DRILLISCH AG
ANNUAL REPORT 2012

Key Indicators of the Drillisch-Group	2012	2011	2010
Turnover in €m	323.7	349.1	362.5
Turnover, adjusted in €m*	313.9	318.6	340.3
Service Revenues in €m	301.8	303.1	277.5
Service Revenues, adjusted in €m*	292.1	272.6	255.3
Other Revenues in €m**	21.9	46.0	85.0
Gross Profit in €m	108.9	102.8	88.4
Gross margin in % of turnover	33.6	29.4	24.4
EBITDA in €m	61.9	51.4	46.1
EBITDA, adjusted in €m	61.9	52.6	49.3
EBIT in €m	55.5	48.1	40.4
EBT in €m	20.8	52.3	42.6
Consolidated profits in €m	23.5	41.0	31.0
Profit/loss per share in €	0.46	0.77	0.58
Consolidated profits, excluding equity participation, in €m	39.0	33.8	29.4
Profit/loss per share excluding for equity participation in €	0.76	0.64	0.55
EBITDA margin in % of turnover	19.1	14.7	12.7
EBITDA margin adjusted in % of turnover	19.1	15.1	13.6
EBIT margin in % of turnover	17.1	13.8	11.1
EBT margin in % of turnover	6.4	15.0	11.8
Consolidated profit margin in % of turnover	7.2	11.8	8.5
Consolidated profit marge, excluding equity participation, in % of turnover	12.0	9.7	8.1
Equity in €m	120.5	165.0	140.4
Balance Sheet total in €m	522.6	393.7	274.6
Equity return (equity % of balance sheet total)	23.0	41.9	51.5
Return of equity (ROE) (ratio Group result to equity in %)	14.2	29.2	20.9
Return of equity (ROE) (ratio Group result to equity in % excluding for equity partizipation)	23.6	24.1	19.8
Cash in €m	77.3	20.7	27.6
Cash flow from current business operations in €m	24.3	20.0	40.8
Depreciation excluding goodwill in €m	6.4	3.4	5.7
Investments (in tangible and intangible fixed assets), adjusted, in €m	23.0	2.8	4.0
Staff as annual average (incl. Management Board)	342	338	400
Wireless services customers as per 31/12 (approx. in thousands)	1,910	2,550	2,431
Wireless services customers Debit	217	1,038	1,240
Wireless services customers Credit	1,693	1,512	1,191
therof MVNO customers	1,470	839	132

*Turnover and Service Revenues adjusted for already sold prepaid sub

**Other revenues, includes sales of devices and other sales

Letter from the Management Board

Management Board

Vlasios Choulidis
Director of Sales, Marketing and Customer Care

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

Dear Sir or Madam,

2012 was the most successful year in our Company's history. We were able to carry over the highly positive developments of previous years without the slightest bump and we exceeded even our own ambitious targets. What is more, we did so in a time of economic uncertainty and against the backdrop of a problematic industry environment. Thanks to the positive course of business and the good cash position at Drillisch AG, we are joining the Supervisory Board in proposing a dividend of €1.30 per share.

During fiscal year 2012, Drillisch AG completed its transformation from a former classic service provider to a mobile virtual network operator (MVNO), putting itself in a strategically excellent position. The Company surpassed the EBITDA target, which had been raised during the year to between €60 million and €61 million, ultimately posting a figure of €61.9 million; this success was above all due to the strong growth of 75.2% to 1.470 million subscribers in the MVNO clientele. We can clearly be confident as we move into 2013.

But before we look more closely into the earnings position, we want to report on a few other important events and developments.

Even before the first half of the last fiscal year had passed, we had resolved all of the disputes with Deutsche Telekom AG in an out-of-court agreement. As we reported at that time, the termination of the contracts with Telekom did not have any negative effects on the operating business activities of Drillisch Group. This is evidenced in particular by the outstanding operating profit figures, which we will be describing in greater detail in our remarks and in the other sections of the Annual Report.

In addition, the financial liabilities in the Group were restructured in 2012. In April, Drillisch AG issued a non-subordinated debenture bond vested with the right to convert to current registered shares of equity stock in freenet AG. The initial issue volume of €125 million was placed in full on the capital market at favourable conditions. The bond has a fixed interest rate of 3.375% p.a. and a term of 5 years. In 2012, the dividends allocated to the freenet shares tied to the bond exceeded the interest expense. By issuing this bond, we have secured a low interest rate for the

Letter from the Management Board

long term, diversified our financial sources and thereby enhanced our financial and strategic flexibility. Part of the revenue from the issue was used for the refinancing of existing liabilities so that, besides the bond, the only existing liabilities due to banks per 31 December 2012 were at our subsidiary MSP Holding GmbH (€142.6 million). These long-term loan liabilities are related solely to the acquisition of additional shares of freenet AG stock in 2011 and 2012 which are, together with the related hedging transactions, the only collateral for the loans. There is no liability risk on the part of Drillisch AG because these are so-called "non-recourse financing" liabilities. In addition, Drillisch still has at its disposal a credit line amounting currently to €50 million which had not been utilised per 31 December 2012. This facility and the cash of €77.3 million on the balance sheet date provide us with the desired flexibility and independence for 2013 so that we can continue to be an active player on the market.

Over the course of two stock repurchase programmes, we acquired an additional 3.2 million own shares on the stock exchange in 2012. Together with the 1.3 million shares acquired in 2011, we held approximately 4.5 million shares (8.4% of the share capital) of treasury stock per 31 December 2012. A total of €39.8m was expended for the purchase of this share block. The average purchase price was €8.88 per share. In accordance with the resolution adopted by the Annual General Meeting on 28 May 2010, the repurchased shares can be used for activities such as the financing of acquisitions of companies or parts of companies, investments in enterprises or other assets or within the scope of corporate mergers. A later redemption or resale of these shares to third parties against cash payment is also possible.

During the past fiscal year 2012, we did more than simply maintain our excellent position on the highly competitive German wireless services market; we made good use of our innovative products to expand our standing. We do not look to achieve growth at any price; as in the past, we want to maintain quality and profitability.

Our work is driven by our desire to offer transparent and clear rate concepts for voice and data. We hold a strong position on the German market for wireless services, where our established brands make us the price leader, and we are not content in meeting the minimum requirements as we regularly seek verification of our quality standards from independent third parties. Our top priorities focus on security and trust: security during the order process in our online shops and trust in high-quality service oriented to customer requirements. We have regularly been honoured for our accomplishments in these areas in the past, and will continue to submit to audits, some of them highly comprehensive, in the future.

The wireless services market is the most important growth factor for the telecommunications industry, and data services – the possibility to use the internet while on the go – will remain the number one growth driver for some time to come. This statement has been backed up by a number of different studies and analyses from the recent past. Estimates from VATM, for example, show that the total data volume in wireless networks rose by a breathtaking 30% from 101.1 million gigabytes in 2011 to 130.7 gigabytes in 2012. According to another study, the share of users accessing the internet via a mobile device in Germany increased by 13 perentage points to 40% during the same period.

Letter from the Management Board

We recognised this trend at an early stage and aligned our strategy as well as our products with this development back in 2011. Our success corroborates this decision. Our figures speak for themselves.

During the past fiscal year, the 342 associates at Drillisch AG achieved turnover of €323.7 million (2011: €349.1m). While in absolute figures this represents a decline in turnover, it was, first of all, the result of a deliberate reduction of the weak-margin position Other sales, which includes as its main component the revenues from the sale of devices and prepaid bundles. Second, about 450,000 prepaid subscriber accounts were sold during the first half of 2012 and so contributed to consolidated turnover only until the middle of May. This is why the service revenue, which essentially represents the calculation on the basis of existing customer relationships, also declined by 0.4% to €301.8 million (2011: €303.1 million).

If the figures from the years 2011 and 2012 are adjusted to compensate for the influence of the prepaid accounts which were sold, making the comparison more accurate, total turnover, including Other sales, fell only slightly by 1.5% to €313.9 million (2011: €318.6 million). The adjusted service revenue, in contrast, rose by €19.5 million (7.1%) to €292.1 million (2011: €272.6 million). This increase is remarkable, especially in comparison with the competitors on the German wireless services market, and it lays the foundation for the ongoing positive development in our earning power.

Our concentration on higher-quality contract customers, especially the MVNO subscribers, led in total to a substantial qualitative improvement in the service revenues, which in 2012 were generated overwhelmingly from the 1.693 million postpaid subscribers (2011: 1.512 million). The major share came from the especially high-value MVNO subscribers; their numbers rose by 75.2% to 1.470 subscribers (2011: 839,000) during the past fiscal year. The customer base in the prepaid segment was further reduced as planned and fell by 37,000 in comparison with 217,000 subscribers in the third quarter. As the higher-value postpaid business expanded, the share of postpaid subscribers rose by 30% to 89% (2011: 59%) over the course of the year.

But the total sales and the number of customers is only one side of the business and reflects most of all the quantitative aspect. What is even more important for us is the added value we can generate from this development. We are highly satisfied with the profit figures for 2012. Gross profit came to €108.9 million per year-end, an improvement over the previous year (2011: €102.8m) of €6.1 million (5.9%). The gross profit margin rose by 4.2% to 33.6% (2011: 29.4%) and exceeded the mark of 30% for the first time in Company history. The EBITDA adjusted for extraordinary expenditures and income posted a rise of €9.3 million (17.8%) to €61.9 million (2011: €52.6m), surpassing even the increased forecast. Consolidated profit (excluding the effects from the freenet holding) rose by €5.1 million (15.2%) to €39.0 million (2011: € 33.8m) and the profit per share came to €0.76 (2011: €0.64).

The inclusion of the equity investment causes a decline in the consolidated profit to €23.5 million (2011: €41.0 million). The high fluctuation in this item, which contains the market valuation of hedging transactions and other derivatives as well as the equity results of the freenet holding and the related financing costs, is a consequence of the one-sided dependency on the closing date price of the freenet stock.

Letter from the Management Board

Valuation in compliance with IFRS means that the substantial rise in the stock price leads to an increase in the financial liabilities effective on profit, but not on cash. Disclosing the corresponding increase in value of the financial assets in the balance sheet, however, is not permitted. As a consequence, the book value of €259.8 million per 31 December 2012 shown in the consolidated annual accounts is in contrast to a market value of €373.6 million, leaving hidden reserves in the amount of €113.8 million. So while we are highly satisfied with the development of our holding, we have had to post high expenses from the closing date valuation quarter after quarter as the stock price has risen. These expenses would immediately be reversed if we were to sell the holding or if the share price of the freenet stock were to go into decline.

Our corporate policy is based on the objective of sustained development because we want to offer our shareholders an attractive and uninterrupted return on their investment. As has already been stated, we will be proposing a dividend of €1.30 per share for fiscal year 2012 to the Annual General Meeting, the fourth increase in succession. In comparison with the dividend of €0.70 per share disbursed in 2011, this latest proposal represents an increase of ca. 85%. Our disbursement policy incorporates a stock repurchase programme as expedient along with attractive dividends.

We have targeted a further increase in our MVNO clientele for 2013 and 2014 which will naturally lead to a continuation of the positive earnings development in operating business. We expect an EBITDA of between €67 million and €70 million for 2013 and between €77 million and €80 million for 2014.

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.

Warmest regards from Maintal.

Vlasios Choulidis and Paschalis Choulidis

Report of the Supervisory Board

Dear Sir or Madam,

Drillisch AG is proud to report that it was once again able to increase significantly all of the major performance indicators during the reporting period 2012. This is to a high degree a consequence of the decision to reorient the Company strategically and focus on postpaid subscribers in the MVNO sector, to divest most of the prepaid accounts and to eliminate deliberately the weak-margin items.

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

During the reporting period, 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 2012. 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 events during the periods between Supervisory Board meetings as well. The full membership of the Supervisory Board examined and discussed in detail business events, 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 approval 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. Specifically, the Management Board attended Supervisory Board meetings for the purpose of discussing and answering the questions posed by the Supervisory Board. The Supervisory Board chairperson maintained regular contact with the Management Board during the periods between the Supervisory Board meetings and obtained information regarding the current business position and major business transactions, which he discussed in detail with the

Report of the Supervisory Board

Management Board; the Supervisory Board chairperson and the Management Board regularly talked about strategic questions and issues of risk management, the risk situation, planning and compliance as well. 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.

Supervisory Board activities, meetings

In addition to the support of business development and planning, the Supervisory Board activities during the reporting period 2012 included in particular major decisions of commercial policies as well as any and all measures requiring the approval of the Supervisory Board. Above all, these activities encompassed the conclusion of an agreement with Deutsche Telekom for the termination of the contractual relationship and the conclusion of the legal disputes. Furthermore, the Supervisory Board, after conducting detailed discussions with the Management Board, approved the merger of eteleon e-solutions AG with MSP Holding GmbH and of SIMply Communication GmbH with Drillisch Telecom GmbH as well as the repurchase of own stock.

Moreover, a significant focus of Supervisory Board activities was related to the holding in freenet AG. Besides the extensive discussion of strategic questions, the temporary increase in the freenet AG holding and the subsequent sale of a part of the freenet AG shares held by the Group were approved. Furthermore, financing questions were discussed with the Management Board, including the issue of a bond convertible to freenet stock which was ultimately placed in the scope of €125m.

In addition, the Supervisory Board obtained regular information regarding commercial development and the situation of the Company and Group, especially the development of revenues and profit, the development of subscriber numbers, the gross profit indicators, the cash situation and development, the management of receivables and the Company's financing situation, and discussed these issues with the Management Board. Moreover, the Supervisory Board enquired about the status of the tax audit covering the years 2007 to 2010. The Supervisory Board also considered the status of the assertion of claims against VS GmbH.

The Supervisory Board deliberated on strategic questions, market developments and the Management Board's middle- and long-term planning. The discussions covered the subject of the development of the subsidiaries. Among other topics, the cost assumption agreement between Drillisch AG and MSP Holding GmbH was addressed. The Supervisory Board considered the manager situation. Moreover, the appointment of officers and directors in the subsidiaries was one of the important topics during talks with the Management Board.

Supervisory Board activities focused as well on the reporting from the committees, in particular from the Audit Committee, and the monitoring of the risk management, the risk analysis and documentation of the risk control system. Supervisory Board and Audit Committee spoke in detail with the Management Board about issues of IT security.

The Supervisory Board engaged in an in-depth review and the improvement of governance and compliance at Drillisch AG. It adopted resolutions which included the disc-

Report of the Supervisory Board

losure of individual compensation to the Supervisory Board and took steps to extend the scope of the reporting and the review of compliance measures. In addition, the Supervisory Board considered the target agreements for the Management Board.

Moreover, the Supervisory Board examined the accounting for fiscal year 2012, the audit of the annual accounts, the preparation for the Annual General Meeting, the declaration regarding corporate management and the corporate governance report as well as questions of communications with the capital market.

A total of eight meetings of the full Supervisory Board in the form of personal meetings took place during the reporting period 2012 (on 23 February 2012, 22 March 2012, 10 May 2012, 25 May 2012, 9 August 2012, 12 September 2012, 13 September 2012 and 8 November 2012). In addition, two resolutions were adopted outside of Supervisory Board meetings during the reporting period 2012 (on 26 February 2012 and 19 March 2012).

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

The Supervisory Board Personnel Committee, whose members are Mr Marc Brucherseifer (committee chair), Mr Michael Müller-Berg (until 30 September 2012), Dr Horst Lennertz and Dr Susanne Rückert (from 31 January 2013) met only once in fiscal year 2012 (on 13 September 2012). The focus of its discussions was on the manager situation. 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), Mr Marc Brucherseifer, Dr Horst Lennertz and Dr Bernd H Schmidt, convened for a total of three meetings during the reporting period (on 19 January 2012, 9 August 2012 and 8 November 2012). It was especially concerned with questions of the accounting process, the internal control system, risk management and specific features of quarterly close-outs. Moreover, the audit conducted by the DPR (Deutsche Prüfstelle für Rechnungslegung), the focal points for the audit of the annual accounts 2012 and the review of the measurement for the freenet AG holding were among the activities of the reporting period. In addition, the question of the establishment of an internal audit was the subject of discussion.

The Nominating Committee, to whom all of the Supervisory Board members belong (chair: Mr Marc Brucherseifer), met a total three times during the reporting period (22 March 2012, 13 September 2012 and 8 November 2012), in each case as part of the full Board meeting. The Nominating Committee was primarily concerned with the filling of the Supervisory Board positions left vacant by the resignations of Dr Hartmut Schenk and Mr Michael Müller-Berg.

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 25 May 2012 adopted a resolution electing Dr Susanne Rückert to the Supervisory Board. She is the successor of Dr Hartmut Schenk, who resigned his Supervisory Board position per 30 June 2011.

Report of the Supervisory Board

Mr Michael Müller-Berg resigned his position on the Supervisory Board effective 30 September 2012. The resulting vacancy on the Supervisory Board is to be filled by an election during the Annual General Meeting in 2013.

The positions of the other Supervisory Board members (Mr Marc Brucherseifer, Johann Weindl, Dr Horst Lennertz and Dr Bernd H Schmidt) were unchanged in the reporting period 2012. The office of Supervisory Board Chairperson continues to be held by Mr Marc Brucherseifer and that of Deputy Chairperson by Mr Johann Weindl.

Annual Accounts and Consolidated Annual Accounts 2012

The Annual Accounts and the Consolidated Annual Accounts per 31 December 2012, the management reports for the stock corporation and Group for fiscal year 2012 (each including the explanatory report on the disclosures pursuant to Section 289 (4), (5) 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 selected 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 Group 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. The audit activities requested in particular at the time the engagement was issued included in particular impairment tests of holdings/goodwill/brands, the disclosure in the balance sheet of the bond convertible to freenet stock, the merger of SIMply Communication GmbH with Drillisch Telecom GmbH, the merger of eteleon e-solutions AG with MSP Holding GmbH, the audit of the balance sheet effects from the disposal of REWE customers to congstar and questions of IT security related to the accounting. The final documents were reviewed completely and discussed by the Audit Committee during meetings on 24 January 2013 and 28 February 2013, then by the full Supervisory Board during a meeting on 21 March 2013, in each case in the presence of the auditor. During these meetings, the auditor reported on the major results of its audits and explained them in detail. The auditor also answered questions from the Board. The subject of these discussions including especially the audit planning and the major points of the audit as well as the accounting process, the internal control system and the risk management system. The Supervisory Board agrees 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 21 March 2013, the Supervisory Board approved the Annual Accounts and Consolidated Annual Accounts 2012. The Annual Accounts have thus been adopted pursuant to Section 172 AktG.

Report of the Supervisory Board

During the Supervisory Board meeting on 21 March 2013, Management Board and Supervisory Board adopted a joint resolution proposing to the Annual General Meeting the disbursement of a dividend in the amount of €1.30 per share. The Company's position, specifically its financing and capital structure, was discussed and reviewed at that time.

Corporate governance

None of the Supervisory Board members participated in fewer than half of the Supervisory Board meetings during the reporting period. Only one member was unable to attend one of the total of eight meetings of the Supervisory Board and its committees. No conflicts of interest within the sense of Clause 5.5.3 of the Corporate Governance Codex as last revised on 15 May 2012 occurred during the reporting period.

The Supervisory Board regularly submitted the efficiency of its work to a critical examination, including an additional electronic circular survey, specifically the frequency of its meetings, their preparation and their conduct. The Supervisory Board came to the conclusion that its efficiency is essentially positive. It addressed as a particular measure for improvement the provision of the documents of the meetings within a close time proximity to the meetings.

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 submitted a joint Declaration of Conformity pursuant to Section 161 AktG on 22 March 2012 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 have been made permanently available to the shareholders on the Company's internet site. This is also the location of the Declaration of Conformity issued by Management Board and Supervisory Board on 22 March 2013. In all other respects, reference is made here to the remarks in the corporate governance report included in the Annual Report 2012.

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 and commitment in 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 displayed in the Company.

Maintal, 21 March 2013

On behalf of the Supervisory Board

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

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

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

The current Declaration of Conformity issued by the Management Board and Supervisory Board on 21 March 2013 and which has been made permanently accessible on the Internet at the site www.drillisch.de (to be found there under the section "Corporate Governance", subsection "Declaration of Conformity"), reads as follows:

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

Management Board and Supervisory Board of Drillisch AG hereby declare that the Company has been and is in conformity with the recommendations of the "Government Commission German Corporate Governance Codex" announced by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, subject to the following exceptions. This Declaration is issued in accordance with the version of the Codex of 26 May 2010 for the period from 22 March 2012 to 14 June 2012. This Declaration is issued in accordance with the version of the Codex of 15 May 2012 for the period since 15 June 2012.

Clause 2.3.3 second sentence Support of the shareholders in postal vote procedures

The German Corporate Governance Codex as last revised on 26 May 2010 recommended providing support to shareholders when using a postal vote procedure if this opportunity had been made available to them. Since the company charter did not and does not provide for postal voting procedures, the Management Board and Supervisory Board issued a declaration last year declaring an exception to this recommendation and giving its reasons for the decision. The Boards believed that personal participation in the Annual General Meeting, especially open discussion among the shareholders, is an important element of the General Meeting. Moreover, Management and Supervisory Boards had not been able to determine that shareholders

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would thereby gain any advantages in the exercise of their rights over the proxy rights subject to instruction currently offered by the Company. Since the amended German Corporate Governance Codex as last revised on 15 May 2012 (entry into force on 14 June 2012, i.e. later than the Annual General Meeting 2012) no longer contains any recommendation concerning the support of shareholders using postal voting procedures, this declaration has been removed.

Clause 3.8 (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 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 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 5.4.1 (2) and (3) Specification of concrete objectives by the Supervisory Board for its composition

In the past, the Supervisory Board reserved the right to decide on proposals regarding its composition in the concrete situation at any given time, especially with respect to qualifications, expertise and personality. These criteria should continue to play a decisive role in the future. During the meeting on 21 March 2013, the Supervisory Board, in alignment with the recommendation of the German Corporate Governance Codex, set forth its specific objectives and concrete targets with respect to its composition; the decisions are presented in the current corporate governance report.

Clause 5.4.6 (1) third sentence Inclusion of the chair of, and the membership on, committees in determining the compensation paid to Supervisory Board members.

In accordance with the currently applicable compensation rules in the company charter, the chair and the deputy chair positions on the Supervisory Board are given consideration in determining the compensation paid to Supervisory Board members, but not the chair of, or membership on, a committee. In view of the greater demands, both qualitative and quantitative, in advising and monitoring tasks being made on the Supervisory Board members and the greater time expenditures required for Supervisory Board activities, the Supervisory Board and Management Board will submit a proposal for the modification of the compensation rules for the Supervisory Board to the Annual General Meeting 2013. The new regulation will, among other features,

Statement on Corporate Management / Corporate Governance Report

provide that an attendance fee be paid for committee work as well as for Supervisory Board activities; the amount of the fee will depend on the function performed by each member on the specific committee. In every case, payment of the attendance fee will be subject to physical attendance at personal meetings. Management Board and Supervisory Board of Drillisch AG are of the opinion that separate compensation for attendance at committee meetings will increase the efficiency of the committee work and consequently that of the Supervisory Board as a whole more than separate compensation simply for membership on committees and that the condition of attendance at the meeting will simultaneously give due consideration to committee membership. But since the possibility that other opinions will be held in this respect cannot be excluded, a deviation from the above-mentioned recommendation of the Codex with regard to the intended amendment of the company charter is hereby declared as a precautionary measure.

Clause 5.4.6 (2) second sentence Merit-based compensation of Supervisory Board members

In the latest revision in 2012, the Codex, in deviation from the previous version, does not contain any recommendations for merit-based compensation for Supervisory Board members because widespread opinion holds that exclusively fixed compensation is advantageous. Clause 5.4.6 (2) second sentence GCGC now provides that merit-based compensation – to the extent that it has been agreed – must be oriented to sustained corporate development. In accordance with Section 14 (2) of the company charter, the Supervisory Board members at Drillisch AG have in the past received merit-based compensation linked to the dividend disbursement. Owing to the lack of a more precise explanation of the criterion of sustainability by the Codex Commission and to the terminological proximity of the recommendation to the requirements of German Company Law concerning management board compensation, we cannot exclude the possibility that this provision requires assessment of the merit-based compensation for the Supervisory Board based on a period of several years. A requirement of this nature would possibly not be fulfilled by the dividend-related compensation paid to Supervisory Board members. As a precaution, we are therefore declaring an exception to this recommendation. However, Management Board and Supervisory Board intend to submit a proposal for an amendment to the company charter to the next Annual General Meeting, providing for the striking of the merit-based compensation components in compliance with the Codex and a rise in the fixed compensation. The new regulation would become effective for the first time in fiscal year 2013.

Maintal, 21 March 2013

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

The Management Board
Paschalis Choulidis Vlasios Choulidis

Statement on Corporate Management / Corporate Governance Report

Targets for the composition of the Supervisory Board

Pursuant to Clause 5.4.1 of the German Corporate Governance Codex, the Supervisory Board is urged to designate concrete targets for its composition which, while taking account of the company's specific situation, give due consideration to the international activities of the company, potential conflicts of interest, the number of independent Supervisory Board members within the sense of Clause 5.4.2, the definition of a maximum age for Supervisory Board members and its diversity. These concrete targets should in particular provide for an appropriate staffing of management positions with women.

In view of these recommendations, the Drillisch AG Supervisory Board has set the following targets for the composition of its membership:

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

The Management Board currently has two members; the membership on the Management Board at this time is shown in the consolidated notes (page 102 of the Annual Report 2012). They manage the Company on their own responsibility and define, in consultation with the Supervisory Board, the strategic direction of the Drillisch Group. The distribution of authority on the Management Board is regulated in rules of procedure. Fundamentally, each member of the Management Board manages the business units of the Company assigned to him by the rules of procedure on his sole authority. Measures of special significance or which involve unusual risks always require the prior agreement of the entire Management Board. The rules of procedure contain in addition a catalogue of the major transactions and events which require approval by the Supervisory Board. The Management Board regularly and contemporaneously notifies the Supervisory Board in written and oral form about the course of business, the position and profitability of the Group, the planned business policies and other fundamental issues of corporate planning as well as about transactions which may be of major significance for the profitability or liquidity of the Group. Moreover, the Management Board reports to the chairperson of the Supervisory Board as required by other important events.

Until 30 September 2012, the Supervisory Board, in accordance with statutory provisions, had six members who are elected exclusively by the shareholders; the current membership of the Supervisory Board is shown in the consolidated notes (page 101 of the Annual Report 2012). The four Supervisory Board members Marc Brucherseifer (Dipl.-Kfm.), Johann Weindl, Dr Horst Lennertz and Michael Müller-Berg were elected by the Annual General Meeting of the Company on 30 May 2008; Dr Bernd Schmidt was elected as a member by the Annual General Meeting on 28 May 2010. Pursuant to a resolution adopted by the Annual General Meeting on 25 May 2012, Dr Susanne Rückert was elected to the Supervisory Board to complete Dr Schenk's term of office. Mr Müller-Berg resigned his office effective per 30 September 2012. The term of office of the current five Supervisory Board members ends at the time of the Annual General Meeting 2013. 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

Statement on Corporate Management / Corporate Governance Report

methods are regulated in detail in rules of procedure adopted by the Supervisory Board. The Supervisory Board reports on the Board's work in a separate Supervisory Board report. This report is printed on pages 8 to 12 of the Annual Report for fiscal year 2012. 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 101 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 proposing suitable candidates to the Supervisory Board for the latter's candidate proposals to the Annual General Meeting.

The Audit Committee consists of Mr Weindl (Chairperson), Mr Brucherseifer, Dr Lennertz and Dr Schmidt and is concerned in particular with the monitoring of the accounting process, the effectiveness of the internal controlling system, the internal risk management system, the internal auditing system and the final audit. The chairperson of the Audit Committee is independent and, 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), Dr Lennertz and (until 30 September 2012) Mr Müller-Berg. The Personnel Committee is concerned with the affairs of the Management Board, including the terms and conditions of their employment contracts. The compensation for the Management Board members is determined by the Supervisory Board acting in its entirety as required by statutory provisions.

Since there are 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 other corporate management practices relevant for Drillisch AG within the sense of Section 289a (2) no. 2 HGB.

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 54 to 56 of the Annual Report 2012) pursuant to Section 315 (2) HGB. The Management Board also reports in detail in this document on current risks and their development.

Compensation of Management Board and Supervisory Board

The compensation paid to members of the Management and Supervisory Boards is commensurate with their tasks and the responsibility which has been assigned to them. The compensation system and the compensation paid to Management Board and Supervisory Board in fiscal year 2012 are shown in the management report and notes and in the consolidated management report on page 52 to 54 of the Annual Report 2012 (compensation report) and in the consolidated notes on page 102 and 103, point 36, of the Annual Report.

Stock transactions and holdings of officers and directors

According to Section 15a WpHG (German Securities Trade Act), officers and directors of the Company and people with management tasks must disclose the purchase and sale of Drillisch AG stock to the Company. Drillisch AG was notified of the following purchase and sales transactions, which in accordance with Clause 6.6 of the German Corporate Governance Codex must be reported in the Corporate Governance Report, during fiscal year 2012.

Directors' Dealings in 2012

Date	Type of transaction	Shares	Price/€	Reporting person
06 June	„Sale“	90,000	€ 7.48	Colonia Private Equity Supervisory Board
10 September	„Sale“	100,000	€ 8.80	M. Brucherseifer Supervisory Board

The number of Drillisch shares held by the individual officers and directors is shown under page 103 on point 37 of the consolidated notes.

Investor Relations Report

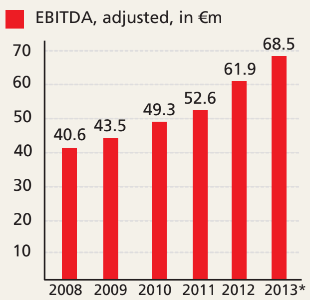
The Drillisch Stock – Key Data | ISIN: DE0005545503 | Stock abbreviation: DRI

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	€11.15 (Xetra)	Treasury stock (31 Dec.)	4,482,501 or 8.43%
Highest price (13 Dec.)	€11.52 (Xetra)	Free Float (Dt. Börse AG)	84.58%
Lowest price (5 Jan.)	€6.97 (Xetra)	Average traded shares	261,624 (day) Xetra

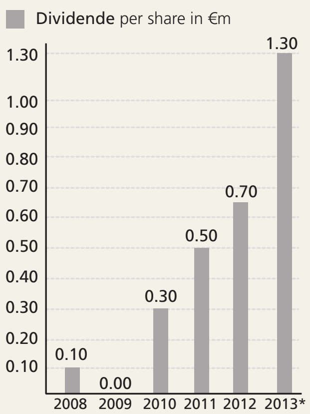
Investor Relations

We continued to stress one of our core tasks – the maintenance of intensive dialogue with the capital market – during the past year. The Company follows a policy of open and frank communication with all sectors of the capital market so that all of the shareholders and potential investors are notified of important developments in the same manner and without discrimination. We were able to explain in detail the corporate strategy of Drillisch AG to the capital market at 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 e-mail and/or telephone.

The Drillisch stock – rising profits and attractive disbursement policy



*prognose



*prognose

The corporate strategy is based on sustained development of company value and builds on organic growth. The dividend policy alignment is long-term as well. Development of operations at Drillisch AG is positive, which is why we are budgeting a further increase in the EBITDA by 8.3% to 13.1% to €67 million to €70 million in 2013 concurrent with a rise in the number of MVNO subscribers.

The Company has steadily raised the dividend in recent years parallel to the successful growth in profits. We intend to offer our shareholders an attractive combination of dividends and stock repurchases for the coming years as well. The stock repurchase programme initiated in September 2012 was brought to a close on 21 January 2013. Over the course of this action, Drillisch AG acquired during this programme 3,662,232 shares at a total price of €38,465,480.61 (excluding ancillary costs) on the stock exchange. Drillisch AG now holds a total of 5,189,015 shares in treasury stock (9.78%).

Investor Relations Report

The realisation of the disbursement policy described here is contingent upon Drillisch AG having at its disposal the corresponding balance sheet profit in its financial statements prepared under commercial law for the respective fiscal years and upon the responsible boards adopting the corresponding resolutions, bearing in mind the current situation of the Company at each respective point in time.

The performance of the Drillisch stock during the stock market year 2012 in comparison with TecDAX

The development of the Drillisch stock in stock market year 2012 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 of the Drillisch stock have steadily risen, and at the end of the past year 2012 it was ranked 14th (2009: 20th) for “Market Capitalisation” and 11th (2009: 21st) for “Revenue”.

The performance of the Drillisch stock during the stock market year 2012 in comparison with the indices:

	Close-out 2011	Close-out 2012	% change
Drillisch	€ 7.11	€ 11.15	+ 56.8
TecDAX	685.06	828.11	+ 20.9

The above-average price development of the Drillisch stock has bested the performance of the TecDAX when viewed in a long-term comparison as well, not only in the past fiscal year 2012.

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

While the TecDAX fell by 0.8% in the period from 2010 to 2012, the Drillisch stock rose by 174.2%. The DAX improved by 25.9% over the same period.

In the 5-year comparison (2008 to 2012), the Drillisch stock was able to increase by 167.5%. Over the same period, the TecDAX declined by about 14.7% and the DAX lost 4.2%.

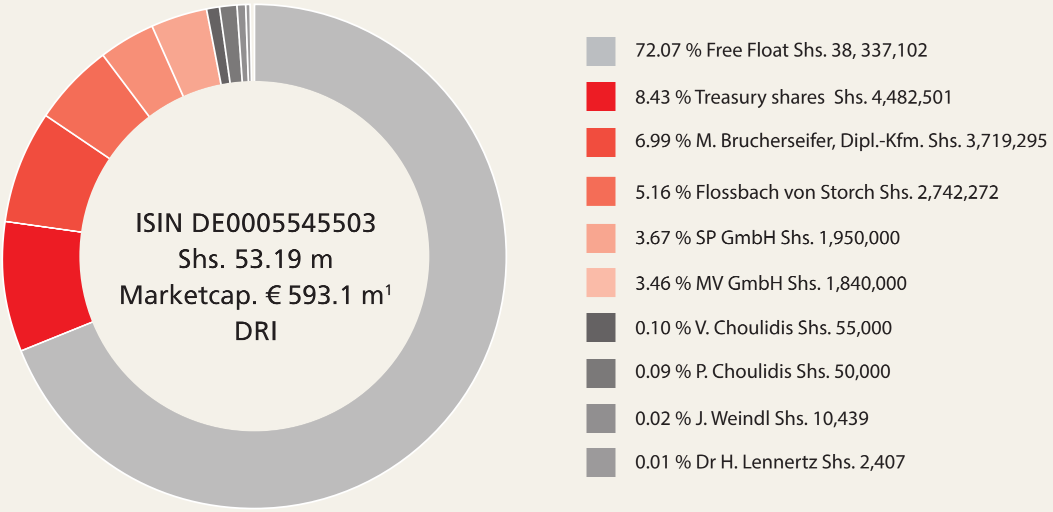
Drillisch DAX TecDAX

Investor Relations Report

Latest analyst assessments 2012/2013 (as per 31 January 2013)

Analysis	Rating	Price Target	Date
Hauck & Aufhäuser	„Buy“	€14.50	23 January 2013
Berenberg	„Buy“	€12.50	23 January 2013
Commerzbank	„Buy“	€13.00	23 January 2013
LBBW	“Hold”	€12.50	23 January 2013
Warburg Research	“Hold”	€11.50	17 December 2012
LBBW	„Buy“	€11.50	26 November 2012
Berenberg	„Buy“	€12.00	19 November 2012
HSBC	„Neutral“	€11.00	13 November 2012

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



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

1) On the basis of the XETRA closing price € 11.15 on 31 December 2012. Free Float acc. to the rule of Dt. Boerse AG: 84.58%.

IR goals 2013

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

Growth in Smartphone and tablet market ongoing dynamic - Drillisch offers innovative rate plans for every user

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 our management's many years of experience, the strong commitment of our associates to performance and our lean cost structures, we have been able to realise successfully our corporate strategy even in this highly competitive market environment.

Other major success factors behind this development include the introduction of transparent rate models offering simple wireless services solutions, tailored to match subscribers' personal usage, at leading prices as well as our commitment to sustained services which have been certified by impartial rankings. The trust and satisfaction of our customers is reflected in their readiness to recommend us to others.

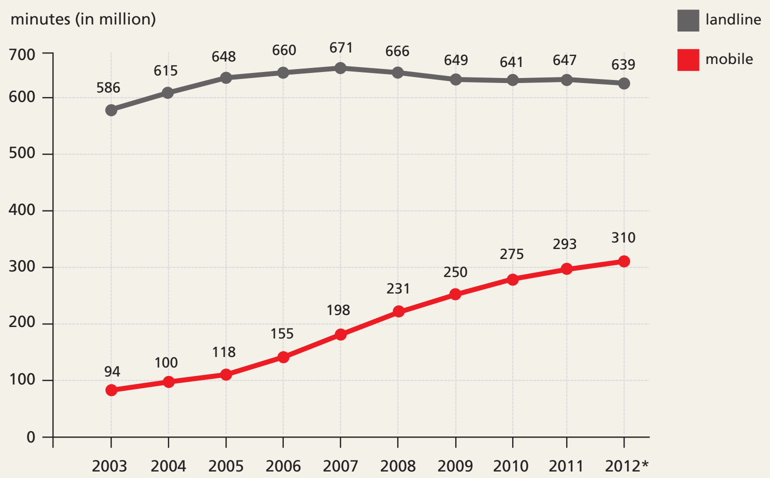
From the overall perspective, market developments in the telecommunications sector are stable. The most important growth factor in the industry is, and will remain, the wireless services market. The many and varied possibilities for use of the mobile internet are the drivers behind the unbroken dynamics of the demand for smartphones and tablet PCs. More and more consumers are discovering for themselves how useful these services can be. This trend is supported by extensive investments in networks and new transmission technologies as well as the enormous variety in the available hardware. Smartphones and tablet PCs are now available at all price levels. The end devices themselves are becoming more diversified and appealing. As the trend in the direction of larger and larger displays continues, the boundaries between smartphones and tablets will become increasingly blurred. The undiminished high demand for tablets is leading to a decline in the sales of classic stationary computers. In Q3 2012, about 19% fewer notebooks and desktop computers were shipped on the German PC market in comparison with the same quarter of the previous year (source: Gartner study, beginning of November 2012).

More than 115 million wireless services connections in Germany – smartphones with a market share of 70%

According to the most recent market study from VATM and Dialog Consult from October 2012, there were 115.1 million wireless services connections in Germany last year. This represents a moderate increase in the number of SIM cards found on the market in comparison with the figure of 114.1 million connections determined in the annual report from the German Federal Network Agency for 2011. A comparison of the minutes used for voice communication reveals once again the dynamics of wireless services. While the VATM estimates that the number of minutes for voice communication from landline services declined by 8 million minutes a day to 639 million minutes in 2012 (previous year: 647 million minutes), the duration of calls using wireless services connections increased by 17 million to 310 million minutes per day (previous year: 293 million minutes). For the foreseeable future, usage of landline services will at best stagnate while the usage of wireless services networks will continue to rise dynamically.

More and more wireless services users are discovering the mobile internet

Outgoing minzes landline and mobile in million per day



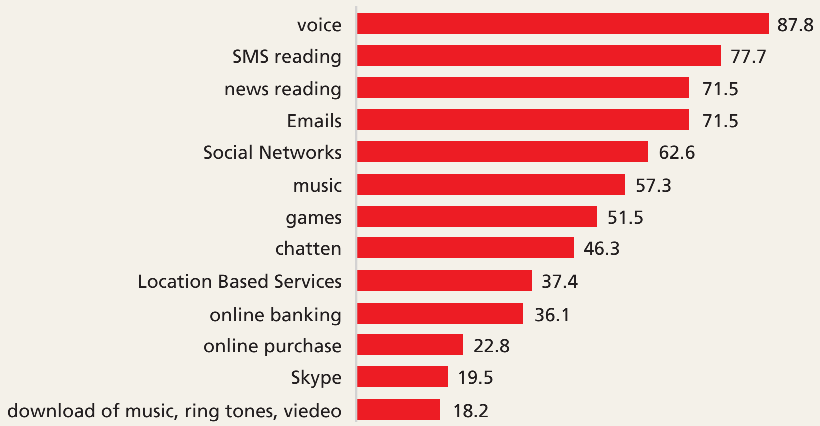
Source: Dialog Consult-/VATM-Analysen und -Prognosen * Estimate

Surf, e-mail, chat – more and more wireless services users are discovering the experience of the mobile internet

The strongest growth is clearly being recorded for mobile data services. According to a study released by the *Bundesverband Digitale Wirtschaft* (BVDW), about 42 million Germans own internet-capable mobile phones and 31 million report that they possess a modern smartphone. The industry experts from BITKOM estimate the figure for smartphone sales in 2012 at 23 million units, an increase by 44% in comparison with 2011. These digital all-rounders with touch screen control have replaced traditional mobile phones. BITKOM assumes that in two years the latter models will have a market share of barely 10%.

A recent data survey conducted by the *Arbeitsgemeinschaft Online Forschung* (AGOF) – a cooperation of the leading online marketers in Germany – determined that 21.3 million Germans surfed the mobile internet in the second half of 2012, almost twice as many as at the time of the first survey in 2010. At that time, a mere 10.95 million users roamed the mobile web.

Usage of the internet capable deivces at least one a week



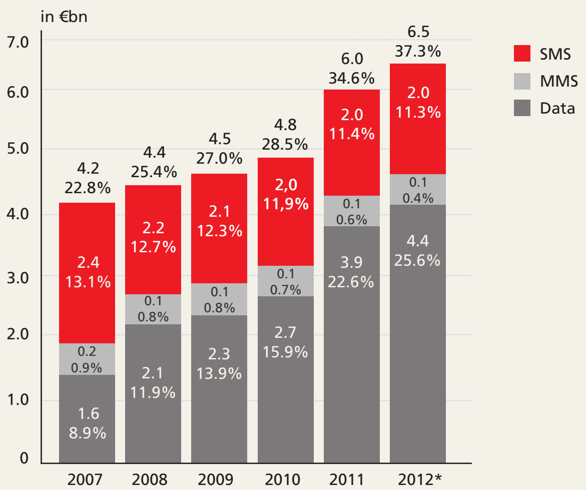
Source: AGOF mobile facts 2012-II / all in %

Revenues from mobile data services is growing at double-digit rates

A new study by the IT consultants at Accenture used the data from a survey to calculate that there are 30 million people in Germany who regularly utilise the internet from their mobile devices. Only one year before, the corresponding figure had been a mere 14 million, notes the representative study *Mobile Web Watch 2012*. The growth determined here is also the strongest since 2008, the year when the survey was conducted for the first time.

The shift to the mobile internet is causing the share of non-voice revenues in wireless services to increase steadily. Information from the VATM shows that this share has now reached the mark of 37.3% (2011: 34.6%). While the significance of multimedia messages (MMS) remains negligible, the number of classic text messages (SMS) continued to rise in 2012 to a figure of 157.2 million text messages a day (2011: 147.8 million) despite the competition from Messenger programs such as *WhatsApp*.

Share of non-voice revenues



Source: Dialog Consult-/VATM-Analysen und -Prognosen *Estimate

Revenues from mobile data services have been growing at double-digit rates for years, data volume will quadruple

The industry association BITKOM calculates a figure of €8.5 billion for revenues from mobile data services in 2012, corresponding to a plus of 13% in comparison with the previous year. Business in this segment has been growing steadily at double-digit rates since 2009. In 2005, market volume for mobile data services amounted to €4.0 billion. In contrast, revenue from calls using mobile phones has been declining since 2006. In the reporting period, it fell by 4% to €12.8 billion. In 2005, calls from mobile phones accounted for €19.1 billion.

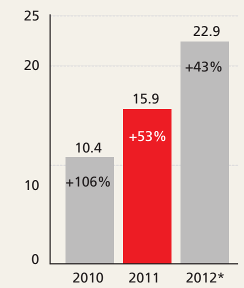
As a consequence of the continuing increase in the number of users along with the strong trend in the direction of applications demanding ever higher volumes of data – such as YouTube and other platforms – the quantity of data per device is expected to quadruple in the coming years. In an analysis from November 2012, the network equipment manufacturer Ericsson calculates that the next six years will see a leap from an average of 450 MB to 1.9 GB a month for smartphones and from 600 MB to 2.7 GB for table computers.

Demand for smartphones and tablets are drivers for the mobile market

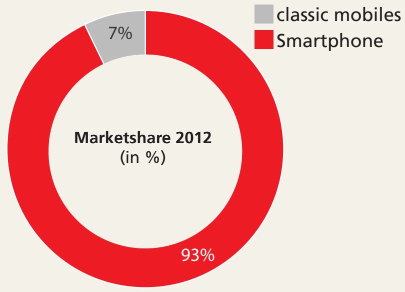
Tablets taking over as mobile end devices for home use

While smartphones are at hand anytime, anywhere, tablet PCs are used primarily in the home. According to BVDW, more than 10% of the people in Germany (about 8.2 million) use a tablet for mobile surfing on the internet, and they spend an average of up to eight hours a week doing so. This means that the internet can become a substitute for television. While it is true that only about one out of ten surfs on a smartphone (9%) or tablet (7%) while watching television, more than half of all tablet users (52%) state that the television serves merely as background while they surf the internet on their tablets. Market figures from the industry association BITKOM from November 2012 indicate that there are 9.1 million tablet users in Germany. According to information from BITKOM, about 3.2 million tablets were sold last year, an increase by 52% in comparison with the previous year.

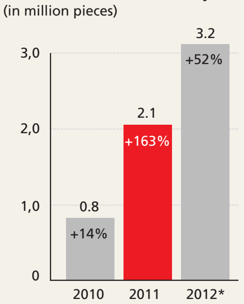
Smartphone Sales in Germany
(in million pieces)



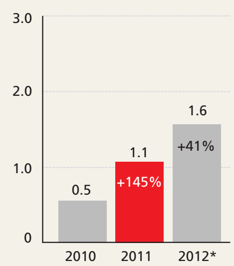
Marketshare 2012
(in %)



Tablet Sales in Germany
(in million pieces)



Tablet Computer Sales in Germany
(in €bn)



Source: BITKOM, EITO — *Forecast

Performance and service have a higher priority than price for many mobile surfers

The most important criteria for wireless services customers are quality and service. This is the conclusion of a study conducted by Accenture. The costs for mobile surfing are not at the top of the wish list. However, the Accenture study *Mobile Web Watch 2012* also reveals that 86% of the respondents would accept significant surcharges for additional services or improved network performance. So new transmission technologies such as LTE offer additional growth potential for the future. The experts from Deloitte predict that LTE will have a 10% share in worldwide revenues from mobile services in 2014. But future growth in services will be decisively influenced by an adequate supply of attractive end devices as well as a powerful and widely available network infrastructure.

MARKETING REPORT

Drillisch offers excellent value for money

The brands under the Drillisch AG umbrella continued to set new milestones on the wireless services market in 2012, introducing innovative rate concepts and low-cost products. Thanks to a determined alignment with the continued boom on the smartphone market and mobile internet, Drillisch has also maintained price leadership in flexible discount rates for mobile phone owners who primarily want to use their devices for phone calls and texting. The wireless services products from Drillisch AG enable users of all types – whatever their personal requirements may be – to experience all aspects of mobile communications.

TÜV awards seal in recognition of good value for money and top ratings for Drillisch brands

A comprehensive examination by TÜV Saarland in July 2012 once again confirmed that the customers of the brands simply, maXXim, helloMobil, McSIM and smartmobil.de are especially satisfied with the products and services they receive. They emphasise above all the innovative rate models and the outstanding value for money as well as the simplicity of the order procedures on the internet sites. Convinced as well of the professional competence and friendliness of the customer service representatives, more than three-fourths of our subscribers recommend our rate plans to their friends. These outstanding results from the representative customer surveys are the confirmation for us that our constant monitoring of our quality and service orientation is the right road to success for our Company.

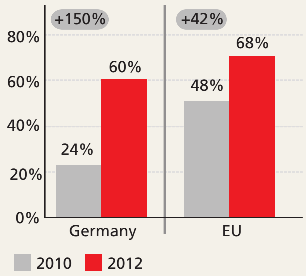
Simple, transparent, and the price leader – Drillisch offers Germany's first 6-cent mobile phone rate

All of these honours are proof that offering leading prices for wireless services and customer-friendly service are not mutually exclusive. Drillisch was the first company to pursue a strict policy of transparent products and is the price leader on the market. Just one example: in spring 2012, our introduction of the first 6-cent rate in Germany (helloMobil) led again to confirmation from Stiftung Warentest (per 3 January 2013) that our customers retain complete flexibility while enjoying the "lowest rate for anyone, whether they are on the phone rarely, a lot or constantly". Customers can order the 6-cent rate from helloMobil and choose either a billed service (postpaid) or advance payment (prepaid). By selecting an option for mobile internet use, subscribers can raise this rate plan to the level of a full-value "smartphone rate plan". This is what we call transparent and fair because users of classic discount rate plans can also use the mobile internet without any inconvenience.

Drillisch's line of product received top seals

Drillisch has exactly the right line of products for all smartphone and tablet users

Smartphone penetration in % in Germany and EU



Source: BVDW-Onlinestudie

According to a study from the *Bundesverband Digitale Wirtschaft* (BVDW), approximately 31 million Germans (about 44%) own today a smartphone or tablet PC with optimised internet access. Drillisch was one of the first to develop the right rate plans for these new types of devices and to introduce combined voice and data plans featuring simple rate logic and low prices on the market.

But the market has never stopped developing, and every smartphone owner uses the device a little differently. Recognising this fact, Drillisch offers rate plans adaptable to the individual.

- Call a lot, surf but little: discount rates with a standard price per minute/text message and flexible options for addition of an internet flat rate (e.g. *simply clever*).
- *Normal phone use, occasional surfer:* budget rate plans including free minutes, free text messages and integrated internet flat rate (e.g. *DeutschlandSIM All-in 50, maXXim MaxxFree 200*).
- *Mobile phone surfers with varying internet use:* discount rates with *OptiSurf*, the flexible internet flat rate with smart billing based on actual use.
- *Extensive smartphone use:* flat rates for all networks, including internet flat rate, high-speed data of up to 14.4 Mbit/s available (e.g. smartmobil.de *Yourflat Speed smart*).
- *For laptop, netbook or tablet users:* attractive data rate plans for low, occasional and frequent users (e.g. maXXim *OptiData*).

Drillisch the leader for flat-rate plans to all networks

The "all-net flat rates" of last year gave new impetus to the wireless services market. A monthly fixed price offers users unlimited calls to landline phones and to subscribers in all of the wireless services networks as well as worry-free surfing on the mobile internet. At €19.75, *Yourflat* from simply, maXXim, helloMobil, PHONEX.de, McSIM and smartmobil.de as well as *DeutschlandSIM Flat* from b2c are the unchallenged leaders in many rate plan comparisons (e.g. Stiftung Warentest, teltarif.de, CHIP Online etc.).

In September 2012, Stiftung Warentest conducted a large-scale comparison and recommended the rate plans from all six Drillisch Group brands as the "lowest-price all-net flat rate". Extensive reporting about the test results in many daily newspapers and other media with a high reach in the millions led to significantly greater awareness of the new products without incurring any additional marketing expenditure.

Innovative products for tablet users as well

smartmobil.de expands market position – "Provider of the Year" for the second year in succession

The Drillisch brand smartmobil.de addresses a young target group with above-average buying power. The new brand has established itself firmly on the market in only its second year. Various channels – including a Facebook fan page or YouTube spots – are utilised to communicate a simple and clear message: Being smart means paying only for what you actually use when making phone calls, texting and surfing on the go. smartmobil.de added additional rate plans with specific targets to its portfolio last year. Differences in usage behaviour are given due consideration with the options of *All-in 100* (100 free minutes, 100 free text messages and an internet flat rate), two new all-net flat rates – with and without additional high-speed data transmission – and another budget rate plan for new users offering 50 free minutes/text messages, all in addition to the classic rate plan.

The innovative product and marketing concept at smartmobil.de is a success. For the second time in succession, the independent consumer portal tariftipp.de has singled out the Drillisch brand as the "Provider of the Year". As far as the telecommunications experts at tariftipp.de are concerned, smartmobil.de has the best rate plans in Germany. Important criteria for the award are good value for money as well as the company's innovative strengths and the customer friendliness of a rate plan. tariftipp.de singled out *Yourflat Speed smart* for special praise as an all-net flat rate unique in its segment, featuring surfing speeds of up to 14.4 Mbit/s.

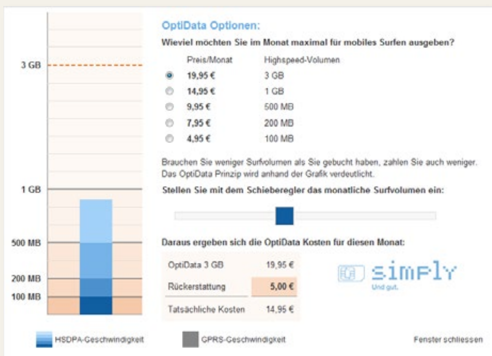
Innovation for data rate plans – surfing even more flexibly on a tablet thanks to *OptiData*

Drillisch is also setting new milestones for straightforward data rate plans in addition to the combined voice and data rate plans. Laptop, netbook or tablet users now also benefit from the flexible and intelligent billing logic of *OptiSurf*, the innovative internet flat rate which Drillisch introduced last year as an option to smartphone rate plans.

The designation *OptiData* encompasses variable data packages of 100 MB, 200 MB, 500 MB, 1 GB or 3 GB. Full connection speed is available until the selected monthly maximum has been reached.

What makes this special:

if usage in one month is below the selected volume, only the volume level which has actually been utilised is billed. Exceeding the volume threshold does not result in any additional costs. *OptiData* gives customers a flexibility never before available especially for devices which – unlike smartphones – are not used every day.

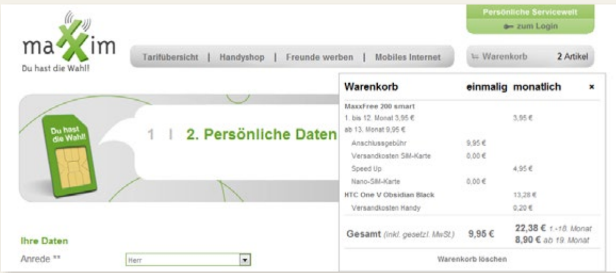


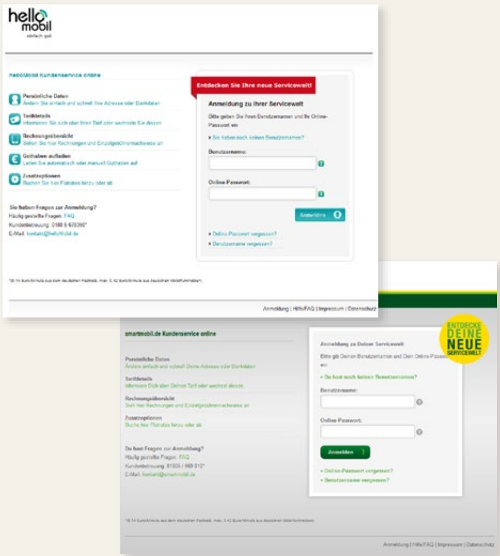
Drillisch top ranked in safety and services

Even simpler ordering procedure with the best possible security and more service in online management

Online marketing is the most important distribution channel for the Drillisch AG brands – low in cost and enormously efficient thanks to effective marketing instruments. And online trade is booming: the lion's share of the increase in retail sales reported by the *Handelsverband* (HDE) for 2012 came from the strong growth in online business.

Drillisch AG continued to optimise its online sites last year and redesigned the order procedure to be even simpler and easier to understand. The introduction of the shopping basket function ensures that customers placing an order retain an overview of their rate plan, the selected hardware and the booked options at all times.





Current subscribers also benefit from our ongoing optimisation and quality assurance process. The new design of the customer account section and the "Servicewelt" has resulted in greater flexibility for all of our brands. For example, customers can go to the mobile phone shop in the Servicewelt to order retroactively a mobile phone or smartphone at especially favourable conditions to accompany their rate plan. Moreover, management of personal data, the selected rate plan or the booked options has been further simplified. Subscribers can also choose to receive regular information about interesting offers and tailored rate plan recommendations.

TÜV honours the Drillisch webshops with the quality seal s@fer-shopping

The customers' trust is a decisive factor in online trade. The respected expert organisation TÜV Süd conducted a comprehensive certification process in March 2012 and determined that the online order procedure for the Drillisch AG brands is absolutely secure. It has consequently granted the quality seal *s@fer-shopping* to all of the webshops.

During the 3-stage quality check, the shop sites and order procedures were assessed and all of the relevant quality and security criteria were reviewed in a detailed on-location audit. According to a survey conducted by the *Gesellschaft für Konsumgüter* (GfK), s@fer-shopping is the best-known of the various online seals of approval. Surveys on www.simplytel.de and www.smartmobil.de conducted in collaboration with "Trusted Shop" resulted in excellent scores, which are further confirmation for building trust. We would like to take this opportunity to thank our customer for this positive feed-

Better business cliamte in ITC market

back (4.6 out of 5 stars). We will continue to request the performance of independent certification processes in the future as part of our efforts to ensure sustained quality assurance and improvement and will use the results as the yardstick for our success.

IT industry looks ahead to the future with optimism

A recent survey by the industry association BITKOM from January 2013 revealed that most companies in the ITC industry are looking ahead to the new year with optimism. Seventy-one per cent of the companies expect rising revenues, while only 13% see a decline. Mid-size businesses are even more confident. More than three-fourths (76%) of the small and midsize IT companies expect rising sales, and 15% expect business to remain at the same level.

The fourth quarter of 2012 developed in a highly positive direction for midsize IT businesses. Two-thirds of the companies (66%) reported rising sales in comparison with the same period of the previous year, and business remained at the same level for only 20%. In total, the IT industry had an excellent finish to the year 2012. BITKOM expects a plus of 1.6% for 2013, a figure which is higher than the German government's prediction for the general economy of 0.4%. Just as last year, BITKOM has singled out cloud computing and mobile applications as the major topics of 2013.

CONSOLIDATED MANAGEMENT REPORT

Business Report

1. Business report

1.1. Drillisch completes the transformation from service provider to MVNO (mobile virtual network operator), continuing its corporate success story

During fiscal year 2012, Drillisch successfully completed its development from its previous position of a classic service provider into an MVNO (mobile virtual network operator), a transformation it launched at an early date. Drillisch AG ("Drillisch") is steadfastly continuing on its dynamic course of growth; in the fiscal year 2012 which has just finished, the firm was able to increase operating consolidated profit once again. Drillisch also expects its successful corporate story to develop along the same lines in 2013 and 2014.

Beginning with standardised and unbundled advance services from the wireless network providers Telefónica O_2 Germany GmbH & Co. OHG ("O_2") and Vodafone D2 GmbH ("Vodafone"), Drillisch generates flexible services on the basis of its own product ideas, and its innovative rate plans make it a prime player on the wireless services market. Drillisch will continue to serve current customers in the Telekom Deutschland GmbH ("Telekom") and E-Plus Mobilfunk GmbH ("E-Plus") networks on the basis of the service provider agreements. However, the share of these customers in its clientele is declining steadily.

Maintaining its role as price leader on the German market, Drillisch offers attractive rate plans under the various corporate brand names to serve the continued strong demand for smartphones (according to estimates from Bitkom: an increase of sales in 2012 by 43% over 2011). Visitors to the websites such as those of smartmobil.de, DeutschlandSIM or helloMobil can combine high-level smartphones with the lowest rate plans. Speaking generally, the focus is on the marketing of innovative voice and data products.

Sustained quality management coupled with product transparency and customer service

The certificates based on DIN EN ISO 9001:2008 which Drillisch had earned in the past were all renewed at the end of 2012. These certifications are awarded by independent agencies on the basis of impartial audits. During the reporting period, ratings of "Excellent" and "Good" were achieved. Our brand simply, which became the first provider of wireless services discount products to complete successfully the required audit and receive the DIN EN ISO 9001:2008 certificate for quality management in the areas of online product marketing and customer service back in 2010, stands as an example of our sustained efforts in this important sector. The quality criteria on which the certificate is based were once again confirmed during an audit in 2012 just as in 2011. MS Mobile Services GmbH ("MS Mobile"), Maintal, was also able to renew in 2012 the ISO certificate for outstanding quality management in the areas online product marketing and customer service received in accordance with DIN EN ISO 9001:2008 shortly after the brand launch of smartmobil.de in May 2011. The award of the ISO certificate to Drillisch Telecom GmbH ("Drillisch Telecom"), Maintal, in September 2012 completed the certification of all of the brands under the Drillisch

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Group roof. Nationally and internationally, this is the most widespread and important standard for defining the quality of processes in a company.

But Drillisch is not resting on its laurels; it is continuing to work on maintaining and improving the quality of all of the corporate processes. Another example is the awarding of the s@fer-shopping seal in March 2012. This D21 initiative is Europe's largest partnership between the worlds of politics and business for the information society and is recommended by the German Federal Ministry of Justice. This honour is the verification that Drillisch offers to all of its customers outstanding transparency and security at the highest level. The updating of the internet sites of all of the Drillisch brands, completed at the turn of the year, represented the next step in this direction.

Drillisch has repeatedly received confirmation from independent, external authorities that the quality of its services, independently of price, is in conformity with the highest standards nationally and internationally and is among the best anywhere.

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, MS Mobile and eteleon e-solutions AG ("eteleon") via its subsidiary b2c.de GmbH, both in Munich, are responsible for the operational wireless services business. The IT know-how of Drillisch Group has been concentrated in IQ-optimize Software AG ("IQ-optimize"), Maintal. MSP Holding GmbH ("MSP"), Maintal, is an affiliated company; per 31 December 2012, this affiliate and Drillisch AG together held more than 20% of the share capital of freenet AG, Büdelsdorf.

Improving efficiency by streamlining the group-wide organisational structure

The entry in the Commercial Register on 24 August 2012 completed the assimilation of the wholly-owned subsidiary SIMply Communication GmbH, Maintal, by Drillisch Telecom. Drillisch's intention in carrying out this organisational merger of the two wireless services providers into one company is to achieve a further enhancement of efficiency and clout. There will be no change for the established brand simply on the market.

Drillisch Telecom – strong brands in mobile communications

Drillisch Telecom offers attractive rate plans – for both voice telephony and mobile surfing on the internet – under the online brand names McSIM, helloMobil, simply and PHONEX and the premium brands VICTORVOX and Telco. Customers can browse the appropriate online shops and select from the latest models of smartphones, tablet PCs and notebooks. At the end of March 2012, Drillisch Telecom proved that inexpensive phone calls can cost even less when it introduced the new 6-eurocent rate from helloMobil. Customers choosing this plan can phone and text for only 6 eurocents a minute and text message, nationwide in Germany, to all networks and

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without any contractual commitments. Anyone wanting to use the internet while away from home can add the appropriate flat rate for mobile phone surfing. In addition to rate plans at discount prices, Drillisch Telecom offers a broad and low-cost portfolio for utilisation of the mobile internet under the brand name simply, including simply clever or the all-inclusive smartphone bargain rate plan All-in M, in combination with attractive hardware offers such as the Apple iPhone and all popular devices from other well-known manufacturers. Subscribers choosing Yourflat can make unlimited phone calls to all German networks and surf the internet while on the go, free of worry and at low cost, for €19.75 a month, making Yourflat the price leader on the German market. Since April 2012, Drillisch Telecom has also been offering to PHONEX and Telco subscribers the opportunity to make unlimited phone calls to all German networks by selecting the Allnet Flat Option starting at €9.95 a month. Drillisch Telecom and its brands McSIM, simply, PHONEX and helloMobil have undergone the TÜV Süd certification process and have been awarded the quality seal "s@fer-shopping" so that customers can enjoy secure shopping as well as obtain a low-cost mobile phone in the Company's own webshops. In short: Drillisch Telecom, the price leader on the German market, offers the highest level of transparency and security as well.

MS Mobile – smart rates with smart service – tested and found to be smart

MS Mobile and its smartmobil.de offer rate plans which have been tailored to be a perfect fit for the needs of smartphone users. The simple, low-cost and transparent services offered by MS Mobile are trend-setters in the wireless services sector, and the Allnet Flat Option, for example, makes it possible to phone without limits to all German networks.

smartmobil.de has the right travel package for anyone who wants to use a mobile phone for surfing while abroad. smartmobil.de customers have long known that smartmobil.de is outstanding. Only shortly after its appearance on the market in April 2011, the brand won the honour of "UMTS Provider of the Year" awarded by the independent rating portal "tariftipp.de". In February 2012, Stiftung Warentest crowned the rate plan "All-in Flat" at smartmobil as the "the plan with the lowest rates for heavy phone users". In its 5/2012 issue, the magazine Computerbild recommended the smart entry-level rate "All-in 50" as one of the best package rate plans in the country for people with a normal or low level of phone usage.

MS Mobile is very proud of the tremendous readiness of its customers to recommend all of the brands. In December 2012, smartmobil.de was honoured as the "Provider of the Year" by Tariftipp.de. "All-in 100" and "Yourflat smart" are the Rate Plans of the Year in 2012. These awards and others confirm the excellent results of the representative customer survey conducted by TÜV Saarland at the beginning of July 2012; they revealed that smartmobil.de offers ideal "value for money", and this is not limited to the rate plans. Customers can select the right smartphone for their needs and combine low-price rate plan alternatives with the latest hardware.

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eteleon – products at discount prices and clever smartphone rates

eteleon, a specialist for innovative sales solutions on the telecommunications market, has successful brands on offer called discoTEL, discoPLUS, DeutschlandSIM and winSIM. A rate calculator in eteleon's webshop makes it easy for customers to determine the ideal rate plan for their needs, and the offer configurator is an additional service to help them find the right smartphone easily. The "All in Flat Smart" rates from eteleon offer the combination of the new phones with a 4-way flat rate. The attractive rate plans and terminal devices enable eteleon to meet the continuing high demand for smartphones. The placement of wireless services products (e.g. in the Zalando Lounge) and the successful mobile phone action at Groupon for the "DeutschlandSIM" brand are only two examples that stand for innovative sales solutions.

In addition to the straightforward voice and data rate plans for mobile phone smartphones, tablets and laptops, b2c.de GmbH offers the rate plan M2M-mobil. This new data rate plan for wireless services networks has been designed for mobile data exchange in the machine-to-machine sector and can be used in many different ways. Whether subscribers are interested in remote control and checks of machines, in energy metering, in remote surveillance of buildings, in telemedicine or in logistics, automatic data transmission among technical equipment via wireless services is simple and low in cost thanks to the data rate plan M2M-mobil. Customers can choose from between two rate variations.

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 companies.

MSP Holding

MSP is a subsidiary of Drillisch AG; its functions include the strategic positioning of Drillisch on the wireless services market. Drillisch AG and MSP together held more than 20% of the share capital in freenet AG per 31 December 2012.

Employees

In 2012, an average of 342 employees (previous year: 338), including the two members of the Drillisch AG Management Board, was on the payroll of the Drillisch Group. The Company firmly believes that good vocational training is important for the future of young people. In keeping with its convictions, it takes its social responsibility seriously and gives more young people opportunities for vocational training than are required to satisfy its own needs. The number of vocational trainees, which is not included in the above figure, rose to 63 in the past year (previous year: 45).

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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 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:

1. Thanks to its lean structure, Drillisch operation is highly efficiently in terms of costs. This approach has enabled the Group to increase its EBITDA continuously over the past ten 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. The Company is one of the first providers to sell wireless services under its own discount brand name. This innovation strength makes it possible for the Group to develop new business fields ahead of competitors.
4. Drillisch constantly works on the further development of distribution paths, taking advantage of its competence and new ideas, so that the Company can successfully market its innovative products.
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.

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1.3. Market and competition

Wireless services sales in Germany rise slightly again in 2012

According to a TC market analysis conducted jointly by Dialog Consult and VATM, sales on the German wireless networks market rose slightly from €24.6 billion in the previous year to €24.8 billion in 2012. This growth in revenue resulted primarily from the increased sales of data services attributable to the realisation of mobile internet access. The number of active SIM cards rose from 114.1 million in the previous year to 115.1 million in 2012. Voice transmission using wireless services increased from 293 million minutes a day in 2011 to 310 million minutes in 2012 and clearly compensated for the decline in call minutes on landline phones. As management expected, the data volume on the wireless services networks rose further at a breakneck pace. Estimates from VATM indicate that the total data volume increased by 30% from 101.1 million gigabytes in 2011 to 130.7 million gigabytes in 2012. The share of revenue from mobile data transmission in the sector of non-voice sales grew from 65% in 2011 to 68% in 2012. This translates to about €4.4 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 devices will secure growth potential for wireless services providers in the future as well. The steady rise in mobile data transmission is also the cause of the further shift in the relationship between data and voice transmission. According to the German Federal Network Agency, there is an ongoing decline in the network costs incurred by voice transmission. This is why the wireless services forwarding charges (costs for the transfer of calls into a different wireless network) were reduced from 3.36 eurocents or 3.39 eurocents per minute to a standard 1.85 eurocents per minute per 1 December 2012. There will be a further reduction to 1.79 eurocents a minute per 1 December 2013. Estimates indicate that German wireless services companies will lose about €500 million in annual revenues as a consequence.

IT industry growth continues in 2012

The IT industry was in 2012 able to continue the positive development of the previous year without so much as a hiccough. According to information from BITKOM (October 2012), sales in Germany rose by about 2.3% to €72.8 billion, substantially faster than the overall economy. Eight of ten companies presume that income will rise in 2013 as well and are planning to create more jobs. 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 84.9% in Germany as shown in a TC market analysis from VATM in 2012. The remaining market is essentially shared by the service provider freenet and the independent service providers Drillisch and United Internet.

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1.4. General economic conditions

"Competitiveness – Key to Growth and Employment in Germany and Europe" is the title of the annual economic report published by the German government in January 2013. Growth in gross domestic product (GDP) of 0.7% in 2012 means that the German economy was unable to maintain the pace of economic development from the previous year, but it still displays a positive tendency despite the weak development of the global economy and the crisis of confidence in Europe. In view of these factors, the German government is predicting growth of 0.4% for 2013. Dr Philipp Rösler, German Minister of Economics, assumes, however, that this weakness is only temporary and expects growth in GDP of 1.6% in 2014. More people than ever before, almost 42 million workers, were employed in Germany in 2012. Owing to the positive development in gross pay scales in 2012 and the predicted increase in 2013 (+2.3%), the German government is also expecting a rise in domestic demand.

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

1.5. Turnover and earnings position

Pursuing the strategy to transform the Company into an MVNO was rewarded immediately in fiscal year 2012 by significant growth in EBITDA. 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 €301.8 million in 2012 (previous year: €303.1 million). During the first months of 2012, €9.7 million came from the prepaid clientele which was sold in May 2012. In the previous year, these subscribers made a significantly greater contribution (€30.5 million) to the consolidated income. If the income from the sold subscribers were eliminated for both years, "service revenues" would have risen by €19.4 million (7.1%) from €272.6 million in 2011 to €292.1 million in 2012. The growth in the segment of the significantly more profitable MVNO subscribers was able to compensate for the decline in "service revenues" almost completely, which had a positive effect on gross income and gross profit margin as well.

"Other revenues", which include low-margin business such as sales of devices and prepaid bundles along with the intermediary business of b2c.de GmbH, declined by €24.1 million to €21.9 million (previous year: €46.0 million). This is also the item where sales from the segment of software services in the amount of €75k (previous year: €62k) are reported.

In total, revenues came to €323.7 million (previous year: €349.1 million) in 2012. The subscriber base in the significantly more profitable postpaid business rose further by

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181,000 (12.0%) in comparison with the end of 2011 to 1.693 million subscribers (31 December 2011: 1.512 million subscribers). This figure included 1.470 million MVNO subscribers at the end of 2012 (31 December 2011: 0.839 million MVNO subscribers).

The number of subscribers in the prepaid sector was reduced to 217,000 (31 December 2011: 1.038 million subscribers). This is a result of the continuing removal of inactive subscribers as well as of the sale of a part of the prepaid clientele noted in the report for the first half of the year. Overall, the ratio of postpaid to prepaid subscribers has improved to 89% to 11%, an increase of 30 percentage points for postpaid compared to the end of 2011 (31 December 2011: 59% postpaid to 41% prepaid). The total number of subscribers has been reduced by 640,000 to 1.910 million (31 December 2011: 2.550 million).

The decrease in the cost of materials by 12.8% to €214.8 million (previous year: €246.3 million) was clearly overproportionate to the decline in revenues during 2012. As a consequence, the gross profit improved by 5.9% to €108.9 million (previous year: €102.8 million). The gross profit margin increased by 4.2% to 33.6% (previous year: 29.4%). Personnel expenses increased by 8.7% to €22.6 million (previous year: €20.8 million). Correspondingly, the personnel expenses ratio in 2012 rose by 1.0% to 7.0% (previous year: 6.0%). Other operating expenses remained virtually constant at €34.4 million (previous year: €34.3 million). The advertising costs of €7.6 million, which were substantially lower than in the previous year (€17.1 million), are in contrast to higher expenses for third-party services (used primarily within the context of the transfer of the clientele to the MVNO model and for the operation of the MVNO platform) and the rise in legal and professional expenses and expenditures from the loss of receivables and bad debt allowances.

The consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation), one of the most important management indicators in the Drillisch Group, rose by 20.4% to €61.9 million (previous year: €51.4 million). The adjusted consolidated EBITDA in 2012 amounted to €61.9 million in comparison with €52.6 million in the previous year. Extraordinary expenses 2011 amounting to €1.2 million concerned the derecognition of a residual claim from a settlement in fiscal year 2009 and extraordinary charges related to a legal dispute. The adjusted EBITDA margin came to 19.1% (previous year: 15.1%). Depreciation and amortisation increased, primarily a consequence of the investments in intangible assets in Q3, by 92.1% to €6.4 million (previous year: €3.4 million), As a consequence, the EBIT (earnings before interest and taxes) rose by 15.3% to €55.5 million (previous year: €48.1 million). The EBIT ratio improved by 3.3 percentage points to 17.1% (previous year: 13.8%).

The shares in freenet AG held by MSP and Drillisch AG were valuated according to the equity method per 31 December 2012, just as in the previous year, because of the significant influence on the company from the voting rights quota. This inclusion resulted in a figure of €54.3 million per 31 December 2012 (previous year: €28.3 million) comprised of the profit proportionately attributable to Drillisch of €38.0 million, expenditures of €3.0 million from scheduled depreciation within the framework of the purchase price allocation and other income of €19.3 million, essentially book profits from the sale of freenet stock.

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Other financial results per 31 December 2012 amounted to €-78.3 million (previous year: €-19.9 million). The closing date valuation of hedging transactions concluded in the context of the financing of the freenet stock acquired in 2011 and in Q2 2012 resulted in non-cash expenses of €53.7 million (previous year: €12.8 million). The value of these hedging transactions is recalculated as of every closing date and is primarily a result of the price of the freenet stock on the closing date and of the remaining term. A rising stock price tends to lead to a declining value of the hedging transactions, which can also be negative. In this case, it is disclosed under the long-term financial liabilities. If the value on the closing date is positive, it is capitalised under Other financial assets. The results of this closing date valuation per 31 December 2012 are shown as liabilities in the amount of €54.2 million (31 December 2011: €6.5 million). The closing date valuation of financial derivatives related to the issue of a debenture bond led to additional non-cash expenses in the amount of €7.2 million (previous year: €0). Additional expenses of €17.4 million (previous year: €7.9 million) were incurred with respect to payment obligations agreed within the context of a financing transaction.

The interest result declined by €6.5 million to €-10.7 million (previous year: €-4.2 million). One of the reasons for the decline in the interest result is that the bank loans were utilised at the end of Q1 and during Q2 in 2011, meaning that the charge to the interest result was only pro rata temporis. Another is that the issue of the debenture bonds on freenet stock in April 2012 increased the volume of the long-term interest-bearing liabilities as a whole.

Taxes on income fell by €14.0 million primarily owing to the creation of deferred tax reimbursements effective on results within the context of the closing date valuation of financial derivatives, resulting in income of €2.7 million (previous year: expenditure of €11.3 million) for 2012. Consolidated profit amounted to €23.5 million (previous year: €41.0 million). Excluding the effects from equity disclosure in the balance sheet, market valuation of hedging transactions and derivatives and the interest expenses allocated to equity investment, consolidated profit in 2012 amounted to €39.0 million (previous year: €33.8 million). The profit per share amounted to €0.46 (previous year: €0.77) or, excluding the equity investment, €0.76 (previous year: €0.64).

General statement on business development

Operating in a favourable, although highly competitive economic sector, Drillisch Group fulfilled the business forecast which had been reconfirmed in November 2012. The number of subscribers in the significantly more profitable postpaid business was increased further. The profitability and yield indicators relevant for Drillisch of gross profit and gross profit margin, along with adjusted EBITDA and adjusted EBITDA ratio, continued to improve. Business development clearly demonstrated that Drillisch has for many years been pursuing a course of consistently profitable growth which is largely independent of general economic fluctuations. Management Board and Supervisory Board will therefore propose a dividend of €1.30 for each share entitled to dividends to the Annual General Meeting.

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1.6. Assets, liabilities and financial position

Fixed assets rose by a total of €73.2 million to €391.7 million (31 December 2011: €318.5 million). As a consequence of the investments related to the continued expansion of the MVNO business model, Other intangible assets increased by €29.8 million to €40.7 million (31 December 2011: €10.9 million). Financial assets shown in the balance sheet according to the equity method increased by €23.4 million to €259.8 million (31 December 2011: €236.4 million). These assets include the stock held in freenet AG. Since Drillisch AG, together with MSP, holds more than 20% of the freenet AG share capital, the shares are disclosed in this item. The shares are valued at cost of acquisition, which was rolled over with the share of the continued development of the freenet equity attributable to Drillisch ("equity method"). The price of freenet stock per 31 December 2012 was €14.00 a share. The closing date value of the holding per 31 December 2012 was €113.8 million higher than the book value, the "hidden reserves" on the closing date. In Q2 2012, Drillisch concluded a second hedging transaction related to the further investments in the freenet AG holdings.

The rise in deferred tax reimbursements is a consequence primarily of the deferred taxes created during the closing date valuation of financial derivatives.

Cash rose by €56.6 million to €77.3 million (31 December 2011: €20.7 million). Trade receivables rose slightly by €0.3 million to €42.0 million (31 December 2011: €41.7 million). In total, current assets increased by €55.6 million to €130.8 million (31 December 2011: €75.2 million).

Overall, the balance sheet total for Drillisch Group per 31 December 2012 rose by €128.9 million to €522.6 million (31 December 2011: €393.7 million).

In comparison with 31 December 2011, equity decreased by a total of €44.5 million to €120.5 million (31 December 2011: €165.0 million), a consequence in part of the continued repurchase of treasury stock. As a consequence of the dividend distribution, balanced by the results for the year 2012, the accumulated deficit rose by €12.7 million to €55.8 million (31 December 2011: €43.1 million). The accumulated deficit arose in 2008 from the change in the stock market evaluation of the freenet AG shares. The equity ratio per 31 December 2012 came to 23.0% (31 December 2011: 41.9%).

Long-term liabilities rose by a total of €173.3 million to €336.3 million (31 December 2011: €163.0 million). One factor for the increase was Drillisch AG's issue of the non-subordinate debenture bond vested with the right to convert to current registered shares of equity stock in freenet AG in April 2012; per 31 December 2012, the bonds are measured in the balance sheet at €118.7 million (31 December 2011: €0). A second factor concerned the hedging transactions and financial derivatives disclosed under the Financial liabilities, which must also be carried at current fair value as liabilities. Owing mainly to the rise in the price of the freenet AG stock, the valuation per 31 December 2012 resulted in a liability totalling €67.9 million (31 December 2011: €6.5 million). Liabilities due to banks declined per 31 December 2012 by €8.6 million to €142.6 million (31 December 2011: €151.2 million) and comprise exclusively long-term loan liabilities of MSP for the acquisition of additional shares in freenet AG in 2011 and 2012, which, together with the hedging transactions, serve as the

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sole collateral for the loans. There is no risk of Drillisch AG becoming liable for the loan liabilities assumed by MSP because they are “non-recourse financing” transactions. The total from the debenture bond, long-term liabilities due to banks and liabilities from derivatives in the amount of €329.2 million is contrasted with fixed assets shown in the balance sheet from the participation in freenet of €259.8 million (31 December 2011: €236.4 million) and “hidden reserves” not shown in the balance sheet of about €113.8 million (31 December 2011: €23.6 million). Please see Item 20 of the consolidated notes for a detailed description of the liabilities due to banks, Financial liabilities and the debenture bond.

Short-term liabilities rose slightly by €0.2 million to €65.9 million in comparison with the end of fiscal year 2011 (31 December 2011: €65.7 million). Trade payables decreased by €9.0 million to €16.1 million (31 December 2011: €25.1 million). Tax liabilities increased by €3.7 million to €9.4 million (31 December 2011: €5.7 million). Payments received on account fell by a total of €13.2 million to €9.2 million (31 December 2011: €22.4 million), primarily because of the decline in prepaid credits resulting from the reduction in the number of prepaid subscribers and the substantial reduction in voucher sales. The increase in Other liabilities by €15.4 million to €26.6 million (31 December 2011: €11.2 million) comes essentially from investment liabilities incurred in Q3 2012 by investments in intangible assets.

1.7. Cash flow

Cash flow from current business activities amounted to €24.3 million (previous year: €20.0 million) in fiscal year 2012. A major part of the one-off negative liquidity effects in Q1 2012 related to the change of business model was compensated by the good operating business as of the end of the year. The decline in prepaid business pursuant to the partial sale and reduction in the number of subscribers and the substantially reduced sales of vouchers led to a significant reduction in trade liabilities and other liabilities and provisions totalling €4.9 million (previous year: decrease by €4.0 million) and in Payments received on account, especially in the form of credit balances and voucher balances which have not been used to top up cards, of €13.2 million (previous year: decline of €3.1 million).

Cash flow from investment activities totalling €7.8 million (previous year: €-69.8 million) is decisively characterised by payments for investments in financial assets shown in the balance sheet according to the equity method amounting to €75.3 million and payments for investments in tangible and intangible assets of €23.0 million. These payments for investments are contrasted by incoming payments from the sale of financial assets shown in the balance sheet according to the equity method of €67.7 million and from received dividends of €38.4 million.

During fiscal year 2012, there was a total inflow of funds of €24.5 million (previous year: inflow of €42.9 million) from financing activities. This inflow of funds came essentially from the issue of a debenture bond in the amount of €123.0 million (previous year: €0.0 million) on the one hand and from the taking out and repayment of financing loans with a bottom-line figure of €-30.7 million (previous year: €+78.0 million), dividend payments of €36.2 million (previous year: €26.6 million) and pay-

Business Report

ments for the acquisition of treasury stock in a scope of €31.9 million (previous year: €8.0 million) on the other hand.

1.8. Employees

As an annual average, Drillisch employed a staff of 342, including the two Management Board members (previous year 338). The Company firmly believes that good vocational training is important for the future of young people. In keeping with its convictions, it takes its social responsibility seriously and gives more young people opportunities for vocational training than are required to satisfy its own needs. The number of vocational trainees, which is not included in the above figure, rose to 63 (previous year: 45).

1.9. Principles and objectives of the financial and capital management

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

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

1.10. Non-financial performance indicators

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

Quality of the products: 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. One important objective is the increase of the subscriber base with long-term value and obtaining a greater market share in the relevant segments.

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

2. Risk report

2.1. 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 instruments of risk management. They can become a strategic success factor for corporate management – for Drillisch itself as well as for the subsidiaries.

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

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

The coordination of risk management is handled at the group level by 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

Risk Report

a risk portfolio can be created and implemented in the appropriate measures. Competencies and responsibilities are clearly regulated at Drillisch and are based on the corporate structure of the Drillisch Group. Risk management includes the securing of risks outside of the Group as well. Adequate insurance policies, provided that they are regarded as being economically justifiable, have been concluded to cover incidents of loss and liability risks arising in the course of daily business.

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

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

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

The risk management system in 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, there is the assurance that assets and debts are correctly measured, appraised and shown in the annual accounts.

The controlling activities include the analysis of material circumstances and developments, for example, using special indicator systems. The organisational separation of

Risk Report

administrative, executive, billing and approval functions significantly reduce vulnerability to fraud. The internal controlling system also assures the representation of changes in the economic or legal environment of the Drillisch Group and ensues the application of any new or amended legal provisions for the accounting.

2.3. Market-related risks

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

- Drillisch operates in a market environment which is by and large saturated and consequently highly competitive. Substantial increases in overall turnover cannot be expected on the German wireless services market in 2013.
- Drillisch may possibly not be successful in acquiring and maintaining a satisfactory share of this market.
- The increasing availability of low-cost rates and products may cause the prices which can be charged for wireless services to decline.
- A decline in prices on the market for wireless services or the reduction in the forwarding charges could result in falling 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.

2.4. Company-specific risk factors

The major risks specific to Drillisch are as follows:

- The net financial debt of Drillisch could increase, e.g. as a consequence of the takeover of companies, leading to a worsening of the financial results and the equity ratio. This could have a long-term effect on the Company’s ability to pay dividends and to take out new loans.
- Risks which affect the assets and liabilities, the financial position or profit and loss of freenet or the value of its stock could also influence Drillisch owing to its holdings of freenet stock. During the acquisition of the shares in freenet, Drillisch was dependent on documentation which was available to the general public. If this information should prove to be incorrect or incomplete, Drillisch may be exposed to unknown threats.
- The freenet holdings of Drillisch and MSP lead to a book value of the shares which must be reviewed regularly with regard to their value. The review can lead to extraordinary write-offs both in the consolidated accounts in accordance with IFRS and in the separate annual accounts in accordance with HGB.

Risk Report

- A loan agreement which Drillisch has concluded contains obligations which could restrict the entrepreneurial flexibility of Drillisch. However, this loan had not been utilised per 31 December 2012.
- Credit lines which had not been utilised per 31 December 2012 are subject in part to variable interest rates. This could result in a threat from changes in interest rates if and when these lines are utilised.
- 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 is dependent on network operators in offering its products and services because it does not have its own network.
- Drillisch is subject to the risk that contract customers will not meet their payment obligations under their wireless service contracts.
- Drillisch is highly dependent on members of the Management Board and on employees in key positions.

There were no major changes in the risk situation in 2012 in comparison with the previous year with the exception of the resolved legal disputes with Telekom Deutschland GmbH. The risks described here are the major risks which have been identified at this time. The possibility that additional major risks which have not been recognised by management exist or that the probability of the occurrence of such risks has been wrongly assessed as negligible cannot be excluded. Adequate precautions have been taken to counter any probable risks. There are at this time no known risks which would threaten the Company's existence.

Prediction Report

3. Forecast report

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

3.1. General economic conditions

In the opinion of the German government and the great majority of the most important economic research institutes, the economic upswing in Germany is not yet at an end. Owing to continuing uncertainty caused by the financial and government debt crisis and the darkening of the economic situation in Europe and other international areas, however, Dr Philipp Rösler, German Federal Economics Minister, assumes that the momentary phase of weakness will not be overcome until some point during the course of 2013 and presumes economic growth in Germany in 2013 will be slightly lower than in 2012. The Macroeconomic Policy Institute (IMK) expects economic growth of about 0.8% for 2013. This forecast is in line with the development of the IFO business climate index. Further events related to the European crisis of trust and government debt will continue to have a decisive impact on further economic developments. Thanks to the domestic German economy, which remains very healthy, real economic development in Germany is remarkably resilient.

3.2. Drillisch Management Board projections 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 from December 2012 will, as an overall effect, remove revenues in a significant volume from the market. 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.

3.3. Opportunities and risks of future development

Simple means for making phone calls and "surfing" at low prices will remain the focus of interest for wireless services customers. The virtually full-area availability of mobile high-speed Internet, the accelerating spread of smartphones and services such as "near-field" and "machine-to-machine communication" justify expectations for continued high growth rates in the use of mobile data communications. 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 2013 because of the reduction in the

Compensation Report

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, Drillisch will seek to continue the parallel positive earnings development in operating business. The Management Board expects an EBITDA (adjusted) in the telecommunications segment of between €67 million and €70 million in 2013 and of between €77 million and €80 million in 2014. The other segments have only a negligible impact on the (adjusted) EBITDA.

4. Compensation report

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

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

The term of the contracts with the Management Board expires on 31 December 2015. The Management Board contracts do not contain any express commitments for severance pay – with the exception of the following regulation for a change of control clause – in the event that the employment relationship is terminated. In the event that Drillisch experiences a change in the shareholder structure of more than 30% (change of control), a part of the compensation independent of success and a part of the merit-based compensation will be deemed earned. The Management Board members receive total compensation of €20k for their Supervisory Board activities at IQ-optimize and eteleon. The Management Board members did not receive any loans or advance payments in the reporting period. No pension commitments have been made to the Management Board.

Compensation Report

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

Management Board

Management Board Compensation 2012 (in €k)	Fixed compensation	Short-term variable compensation	Long-term variable compensation	Total Compensation
Paschalis Choulidis	654	635	275	1.564
Vlasios Choulidis	647	635	275	1.557
	1,301	**1,270**	**550**	**3,121**

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 €275k for each Management Board member; it will not be paid unless certain performance indicators are achieved in fiscal year 2016.

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

Supplemental Information in Accordance with Section 315, Subsection 4 HGB

The compensation for the Supervisory Board members in 2012 comprised the following elements.

Supervisory Board Compensation

Supervisory Board Compensation 2012 (in €k)	Fixed compensation	Variable compensation (for 2011)	Total Compensation
Marc Brucherseifer, Dipl.-Kfm.	50.0	18.0	68.0
Johann Weindl, Dipl.-Kfm.	30.0	14.0	44.0
Dr Susanne Rückert	14.8	0.0	14.8
Dr Bernd H. Schmidt	28.0	12.0	40.0
Michael Müller-Berg, Dipl.-Kfm.	21.0	12.0	33.0
Dr Horst Lennertz, Ingenieur	28.0	12.0	40.0
	171.8	**68.0**	**239.8**

Dr Hartmut Schenk, Dipl.-Kfm., a former member of the Supervisory Board, received variable compensation of €12k in 2012 for his activities on the Supervisory Board in 2011.

5. Supplementary information

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

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

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

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

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

- so that fractional amounts are excluded from the subscription right;

Supplemental Information in Accordance with Section 315, Subsection 4 HGB

- if the capital increase is achieved by cash contributions and the issue price of the new shares is not significantly lower than that of the equivalent shares already traded on the exchange at the time of the final determination of the issue price by the Management Board. The number of shares issued subject to exclusion of the subscription pursuant to Section 186 (3), fourth sentence AktG (German Company Law) may not exceed 10% of the share capital – neither at the point in time at which the authorisation becomes effective nor at the point in time that it is exercised. Any shares which have been issued or must be issued to satisfy subscription rights from options or convertible bonds, provided that the debenture bonds have been issued during the term of this authorisation subject to application mutatis mutandis of Section 186 (3) fourth sentence AktG and excluding the subscription right, must be included in this figure. Furthermore, any shares which are issued or sold, subject to the exclusion of a subscription right, during the term of this authorisation on the basis of an authorisation for the use of treasury stock in accordance with Section 71 (1) no. 8 and Section 186 (3) fourth sentence AktG must be included in this figure;
- if the capital increase against contributions in kind is carried out for the purpose of providing shares within the framework of corporate mergers or of acquiring companies or parts of companies, holdings in companies or other assets;
- so that new shares up to a proportionate amount of the share capital totalling €2,925,395.00 may be issued as staff shares to employees of the Company or of affiliated companies within the sense of Section 15 et seqq. AktG.

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

The Annual General Meeting on 28 May 2010 adopted a resolution authorising the Drillisch AG Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2010 on or before 27 May 2015. Pursuant to this authorisation, the Management Board, with the approval of the Supervisory Board, resolved on 13 September 2012 to initiate another share repurchase programme with an upper threshold of 3,792,118 shares. In combination with the treasury stock of 1,526,783 shares already held at that time, the total holdings of own shares would be 10% of the present share capital. A total of 4,482,501 shares were purchased at an average price of €8.88 during fiscal years 2011 and 2012, corresponding to about 8.43% of the Drillisch AG share capital.

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

Important Events after the End of the Fiscal Year

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

Drillisch has published the statement on corporate management pursuant to Section 289a HGB, which also contains the Declaration of Conformity pursuant to Section 161 AktG, on the Company's internet site at www.drillisch.de > Drillisch AG > Corporate Governance > Statement in accordance with Section 289a HGB. Moreover, Management Board and Supervisory Board describe in detail the principles of good, value-oriented corporate management in full awareness of responsibility as pursued at Drillisch in the corporate governance report in 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, 8 March 2013

The Management Board

CONSOLIDATED ANNUAL ACCOUNTS

Consolidated Income Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2012 to 31 December 2012

		2012	2011
	Notes No.	€k	€k
Sales	1	323,692	349,097
Other own work capitalised		2,267	2,210
Other operating income	2	7,730	1,517
Cost of materials / Expenditures for purchased services	3	-214,839	-246,314
Personnel expenses	4	-22,589	-20,776
Other operating expenses	5	-34,368	-34,300
Amortisation and depreciation	6	-6,440	-3,352
Operating result		**55,453**	**48,082**
Result from financial investments shown in the balance sheet according to the equity method	12	54,251	28,280
Other financial results		-78,274	-19,876
Interest income		953	526
Interest and similar expenses		-11,607	-4,698
Financial result	7	**-34,677**	**4,232**
Profit before taxes on income		**20,776**	**52,314**
Taxes on income	8	2,677	-11,272
Consolidated results		**23,453**	**41,042**
Consolidated results attributable to non-controlling shareholders		0	28
Share of Drillisch AG shareholders in consolidated results		**23,453**	**41,014**
Change in attributable market value of financial assets available for sale		0	28,188
Realisation of market valuation provision affecting results		0	-9,493
Taxes on income		0	-282
Other earnings after taxes		0	18,413
Consolidated comprehensive results		**23,453**	**59,455**
thereof comprehensive results attributable to non-controlling shareholders		0	28
thereof share of Drillisch AG shareholders in total results		23,453	59,427
Profit per share (in €)			
Undiluted	39	0.46	0.77
Diluted	39	0.46	0.77

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 1 January 2012 to 31 December 2012

ASSETS	Notes No.	31.12.2012 €k	31.12.2011 €k
Fixed assets			
Other intangible assets	9	40,726	10,869
Goodwill	10	67,206	67,206
Tangible assets	11	1,465	1,237
Financial assets shown in balance sheet according to equity method	12	259,753	236,359
Other financial assets	12	33	33
Deferred taxes	8	22,557	2,794
Fixed assets, total		**391,740**	**318,498**
Current assets			
Inventories	13	7,929	8,922
Trade accounts receivable	14	42,034	41,696
Tax reimbursement claims	15	110	1,468
Cash		77,303	20,688
Other current assets	16	3,459	2,417
Current assets, total		**130,835**	**75,191**
ASSETS, TOTAL		**522,575**	**393,689**

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 1 January 2012 to 31 December 2012

LIABILITIES

	Notes No.	31.12.2012 €k	31.12.2011 €k
Shareholders' equity			
Subscribed capital		53,577	57,093
Capital surplus		91,571	119,917
Earnings reserves		31,123	31,123
Market evaluation provision		0	0
Accumulated deficit		-55,819	-43,108
Equity to which Drillisch AG shareholders are entitled		**120,452**	**165,025**
Non-controlling shareholders		0	0
Equity, total	17	**120,452**	**165,025**
Long-term liabilities			
Pension provisions	19	591	546
Deferred tax liabilities	8	5,960	4,378
Bank loans and overdrafts	20	142,587	151,189
Debenture bonds	20	118,719	0
Financial liabilities	20	67,856	6,536
Leasing liabilities	18	552	349
Long-term liabilities, total		**336,265**	**162,998**
Short-term liabilities			
Short-term provisions	21	945	746
Tax liabilities	22	9,379	5,730
Trade accounts payable	23	16,122	25,103
Payments received on account	24	9,147	22,373
Financial liabilities	20	3,117	0
Leasing liabilities	18	556	529
Other liabilities	25	26,592	11,185
Short-term liabilities, total		**65,858**	**65,666**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**522,575**	**393,689**

Consolidated Statement of Change in Capital

Consolidated Annual Accounts for the Fiscal Year from 1 January 2012 to 31 December 2012

	Number of shares	Subscribed capital	Capital surplus	Earnings provision	Market valuation pro-visions	Accumu-lated deficit	Equity to which Drillisch AG shareholders are entitled	Non controlling share-holders	Equity total
		€k	€k	€k	€k	€k	€k	€k	€k
Per 01/01/2011	**53,189,015**	**58,508**	**126,469**	**31,123**	**-18,413**	**-57,510**	**140,177**	**201**	**140,378**
Change in own shares	-1,286,591	-1,415	-6,552	0	0	0	-7,967	0	-7,967
Dividend payments		0	0	0	0	-26,595	-26,595	0	-26,595
Change in the consolidated group		0	0	0	0	-17	-17	-229	-246
Consolidated comprehensi-ve results		0	0	0	18,413	41,014	59,427	28	59,455
Per 31/12/2011	**51,902,424**	**57,093**	**119,917**	**31,123**	**0**	**-43,108**	**165,025**	**0**	**165,025**
Per 01/01/2012	**51,902,424**	**57,093**	**119,917**	**31,123**	**0**	**-43,108**	**165,025**	**0**	**165,025**
Change in own shares	-3,195,910	-3,516	-28,346	0	0	0	-31,862	0	-31,862
Dividend payments		0	0	0	0	-36,164	-36,164	0	-36,164
Change in the consolidated group		0	0	0	0	0	0	0	0
Consolidated comprehensi-ve results		0	0	0	0	23,453	23,453	0	23,453
Per 31/12/2012	**48,706,514**	**53,577**	**91,571**	**31,123**	**0**	**-55,819**	**120,452**	**0**	**120,452**

Consolidated Capital Flow Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2012 to 31 December 2012

	2012	2011
	€k	€k
Consolidated results	23,453	41,042
Other financial results	78,274	20,666
Results from financial assets shown in the balance sheet according to the equity method	-54,251	-28,280
Interest paid	-4,022	-2,220
Interest received	572	526
Results from interest	10,654	4,172
Income tax paid	-13,032	-10,473
Income tax received	1,445	0
Taxes on income	-2,676	11,272
Amortisation and depreciation	6,440	3,352
Income from the disposal of tangible assets and intangible assets	-121	-52
Change in inventories	993	-1,217
Change in receivables and other assets	-5,356	-11,722
Change in trade payables and other liabilities and provisions	-4,880	-3,952
Change in payments received on account	-13,226	-3,109
Cash flow from current business activities	**24,267**	**20,005**
Investments in tangible and intangible assets	-23,002	-2,841
Payments for acquisitions less acquired cash	0	-257
Outgoing payments for investments in financial assets shown in the balance sheet according to equity method and investments in Other financial assets	-75,286	-114,485
Dividends received	38,400	22,400
Earnings from the disposal of financial assets and Other financial assets shown in the balance sheet according to the equity method	67,713	25,424
Cash flow from investment activities	**7,825**	**-69,759**
Change in own shares	-31,862	-7,967
Dividend payments	-36,164	-26,595
Outgoing payments for amortisation of loans	-98,460	-47,897
Incoming payments from the taking out of loans	67,779	125,864
Payments from issue of debenture bonds	123,000	0
Change in investment liabilities	230	-554
Cash flow from financing activities	**24,523**	**42,851**
Change in cash	**56,615**	**-6,903**
Cash at beginning of period	20,688	27,591
Cash at end 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 b2c.de GmbH (Munich). The Group holds service provider licences for the networks Telekom, Vodafone, E-Plus and O_2 and markets wireless services products from the prepaid and postpaid sectors. The address and registered office of Drillisch AG as the parent company of the Group is Wilhelm-Röntgen-Strasse 1–5, 63477 Maintal, Germany. The Company is registered at the Hanau Local Court under HRB 7384. The consolidated annual accounts are submitted to the electronic Federal Gazette.

The Management Board prepared the consolidated annual accounts and the consolidated management report as per 31 December 2012 on 8 March 2013 and released them for submission to the Supervisory Board.

B. Basic accounting principles

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

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

Beginning in fiscal year 2012, application of the following standards and interpretations as revised or newly published by the IASB was mandatory:

- Amendment of IFRS 7: “Transfer of Financial Assets”

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

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

Consolidated Notes

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 2012:

Standards/Interpretations

		Mandatory application for fiscal years beginning with	adoption by EU Commission
Standards			
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendment)	01.01.2013	Yes
IFRS 1	Government Loans (Amendment)	01.01.2013	No
IFRS 7	Offsetting Financial Assets and Financial Liabilities (Amendment)	01.01.2013	Yes
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 Interests in Other Entities	01.01.2014	Yes
IFRS 13	Fair Value Measurement	01.01.2013	Yes
IAS 1	Presentation of Other Financial Statements (Amendment)	01.07.2012	Yes
IAS 12	Deferred Tax: Realisation of Underlying Assets (Amendment)	01.01.2013	Yes
IAS 19	Employee Benefits (Amendment)	01.01.2013	Yes
IAS 27	Separate Financial Statements	01.01.2014	Yes
IAS 28	Investments in Associates and Joint Ventures	01.01.2014	Yes
IAS 32	Offsetting Financial Assets and Financial Liabilities (Amendment)	01.01.2014	Yes
Various	Improvements to IFRS 2009–2011	01.01.2013	No
IFRS 10/11/12	Transition Guidance (Amendment)	01.01.2013	No
IFRS 10/11, IAS 27	Investment Entities (Amendment)	01.01.2014	No
Interpretations			
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01.01.2013	Yes

Consolidated Notes

To the extent discernible today, no significant effects on the consolidated annual accounts are to be expected from the new regulations (with the exception of the amendment to IAS 19 related to the equity holding in freenet AG). Depending on the actuarial gains and losses of the pension provisions at freenet AG, there can be a non-operating increase or decrease in the equity of Drillisch Group.

C. Consolidation

Consolidation principles and consolidated companies

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

Joint ventures and interests which are unilaterally controlled are included in accordance with the equity method. The balance sheets for these companies are prepared with their identified, proportionate assets which have been revaluated (plus any goodwill) and liabilities in one item. The goodwill derived during the application of the equity method is not written off as scheduled depreciation, but it is reviewed at least once a year for any signs of a decrease in value. The equity measurement is always updated by the proportionate period results. 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 2012. There is control of a company if the parent company, legally or de facto, has the opportunity to determine the financial and business policies of a company with the aim of obtaining economic benefits.

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

Consolidated Notes

The following companies are included in the consolidated annual accounts:

		Share of capital	Held by
		%	No.
1.	Drillisch AG, Maintal		
2.	Drillisch Telecom GmbH, Maintal	100	1
3.	IQ-optimize Software AG (“IQ-optimize AG”), Maintal	100	1
4.	MS Mobile Services GmbH (“MS Mobile GmbH”), Maintal	100	2
5.	MSP Holding GmbH, Maintal	100	1
6.	MSP Beteiligungs GmbH, Maintal	100	5
7.	eteleon e-solutions AG, Munich	100	5
8.	b2c.de GmbH, Munich	100	7
9.	Intelligram GmbH, Munich	100	8

Drillisch Telecom GmbH, Maintal

The merger of the subsidiary Simply Communication GmbH with Drillisch Telekom GmbH was entered in the Commercial Register on 24 August 2012, effective retroactively to 1 January 2012.

freenet AG, Büdelsdorf

As of 31 December 2012, Drillisch AG held a total of 8,866,658 shares in freenet AG. The combined holdings in freenet AG stock of Drillisch AG and MSP Holding GmbH amounted to 26,686,658 shares per 31 December 2012, corresponding to a share in the freenet AG capital of 20.84%. The fair value per share of freenet AG stock per 31 December 2012 amounted to €14.00, while the book value per share came to €9.73.

D. General accounting and evaluation methods

Realisation of income and expenses

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

Consolidated Notes

the performance of bundled services must be broken down into their separate components and a separate contribution to earnings must be recognised for each component. If 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 mediated 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 segment software services, sales are generated from the offered customised software solutions and from maintenance and support services. Sales from software solutions and sales from maintenance and support services are based on contractual provisions.

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

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

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

Intangible assets

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

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

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

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

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

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

Tangible assets

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

Financial instruments

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

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

Financial assets include in particular cash and cash equivalents, trade receivables, financial assets available for sale and loans and receivables and derivative financial assets maintained for commercial purposes. Financial liabilities include trade accounts payable, liabilities due to banks, liabilities from financing leasing relationships and derivative financial liabilities. Financial assets and financial liabilities are shown as

Consolidated Notes

balances only if there is an offset right with respect to the amounts and the intention is to realise a balance on a net basis.

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

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

When financial instruments measured as available for sale are reclassified for measurement in accordance with the equity method, any market valuation provisions are reversed as operating results.

Other financial assets

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

Inventories

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

Receivables and other assets

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

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Liabilities

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

Leases

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

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

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

Short-term provisions

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

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.

Consolidated Notes

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

Long-term incentive components

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

Usage of assumptions and estimates

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

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

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

Consolidated Notes

Explanatory comments on the consolidated comprehensive income statement

1. Sales

	2012	2011
	€k	€k
Telecommunications		
Service revenues	301,842	303,124
Other revenues	21,850	45,973
	323,692	**349,097**

Service revenues comprise essentially the earnings related to the provision of the on-going wireless services (voice and data transmission, including subsidies of advertising costs). Other revenues comprise essentially sales from devices and prepaid bundles, the intermediary business from b2c.de GmbH and sales from software services.

If corrected for the sale of prepaid accounts in May 2012, the service revenues would appear as shown below:

	2012	2011
	€k	€k
Service revenues	301,842	303,124
thereof share of revenues sold prepaid accounts	9,744	30,484
Adjusted service revenues	**292,098**	**272,640**

Corrected for the revenue from the sold prepaid accounts, there is an increase in service revenues of 7.1% (€19,458k) in 2012 in comparison with 2011.

2. Other operating income

	2012	2011
	€k	€k
Receipt of written-off receivables	1,027	575
Insurance benefits	130	18
Reimbursement of dunning fees (lawyer and court fees)	54	25
Reversal of provisions and liabilities	23	495
Out-of-court settlement	0	2
Other	6,496	402
	7,730	**1,517**

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

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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

	2012	2011
	€k	€k
Wages and salaries	20,407	18,531
Social contributions	2,182	2,245
	22,589	**20,776**

The number of employees (excluding Management Board) came to:	2012	2011
Annual average	340	336
Annual average - vocational trainees	63	45

5. Other operating expenses

	2012	2011
	€k	€k
Billing and external work	8,818	2,988
Advertising expenses	7,632	17,126
Bad debts and valuation allowances	5,352	2,181
Legal and professional fees	3,726	4,091
Rent and secondary costs	1,678	1,701
Incidental costs for money transactions	724	649
Postal and telephone fees / Dedicated lines	650	364
Motor vehicle expenses	422	432
Travel and entertainment expenses	391	333
Other	4,975	4,435
	34,368	**34,300**

The rise in the item Billing and external work in 2012 results essentially from expenditures incurred within the scope of the transfer of the existing subscribers to the MVNO model and for the ongoing operation of the MVNO platform.

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

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6. Depreciation and amortisation

	2012	2011
	€k	€k
Intangible assets		
Own produced software	2,089	2,049
Customer relationships	0	361
Purchased software/licences	3,403	258
Tangible assets	948	684
	6,440	**3,352**

7. Financial results

Result from financial investments shown 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 shown in the balance sheet according to the equity method and measured as operating results and the results from the sale of shares of the freenet AG stock.

Other financial results

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

Interest income/Interest and similar expenses

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

The interest and similar expenses include bank charges and commissions of €1,131k (previous year: €568k).

8. Taxes on income

	2012	2011
	€k	€k
Current taxes on income	15,505	11,152
Deferred taxes	-18,182	120
Disclosed taxes on income	**-2,677**	**11,272**

Taxes on income which have either been paid or which are owed as well as deferred taxes are shown as taxes on income. Taxes on income comprise corporate income tax, solidarity surcharge and trade tax. Effective and deferred taxes are levied on stock

Consolidated Notes

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.

There were accumulated deficits carried forward relevant for corporate income tax in the amount of €5,522k (previous year: €9,870k) and accumulated deficits carried forward relevant for trade tax in the amount of €2,142k (previous year: €6,825k) at MSP Holding GmbH per 31 December 2012; deferred tax reimbursements have been created for these items.

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

	2012	2011
	€k	€k
Profit before taxes on income	20,766	52,314
Tax expenses from application of the Group income tax rate of 30.25% (previous year: 30.25%)	6,153	15,825
Taxes for previous year	64	-24
Trade tax additions	232	93
Non-deductible expenses and tax-free income	-8,046	-4,238
Tax effects from accumulated deficits carried forward	-1,182	-393
Other effects	102	9
	-2,677	**11,272**

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%.

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

	2012	2011
	€k	€k
Deferred tax reimbursements for		
Other intangible assets	218	265
Other current assets	278	278
Financial liabilities	20,526	1,977
Leasing liabilities	335	266
Pension provisions	18	8
Accumulated deficits carried forward	1,182	0
	22,557	**2,794**
Deferred tax liabilities for		
Other intangible assets	2,229	2,254
Debenture bonds	1,900	0
Leasing assets	323	260
Trade accounts receivable	1,025	1,762
Bank loans and overdrafts	181	102
Miscellaneous	302	0
	5,960	4,378

The deferred tax reimbursements comprise €1,737k (previous year: €2,523k) on short-term and €20,820k (previous year: €271k) on long-term assets and liabilities. The deferred tax liabilities comprise €1,548k (previous year: €1,075k) on short-term and €4,412k (previous year: €3,303k) on long-term assets and liabilities.

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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 costs					
Per 1 January 2011	**7,367**	**8,650**	**18,045**	**3,728**	**37,790**
Additions	0	0	2,209	57	2,266
Disposals	0	0	0	0	0
Per 31 December 2011	**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**
Accrued depreciation					
Per 1 January 2011	**0**	**8,289**	**14,856**	**3,374**	**26,519**
Additions	0	361	2,049	258	2,668
Disposals	0	0	0	0	0
Per 31 December 2011	**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**
Book values					
as per 31 December 2011	7,367	0	3,349	153	10,869
as per 31 December 2012	**7,367**	**0**	**3,527**	**29,832**	**40,726**

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

The additions in purchased software/licences essentially relate to investments made in the expansion of the MVNO business model.

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

Consolidated Notes

10. Goodwill

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

	Acquisition costs	Accrued Amortisation and depreciation to 31 December 2012	Book values
	€k	€k	€k
Drillisch Telecom GmbH	89,314	22,976	66,338
IQ-optimize AG	103	41	62
eteleon e-solutions AG	806	0	806
	90,223	**23,017**	**67,206**

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

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

The value of the goodwill was reviewed using the amounts realisable for these cash-generating entities, calculated on the basis of their utilisation values. The utilisation values result from the future cash flows, including interest. The company planning approved by management for the years 2013 to 2017 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 2017. The budget presumes average growth in gross profit for Drillisch Telecom GmbH and IQ-optimize AG in the lower single-digit percentage range for this period. Average growth in gross profit which barely breaks into the two-digit percentage range at the end of the budgetary scope is expected for eteleon e-solutions AG owing to the expansion of the business model. The major assumption for the planning of the cash-generating entities is the number of subscribers. Discounting on the cash flows for the period 2013 to 2017 was calculated at an interest rate of 10.76% (previous year: 11.38%) and for the following period at an interest rate of 10.26% (previous year: 10.88%) p.a. (in each case, before taxes). No adjustments in the value of the goodwill were required in fiscal year 2012. 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 2011	**5,814**	**244**	**6,058**
Additions	873	0	873
Disposals	419	0	419
Per 31 December 2011	**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**
Accrued depreciation			
Per 1 January 2011	**4,438**	**218**	**4,656**
Additions	682	2	684
Disposals	65	0	65
Per 31 December 2011	**5,055**	**220**	**5,275**
Additions	947	1	948
Disposals	1,141	0	1,141
Per 31 December 2012	**4,861**	**221**	**5,082**
Book values			
as per 31 December 2011	1,213	24	1,237
as per 31 December 2012	**1,442**	**23**	**1,465**

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

The freenet shares held by MSP Holding GmbH and Drillisch AG since 14 June 2011 have been valuated according to the equity method because of the unilateral control over the company from the voting rights quota. The results from this inclusion amounted to €54.3 million per 31 December 2012 (previous year: €28.3 million). In the previous year, the results from financial assets shown in the balance sheet according to the equity method also included income from the reversal of the market valuation provision. The transition from a classification as “available for sale” to the equity method valuation resulted in the reversal of the market valuation provision as operating results.

Moreover, the share of the updating of the proportional equity of freenet AG as operating results in the amount of €38.0 million (previous year: €19.9 million) is included in the “Results from the financial assets shown in the balance sheet according to the equity method”. The holding was classified as “Available for sale” in accordance with IAS 39 until 14 June 2011 and was disclosed in the item Other financial assets.

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The table below shows the long-term and short-term assets and liabilities in full and the performance indicators for the company freenet AG shown in the balance sheet in accordance with the equity method per 30 September 2012.

	2012
	€k
Fixed assets	1,759,239
Current assets	512,997
Long-term liabilities	489,317
Short-term liabilities	634,075
Sales	2,269,566
EBT	122,035
Earnings after taxes	131,192
thereof from discontinued operations	0

13. Inventories

	2012	2011
	€k	€k
Merchandise	5,470	6,599
Value allowances for merchandise	-10	-5
Payments on account	2,469	2,328
	7,929	**8,922**

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

	2012	2011
	€k	€k
Gross receivables	43,111	42,548
Valuation allowances on receivables	-1,077	-852
	42,034	**41,696**

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Analysis of maturity of trade receivables

	Book value	Thereof neither devalued nor overdue as of closing date	Thereof not devalued as of closing date and overdue in the following time spans			
			Less than 30 days	Between 31 and 90 days	Between 91 and 180 days	More than 180 days
	€k	€k	€k	€k	€k	€k
31/12/2012	42,034	32,462	2,915	814	784	3,423
31/12/2011	41,696	28,047	4,476	1,559	942	5,417

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 €188k has been agreed. As long as these debtors fulfil their payment obligations, there will not be any valuation allowances and the receivables will continue to be measured at acquisition costs.

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

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

	2012	2011
	€k	€k
Valuation allowances as per 1 January	**852**	**1,130**
Additions (expenses for valuation allowances)	8,900	7,436
Consumption / Reversal	-8,675	-7,714
Valuation allowances as per 31 December	**1,077**	**852**

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15. Tax reimbursement claims

	2012	2011
	€k	€k
Corporate income tax	106	1,450
Trade tax	4	18
	110	**1,468**

The corporate income tax claims include corporate income tax credits of €99k (previous year: €116k).

16. Other current assets

	2012	2011
	€k	€k
Residual claim from settlement	799	799
Payables due to network operators	477	377
Security deposits	59	11
Other	2,124	1,230
	3,459	2,417

The Other current assets include primarily receivables from intermediary 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 shares issued to the bearer with a proportionate share in the share capital of €1.10.

The Annual General Meeting of 25 May 2012 adopted a resolution to distribute a dividend of €0.70 for each and every share entitled to receive a dividend. The number of shares issued at the point in time of the Annual General Meeting totalled 51,662,232. The distribution consequently amounted to a total of €36,164k.

Management Board and Supervisory Board will propose a dividend of €1.30 for each share entitled to dividends to the Annual General Meeting of the current year.

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Treasury stock

The Annual General Meeting on 28 May 2010 adopted a resolution authorising the Drillisch AG Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2010 (5,318,901 shares) on or before 27 May 2015.

In fiscal year 2012, this repurchase right was exercised and 3,195,910 own shares were purchased on the stock exchange at an average price of €9.97, corresponding to about 6% 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 2012, Drillisch AG held 4,482,501 own shares representing about 8.43% of the share capital.

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

Capital surplus

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

Earnings reserves

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

Non-controlling shareholders

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

Approved capital

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

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- so that fractional amounts are excluded from the subscription right;
- if the capital increase is achieved by cash contributions and the issue price of the new shares is not significantly lower than that of the equivalent shares already traded on the exchange at the time of the final determination of the issue price by the Management Board. The number of shares issued subject to exclusion of the subscription pursuant to Section 186 (3), fourth sentence AktG (German Company Law) may not exceed 10% of the share capital, neither at the point in time at which the authorisation becomes effective nor at the point in time that it is exercised. Any shares which have been issued or must be issued to satisfy subscription rights from 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) (8) and Section 186 (3) (4) AktG must be included in this figure;
- If the capital increase against contributions in kind is carried out for the purpose of providing shares within the framework of corporate mergers or of acquiring companies or parts of companies, holdings in companies or other assets;
- so that new shares up to a proportionate amount of the share capital totalling €2,925,395.00 may be issued as staff shares to employees of the Company or of affiliated companies within the sense of Section 15 et seqq. AktG.

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

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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 2011	**2,202**
Additions	295
Disposals	95
Per 31 December 2011	**2,402**
Additions	824
Disposals	984
Per 31 December 2012	**2,242**
Accrued depreciation	
Per 1 January 2011	**1,069**
Additions	474
Disposals	0
Per 31 December 2011	**1,543**
Additions	615
Disposals	984
Per 31 December 2012	**1,174**
Book values	
as per 31 December 2011	859
as per 31 December 2012	**1,068**

Leasing liabilities	Up to 1 year	1 – 5 years
	€k	€k
Leasing payments	583	568
Interest	27	16
Cash values	**556**	**552**

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 include extension and purchase options.

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

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

Calculation parameters	2012	2011
	%	%
Calculated interest rate	3.46	5.17
Expected income from scheme assets	2.50	2.50
Expected development of income	0.00	0.00
Expected development of pensions	0.00	0.00
Fluctuation	0.00	0.00

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

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

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

Analysis of pension model	2012	2011	2010	2009	2008
	€k	€k	€k	€k	€k
Cash value of pension expectancies for merit-based pension commitments (DBO)	1,315	856	955	929	920
Fair value of scheme assets	375	317	309	0	0
Shortfall of scheme	**940**	**539**	**646**	**929**	**920**
Adjustment of obligations based on experience	-9	-47	2	-28	25
Adjustment of scheme assets based on experience	50	-8	-8	0	0

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

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

Balance sheet obligations	2012	2011
	€k	€k
Cash value of pension expectancies for pension commitments (DBO)	1,315	856
Actuarial profits (+)/losses (-) not considered	-349	7
Costs for changes in claims from previous years not considered	0	0
Market value of scheme assets	-375	-317
Pension provisions as per 31 December	**591**	**546**

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)	2012	2011
	€k	€k
As per 1 January	856	787
Costs for pension claims acquired in fiscal year	9	5
Interest	45	42
Pension payments	0	0
Service period expenses to be offset retroactively	0	0
Actuarial profits (-)/losses (+)	398	22
Other changes	7	0
As per 31 December	**1,315**	**856**

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

Pension expenditures (NPPC)	2012	2011
	€k	€k
Costs for pension claims acquired in fiscal year	9	5
Interest	45	42
Expected income from scheme assets	-8	-8
Actuarial profits/losses recognised effective for income	0	0
Service period expenses to be offset retroactively	0	0
	46	**39**

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The reinsurance developed as follows:

Development of fair value of scheme assets	2012	2011
	€k	€k
As per 1 January	317	309
Expected income from scheme assets	8	8
Actuarial profits (+)/losses (-)	50	0
As per 31 December	**375**	**317**

Actual income from scheme assets	2012	2011
	€k	€k
Expected income from scheme assets	8	8
Actuarial profits (+)/losses (-)	50	0
	58	**8**

No contributions will be made to the reinsurance in fiscal year 2013.

The scheme assets comprise exclusively a reinsurance policy.

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. The expenditures for the funding of these contribution-oriented schemes in the fiscal year amounted to €1.6m (previous year: €1.4m).

20. Bank loans and overdrafts / Financial liabilities / Debenture bond

Bank loans and overdrafts

A loan agreement for a total of €100m 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 divided into a bullet loan (€40m) and revolving loan (€60m). The bullet loan was completely repaid in fiscal year 2012. The revolving loan was reduced to €50m in December 2012; per 31 December 2012, this credit line had not been utilised. Utilisation per 31 December 2011 totalled €60m. The interest rate comprises two components: the EURIBOR applicable to the relevant interest period and a margin agreed in the loan agreement. Per 31 December 2012, the combined interest rate would have amounted to 1.64% (previous year: 2.41%). The loan agreement runs until 15 October 2014. Any utilised amounts must be repaid at the end of the term at the latest; interim obligatory repayments have not been agreed. Voluntary premature amortisation is possible at any time.

The applicable margin is adjusted quarterly and oriented to the ratio of consolidated net financial debt to consolidated EBITDA on the basis of the 12 months previous to the relevant quarterly closing date. The minimum margin was 1.10% for the bullet loan and 1.25% for the revolving loan and will be applied if the ratio of consolidated net financial debt to consolidated EBITDA is less than 1 to 1. If this ratio is greater than

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2 to 1, the maximum possible margins of 2.10% and 2.25%, respectively, will apply.

The one-off bank charges of €950k due and payable when the loan became available at the commencement of the term will be set off according to the effective interest method and distributed per schedule over the term.

Drillisch AG pledged 2.5 million shares of the freenet stock it holds directly as security for the loan. This security was released in full when the bullet loan was repaid and the revolving loan was reduced.

The loan is tied to specific financial indicators (degree of indebtedness and equity ratio); in the event of failure to comply with these indicators, the loan agreement may be terminated. The Company was consistently in compliance with these criteria throughout fiscal year 2012.

The interest expenses related to the loans amounted to €446k in fiscal year 2012 (previous year €1,592k).

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 consists of three partial amounts ("buckets") which must be repaid with due dates in the years 2015, 2016 and 2017. There will not be any interest payments during the terms.

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 consists of three buckets which must be repaid in 2016, 2017 and 2018. There will not be any interest payments during the term of this loan, either.

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

The interest expenses related to the financing transactions amounted to €4,594k in fiscal year 2012 (previous year €2,513k).

The structuring fee of €600k incurred with the financing transaction in 2011 will be distributed per schedule according to the effective interest method over the term.

MSP Holding GmbH has pledged 17.8 million shares of the freenet stock it holds directly as security for the loan. As of the closing date, the security had a book value of €173.5m (fair value: €249.5m). There are no other securities. There is no risk of Drillisch AG becoming liable for the loan liabilities assumed by MSP because they are "non-recourse financing" transactions.

Financial liabilities

The long-term financial liabilities essentially comprise the closing date measurement of hedging transactions which were concluded in the course of financing the acquisition of freenet stock by MSP Holding GmbH in 2011 and 2012. Moreover, the financial liabilities include financial derivatives from the issue of the non-subordinate debenture bonds vested with the right to convert to current registered shares of equity stock

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in freenet AG. The value of these hedging transactions and financial derivatives is recalculated as of every closing date and is primarily a result of the price of the freenet stock on the closing date and of the remaining term. A rising stock price tends to lead to a declining value, Since the security transactions and financial derivatives do not meet the requirements of a hedging pursuant to IAS 39, these finance instruments are measured separately as operating results.

The short-term financial liabilities include 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 million (corresponding to approximately 8.5 million shares of freenet AG stock). The debenture bonds are non-subordinate liabilities of Drillisch AG secured by a lien on the underlying shares of the freenet AG stock and of equal ranking with all other current and future non-subordinate liabilities of Drillisch AG. The underlying shares of freenet AG stock have been pledged for the benefit of Deutsche Trustee Company Limited ("security trustees"). The bonds have a term of five years. The debenture bonds may be called by Drillisch AG on or after 27 April 2015 if the share price of the freenet AG stock (over a certain period) exceeds 130% of the then applicable conversion price. The investors may declare the bonds due and payable at the nominal value plus any accrued interest as of the third anniversary of the issue. The bonds have been issued at 100% of the nominal value and will also be redeemed at 100%. They include an annual coupon of 3.375%. The conversion price was set at €14.7719 at the time of the issue. The debenture bonds (with a nominal value of €100,000.00 per bond) have been issued directly by Drillisch AG.

Following capital measures by freenet AG, the conversion price and number of pledged shares are reviewed and adjusted as appropriate (dilution protection). The conversion ratio applicable to the debenture bond was adjusted pursuant to Section 10 (5) of the Terms and Conditions of Issue of the Debenture Bond in May 2012 owing to the distribution of a cash dividend (as defined in the Terms and Conditions of the Issue of the Debenture Bond) for fiscal year 2011. As of the closing date, the conversion price amounts to €14.0978 and the number of shares securing the lien amounts to 8.9 million.

The structuring fee of €2,000k incurred with the financing transaction in 2012 will be distributed per schedule according to the effective interest method over the term.

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 has been assumed for disclosing and valuating the components of the debenture bonds in the balance sheet. The bonds have been partitioned into a base instrument (debenture bond) and an option right (long-term financial liability) as of the issue date. The base instrument is valuated at the cost of acquisition carried forward in accordance with the effective interest method. The option right is measured at its fair value as operating results per each closing date.

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21. Short-term provisions

	As per 01.01.2012	Utili- sations	Re- versals	Ad- ditions	As per 31.12.2012
	€k	€k	€k	€k	€k
Basic charges	375	375	0	568	568
Litigation risks	138	101	16	277	298
Removals	79	0	0	0	79
Other	154	154	0	0	0
	746	**630**	**16**	**845**	**945**

Drillisch Group presumes that there will be an outflow of funds in fiscal year 2013.

22. Tax liabilities

	2012	2011
	€k	€k
Corporate income tax	1,441	887
Trade tax	3,943	2,466
Turnover tax	3,995	2,377
	9,379	**5,730**

23. Trade accounts payable

This item includes essentially invoices from network operators.

24. Payments received on account

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

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

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25. Other liabilities

	2012	2011
	€k	€k
Short-term investment liabilities	16,770	0
Payroll	4,819	3,276
Liabilities due to sales partners/customers	3,508	5,420
Base prices paid in advance	829	1,204
Income tax	295	225
Employers' liability insurance association	52	50
Security deposits	15	14
Other	304	996
	26,592	**11,185**

The short-term investment liabilities are related to investments in intangible assets occasioned by the expansion of the MVNO business model.

26. Analysis of maturity

	2012	Cash flow 2013			Cash flow 2014–2018
	Book value	< 1 month	1 to 3 months	3 months to 1 year	> 1 year
	€k	€k	€k	€k	€k
Bank loans and overdrafts	142,587	25	50	188	162,299
Debenture bonds	118,719	0	0	0	125,000
Trade accounts payable	16,122	16,122	0	0	0
Liabilities from finance leases	1,108	70	125	389	568
Financial liabilities	70,973	0	0	4,219	8,438
Other liabilities	26,592	14,898	0	9,270	2,424

Financial liabilities relate primarily to the fair value of hedging transactions which will not lead to scheduled cash flow in the future and to interest liabilities from the debenture bond.

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27. Net profits and losses from valuation categories

	Interest	from subsequent valuation		From Disposals	Net results	
		at fair value	Value allowances		2012	2011
	€k	€k	€k	€k	€k	€k
Loans and Receivables (LaR)	947	0	-5,351	1,027	-3,377	-1,089
Available for sale (AFS)						
– Operating results	0	0	0	0	0	9,493
– Non-operating results	0	0	0	0	0	0
Derivatives						
– Call option	0	0	0	1,094	1,094	0
– Put option	0	0	0	0	0	790
– Hedge transactions	0	-53,689	0	0	-53,689	-12,770
– Debenture bond	0	-7,250	0	0	-7,250	0
Financial liabilities measured at amortised cost (FLAC)	-29,067	0	0	0	-29,067	-12,595
thereof from the effective rate of return method	-7,252	0	0	0	-7,252	-2,766
– thereof in Other financial results"	-17,335	0	0	0	-17,335	-7,897
	-28,120	**-60,939**	**-5,351**	**2,121**	**-92,289**	**-16,171**

28. Other financial obligations

	Rents	Leasing	Total	Previous year
	€k	€k	€k	€k
Due in less than 1 year	1,183	769	1,952	1,800
Due in 1 to 5 years	2,126	744	2,870	2,172
Due in more than 5 years	0	0	0	0
	3,309	**1,513**	**4,822**	**3,972**

In the fiscal year, €1,617k (previous year: €1,457k) from rent and leasing payments was included in expenditures. Additional other financial liabilities are related to contracts with network operators and amount to €10.0m. €5.0m of this amount will be due in 2013 and another €5.0m will be due in 2014.

Consolidated Notes

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

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

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

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

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

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

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

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

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

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

Consolidated Notes

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.

Sensitivity analysis

Had there been a change in the stock exchange price for the freenet AG shares of ±10% per 31 December 2012, the consolidated results/equity would have been €22.6m (after taxes) higher or €16.5m (after taxes) lower, provided that all other conditions had remained the same.

Miscellaneous disclosures about financial instruments

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

The book values of financial assets shown in the balance sheet in accordance with the equity method which serve as collateral for liabilities and the terms and conditions of collateral are shown under the item “Liabilities due to banks”.

Consolidated Notes

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

	Measurement category IAS 39	Book value 31/12/2012		Book value 31/12/2011	
		€k	thereof no financial instrument €k	€k	thereof no financial instrument €k
Assets					
Cash	LaR	77,303		20,688	
Trade accounts receivable	LaR	42,034		41,696	
Other current assets	LaR/n.a.	3,459	333	2,417	301
Shareholders' equity					
Trade accounts payable	FLAC	16,122		25,103	
Bank loans and overdrafts	FLAC	142,587		151,189	
Debenture bonds	FLAC	118,719			
Other liabilities	FLAC	26,592	6,299	11,185	6,955
Financial liabilities	FLAC / n.a.	70,973		6,536	
Liabilities from finance leases	n.a.	1,108	1,108	878	878
thereof aggregated as per measurement categories as per IAS 39					
Loans and Receivables (LaR)		122,463		64,500	
Financial Liabilities Measured at Amortised Cost (FLAC)		300,838		180,522	
Derivatives		67,856		6,536	
Liabilities from finance leases		1,108		878	

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

The hedging transactions disclosed under financial liabilities are classified in the level "derived from prices (Level 2)" and shown in the balance sheet at a fair value of €54.2m.

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

Consolidated Notes

30. Segment reporting

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

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

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

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

Consolidated Notes

Segment Report 1/1/2012 – 31/12/2012	Telecommu-nications	Software services	Equity participation	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 fair value measurement of Other financial derivatives	0	0	0	0
Result from payment obligations related to financing agreements	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

Segment Report 1/1/2011 – 31/12/2011	Telecommu-nications	Software services	Equity participation	Total
	€k	€k	€k	€k
Sales with third parties	349,035	62	0	349,097
Inner-company sales	0	9,208	0	9,208
Consolidation	0	-9,208	0	-9,208
Segment sales	**349,035**	**62**	**0**	**349,097**
Segment EBITDA	**51,436**	**-2**	**0**	**51,434**
Amortisation and depreciation	-3,352	0	0	-3,352
Segment EBIT	**48,084**	**-2**	**0**	**48,082**
Result from financial investments shown in the balance sheet according to the equity method	**0**	**0**	**28,280**	**28,280**
Result from fair value measurement of hedge transactions	0	0	-12,770	-12,770
Result from fair value measurement of financial derivatives related to the issue of a debenture bond	0	0	0	0
Result from fair value measurement of Other financial derivatives	0	0	790	790
Result from payment obligations related to financing agreements	0	0	-7,896	-7,896
Other financial results per comprehensive income statement	**0**	**0**	**-19,876**	**-19,876**
Interest income	526	0	0	526
Interest and similar expenses	-83	0	-4,615	-4,698
Financial result	**443**	**0**	**3,789**	**4,232**
Profit before taxes	**48,527**	**-2**	**3,789**	**52,314**
Taxes on income	**-14,679**	**0**	**3,407**	**-11,272**
Consolidated results	**33,848**	**-2**	**7,196**	**41,042**

Consolidated Notes

With the exception of the equity holding of €259.8m and financial liabilities of €332.3m, the Group's assets and liabilities must be attributed almost exclusively to the telecommunications sector.

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

The transfer prices correspond on principle to the prices determined by arm's length comparison. Since Drillisch Group is active only in Germany, there are no geographic segments. The most important segment expenses and income not affecting payments include the allocations to the provisions and the measurement of the hedging transactions and the equity result.

31. Explanatory comments on the capital flow statement

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

32. Auditor's fee

Fees posted as expenditures:

	2012	2011
	€k	€k
1. Audit	296	295
2. Other certification services	68	119
3. Tax accountant services	114	68
4. Other services	85	0
	563	**482**

33. Related party disclosures

As per 31 December 2012, there were claims due from and liabilities due to relatives and companies as shown below:

The Baugemeinschaft Maintal, consisting of the shareholders Paschalis Choulidis and Marianne Choulidis, has rented office space in Maintal to the Drillisch Group. The lease runs until 30 June 2015. Rent in 2012 came to €507k (previous year: €507k).

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

The company Frequenzplan GmbH, Planegg (shareholder Mr Tobias Valdenaire), realised sales in the amount of €279k (previous year: €171k) with Drillisch Group in fiscal year 2012.

There were no amounts due to or due from the related parties mentioned above per 31 December 2012.

Consolidated Notes

The company Flexi Shop GmbH, Frankfurt am Main (shareholder Mr Jannis Choulidis), realised sales in the amount of €304k (previous year: €249k) with Drillisch Group in fiscal year 2012. The amount of €32k (previous year: €30k) was due to this company per 31 December 2012.

Drillisch Group realised revenues for intermediary activities in the amount of €14,850k (previous year: €13,266k) with freenet AG, Büdelsdorf, in fiscal year 2012. The amount of €572k (previous year: €187k) was due from this company per 31 December 2012.

34. 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 chairperson)
IQ-optimize Software AG, Maintal
(Supervisory Board chair)

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

Dr Susanne Rückert
Lawyer, Düsseldorf
(since 25 May 2012)
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal
(since 25 May 2012)

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

Michael Müller-Berg, Dipl.-Kfm.
Director, Cologne
(until 30 September 2012)
Seats held on supervisory boards required by law or other supervisory bodies:
Drillisch Telecom GmbH, Maintal
(until 30 September 2012)
Knowledge Intelligence AG, Cologne
Communology GmbH, Cologne
(Advisory Board)

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

Consolidated Notes

The following members of the Supervisory Board were members of the following committees in 2012:

Nomination Committee: Mr Brucherseifer, Mr Weindl, Dr Schmidt, Dr Lennertz and Mr Müller-Berg (until 30 September 2012); Chair: Mr Brucherseifer

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

Personnel Committee: Mr Müller-Berg (until 30 September 2012), Mr Brucherseifer and Dr Lennertz; Chair: Mr Brucherseifer

35. 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 e-solutions AG, Munich
IQ-optimize Software AG, Maintal

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

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

Compensation paid to Management Board members in 2011 totalled €3,121k, thereof €1,820k variable (previous year: €2,885k, thereof €1,700k variable). The variable compensation contains a long-term incentive component of €550k for each Management Board member which will not be paid unless specific performance indicators are achieved in fiscal year 2016. In addition, the Management Board members received compensation for their activities as Supervisory Board members of subsidiaries in the amount of €19k (previous year €20k).

Consolidated Notes

Compensation paid to the members of the Supervisory Board for their work in the parent company in the reporting period amounted to €188K (previous year: €180k). In addition, the Supervisory Board members received compensation for their activities in subsidiaries in the amount of €69k (previous year €65k).

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

37. Directors' holdings

As per 31 December 2012, the Management Board members held the following stock in Drillisch AG:

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

The Supervisory Board members held the following stock in Drillisch AG as per 31 December 2012:

Marc Brucherseifer, Dipl.-Kfm.	3,719,295 shares	
Johann Weindl, Dipl.-Kfm.	10,439 shares	
Horst Lennertz, Dr.-Ing.	2,407 shares	

➡ Management Board and Supervisory Board hold a total of 14.3% of the stock of Drillisch AG per 31 December 2012.

38. Declaration in accordance with Section 161 AktG

Management Board and Supervisory Board of Drillisch AG submitted the declaration required by Section 161 of the German Company Law on 22 March 2012 and made it permanently accessible to shareholders at the Internet address www.drillisch.de.

39. Profit per share

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

	2012	2011
Consolidated profit allocated to shareholders in €k	23,453	41,014
Weighted average, less own shares held	51,227,204	53,067,771
Consolidated profit per share in €	**0,46**	**0,77**

Consolidated Notes

Consolidated profit per share excluding the equity holding is shown below:

	2012	2011
Consolidated profit excluding equity holding in €k	38,990	33,846
Weighted average, less own shares held	51,227,204	53,067,771
Consolidated profit per share excluding equity holding in €	**0,76**	**0,64**

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

The following German subsidiaries in the legal form of a stock corporation fulfilled the conditions required pursuant to Section 264 (3) HGB for the exercise of the exemption provision in fiscal year 2012:

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

Maintal, 8 March 2013

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 statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the financial year from 1. January 2012 to 31. December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) of the HGB are the responsibility of the legal representatives of the parent company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) of the HGB and 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, 14 March 2013

BDO AG Wirtschaftsprüfungsgesellschaft

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

Affidavity by legal representatives (balance sheet oath)

Affidavity by legal representatives (balance sheet oath)

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

Maintal, 8 March 2013

Vlasios Choulidis and Paschalis Choulidis

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Financial Dates 2013*

Date	Event
Friday, 22 March 2013	FY report 2012
Thursday, 16 May 2013	Annual General Meeting
May	Report on Q1-2013
August	Report on H1-2013
November	Report on 9M-2013
November	DVFA Analyst Event

* Subject to change

Publications

This Annual Report 2012 is also available in German.

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

Your Contacts

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

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Information and Order Service

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

Glossary

#

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

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

A

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

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.

Glossary

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

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

R

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

S

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

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

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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Notice