more than 10% of the share capital may be attributable at any point in time to the acquired shares in combination with any other treasury stock in the Company's possession or attributable to the Company pursuant to Sections 71a et seqq. AktG. The authorisation may not be exercised for the purpose of trading with treasury stock. The authorisation is valid to the end of 15 May 2018.

Supplemental Information in Accordance with Section 315, Subsection 4 HGB

Approved capital

The authorisation granted to the Management Board by the Annual General Meeting on 30 May 2008 to increase the Company's share capital (approved capital), subject to the consent of the Supervisory Board, was revoked effective per 16 May 2013. The authorisation was never exercised.

The Annual General Meeting of 16 May 2013 authorised the Management Board, subject to the consent 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(s) of new shares against cash contributions and/or contributions in kind before the end of 15 May 2018. 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 purchase to the shareholders (indirect subscription right). On principle, a subscription right is to be granted to the shareholders. However, the Management Board is authorised, subject to the 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 right pursuant to Section 186 (3), fourth sentence AktG may not exceed 10% of the share capital, neither at the point in time at which the authorisation becomes effective nor at the point in time that it is exercised. Any shares which have been issued or must be issued to satisfy subscription rights from options or convertible bonds, provided that the debenture bonds have been issued during the term of this authorisation subject to application mutatis mutandis of Section 186, (3) sentence 4 AktG and excluding the subscription right, must be included in this figure. Furthermore, any shares which are issued or sold subject to the exclusion of a subscription right during the term of this authorisation on the basis of an authorisation for the use of treasury stock in accordance with Section 71 (1) 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 conversion bonds which 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 is against payment in kind, so that shares can be granted within the scope of corporate mergers or for the purpose of acquiring companies, parts of companies, interest in companies or other assets;
- So that new shares up to a proportionate amount of the share capital totalling €2,925,395.00 may be issued as staff shares to employees of the Company or of affiliated companies within the sense of Section 15 et seqq. AktG.

Furthermore, the Management Board is authorised, subject to the approval of the

Important Events after the End of the Fiscal Year

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.

Contingent capital

The Management Board was authorised by the Annual General Meeting on 16 May 2013, subject to the consent of the Supervisory Board, to increase contingently the share capital until 15 May 2018 by no more than €5,500,000.00 through the issue of no more than 5,000,000 no-par shares issued to the bearer and entitled to profits from the beginning of the fiscal year in which they are issued. The contingent capital increase serves to grant shares to the holders or creditors of option and/or conversion bonds with a total nominal value of no more than €100,000,000.00 issued, pursuant to the authorisation granted by the Annual General Meeting of 16 May 2013, against cash payment by the Company or by a company in which the Company, directly or indirectly, holds a majority interest. 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 conversion obligations from the debenture bonds are fulfilled, and provided that cash compensation is not paid or that treasury stock 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 2013).

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

5.2. Statement on Corporate Management Pursuant to Section 289a HGB

Drillisch has published the statement on corporate management pursuant to Section 289a HGB, which also contains the Declaration of Conformity pursuant to Section 161 AktG, on the Company´s internet site at www.drillisch.de > Drillisch AG > Corporate Governance > Declaration of conformity in accordance with Section 289a HGB. Moreover, Management Board and Supervisory Board describe in detail the principles of good, value-oriented corporate management in full awareness of responsibility as pursued at Drillisch in the corporate governance report in 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

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

Maintal, 7 March 2014

The Management Board

CONSOLIDATED ANNUAL ACCOUNTS

Consolidated Comprehensive Income Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2013 to 31 December 2013

		2013	2012*
	Exhibit no.	€k	€k
Sales	1	290,469	323,692
Other own work capitalised		2,270	2,267
Other operating income	2	3,769	7,730
Raw material, consumables and services used	3	-171,433	-214,839
Personnel expenses	4	-23,805	-22,589
Other operating expenses	5	-30,460	-34,368
Amortisation and depreciation	6	-9,644	-6,440
Operating result		**61,166**	**55,453**
Result from financial investments shown in the balance sheet according to the equity method	12	10,281	54,251
Other financial results		155,589	-78,274
Interest income		1,290	953
Interest and similar expenses		-50,375	-11,607
Financial result	7	**116,785**	**-34,677**
Profit before taxes		**177,951**	**20,776**
Taxes on income	8	-22,177	2,677
Consolidated results		**155,774**	**23,453**
Actuarial gains/losses from pensions		56	-355
Taxes on income		-17	107
Items which cannot be included in operating results in the future		**39**	**-248**
Items which can be included in operating results in the future		**0**	**0**
Consolidated comprehensive results		**155,813**	**23,205**
Profit per share (in €)			
Undiluted	39	3.24	0.46
Diluted	39	3.23	0.46

*The figures from the previous year have been adjusted in accordance with the cha nge in the disclosure of pension provisions in the balance sheet which must be applied retroactively. See explanatory comments on page 72.

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 1 January 2013 to 31 December 2013

ASSETS

	Exhibit no.	31.12.2013 €k	31.12.2012* €k	01.01.2012* €k
Fixed assets				
Other intangible assets	9	34,228	40,726	10,869
Goodwill	10	67,206	67,206	67,206
Tangible assets	11	1,412	1,465	1,237
Financial assets shown in balance sheet according to equity method	12	0	259,753	236,359
Other financial assets		33	33	33
Deferred taxes	8	7,374	22,557	2,794
Fixed assets, total		**110,253**	**391,740**	**318,498**
Current assets				
Inventories	13	6,242	7,929	8,922
Trade accounts receivable	14	45,227	42,034	41,696
Tax reimbursement claims	15	1,015	110	1,468
Cash		187,032	77,303	20,688
Other current assets	16	2,560	3,459	2,417
Current assets, total		**242,076**	**130,835**	**75,191**
ASSETS, TOTAL		**352,329**	**522,575**	**393,689**

*The figures from the previous year have been adjusted in accordance with the change in the disclosure of pension provisions in the balance sheet which must be applied retroactively. See explanatory comments on page 72.

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 1 January 2013 to 31 December 2013

SHAREHOLDERS' EQUITY AND LIABILITIES

	Exhibit no.	31.12.2013 €k	31.12.2012* €k	01.01.2012* €k
Shareholders' equity				
Subscribed capital		52,800	53,577	57,093
Capital surplus		96,368	91,571	119,917
Earnings reserves		31,123	31,123	31,123
Other equity		-204	-243	5
Unappropriated retained earnings/ Accumulated deficit		37,555	-55,819	-43,108
Equity, total	17	**217,642**	**120,209**	**165,030**
Long-term liabilities				
Pension provisions	19	976	939	539
Deferred tax liabilities	8	2,928	5,855	4,380
Bank loans and overdrafts	20	0	142,587	151,189
Debenture bonds	20	86,216	118,719	0
Other financial liabilities	20	0	67,856	6,536
Leasing liabilities	18	594	552	349
Other liabilities	25	2,621	0	0
Long-term liabilities, total		**93,335**	**336,508**	**162,993**
Short-term liabilities				
Short-term provisions	21	205	945	746
Tax liabilities	22	9,744	9,379	5,730
Trade accounts payable	23	15,775	16,122	25,103
Payments received on account	24	7,462	9,147	22,373
Other financial liabilities	20	0	3,117	0
Leasing liabilities	18	519	556	529
Other liabilities	25	7,647	26,592	11,185
Short-term liabilities, total		**41,352**	**65,858**	**65,666**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**352,329**	**522,575**	**393,689**

*The figures from the previous year have been adjusted in accordance with the change in the disclosure of pension provisions in the balance sheet which must be applied retroactively. See explanatory comments on page 72.

Consolidated Statement of Change in Capital

Consolidated Annual Accounts for the Fiscal Year from 1 January 2013 to 31 December 2013

	Number of shares	Sub-scribed capital	Capital surplus	Earnings reserves	Other equity	Unappro-priated retained earnings/ Accumu-lated deficit	Equity, total
		TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Per 31/12/2011 (as originally disclosed)	**51,902,424**	**57,093**	**119,917**	**31,123**	**0**	**-43,108**	**165,025**
Effect from change in disclosure of pension provisions in the balance sheet		0	0	0	5	0	5
As adjusted: 01/01/2012	51,902,424	57,093	119,917	31,123	5	-43,108	165,030
Dividend payments		0	0	0	0	-36,164	-36,164
Change in own shares	-3,195,910	-3,516	-28,346	0	0	0	-31,862
Conversion right of the shares		0	0	0	0	0	0
Consolidated comprehensive results		0	0	0	-248	23,453	23,205
As adjusted: 31/12/2012	**48,706,514**	**53,577**	**91,571**	**31,123**	**-243**	**-55,819**	**120,209**
Per 31/12/2012 (as originally disclosed)	**48,706,514**	**53,577**	**91,571**	**31,123**	**0**	**-55,819**	**120,452**
Effect from change in disclosure of pension provisions in the balance sheet		0	0	0	-243	0	-243
As adjusted: 01/01/2013	48,706,514	53,577	91,571	31,123	-243	-55,819	120,209
Dividend payments		0	0	0	0	-62,400	-62,400
Change in own shares	-706,514	-777	-7,591	0	0	0	-8,368
Conversion right of the shares		0	12,388	0	0	0	12,388
Consolidated comprehensive results		0	0	0	39	155,774	155,813
As adjusted: 31/12/2013	**48,000,000**	**52,800**	**96,368**	**31,123**	**-204**	**37,555**	**217,642**

The figures from the previous year have been adjusted to take into account the change in the disclosure of pension provisions in the balance sheet which has been applied retroactively. See the remarks on page 72.

Consolidated Capital Flow Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2013 to 31 December 2013

	2013	2012
	€k	€k
Consolidated earnings before interest and taxes	61,166	55,453
Income tax paid	-13,802	-13,032
Income tax received	4,331	1,445
Amortisation and depreciation	9,644	6,440
Results from the disposal of fixed assets	-733	-121
Change in inventories	1,687	993
Change in receivables and other assets	-2,535	-5,356
Change in trade payables, other liabilities and provisions	-1,104	-4,880
Change in payments received on account	-1,685	-13,226
Cash flow from current business activities	**56,969**	**27,716**
Payments for investments in tangible and intangible assets	-19,862	-23,002
Payments for investments in financial assets that are reported according to the equity method and for investments in other financial assets	0	-75,286
Interest received	1,319	573
Received dividends or special dividends	11,713	38,400
Incoming payments from the sale of financial assets that are reported according to the equity method and of other financial assets	357,325	67,713
Cash flow from investment activities	**350,495**	**8,398**
Change in own shares	-8,368	-31,862
Dividend payments	-62,400	-36,164
Outgoing payments for amortisation of loans	-192,633	-98,460
Incoming payments from the taking out of loans	34,370	67,779
Interest paid	-43,708	-4,022
Payments from issue of debenture bonds	100,000	123,000
Payments from repayment of debenture bonds	-125,000	0
Change in investment liabilities	4	230
Cash flow from financing activities	**-297,735**	**20,501**
Change in cash	**109,729**	**56,615**
Cash at end of period	187,032	77,303
Cash at beginning of period	77,303	20,688

Consolidated Notes

A. General information

Drillisch AG is a listed stock corporation which offers telecommunication services. Drillisch was founded in 1997. The business field telecommunications represents the core business of Drillisch Group and is essentially located in the wholly-owned subsidiaries Drillisch Telecom GmbH, MS Mobile Services GmbH (both in Maintal) and eteleon AG (Munich). In addition to the service provider licences held for the networks Telekom, Vodafone, E-Plus and O_2, the Group has concluded MVNO agreements with the network operators O_2 and Vodafone and markets primarily postpaid products for the O_2 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 the Hanau Local Court under HRB 7384. The consolidated annual accounts are submitted electronically 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 2013 on 7 March 2014 and released them for submission to the Supervisory Board.

B. Basic accounting principles

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

The consolidated annual accounts have been prepared in euros. Unless otherwise specifically indicated, all of the amounts are shown in thousand euros (€k). Assets and liabilities are 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 2013, 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 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendment)	01.01.2013
IFRS 1	Government Loans (Amendment)	01.01.2013
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendment)	01.01.2013
IFRS 13	Fair Value Measurement	01.01.2013
IAS 1	Presentation of Other Financial Statements (Amendment)	01.07.2012
IAS 12	Deferred Tax: Realisation of Underlying Assets (Amendment)	01.01.2013
IAS 19	Employee Benefits (Amendment)	01.01.2013
Various	Improvements to IFRS 2009–2011	01.01.2013
Interpretations		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01.01.2013

The new regulation did not materially affect the consolidated annual accounts. The effects of the change in IAS 19 on the consolidated accounts are described under the heading of “Pension provisions” in the section “d) General accounting and evaluation methods”.

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 IFRSs 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 2013:

Consolidated Notes

Standards/Interpretations

		Mandatory application for fiscal years beginning with	adoption by EU Commission
Standards			
IFRS 9	Financial Instruments and Subsequent Amendments (Amendments to IFRS 9 and IFRS 7)	01.01.2015	No
IFRS 10	Consolidated Financial Statements	01.01.2014	Yes
IFRS 11	Joint Arrangements	01.01.2014	Yes
IFRS 12	Disclosure of Interest in Other Entities	01.01.2014	Yes
IAS 27	Separate Financial Statements	01.01.2014	Yes
IAS 28	Investments in Associates	01.01.2014	Yes
IAS 32	Offsetting Financial Assets and Financial Liabilities (Amendment)	01.01.2014	Yes
IAS 36	Disclosure of Recoverable Amount of Non-financial Assets (Amendment)	01.01.2014	Yes
IAS 39	Reclassification of Derivaties and Continuation of Hedge Accounting (Amendment)	01.01.2014	Yes
IFRS 10/11/12	Transition Guidance (Amendment)	01.01.2014	Yes
IFRS 10/11, IAS 27	Investment Entities (Amendment)	01.01.2014	Yes
Interpretations			
IFRIC 21	Levies Imposed by Government Authorities	01.01.2014	No

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

Consolidated Notes

C. Consolidation

Consolidation principles and consolidated companies

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 valuated 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.

Joint ventures and interests which are unilaterally controlled are included in accordance with the equity method. The balance sheets for these companies are prepared with their identified, proportionate assets which have been revaluated (plus any goodwill) and liabilities in one item. The equity method is always updated by the proportionate period results, disbursements and hidden reserves carried forward. Profits and losses from business transactions with these companies are eliminated proportionately.

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

All of the receivables and payables as well as income and expenditures among the companies included in the consolidated annual accounts 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 2013. 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.

The 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 singly and in their totality of only minor importance, both from quantitative and qualitative perspectives, and the balance sheets are prepared in accordance with IAS 39.

Consolidated Notes

The following companies are included in the consolidated annual accounts:

		Share of capital	held in
		%	No.
1.	Drillisch AG, Maintal		
2.	Drillisch Telecom GmbH, Maintal	100	1
3.	IQ-optimize Software AG ("IQ-optimize AG"), Maintal	100	1
4.	MS Mobile Services GmbH ("MS Mobile GmbH"), Maintal	100	2
5.	MSP Holding GmbH, Maintal	100	1
6.	Mobile Ventures GmbH, Maintal (formerly: MSP Beteiligungs GmbH, Maintal)	100	5
7.	eteleon AG, München (formerly eteleon e-solutions AG, München)	100	5

eteleon AG, Munich

In August 2013, b2c.de GmbH and Intelligram GmbH (both in Munich) were merged with eteleon AG, effective retroactively per 1 January 2013. The merger did not have any effects on the consolidated annual accounts.

freenet AG, Büdelsdorf

In 2013, Drillisch AG sold a total of 8,866,658 shares of stock in freenet AG and did not hold any shares per 31 December 2013 (previous year: 8,866,658 shares valued at €14.00 per share at that time). In 2013, MSP Holding GmbH sold a total of 17,820,000 shares of stock in freenet AG and also did not hold any shares per 31 December 2013 (previous year: 17,820,000 shares valued at €14.00 per share at that time).

D. General accounting and evaluation methods

Realisation of income and expenses

In the telecommunications segment, sales are generated from the offered wireless services, one-time installation charges and from the sale of mobile devices and accessories. Sales from wireless services include monthly service charges, charges for special features and connection and roaming charges. Revenues from wireless 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.

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 com-

Consolidated Notes

ponent. If wireless services rate plans include the provision of a wireless 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 wireless services rate plans brokered by third parties, the proportionate fair value of a single component and therefore the realised revenue for this component is recognised separately from that part of the consideration to be paid by the customer for the multiple-component transaction in its entirety independently of the performance of further services. For this reason, the outstanding basic fees for these wireless services rate plans proportionately attributable to the wireless device are allocated to this device.

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

The holding in freenet AG is presented in the freenet holding segment. freenet AG was included in the consolidated annual accounts according to the equity method until March 2013, and the results are disclosed in Results from financial assets disclosed in the balance sheet according to the equity method.

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

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

Intangible assets

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 five 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 in accordance with 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.

Consolidated Notes

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

In accordance with IFRS, there has no longer been any scheduled depreciation of goodwill since fiscal year 2005.

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.

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. Additions during the fiscal year are written off pro rata temporis. Borrowing costs are measured in the period in which they are incurred as expenditures because there are no qualifying assets in accordance with IAS 23.5.

Financial instruments

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

A financial asset is derecognised when the conditions of IAS 39.17 f 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 record 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 financing leasing relationships and derivative financial liabilities. Financial assets and financial liabilities are shown as balances only if there is an offset right with respect to the amounts and the intention is to realise a balance on a net basis.

Consolidated Notes

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 commercial purposes or until its final maturity, whether it is available for sale or whether it comprises loans and receivables of the company. Financial instruments held for commercial purposes are valuated at the fair value 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.

When the measurement of financial instruments classified as available for sale is changed to measurement according to the equity method, any existing market valuation provisions are reversed as operating results. When the classification of financial instruments is changed from measurement according to the equity method to available for sale, the remaining shares are disclosed at fair value in the balance sheet in accordance with IAS 39. Any differences to the equity book value are realised as operating results.

Other financial assets

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

Inventories

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

Receivables and other assets

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

Consolidated Notes

Liabilities

Financial liabilities are disclosed at cost of acquisition carried forward in accordance with IAS 39. Directly attributable issue costs are deducted when the financial liabilities are taken out 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 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 recorded 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 recorded 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.

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. In the past, the corridor rule was applied with the consequence that actuarial gains and losses were not reported as operating results unless they exceeded 10% of the scope of the insurance (defined benefit obligation). Now the actuarial gains and losses are recorded immediately in the year in which they occur. The disclosure of the actuarial profit and loss 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.

This switch has been carried out as a change in the accounting methods in conformity with IAS 8.14 et seqq. because IAS 19 no longer permits application of the corridor rule from 1 January 2013. The change in the accounting method has been applied retroactively in accordance with IAS 8. In terms of the pertinent closing dates or closing periods, the following adjustment amounts result from the changeover in the accounting methods:

Consolidated Notes

	Balance Sheet			Comprehensive income statement*
	Pension provisions	Other equity	Deferred tax liabilities	Actuarial gains/losses from pensions (after deferred taxes)
	€k	€k	€k	€k
01.01.2012	-7	5	2	-5
01.01.2012 to 31/12/2012	355	-248	-107	248
31.12.2012	**348**	**-243**	**-105**	**243**

*The application of the amendment of IAS 19 did not result in any effects on the consolidated results or on the profit per share for fiscal years 2011 and 2012.

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 singly pledged to the beneficiary in each case; the offset against the cash value of the provisions is based on fair value.

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

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

Long-term incentive components

The long-term variable compensation contains an incentive component for Management Board members and other executive associates; it will not be paid unless certain performance indicators are achieved in fiscal year 2016. A provision has been created on the basis of the fair value.

Consolidated Notes

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 disclosed 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, brand rights 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 interest factor for calculation of the pension provisions and the valuation of other provisions when disclosing them in the balance sheet.

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

Explanatory comments on the consolidated comprehensive income statement

1. Sales

	2013	2012
	€k	€k
Telecommunications		
Service revenues	277,236	301,842
Other revenues	13,233	21,850
	290,469	**323,692**

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

Consolidated Notes

Adjusted for the sale of prepaid subscribers in May 2012 and the reduction in forwarding charges in December 2012 and December 2013, service revenues would appear as shown below:

	2013	2012
	€k	€k
Service revenues	277,236	301,842
thereof share of revenues from sold prepaid subscribers	0	9,744
plus share from reduction in forwarding charges	7,867	0
Adjusted service revenues	**285,103**	**292,098**

2. Other operating income

	2013	2012
	€k	€k
Receipt of written-off receivables	1,037	1,027
Reversal of provisions and liabilities	1,054	23
Insurance benefits/Reimbursement of dunning fees	192	184
Other	1,486	6,496
	3,769	**7,730**

Other income in fiscal year 2012 included inter alia income from the contribution of prepaid accounts to Mainsee GmbH and the subsequent sale of the company.

3. Cost of materials/expenditures for purchased services

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

4. Personnel expenses

	2013	2012
	€k	€k
Wages and salaries	21,660	20,407
Social contributions	2,145	2,182
	23,805	**22,589**

The number of employees (excluding Management Board) came to:	2013	2012
Annual average	356	340
Annual average - vocational trainees	61	63

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5. Other operating expenses

	2013	2012
	€k	€k
Advertising expenses	9,714	7,632
Billing and external work	7,671	8,818
Bad debts and valuation allowances	3,925	5,352
Legal and professional fees	2,898	3,726
Rent and secondary costs	1,775	1,678
Postal and telephone fees/Dedicated lines	740	650
Incidental costs for money transactions	636	724
Travel and entertainment expenses	490	391
Motor vehicle expenses	371	422
Other	2,240	4,975
	30,460	**34,368**

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

6. Depreciation and amortisation

	2013	2012
	€k	€k
Intangible assets		
Own produced software	2,131	2,089
Purchased software/licences	6,677	3,403
Tangible assets	836	948
	9,644	**6,440**

7. Financial results

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

This item contains the portion of the updating of the proportional equity of the holding in freenet AG disclosed in the balance sheet according to the equity method and recorded as operating results up to March 2013.

Other financial results

This comprises essentially income from the realisation of hidden reserves during the reclassification of the remaining shares in freenet AG after 20 March 2013 in accordance with the AFS (available for sale) method, income from the reversal of derivatives based on shares in freenet AG and hedging transactions, income from the dividends disbursed by freenet AG and expenses from payment obligations pursuant to financing transactions.

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	2013	2012
	€k	€k
Results from changes in measurement	115,938	0
Results from measurement and disposal of derivatives	39,529	-60,939
Results from received dividends	11,713	0
Results from payment obligations	-5,636	-17,335
Results from the disposal of financial assets	-5,955	0
	155,589	**-78,274**

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 ("Loans and Receivables").

Interest and other expenses include bank charges and commissions in the amount of €792k (previous year: €1,131k).

Interest results declined by €38.4m to €-49.1m. The change over the previous year is primarily a consequence of interest expense of €37.5m incurred in the context of the repayment of debenture bonds.

8. Taxes on income

	2013	2012
	€k	€k
Current taxes on income	9,938	15,505
Deferred taxes	12,239	-18,182
Disclosed expenses for income taxes	**22,177**	**-2,677**

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:

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	2013	2012
	€k	€k
Profit before taxes on income	**177,951**	**20,776**
Tax expenses from application of Group's income tax rate of 30.25% (previous year 30.25%)	53,830	6,153
Taxes for previous year	1,511	64
Trade tax additions	1,638	232
Non-deductible expenses and tax-exempt income	-28,627	-8,046
Tax effects from accumulated deficits carried forward – deferred taxes	-5,719	-1,182
Tax effects from accumulated deficits carried forward – taxes on income	-485	0
Other effects	29	102
	22,177	**-2,677**

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:

	2013	2012*
	€k	€k
Deferred tax reimbursements for		
Other intangible assets	124	218
Other current assets	0	278
Financial liabilities	0	20,526
Leasing liabilities	337	335
Pension provisions	13	18
Accumulated deficits carried forward	6,900	1,182
	7,374	**22,557**
Deferred tax liabilities for		
Other intangible assets	2,229	2,229
Debenture bonds	0	1,900
Leasing assets	333	323
Trade accounts receivable	0	1,025
Other equity	-88	0
Bank loans and overdrafts	0	181
Debenture bonds	454	0
Miscellaneous	0	197
	2,928	5,855

*The figures from the previous year have been adjusted in accordance with the change in the disclosure of pension provisions in the balance sheet which must be applied retroactively. See explanatory comments on page 72 .

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Of the deferred tax reimbursements, €157k (previous year: €555k) is related to current assets and €317k (previous year: €20,820k) to fixed assets and liabilities as well as €6,900k (previous year: €1,182k) to accumulated deficits carried forward. Of the deferred tax payments, €0 (previous year: €1,548k) is related to current assets and €2,928k (previous year: €4,412k) to fixed assets and liabilities.

Explanatory comments on the consolidated balance sheet

9. Other intangible assets

	Trade brands	Customer relationships	Own produced software	Purchased software/ licences	Total
	€k	€k	€k	€k	€k
Acquisition and manufacturing costs					
Per 1 January 2012	**7,367**	**8,650**	**20,254**	**3,785**	**40,056**
Additions	0	0	2,267	33,082	35,349
Disposals	0	0	0	0	0
Per 31 December 2012	**7,367**	**8,650**	**22,521**	**36,867**	**75,405**
Additions	0	0	2,270	61	2,331
Disposals	0	0	18	846	864
Per 31 December 2013	**7,367**	**8,650**	**24,773**	**36,082**	**76,872**
Accrued depreciation					
Per 1 January 2012	**0**	**8,650**	**16,905**	**3,632**	**29,187**
Additions	0	0	2,089	3,403	5,492
Disposals	0	0	0	0	0
Per 31 December 2012	**0**	**8,650**	**18,994**	**7,035**	**34,679**
Additions	0	0	2,131	6,677	8,808
Disposals	0	0	0	843	843
Per 31 December 2013	**0**	**8,650**	**21,125**	**12,869**	**42,644**
Book values					
Per 31 December 2012	7,367	0	3,527	29,832	40,726
Per 31 December 2013	**7,367**	**0**	**3,648**	**23,213**	**34,228**

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

The depreciation on the purchased software/licenses essentially concerns investments related to the expansion of the MVNO business model.

During the purchase price allocation process for Telco GmbH in 2007 and eteleon AG in 2009, customer relationships, own produced software and the trademarks Telco and eteleon were recognised. The trademarks are intangible assets with an unlimited useful life. Based on the analysis of the relevant factors (planning related to the

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future use of the asset, expected market behaviour, and so on), there is no foreseeable limitation to the periods in which the trademarks will presumably generate net cash flows.

10. Goodwill

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

	Acquisition costs	Accrued depreciation per 31 December 2013	Book values
	€k	€k	€k
Drillisch Telecom GmbH	89,314	22,976	66,338
IQ-optimize AG	103	41	62
eteleon AG	806	0	806
	90,223	**23,017**	**67,206**

With the exception of IQ-optimize AG, the goodwill has been allocated to the telecommunications segment.

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

The value of the goodwill was reviewed using the amounts realisable for these cash-generating entities, calculated on the basis of their values of use. The values of use result from the future cash flows, including interest. The company planning approved by management for the years 2014 to 2016 and for the time after that is based on a sustained net profit at a constant growth rate of 0.5% (previous year: 0.5%) derived from the budgetary figures for 2016. 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 and our experience. Discounting on the cash flows for the period 2014 to 2016 was calculated at an interest rate of 9.28% (previous year: 10.76%) and for the following period at an interest rate of 8.78% (previous year: 10.26%) p.a. (in each case, before taxes). A devaluation of goodwill was not required in fiscal year 2013. There was no value reduction in goodwill from a reduction of the discount interest rate by about 1% and in consideration of a lump-sum deduction of 25% from the expected cash flow.

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11. Tangible assets

	Fixtures, fittings and equipment	Tenant installations	Total
	€k	€k	€k
Acquisition costs			
Per 1 January 2012	**6,268**	**244**	**6,512**
Additions	1,745	0	1,745
Disposals	1,710	0	1,710
Per 31 December 2012	**6,303**	**244**	**6,547**
Additions	1,040	0	1,040
Disposals	2,038	0	2,038
Per 31 December 2013	**5,305**	**244**	**5,549**
Accrued depreciation			
Per 1 January 2012	**5,055**	**220**	**5,275**
Additions	947	1	948
Disposals	1,141	0	1,141
Per 31 December 2012	**4,861**	**221**	**5,082**
Additions	835	1	836
Disposals	1,781	0	1,781
Per 31 December 2013	**3,915**	**222**	**4,137**
Book values			
Per 31 December 2012	1,442	23	1,465
Per 31 December 2013	**1,390**	**22**	**1,412**

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

12. Financial assets shown in balance sheet according to equity method

The shares in freenet AG held by MSP Holding GmbH and Drillisch AG were measured according to the equity method until March 2013 because of the significant influence on the company from the voting rights quota of more than 20%. The results from this inclusion per 31 December 2013 amounted to €10.3 million (previous year: €54.3 million). From March 2013, the shares were classified as securities “available for sale” in accordance with IAS 39 owing to the sale of a part of the freenet stock in Q1 2013. Over the further course of the fiscal year, the remaining shares held in freenet AG were sold.

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13. Inventories

	2013	2012
	€k	€k
Merchandise	3,590	5,470
Value allowances for merchandise	-6	-10
Payments on account	2,658	2,469
	6,242	**7,929**

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

14. Trade accounts receivable

	2013	2012
	€k	€k
Gross receivables	47,659	43,111
Valuation allowances on receivables	-2,432	-1,077
	45,227	**42,034**

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 2013	45,227	39,369	1,428	655	866	2,784
31 December 2012	42,034	32,462	2,915	814	784	3,423

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

Receivables which as of the closing date were not devaluated, but which were overdue, comprise receivables due from customers and suppliers with whom payment in instalments in the amount of €174k 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 the Drillisch Group, valuation allowances are created on doubtful receivables to take into account estimated losses which result from customers' insolvency. The criteria used by management for the assessment of the reasonableness of the valuation allowances for doubtful receivables are the maturity structure of the receivable balances and experience related to the write-offs of receivables in the past, the creditworthiness of the customers and the changes in terms and conditions of payment. If

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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:

Value allowances

	2013	2012
	€k	€k
Valuation allowances per 1 January	**1,077**	**852**
Additions (expenses for valuation allowances)	9,844	8,900
Consumption / Reversal	-8,489	-8,675
Valuation allowances per 31 December	**2,432**	**1,077**

15. Tax reimbursement claims

	2013	2012
	€k	€k
Corporate income tax	863	106
Trade tax	152	4
	1,015	**110**

16. Other current assets

	2013	2012
	€k	€k
Residual claim from settlement	799	799
Network operator claim	665	477
Security deposits	59	59
Other	1,037	2,124
	2,560	**3,459**

The Other current assets include primarily receivables from brokerage transactions.

17. Equity

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

A resolution was adopted in the Annual General Meeting of 16 May 2013 to disburse a dividend of €1.30 for each share entitled to dividends. The number of shares issued at the point in time of the Annual General Meeting totalled 48,000,000, resulting in a total disbursement of €62,400k.

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Management Board and Supervisory Board will propose a dividend of €1.60 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 €76.8m.

Treasury stock

The Annual General Meeting on 28 May 2010 adopted a resolution authorising the Drillisch AG Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2010 (5,318,901 shares) on or before 27 May 2015. This authorisation was exercised in fiscal years 2011 and 2012, and treasury stock in the amount of 4,482,501 shares was repurchased, reducing the share capital by €4,930,751.10.

This repurchase right was exercised in fiscal year 2013 as well and 706,514 shares of treasury stock were purchased on the stock exchange at an average price of €11.84 per share. The repurchase led to a reduction in the share capital by another €777,165.40, corresponding to about 1.3% of the Drillisch AG share capital. €1.10 of the purchase price per share was attributed to subscribed capital. The surplus amount was deducted from the capital surplus. Per 31 December 2013, Drillisch AG held 5,189,015 shares of treasury stock representing €5,707,916.50 (9.76%) of the share capital. The stock repurchase programme was concluded on 21 January 2013.

The acquisition of treasury stock serves the purpose of using this stock for the financing of possible acquisitions of companies or parts of companies, of holdings in companies or of other assets or of activities related to corporate mergers. A later redemption or resale of these shares to third parties against cash payment is not excluded. They can also be utilised to fulfil obligations pursuant to conversion or option bonds issued in the future by the Company or by companies in which the Company holds a majority interest, either directly or indirectly.

In the Annual General Meeting on 16 May 2013, the current authorisation was revoked and the Company was once again authorised to acquire (using derivatives as necessary) and to utilise treasury stock so that the acquired treasury stock can continue to be used and additional shares of treasury stock can be acquired in the interest of the Company. Pursuant to Section 71 (1) no. 8 AktG, the Company is thereby authorised to acquire treasury stock within the limits of statutory provisions which is not to exceed a total of 10% of the share capital existing at the point in time of the adoption of the resolution and subject to the condition that no more than 10% of the share capital may be attributable at any point in time to the acquired shares in combination with any other treasury stock in the Company's possession or attributable to the Company pursuant to Sections 71a et seqq. AktG. The authorisation may not be exercised for the purpose of trading with treasury stock. The authorisation is valid to the end of 15 May 2018.

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Capital surplus

The capital surplus contains the premium over the nominal amount from the issue of shares by Drillisch AG. The amount required for the purchase of treasury stock in excess of the par value of €1.10 was deducted from the capital surplus. Furthermore, the capital surplus contains the equity component of the conversion bond described in the subheading “Debenture bond” under item 20.

Earnings reserves

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

Approved capital

The authorisation granted to the Management Board by the Annual General Meeting on 30 May 2008 to increase the Company’s share capital (approved capital), subject to the consent of the Supervisory Board, was revoked effective per 16 May 2013. The authorisation was never exercised.

The Annual General Meeting of 16 May 2013 authorised the Management Board, subject to the consent 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 shares against cash contributions and/or contributions in kind on or before 15 May 2018 (approved capital). 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 purchase to the shareholders (indirect subscription right). On principle, a subscription right is to be granted to the shareholders. However, the Management Board is authorised, subject to the 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 may not exceed 10% of the share capital at either the point in time at which the authorisation becomes effective or at the point in time that it is exercised. Any shares which have been issued or must be issued to satisfy subscription rights from options or convertible bonds, provided that the debenture bonds have been issued during the term of this authorisation subject to application mutatis mutandis of Section 186 (3) fourth sentence AktG and excluding the subscription right must be included in this figure. Furthermore, any shares which are issued or sold, subject to the exclusion of a subscription right, during the term of this authorisation on the basis of an authorisation for the use of treasury stock in accordance with Section 71 (1) no. 8 and Section 186 (3) fourth sentence AktG must be included in this figure;

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- 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 conversion bonds which 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.

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

Contingent capital

The Management Board was authorised by the Annual General Meeting on 16 May 2013, subject to the consent of the Supervisory Board, to increase contingently the share capital by no more than €5,500,000.00 through the issue of no more than 5,000,000 no-par bearer shares and entitled to participate in profits from the beginning of the fiscal year in which they are issued. The contingent capital increase serves to grant shares to the holders or creditors of option and/or conversion bonds with a total nominal value of no more than €100,000,000.00 issued, pursuant to the authorisation granted by the Annual General Meeting of 16 May 2013, against cash payment by the Company or by a company in which the Company, directly or indirectly, holds a majority interest. 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 conversion obligations from the debenture bonds are fulfilled, and provided that cash compensation is not paid or that treasury stock 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 2013).

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18. Leasing agreements

The tangible assets include the following finance leases:

	Fixtures, fittings and equipment
	€k
Acquisition costs	
Per 1 January 2012	**2,402**
Additions	824
Disposals	984
Per 31 December 2012	**2,242**
Additions	561
Disposals	1,123
Per 31 December 2013	**1,680**
Accrued depreciation	
Per 1 January 2012	**1,543**
Additions	615
Disposals	984
Per 31 December 2012	**1,174**
Additions	528
Disposals	1,123
Per 31 December 2013	**579**
Book values	
Per 31 December 2012	1,068
Per 31 December 2013	**1,101**

Leasing liabilities	Up to 1 year	1 – 5 years
	€k	€k
Leasing payments	548	610
Interest	29	16
Cash values	**519**	**594**

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 associates.

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

Calculation parameters	2013	2012
	%	%
Calculated interest rate	3.60	3.46
Expected income from scheme assets	5.00	2.50
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. In the past, the corridor rule was applied with the consequence that actuarial gains and losses were not reported in operating results unless they exceeded 10% of the scope of the insurance (defined benefit obligation). Now the actuarial gains and losses are recorded 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.

This switch has been carried out as a change in the accounting methods in conformity with IAS 8.14 et seqq. because IAS 19 no longer permits application of the corridor rule from 1 January 2013. The change in the accounting method has been applied retroactively in accordance with IAS 8. In terms of the pertinent closing dates or closing periods, the changeover in the accounting methods has the effects described under b) Basic accounting principles.

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

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

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Analysis of pension model	2013	2012
	€k	€k
Cash value of pension expectancies for merit-based pension commitments (DBO)	1,310	1,315
Fair value of scheme assets	334	375
Shortfall of scheme	**976**	**940**
Adjustment of obligations based on experience	-2	-9
Adjustment of scheme assets based on experience	-60	50

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

Balance sheet obligations	2013	2012*
	€k	€k
Cash value of pension expectancies for pension commitments (DBO)	1,310	1,315
Actuarial gains (+)/losses (-) not considered	0	0
Costs for changes in claims from previous years not considered	0	0
Market value of scheme assets	-334	-375
Pension provisions per 31 December	**976**	**940**

*The figures from the previous year have been adjusted in accordance with the change in the disclosure of pension provisions in the balance sheet which must be applied retroactively. See explanatory comments on page 72.

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)	2013	2012
	€k	€k
Per 1 January	1,315	856
Costs for pension claims acquired in fiscal year	8	9
Interest	45	45
Pension payments	0	0
Service period expenses to be offset retroactively	0	0
Actuarial gains (-)/losses (+)	-58	398
Other changes	0	7
Per 31 December	**1,310**	**1,315**

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.

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Pension expenditures (NPPC)	2013	2012
	€k	€k
Costs for pension claims acquired in fiscal year	8	9
Interest	45	45
Expected income from scheme assets	-19	-8
Actuarial gains/losses recognised in operating results	0	0
Service period expenses to be offset retroactively	0	0
	34	**46**

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.

The reinsurance developed as follows:

Development of fair value of scheme assets	2013	2012
	€k	€k
Per 1 January	375	317
Expected income from scheme assets	19	8
Actuarial gains (+)/losses (-)	-60	50
Per 31 December	**334**	**375**

Actual income from scheme assets	2013	2012
	€k	€k
Expected income from scheme assets	19	8
Actuarial gains (+)/losses (-)	-60	50
Per 31 December	**-41**	**58**

No contributions were made to the reinsurance for fiscal year 2013. The scheme assets derive exclusively from one reinsurance policy.

20. 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 €153k higher or €126k 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 €143k higher or €134k 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 €1.5m in the fiscal year (previous year: €1.6m).

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21. Bank loans and overdrafts/Financial Liabilities/Debenture bonds

Bank loans and overdrafts

A loan agreement for a total of €100.0m was agreed between the Commerzbank Aktiengesellschaft, Frankfurt, and the West LB AG, Düsseldorf, as the arrangers and Drillisch AG on 15 October 2010. The loan was originally divided into a bullet loan (€40.0m) and revolving loan (€60.0m). Voluntary premature repayment was possible at any time. The bullet loan was completely repaid in fiscal year 2012. The revolving loan was reduced to €50m in December 2012; per 31 December 2012, the revolving loan had not been utilised. The revolving loan was also terminated in fiscal year 2013 so that no more loans existed per 31 December 2013. The interest rate comprised two components: the EURIBOR applicable to the relevant interest period and a margin agreed in the loan agreement. The expiration date of the loan agreement was 15 October 2014.

The applicable margin was adjusted quarterly and oriented to the ratio of consolidated net financial debt to consolidated EBITDA on the basis of the 12 months previous to the relevant quarterly closing date. The minimum margin was 1.10% for the bullet loan and 1.25% for the revolving loan and would have been applied if the ratio of consolidated net financial debt to consolidated EBITDA had been less than 1 to 1. If this ratio had been greater than 2 to 1, the maximum possible margins of 2.10% and 2.25%, respectively, would have applied.

The loan was tied to specific financial indicators (degree of indebtedness and equity ratio); in the event of failure to comply with these indicators, the loan agreement could have been terminated. The Company was consistently in compliance with these criteria throughout fiscal year 2013.

The interest expenses related to the loans amounted to €233k in fiscal year 2013 (previous year €446k).

MSP Holding GmbH concluded financing transactions with the Bank of America N.A. (BANA) in the amounts of €31.1m and €58.6m on 11 February 2011 and 3 May 2011, respectively; the funds were used for the acquisition of shares in freenet AG. Each of these financing transactions consisted of three partial amounts (“buckets”) which had to be repaid on due dates in the years 2015, 2016 and 2017. There were not any interest payments during the terms.

MSP Holding GmbH concluded a further financing transaction with BANA in the amount of €46.8m on 4 April 2012 for the acquisition of additional shares in freenet AG; it also consisted of three buckets which had to be repaid in 2016, 2017 and 2018. There were not any interest payments during the term of this loan, either.

The financing transactions concluded by MSP Holding GmbH with the Bank of America N.A (BANA) in 2011 and 2012 were repaid in full in fiscal year 2013.

The interest expenses related to the financing transactions were recognised in the form of ratable discounting until the time of the repayment and completely eliminated upon repayment. Voluntary premature repayment was possible at any time.

Consolidated Notes

The interest expenses related to the financing transactions amounted to €4,664k in fiscal year 2013 (previous year €4,594k).

The structuring fee of €600k incurred by the financing transaction in 2011 was distributed per schedule according to the effective interest method over the term and completely eliminated in fiscal year 2013.

Financial liabilities

The short-term financial liabilities included interest liabilities from the issue of the non-subordinate debenture bonds vested with the right to convert to current registered shares of equity stock in freenet AG.

Debenture bonds

On 5 April 2012, Drillisch AG issued non-subordinated debenture bonds vested with the right to convert to current registered shares of equity stock in freenet AG. The emission volume amounted to €125.0m (corresponding to approximately 8.5 million shares of freenet AG stock). The bonds had a term of five years. Owing to the contracted opportunities to call the bonds for Drillisch AG and investors dependent on the development of the price of the freenet AG stock, a term of three years was assumed for disclosing and measuring the components of the debenture bonds in the balance sheet. The bonds were issued at 100% of the nominal value.

Owing to the positive development of the freenet stock price, more than 85% of the investors exercised their conversion right (which was possible at any time) in Q2 2013. By the end of May 2013, the number of outstanding debenture bonds had fallen to less than 15% of the original issue volume. In consequence, Drillisch called the remaining bonds prematurely in accordance with Section 5 (3) of the terms and conditions of issue on 29 May 2013, and the liabilities from the debenture bonds had been completely repaid by 30 September 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 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 convertible bond was issued pursuant to the related authorisation adopted by the Annual General Meeting on 16 May 2013. The conversion right is recognised in the capital surplus at a value of €12.4m. It has been possible to convert the 1,000 bonds with a nominal value of €100k each into Drillisch AG stock at an initial price of €24.2869 per share since 22 January 2014, corresponding to 4,117.446 shares per partial debenture. The term of the bond ends on 12 December 2018.

The liability for the bond will be discounted in accordance with the effective interest rate method.

Consolidated Notes

22. Short-term provisions

	Per 01/01/2013	Utili-sations	Re-versals	Creations	Per 31/12/2013
	€k	€k	€k	€k	€k
Basic charges	568	271	297	0	0
Litigation risks	298	38	164	30	126
Other	79	0	0	0	79
	945	**309**	**461**	**30**	**205**

Drillisch Group presumes that there will be an outflow of funds in fiscal year 2014.

23. Tax liabilities

	2013	2012
	€k	€k
Corporate income tax	1,432	1,441
Trade tax	4,713	3,943
Turnover tax	3,599	3,995
	9,744	**9,379**

24. Trade accounts payable

This item includes essentially invoices from network operators.

25. Payments received on account

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

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

26. Other liabilities

	2013	2012
	€k	€k
Payroll	6,281	4,819
Liabilities due to sales partners/customers	2,541	3,508
Base prices paid in advance	671	829
Income tax	322	295
Employers' liability insurance association	53	52
Security deposits	11	15
Short-term investment liabilities	0	16,770
Other	389	304
	10,268	**26,592**

Consolidated Notes

The short-term investment liabilities in 2012 were related to investments in intangible assets occasioned by the expansion of the MVNO business model. Liabilities for wages and salaries include €2.6m with long-term character.

27. Analysis of maturity

	2013	Cashflow 2014			Cash flow 2015–2019
	Book value	< 1 month	1 to 3 months	3 months to 1 year	> 1 year
	€k	€k	€k	€k	€k
Debenture bonds	86,216	0	0	750	103,000
Trade accounts payable	15,775	15,775	0	0	0
Liabilities from finance leasing	1,113	51	102	395	610
Other liabilities	10,268	7,647	0	0	2,621

28. Net profits and losses from valuation categories

	Interest	from subsequent valuation			Net results	
		at fair value	valuation allowances	from disposal	2013	2012
	€k	€k	€k	€k	€k	€k
Loans and receivables	692		-3,925	1,037	-2,196	-5,304
Available for sale (AFS – operating results)				-5,955	-5,955	0
Trade values						
– Call option				82	82	1,094
– Hedge transactions		-15,474		41,378	25,904	-53,689
– Debenture bond (derivative)		7,072		6,553	13,625	-7,250
Liabilities at cost of acquisition (carried forward)	-49,691				-49,691	-27,140
	-48,999	**-8,402**	**-3,925**	**43,095**	**-18,231**	**-92,289**

Consolidated Notes

29. Other financial obligations

	Rents	Leasing	Total	Previous year
	€k	€k	€k	€k
Due in less than 1 year	1,262	792	2,054	1,952
Due in 1 to 5 years	4,490	755	5,245	2,870
Due in more than 5 years	676	0	676	0
	6,428	**1,547**	**7,975**	**4,822**

In the fiscal year, €1,836k (previous year: €1,617k) in rent and leasing payments was included in expenditures. Additional other financial liabilities are related to the procurements of supplies and services and amount to €10.0m. €5.0m of this amount will be due in 2014 and another €5.0m will be due in 2015.

30. 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 adopted 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 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.

Consolidated Notes

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 which are measured at cost of acquisition 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.

Stock price risks result from changes in the market prices (stock exchange prices). Within the framework of the sensitivity analysis of IFRS 7, the effects of changes in the stock exchange prices on the results and on equity are shown. Risks of fluctuation in stock prices are at this time, in contrast to the past year, irrelevant owing to the sale of the freenet stock.

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 at fair value in operating results during the reporting period. The pertinent book value for short-term financial assets and liabilities which are not derivatives is a reasonable approximation of the 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 31/12/2013	Cost of acquisition (carried forward)	Fair value non-operating results	Fair value operating results	Fair value 31/12/2013
	€k	€k	€k	€k	€k
Assets					
Trade accounts receivable	45,227				
Loans and Receivables	45,227	45,227			45,227
Other current assets	2,560				
Loans and Receivables	2,120	2,120			2,120
No financial instrument	440				0
Total financial assets	**47,347**	**47,347**	**0**	**0**	**47,347**
Liabilities					
Trade accounts payable	15,775				
Loans and Receivables	15,775	15,775			15,775
Bank loans and overdrafts	0				
Loans and Receivables	0	0			0
Debenture bonds	86,216				
Loans and receivables	86,216	86,216			86,216
Financial liabilities	0				
Loans and receivables	0	0			0
Held for trading purposes	0	0			0
Other liabilities	10,268				
Loans and receivables	2,583	2,583			2,583
No financial instrument	7,685	0			0
Total financial liabilities	**104,574**	**104,574**	**0**	**0**	**104,574**

Summarised according to valuation categories of IAS 39		Measurement according to IAS 39			
Financial assets					
Loans and receivables	47,347	47,776			47,776
Total financial assets	**47,347**	**47,776**	**0**	**0**	**47,776**
Financial liabilities					
Loans and receivables	104,574	104,574			104,574
Held for trading purposes	0	0			0
Total financial liabilities	**104,574**	**104,574**	**0**	**0**	**104,574**

Consolidated Notes

		Measurement according to IAS 39			
	Book value 31/12/2012	Cost of acquisition (carried forward)	Fair value non-operating results	Fair value operating results	Fair value 31/12/2012
	€k	€k	€k	€k	€k
Assets					
Trade accounts receivable	42,034				
Loans and Receivables	42,034	42,034			42,034
Other current assets	3,459				
Loans and Receivables	3,126	3,126			3,126
No financial instrument	333				0
Total financial assets	**45,160**	**45,160**	**0**	**0**	**45,160**
Liabilities					
Trade accounts payable	16,122				
Loans and Receivables	16,122	16,122			16,122
Bank loans and overdrafts	142,587				
Loans and Receivables	142,587	142,587			142,587
Debenture bonds	118,719				
Loans and receivables	118,719	118,719			118,719
Financial liabilities	70,973				
Loans and receivables	3,117	3,117			3,117
Held for trading purposes	67,856	0		67,856	67,856
Other liabilities	26,592				
Loans and receivables	20,293	20,293			20,293
No financial instrument	6,299	0			0
Total financial liabilities	**368,694**	**300,838**	**0**	**67,856**	**368,694**

Summarised according to valuation categories of IAS 39		Measurement according to IAS 39			
Financial assets					
Loans and receivables	45,160	45,160			45,160
Total financial assets	**45,160**	**45,160**	**0**	**0**	**45,160**
Financial liabilities					
Loans and receivables	300,838	300,838			300,838
Held for trading purposes	67,856	0		67,856	67,856
Total financial liabilities	**368,694**	**300,838**	**0**	**67,856**	**368,694**

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 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.

There were no financial receivables and liabilities measured at fair value per 31 December 2013. Hedging transactions disclosed under financial liabilities were classified in the level "derived from prices (Level 2)" and shown in the balance sheet at a fair value of €54.2m per 31 December 2012.

31. Segment reporting

The segment reporting is based on the internal organisation and reporting structure. It differentiates among the products and services offered by the various segments of the Drillisch Group. The software services segment and the freenet AG holding segment are shown in addition to the telecommunications segment.

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

The holding in freenet AG was presented in the freenet holding segment. freenet AG was disclosed in the consolidated annual accounts in accordance with the equity method and the profit disclosed in the Equity results until March of the fiscal year.

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

Consolidated Notes

Segment Report 01/01/2013 – 31/12/2013	Telecommu-nications	Software services	freenet holding	Total
	€k	€k	€k	€k
Sales with third parties	290,400	69	0	290,469
Inner-company sales	0	5,800	0	5,800
Consolidation	0	-5,800	0	-5,800
Segment sales	**290,400**	**69**	**0**	**290,469**
Segment EBITDA	**70,880**	**-70**	**0**	**70,810**
Amortisation and depreciation	-9,644	0	0	-9,644
Segment EBIT	**61,236**	**-70**	**0**	**61,166**
Result from financial investments shown in the balance sheet according to the equity method	**0**	**0**	**10,281**	**10,281**
Result from fair value measurement of hedge transactions	0	0	25,904	25,904
Result from fair value measurement of financial derivatives related to the issue of a debenture bond	0	0	13,625	13,625
Result from change in valuation methods	0	0	115,856	115,856
Other financial results	82	0	122	204
Other financial results per comprehensive income statement	**82**	**0**	**155,507**	**155,589**
Interest income	1,290	0	0	1,290
Interest and similar expenses	-416	0	-49,959	-50,375
Financial result	**956**	**0**	**115,829**	**116,785**
Profit before taxes	**62,192**	**-70**	**115,829**	**177,951**
Taxes on income	**-15,205**	**0**	**-6,972**	**-22,177**
Consolidated results	**46,987**	**-70**	**108,857**	**155,774**

Consolidated Notes

Segment Report 01/01/2012 – 31/12/2012	Telecommu-nications	Software services	freenet holding	Total
	€k	€k	€k	€k
Sales with third parties	323,617	75	0	323,692
Inner-company sales	0	6,168	0	6,168
Consolidation	0	-6,168	0	-6,168
Segment sales	**323,617**	**75**	**0**	**323,692**
Segment EBITDA	**61,947**	**-54**	**0**	**61,893**
Amortisation and depreciation	-6,440	0	0	-6,440
Segment EBIT	**55,507**	**-54**	**0**	**55,453**
Result from financial investments shown in the balance sheet according to the equity method	**0**	**0**	**54,251**	**54,251**
Result from fair value measurement of hedge transactions	0	0	-53,564	-53,564
Result from fair value measurement of financial derivatives related to the issue of a debenture bond	0	0	-7,250	-7,250
Result from change in valuation methods	0	0	0	0
Other financial results	0	0	-17,460	-17,460
Other financial results per comprehensive income statement	**0**	**0**	**-78,274**	**-78,274**
Interest income	953	0	0	953
Interest and similar expenses	-507	0	-11,100	-11,607
Financial result	**446**	**0**	**-35,123**	**-34,677**
Profit before taxes	**55,953**	**-54**	**-35,123**	**20,776**
Taxes on income	**-16,908**	**0**	**19,585**	**2,677**
Consolidated results	**39,045**	**-54**	**-15,538**	**23,453**

Consolidated Notes

The Group's assets and liabilities are almost exclusively attributable to the telecommunications segment. In the previous year, the equity holding of €259.8m and financial liabilities of €332.3m were classified in the freenet holding segment.

The consolidation includes the elimination of the business relationships within or between the segments. Such relationships are essentially the offsetting of the expenses and income within the Group. The accounting 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. Since Drillisch Group is active only in Germany, there are no geographic segments. The most important non-operating segment expenses and income include the allocations to the provisions and the measurement of the hedging transactions and the equity result.

32. Explanatory comments on the capital flow statement

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

Just as was the case in each of the quarters, the cash flow statement per 31 December 2013 begins with the consolidated earnings before interest and taxes (EBIT) instead of with the consolidated profit. In 2013, the paid and received interest was allocated to the cash flow from financial activities or the cash flow from investment activities instead of as previously the cash flow from current business activities. The new form of presentation provides a better insight into the financial situation of the Group because the amount and timing of interest payments are related to financing and investment decisions. The presentation of the comparative figures from 2012 has been adjusted accordingly.

Consolidated Notes

33. Auditor's fee

Fees recorded as expenditures:

	2013	2012
	€k	€k
1. Audit services	278	296
2. Other certification services	75	68
3. Tax accountant services	184	114
4. Other services	60	85
	597	**563**

34. Related party disclosures

Per 31 December 2013, 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 2013 came to €507k (previous year: €507k).

Ms Marianne Choulidis and Ms Simone Choulidis received compensation totalling €78k (previous year: €65k) as associates of Drillisch Telecom GmbH.

There were no amounts due to or due from the related parties mentioned above per 31 December 2013.

The company Frequenzplan GmbH, Planegg (shareholder Mr Tobias Valdenaire), realised sales in the amount of €366k (previous year: €279k) with Drillisch Group in fiscal year 2013. The amount of €23k (previous year: €0k) was owed to this company per 31 December 2013.

The company Flexi Shop GmbH, Frankfurt am Main (shareholder Mr Jannis Choulidis), realised sales in the amount of €151k (previous year: €304k) with Drillisch Group in fiscal year 2013. The amount of €12k (previous year: €32k) was owed to this company per 31 December 2013.

Consolidated Notes

35. Supervisory Board

Marc Brucherseifer, Dipl.-Kfm.
Merchant, Frechen
- *Chairperson* -
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal
(Supervisory Board chair until 21 March 2013)
IQ-optimize Software AG, Maintal
(Supervisory Board chair)

Dr Susanne Rückert
Lawyer, Düsseldorf
- *Deputy Chair* -
(since 16 May 2013)
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal
(until 21 March 2013)

Johann Weindl, Dipl.-Kfm.
Chartered Public Accountant and Tax Accountant, Munich
- *Deputy Chair* -
(until 16 May 2013)
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal
(until 21 March 2013)

Horst Lennertz, Dr.-Ingenieur
(Doctor of Engineering),
Consultant, Meerbusch
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal
(until 21 March 2013)
E-Plus Mobilfunk Geschäftsführungs GmbH, Düsseldorf

Frank A. Rothauge, Dipl. Kfm.
Director, Wetzlar
(since 16 May 2013)

Dr Bernd H Schmidt
Managing Director, Saarbrücken
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal
(until 21 March 2013)

The following members of the Supervisory Board were members of the following committees in 2013:

Nominating Committee: Mr Brucherseifer, Mr Weindl, Dr Schmidt, Dr Lennertz, Dr Rückert and Mr Rothauge (since16 May 2013); Chair: Mr Brucherseifer

Audit Committee: Mr Weindl, M. Brucherseifer (until 16 May 2013), Dr Schmidt, Dr Lennertz (until 16 May 2013) and Mr Rothauge (since 16 May 2013); Chair: Mr Weindl

Personnel Committee: Mr Brucherseifer, Dr Rückert and Dr Lennertz; Chair: Mr Brucherseifer

Consolidated Notes

36. Management Board

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

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

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

Compensation paid to Management Board members in 2013 totalled €3,215k, thereof €1,910k variable (previous year: €3,121k, thereof €1,820k variable). The variable compensation contains a long-term incentive component of €610k which will not be paid unless specific performance indicators are achieved in fiscal year 2016. In addition, the Management Board members received compensation for their activities as Supervisory Board members of subsidiaries in the amount of €19k (previous year €19k).

Compensation paid to the members of the Supervisory Board for their work in the parent company in the reporting period amounted to €373K (previous year: €188k). In addition, the Supervisory Board members received compensation for their activities in subsidiaries in the amount of €0k (previous year €69k).

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

Consolidated Notes

38. Directors' holdings

As per 31 December 2013, the Management Board members held the following stock in Drillisch AG:	
Paschalis Choulidis	1,100,000 shares
Vlasios Choulidis	1,100,000 shares

The Supervisory Board members held the following stock in Drillisch AG as per 31 December 2013:	
Marc Brucherseifer, Dipl.-Kfm.	3,177,565 shares
Johann Weindl, Dipl.-Kfm.	10,439 shares
Horst Lennertz, Dr.-Ing.	2,407 shares

➡ Management Board and Supervisory Board hold a total of 10.1% of the stock of Drillisch AG per 31 December 2013.

39. 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 21 March 2013 and made it permanently accessible to shareholders at the Internet address www.drillisch.de.

40. 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, adjusted for the after-tax effects of any interest recognised in the period related to potential ordinary shares, from continuing business operations 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.

Consolidated Notes

	2013	2012
Consolidated profit in €k	155,774	23,453
Weighted average less own shares held (number)	48,018,543	51,227,204
Undiluted consolidated profit per share in €	**3,24**	**0,46**
Consolidated profit in €k	155,774	23,453
Net effect on results from convertible bond in €k	94	0
Adjusted consolidated profit in €k	**155,868**	**23,453**
Weighted average less own shares held (number)	48,018,543	51,227,204
Shares from convertible bond to be included as average (number)	214,333	0
Adjusted weighted average less own shares held (number)	**48,232,876**	**51,227,204**
Diluted consolidated profit per share in €	**3.23**	**0.46**

41. 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 2013:

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

Maintal, 7 March 2014

Drillisch Aktiengesellschaft

Vlasios Choulidis and Paschalis Choulidis

Auditor´s Opinion

Auditor's Report

We have audited the consolidated financial statements prepared by the Drillisch Aktiengesellschaft, Maintal, comprising the consolidated statement of comprehensive income, the statement of financial position, statement of changes in equity, statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2013 to 31 December 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to sec. 315a para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Düsseldorf, 7 March 2014

BDO AG Wirtschaftsprüfungsgesellschaft

signed Rauscher	signed ppa. Massing
Wirtschaftsprüfer (German Public Auditor)	Wirtschaftsprüfer (German Public Auditor)

Affidavity by legal representatives (balance sheet oath)

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

Maintal, 7 March 2014

Vlasios Choulidis and Paschalis Choulidis

Publications · Your Contacts
Information and Order Service

Financial Dates 2014*

Date	Event
Friday, 21 March	FY report 2013
Wednesday, 14 March	Report on Q1-2014
Wednesday, 21 May	Annual General Meeting
Thursday, 14 August	Report on H1-2014
Friday 14 November	Report on 9M-2014
November	DVFA Analyst Event

* Subject to change

Publications

This Annual Report 2013 is also available in German.

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

Your Contacts

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

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Information and Order Service

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

Glossary

#

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

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

A

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).

Glossary

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

H

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

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

I

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

Issuer
An issuer is the party who issues securities.

L

LTE
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

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

Glossary

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

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

R

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

S

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

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

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.

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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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