DRILLISCH AG | **Annual Report 2014**

DRILLISCH

Key Indicators of the Drillisch-Group	2014	2013	IV/2014	III/2014	II/2014	I/2014
Income Statement						
Revenue in €m	289.6	290.5	76.6	71.3	70.4	71.3
Service revenues in €m	284.6	277.2	74.8	70.2	69.5	70.0
Gross profit in €m	142.6	119.0	37.4	37.3	35.1	32.9
Gross profit in % of revenue	49.2%	41.0%	48.7%	52.3%	49.8%	46.2%
EBITDA in €m	85.2	70.8	20.6	22.2	21.8	20.5
EBITDA margin in % of revenue	29.4%	24.4%	26.9%	31.2%	31.0%	28.8%
Depreciation excluding goodwill in €m	9.9	9.6	2.6	2.5	2.4	2.5
EBIT in €m	75.3	61.2	18.0	19.8	19.4	18.1
EBIT margin in % of revenue	26.0%	21.1%	23.6%	27.8%	27.5%	25.3%
EBT in €m	72.6	178.0	17.3	19.0	18.9	17.4
EBT margin in % of revenue	25.1%	61.3%	22.6%	26.6%	26.8%	24.5%
EBT adjusted in €m*	72.6	62.1	17.3	19.0	18.9	17.4
EBT margin adjusted in % of revenue	25.1%	21.4%	22.6%	26.6%	26.8%	24.5%
Consolidated profits in €m	50.1	155.8	11.4	13.3	13.2	12.2
Consolidated profit margin in % of revenue	17.3%	53.6%	14.9%	18.6%	18.8%	17.1%
Profit/loss per share in €	1.03	3.24	0.23	0.28	0.28	0.25
Cash Flow						
Cash flow from current business operations in €m	71.8	57.0	18.5	16.4	26.7	10.2
Cash flow from investment activities in €m	-4.8	350.5	-2.6	-0.5	-1.1	-0.5
Cash flow from financing activities in €m	63.1	-297.7	140.7	-0.1	-77.3	-0.2
Cash in €m	317.1	187.0	317.1	160.5	144.7	196.5
Balance Sheet						
Balance sheet total in €m	475.6	352.3	475.6	312.4	300.9	359.1
Equity in €m	331.1	217.6	331.1	179.5	166.2	229.8
Equity ratio (equity as % of balance sheet total)	69.6%	61.8%	69.6%	57.5%	55.2%	64.0%
Debenture bonds in €m	88.8	86.2	88.8	88.1	87.5	86.9
Financial liabilities in €m	0.0	0.0	0.0	0.0	0.0	0.0
Employees						
Size of staff, annual average (incl. Management Board)	355	358	355	355	356	360
Wireless Services Subscribers (in Thousands)(1)	**2,070**	**1,900**	**2,070**	**2,021**	**1,977**	**1,935**
Thereof MVNO subscribers	**1,928**	**1,705**	**1,928**	**1,869**	**1,815**	**1,760**
Thereof budget subscribers(2)	1.211	856	1.211	1.118	1.023	946
Thereof volume subscribers(3)	717	848	717	751	792	814
Gross Profit per User (AGPPU)						
AGPPU(4) budget subscribers	8.66 €	9.40 €	8.32 €	8.73 €	8.86 €	8.91 €
AGPPU(4) volume subscribers	3.46 €	3.81 €	3.30 €	3.51 €	3.50 €	3.50 €
AGPPU(4) subscribers (total)	**6.47 €**	**6.23 €**	**6.42 €**	**6.59 €**	**6.49 €**	**6.39 €**

* adjusted for the one-off effects in 2013 from the complete sale of the freenet AG holding and the related repayment of all bank loans and the repayment of the convertible bond on freenet stock issued in 2012

(1) - Thereof per 31/12/2014 91,000 prepaid subscribers and 52,000 postpaid subscribers (service provider model)

(2) - Rate plans with volume included (voice, texts, data)

(3) - Rate plans with billing based on usage “pay as you go”

(4) - AGPPU = Average gross profit per user

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Letter from the Management Board

Vlasios Choulidis
Director of Sales, Marketing and Customer Care

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

Dear Shareholders,

Drillisch AG added another chapter to its success story in fiscal year 2014. However, the excellent results from fiscal year 2014 do not stand alone; equally important is that we have set major signposts for our future course. We want to report on these developments in detail.

MBA MVNO agreement:

After very intensive negotiations, which started in the middle of April, our subsidiary MS Mobile Services GmbH (MS Mobile) was able to conclude an MBA MVNO (Mobile Bitstream Access) agreement with Telefónica Germany GmbH & Co. OHG ("Telefónica") on 25 June 2014. The signing of this agreement was followed by an intense analysis of the questions from the European Commission and the trustee assigned by the Commission. Even though the European Commission had given its fundamental approval to the merger project of Telefónica Germany and E-Plus at the beginning of July 2014, this approval was only provisional and subject to a follow-up review of whether the agreements which were concluded fulfilled the charges and whether Drillisch is in a position to implement these agreements in collaboration with Telefónica. Our task was to convince the experts that it would actually be possible to utilise the network capacities we would be obligated to purchase together with the products, customer profiles, distribution channels etc. we had planned and to acquire customers for this utilisation so that the functioning of viable competition on the German market for wireless services would be assured. We succeeded in doing so in every way, and consequently the European Commission gave its final approval to the merger, thus acknowledging our competence, on 29 August 2014.

Upon conclusion of the acquisition of the E-Plus Group by Telefónica Germany on 1 October 2014, the final condition precedent had been fulfilled and the MBA MVNO agreement became valid.

In this agreement, Telefónica undertakes to grant to MS Mobile, as the only competitor on the German wireless services market, access to up to 30% of the network capacity that is available after the merger in the controlled wireless network of Telefónica and E-Plus, for all present and future technologies. The basic term of the agreement is 5 years and can be extended by means of two call options by MS Mobile by 5 more years each, that is, to a total of 15 years.

In return, MS Mobile has undertaken to take over at least 20% of the present and future network capacity for new customers for the basic term of 5 years, using a "glide path" (that is, the obligation to take over this network capacity will only reach 20% at the end of the basic term). In addition, there is a certain minimum capacity which has been defined for existing customers.

The acquisition of this network capacity also includes an accelerated and uncon-

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ditional right to enter the market for 4G as well as even more sophisticated future technologies. For 4G in particular, this means that MS Mobile has been granted a lead of at least 12 months to use LTE transmission technology compared with other non-MNOs of Telefónica . At the same time, MS Mobile obtains access rights to the so-called "Golden Grid Network" of Telefónica which has been created by the merger. This means access to the enhanced footprint of the wireless network of Telefónica, including all necessary technical specifications, and the technical ability to reduce speed and restrict transport in the event of excessive data utilisation by end customers. To achieve this, the two parties to the agreement have agreed that MS Mobile will make a contribution to the investments already made and still to be made by Telefónica in the expansion of the 4G network and in future technologies.

In accordance with the agreement reached, MS Mobile also has the option of (1) becoming a so-called full MVNO in the wireless network of Telefónica, that is, a wireless services provider that operates its own full core network and only uses the access network of Telefónica ("Full MVNO"), and/or (2) becoming a licensed mobile network operator ("MNO").

The technical launch, that is, the startup as an MBA MVNO, will take place at the latest on 1 July 2015. We are in a position to improve our market position as well as our business volume significantly in the years to come and to have permanent access to all products and technologies that are now or will in future be available in the largest German wireless network. In terms of flexibility and freedom in the design of our products, we will from now on be on equal footing with the three remaining German network operators.

Market and products:

This flexibility and its innovative rate models ensure that Drillisch will continue to be able to satisfy the demands of mobile data society in future. The changing use of wireless services calls for new rate structures. This is especially important with regard to product transparency and individuality in customer use. According to information from the Federal Statistical Office from December 2014, 37 million people in Germany from the age of 10 are using the mobile internet, an increase of 25% over the previous year. The steadily growing number of smartphones and the expansion of the LTE technology are having an impact on users' hunger for data. In 2013, users worldwide surfed a per capita average of 700 MB a month; according to the Ericsson Mobility Report, average per capita data consumption in 2014 rose to 900 MB a month. Ericsson projects monthly data rates of 3.5 GB per smartphone user in Europe for the year 2020. Data volume is being driven more and more by video and streaming services. Sales of smartphones and tablet continue to grow at a rapid pace, so the need for transparent and low-cost rate plans will remain high for the foreseeable future.

Acting accordingly, we began marketing our own LTE rate plans, our first, in Q4 2014. For instance, smartmobil.de has been offering the rate plans LTE One and LTE S specifically for new LTE users since October 2014; these two especially attractive and low-cost services include 300 MB and 1 GB of monthly data volume, respectively, and unlimited calls. So

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Drillisch customers can enjoy high-speed surfing for as little as €7.95 a month. Our rate plans LTE M and LTE L from smartmobil.de are attractive to heavy surfers. These premium products provide high-speed surfing with monthly data volumes of 2 GB and 3 GB, respectively, along with unlimited calls and text messages. In keeping with the slogan "...ganz einfach besser!" (...simply better!), sim.de customers have been able to choose between two extremely fast LTE internet flat rates of 1 GB or 2 GB unthrottled data volume and enjoy in addition unlimited calls and text messages since the Christmas season – for as little as €14.95 a month in LTE Eins. In the meantime, these or similar LTE rate plans have been established for almost all of the Drillisch brands. Parallel to the introduction of the new products, we also increased our advertising expenditures once again in Q4; in comparison with the previous quarter, for example, we spent about €2m more for additional television advertising. Toward the middle of 2015, we will build up really high advertising pressure on the basis of a marketing mix whose elements are ideally coordinated with one another. Various forms of advertising, communication channels and means of addressing customers are currently being tested for their fit.

The following information illustrates just how attractive our products are. Stiftung Warentest recently subjected a total of 19 services from various wireless services providers to comprehensive tests. All of the examined rate plans included LTE with a minimum speed of 50 MBit/s, unlimited calls to the German landline network and to all German wireless networks and unlimited text messages.

After the comparison, Stiftung Warentest answered the question "Where can you get high-speed internet at an especially low price?" this way: "From Premium SIM, sim.de and simply...". The brands ranked in the first five places of the table from this test are all Drillisch brands.

Provider	Rate plan name	Price	Mbit/s	High-speed volume
PremiumSIM	LTE M	€19.95	50	2,000 MB
Sim.de	LTE Zwei	€19.95	50	2,000 MB
Simply	LTE M Plus	€19.95	50	2,000 MB
yourfone.de	LTE M	€19.95	50	2,000 MB
DeutschlandSIM	LTE M	€24.95	50	2,000 MB

We are delighted to hear such praise of our products, and it shows that we are on a good path. It is our belief that the simple and low-cost utilisation of the mobile internet will continue to be the growth driver in our industry for years to come.

Future group structure:

The structure of Drillisch Group will also change with the commencement of its operations as an MBA MVNO.

One point will be the merger of our online competence presently found in the

Letter from the Management Board

operating activities of the subsidiaries Drillisch Telecom, MS Mobile and eteleon into a joint venture. The new company – Drillisch Online AG – will in future handle all of the online sales. Our intention in carrying out this organisational merger of the three wireless services providers into one company is to achieve a further enhancement of efficiency and clout. All of the brands which are now established on the market will remain, although we will in future emphasise several focus brands.

Moreover, we want to establish a strong pillar in the offline sector as well and will be taking over about 300 shop locations from Telefónica in the coming months. Following its merger with E-Plus, Telefónica provided the data for about 550 locations so that we would be able to select the shops which make the most commercial sense for us. We will select from this list above all the most favourable locations (such as pedestrian zones and shopping centres in inner city areas) which will enable us to address effectively additional customer groups to which we have had virtually no direct access in the past. This will significantly expand our wide-area distribution capacity. The conclusion of the acquisition of yourfone GmbH at the beginning of January 2015 gives us an attractive brand which is already well known and which we will establish in the coming quarters in brick-and-mortar stores.

Figures 2014:

Now to the most important figures of the past fiscal year. We continued to concentrate on our MVNO business on this highly competitive wireless services market. Thanks to our innovative products, we were able to continue our profitable growth from the past through fiscal year 2014.

We were able to increase the total number of MVNO subscribers by 13.1% (223,000 subscribers) to 1.928 million subscribers. In particular, the number of higher-value budget subscribers rose by 41.5% (355,000) to 1.211 million subscribers, leading to a corresponding improvement in profitability. The average gross profit of our MVNO subscribers (AGPPU), i.e. the number which expresses this profitability, improved in the past year by 3.9% to €6.47 per month.

Service revenues rose by 2.7% to €284.6 million (2013: €277.2 million) in 2014. Thanks to a substantial reduction in the cost of sales, the gross profit in the past year increased by €23.6 million (19.8%) to €142.6 million. The gross profit margin improved by 8.2%-points to 49.2%. The EBITDA posted a rise of €14.4 million (20.3%) to €85.2 million, corresponding to a 5.0%-points increase in the EBITDA margin to 29.4%. Once again, we were able to increase the key indicators of earning performance and to exceed slightly the EBITDA target which had been raised during the year. The consolidated management report and the consolidated annual accounts, which are a part of this annual report, contain additional details and explanatory comments on our earnings position.

Per the end of the year, cash amounted to €317.1 million (31/12/2013: €187.0 million). One reason for this increase is the sale of treasury stock in Q4. But operating cash flow also experienced excellent development in fiscal year 2014, rising by 26.0% to €71.8 million (2013: €57.0 million). As we want to be even more flexible and independent in future

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and to continue to play an active role in shaping the market, we concluded an agreement for a credit line of up to €100 million and a term of 5 years in December 2014; however, it has not been utilised as of this time. All in all, we are in an excellent position to take advantage of future growth opportunities in our interesting line of business.

Outlook:

We expect a further increase in subscriber numbers and turnover from the acquisition of yourfone GmbH, the start of the MBA MVNO business model per 1 July 2015 and the build-up of the offline distribution channel over the course of the year. The revenues from this additional business will enable us at the same time to increase significantly advertising expenditures, thereby laying the foundation for future strong growth. Despite these additional expenditures for marketing activities in the middle range of tens of millions, we expect a continued increase in adjusted EBITDA to between €95 million and €100 million.

Dividends:

Our corporate policy is based on the objective of sustained development because we want to offer to our shareholders an attractive and uninterrupted return on their investment. We will join our Supervisory Board in proposing a dividend of €1.70 per share for the past fiscal year 2014 (an increase of 6.25%) to the Annual General Meeting. Our target for fiscal years 2015 and 2016 will be to distribute a dividend of the same amount as a minimum.

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

Best regards from Maintal.

Paschalis Choulidis and Vlasios Choulidis

Report of the Supervisory Board

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

Dear Shareholders,

During the reporting period 2014, the Drillisch AG Supervisory Board diligently performed the duties required of its members by law, company charter and rules of procedure. It carefully reviewed and monitored the management activities of the Management Board and acted as an advisory body to provide support in the management of the Company. The yardstick for the monitoring function included in particular the legality, correctness, expediency and economic efficiency of the Management Board's management as well as the performance effectiveness of the risk management and the corporate organisation. Moreover, the Supervisory Board closely examined the position and development of the Company and Group as well as the business transactions during fiscal year 2014. 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 as well as the risk situation, risk management and profitability of Drillisch Group. The Management Board addressed any deviations in the course of business from existing plans and targets and explained the causes of the deviations. The Supervisory Board regularly obtained written and oral information from the Management Board, in particular monthly reports and special information bulletins, about ongoing business development and important business incidents during the periods between Supervisory Board meetings as well. The full membership of the Supervisory Board examined and discussed in detail business incidents, especially those of major significance for the Company, on the basis of the Management Board's reports; this was explicitly the case for measures subject to the consent of the Supervisory Board and for transactions which strongly affected profitability and liquidity. The Supervisory Board carefully examined the submitted reports for plausibility and, as necessary, discussed them in detail with the Management Board. In addition, the Supervisory Board requested supplementary information from the Management Board. In particular, the Management Board attended Supervisory Board meetings for the purpose of discussing and answering all questions posed by the Supervisory Board. The Supervisory Board chairperson was in regular contact with the Management Board outside of Supervisory Board meetings as well and obtained information about the current business position and major business incidents, which he discussed in detail with the Management Board. The Supervisory Board chairperson and the Management Board also regularly discussed strategic issues and risk management issues, the risk position, planning and compliance.

Supervisory Board activities, meetings

A total of twelve meetings of the full Supervisory Board took place during the

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reporting period 2014, seven of them in the form of personal meetings (on 20 March 2014, 12 May 2014, 21 May 2014, 8 June 2014, 13 August 2014, 17/18 September 2014 and 13 November 2014) and five telephone meetings (on 24 June 2014, 12 July 2014, 24 August 2014, 24 November 2014 and 14 December 2014). Moreover, two resolutions were adopted outside of Supervisory Board meetings during the reporting period (one on 18 June 2014 regarding the expansion of management at MS Mobile Services GmbH and one on 9 December 2014 regarding the conclusion of a loan agreement).

One major focal point of the Supervisory Board activities during the reporting period concerned the MBA MVNO contract concluded between Drillisch and Telefónica Germany GmbH & Co. OHG ("Telefónica Germany") through the wholly-owned subsidiary MS Mobile Services GmbH. As part of the approval process under antitrust law for Telefónica Germany's acquisition of E-Plus Group, Telefónica Germany undertook in this contract to sell a minimum of 20% of its future capacities in wireless networks to Drillisch via mobile bitstream access. In addition, Drillisch has the opportunity pursuant to the MBA MVNO contract to purchase up to an additional 10% in network capacity. The Supervisory Board focused on this issue, including the so-called transition agreement, the shop agreement and various amendment agreements, in a total of five meetings during the period between June and August 2014. The result was that the EU Commission confirmed (among other points) that Drillisch is capable of realising the upfront MBA MVNO remedies offered by Telefónica.

Building on this foundation, another major focus of the Supervisory Board activities in the reporting period concerned the future positioning of Drillisch Group and the sale of the additional network capacities. Along with the detailed discussion of market development and the strategic orientation of Drillisch Group, the middle- and long-term planning and specific actions taken by the Management Board regarding the realisation of the future orientation were the subject of special attention during the reporting period. Mindful of this setting, the Supervisory Board agreed to the conclusion of a credit line of €100m and the pursuit of possible corporate acquisitions. In addition, the Supervisory Board obtained information about the status of the convertible bond and the activities of Mobile Ventures GmbH.

Furthermore, the Supervisory Board examined in detail the sale of the 5,189,015 shares of treasury stock held by the Company (about 9.76% of the share capital) in the form of accelerated book building and their placement with institutional investors and approved these steps. The shares were sold at a price of €27.50 per share. The Company received gross income of about €142.7m from the placement.

Furthermore, the Supervisory Board approved the acquisition of all of the shares of yourfone GmbH from E-Plus Mobilfunk GmbH & Co. KG. The acquisition of yourfone GmbH included all of the brand rights, especially the brand yourfone that is known nationwide in Germany, and included clientele and staff; it was completed on 2 January 2015.

In addition, the Supervisory Board obtained regular information regarding

Report of the Supervisory Board

commercial development and the position of the Company and Group, especially the development of revenues and profit, the changes in subscriber numbers, the gross profit indicators, the AGPPU (average gross profit per user) and the cash situation and development and discussed these issues with the Management Board in consideration of the contemporary changes on the market. In particular, the Supervisory Board examined in detail the separate financial statements for every quarter.

Moreover, the Supervisory Board concerned itself with measures for tightening the group structure, the expansion of the divisional management levels and personnel changes among the officers and directors of the subsidiaries. The Supervisory Board, in consultation with the Personnel Committee, also considered in detail the situation related to executives and agreed to the granting of Prokura [full commercial authority of representation] to the two new divisional executives for offline sales and marketing (retail and distribution) and online sales and marketing. Moreover, the Supervisory Board consulted with the Management Board regarding the conclusion of a new D&O insurance policy.

Supervisory Board activities focused as well on the reporting from the committees, in particular from the Audit Committee and the Personnel Committee, and the monitoring of the risk management, the risk analysis and documentation of the risk control system. In this context, the Supervisory Board was especially concerned with improvement in the working methods of the committees in terms of efficiency, reporting and annual planning and adopted a schedule of meetings for the year.

Furthermore, the Supervisory Board considered the accounting for fiscal year 2014, the audit of the annual accounts for 2013, the preparations for the General Meeting 2014, including the proposal for the appropriation of profits for submission to the Annual General Meeting, and the Declaration of Corporate Management.

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

The Supervisory Board's Personnel Committee, whose members are Mr Marc Brucherseifer (committee chairperson), Dr Susanne Rückert (committee vice-chairperson) and Dr Horst Lennertz, held five personal meetings in business year 2014 (on 10 July 2014, 13 August 2014, 28 August 2014, 18 September 2014 and 20 November 2014). The committee's most important activities concerned the discussion and assessment of the Management Board's work, the renewal of the Management Board's contracts and the expansion of the Management Board as well as the discussion of the long-term successor planning for the Management Board in consideration of the Company's plans for executives. Furthermore, the Personnel Committee worked with the full Supervisory Board in determining the Management Board's bonuses and reviewing the reasonableness of the compensation paid to the Management Board. Moreover, the Personnel Committee considered the necessity of rules of procedure for the Personnel Committee and adopted a schedule of meetings for the year.

The Supervisory Board's Audit Committee, whose members are Mr Johann Weindl (committee chairperson until 20 March 2014 and his resignation from the

Report of the Supervisory Board

Audit Committee), Mr Frank Rothauge (committee chairperson from 7 May 2014), Dr Bernd H Schmidt and Dr Horst Lennertz (from 20 March 2014), held a total of four personal meetings during the reporting period (on 7 March 2014, 7 May 2014, 13 August 2014 and 5 December 2014). Furthermore, one resolution was adopted by a circular written procedure outside of the meetings (concerning the engagement of the auditor for 2014; adopted on 29 May 2014). The Audit Committee was especially concerned with the monitoring of the accounting and the accounting process, the internal controlling system and risk management and with issues related to internal audit and the final audit. Among other points, the key points of the audit and various compliance issues were discussed. The Audit Committee also drew up rules of procedure which were approved by the Supervisory Board, expanded the scope of the internal risk reporting and adopted a schedule of meetings for the year for the Supervisory Board.

The Nominating Committee, to which all Supervisory Board members belong (chair: Mr Marc Brucherseifer), did not meet during the reporting period because there were no Supervisory Board positions which needed to be filled.

Personnel changes on the Management Board and Supervisory Board

There were no personnel changes on the Management Board during the fiscal year. Nor were there any personnel changes in the Supervisory Board; its members are still Mr Marc Brucherseifer, Dr Susanne Rückert, Dr Horst Lennertz, Mr Frank Rothauge, Dr Bernd H Schmidt and Mr Johann Weindl. The Supervisory Board members were elected on 16 May 2013 for a term of office which will expire upon the conclusion of the Annual General Meeting which adopts a resolution for their discharge for fiscal year 2017. The Supervisory Board was chaired again in the reporting period 2014 by Mr Marc Brucherseifer; deputy chair of the Supervisory Board was Dr Susanne Rückert.

Annual accounts and consolidated annual accounts

The annual accounts and the consolidated annual accounts per 31 December 2014, the management reports for the stock corporation and Group for fiscal year 2014 (each including the explanatory report on the disclosures pursuant to Section 289 (4) and Section 315 (4) HGB [German Commercial Code]) prepared in good time by the Management Board and the accounting and risk management system were audited by BDO AG Wirtschaftsprüfungsgesellschaft, the accounting firm appointed by the Annual General Meeting for this task, and an unqualified auditor's opinion was issued to the documents.

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

The separate and consolidated annual accounts, the management report and the consolidated management report and the related audit reports from the auditor were submitted to all of the Supervisory Board members. Major points

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of the audit determined at the time the engagement was awarded included in particular the consistent and transparent reporting of the most significant financial and non-financial performance indicators in the consolidated management report, the impact of the MBA MVNO contract on the annual accounts and the management report, financing/convertible bond, impairment test/value stability of the holdings, impact of corporate transactions and corporate acquisitions on the consolidated annual accounts and management report. The audit documents were examined and discussed during a meeting of the Audit Committee on 12 March 2015 in the presence of the auditor. At that time, the auditor reported on the major results of the audits and explained them in detail. The auditor also answered questions. The subject of these discussions included especially the audit planning and the major points of the audit as well as the accounting process, the internal controlling system and the risk management system. Following its own audit, the Supervisory Board agreed with the audit results concluded by the auditor and, after considering the final results of its own audit, which were prepared by the Supervisory Board Audit Committee, does not raise any objections. In a resolution adopted during its meeting on 19 March 2015, the Supervisory Board approved the Annual Accounts and Consolidated Annual Accounts 2014. The annual accounts have thus been adopted pursuant to Section 172 AktG.

During the Supervisory Board meeting on 19 March 2015, Management Board and Supervisory Board adopted a joint resolution proposing to the Annual General Meeting the disbursement of a dividend in the amount of €1.70 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 failed to take part in one of the total of twelve Supervisory Board meetings (Mr Johann Weindl was excused from participation in the meeting on 17/18 September 2014). All of the committee members participated in all of their committee meetings.

The Supervisory Board regularly reviewed critically the efficiency of its work, namely, the availability of the Supervisory Board members, the frequency of its meetings and the preparation and conduct of the meetings and their minutes. The Supervisory Board concluded that its performance is efficient. In addition, the Supervisory Board implemented a data encryption system as a means of improving the confidentiality of Supervisory Board communications. The Supervisory Board also decided to prepare a revised version of its rules of procedure.

In view of conflicts of interest and their treatment within the sense of Clause 5.5.3 of the Corporate Governance Codex as last revised on 13 May 2013, Dr Horst Lennertz referred to his activities on the Supervisory Board of E-Plus Mobilfunk Geschäftsführung GmbH and, as a precaution, abstained from voting on the motion regarding the acquisition of locations with Telefónica Germany GmbH & Co. OHG in the meeting on 24 August 2014 and on the motion regarding the acquisition of shares in yourfone GmbH on 13 November 2014.

Report of the Supervisory Board

No other (potential) conflicts of interest arose on the Supervisory Board during the reporting period.

Management Board and Supervisory Board report on corporate governance pursuant to Clause 3.10 of the German Corporate Governance Codex within the context of the Declaration on Corporate Management. Management Board and Supervisory Board most recently submitted a joint Declaration of Conformity pursuant to Section 161 AktG in the reporting period on 20 March 2014, showing that the Company is in compliance with most of the recommendations of German Corporate Governance. The declarations and related explanatory comments are permanently available to the shareholders on the Company's internet site. In all other respects, reference is made here to the remarks in the corporate governance report included in the Annual Report 2014.

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

Maintal, 19 March 2015

On behalf of the Supervisory Board

(Dipl.-Kfm. Marc Brucherseifer)

Marc Brucherseifer, Dipl.-Kfm.

Chairperson of the Supervisory Board

Statement on Corporate Governance / Corporate Governance Report

The term "corporate governance" refers to responsible, effective corporate management aimed at securing long-term added value. Efficient cooperation between management and supervisory boards, respect for shareholders´ interests, openness and transparency of corporate communications are major aspects of good corporate governance, which has always enjoyed a position of high priority at Drillisch AG and is a major factor for a company's success.

In the following declaration, 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 19 March 2015 and made permanently accessible on the Internet at the site www.drillisch.de (to be found there under the section "Corporate Governance", subsection "Declaration of Conformity") reads as follows:

Drillisch Aktiengesellschaft
Declaration of the Management Board and Supervisory Board of Drillisch AG regarding the recommendations of the "Government Commission German Corporate Governance Codex" pursuant to Section 161 AktG

Management Board and Supervisory Board of Drillisch AG hereby declare that the Company has acted, and continues to act, in conformity with the recommendations of the "Government Commission German Corporate Governance Codex" announced by the Federal Ministry of Justice in the official section of the Federal Gazette, subject to the following exceptions. This declaration is made pursuant to the Codex as revised on 24 June 2014:

Clause 3.8 (2) and (3)

Agreement of an excess for Supervisory Board members in a D&O insurance policy for the Supervisory Board

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

The Management and Supervisory Boards of Drillisch AG do not believe that the motivation and sense of responsibility of the officers and directors would be enhanced by the agreement of an excess. Equally, the Management and Supervisory Boards at Drillisch AG fear that there is a risk that the agreement of an excess for negligent actions and the related liability risks would counteract the efforts of Drillisch AG to obtain the services of highly qualified persons to serve on the Supervisory Board. This is the reason for the basic decision not to agree to an excess.

Clause 4.2.2 (2) third sentence

Consideration of the ratio of the management board compensation to the compensation paid to associates in terms of the total compensation paid to individual management board members

The current service contracts with the Management Board members were concluded before the above recommendation entered into effect; however, the Supervisory Board annually makes a new decision

Statement on Corporate Governance / Corporate Governance Report

regarding the merit-based bonuses for the Management Board members on the basis of individually defined annual targets. In making this decision, the Supervisory Board took the compensation structure within the Company into account. No concrete comparison was made between the compensation of the top management personnel and the associates as a whole, including the development of compensation over time, when the merit-based bonuses were determined. As a precaution, we are therefore declaring an exception to this recommendation.

Clause 4.2.3 (3)

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

The current service contracts with the Management Board members, including the agreements regarding company pensions, were concluded before the entry into effect of the above recommendation; the Supervisory Board has not issued any pension commitments during the period the above recommendation has been in force. It cannot be determined from the Codex whether this recommendation requires the Supervisory Board to make any determinations when no decisions regarding pensions have been made. We are therefore, as a precaution, declaring an exception to this recommendation just as in the previous year. The pension benefits for the Management Board members are oriented to contributions. Defined components of the salary are contributed to a pension fund as deferred compensation. There has been no definition of a concrete pension level target. Nevertheless, the Supervisory Board can obtain a sufficiently precise picture of the annual and long-term expenses for the Company on the basis of the contractual provisions.

Clause 5.4.6 (1) second sentence

Inclusion of the membership on committees in determining the compensation paid to Supervisory Board members.

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

Maintal, 19 March 2015

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

The Management Board
Paschalis Choulidis *Vlasios Choulidis*

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Targets for the composition of the Supervisory Board

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

- The Supervisory Board should include at least two industry representatives from the sectors telecommunications, media and/or IT.
- The Supervisory Board should have at least one member with international experience (e.g. in the sector financial engineering, telecommunications, M&A).
- No more than two former members of the Management Board should belong to the Supervisory Board. Furthermore, the Supervisory Board members should reveal immediately to the Supervisory Board any conflicts of interest which have currently arisen and, in the event of a permanent conflict of interest, resign their position on the Supervisory Board.
- The Supervisory Board should have at least two members who do not have a personal or commercial relationship to the Company, its officers and directors, a controlling shareholder or a company affiliated with the latter which can lead to a major conflict of interest which is not only temporary.
- Supervisory Board members should resign from the Supervisory Board upon conclusion of the Annual General Meeting following their 75th birthday.
- At least one member of the Supervisory Board should be a woman.

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

Working methods of Management Board and Supervisory Board

The Management Board currently has two members; the membership on the Management Board at this time is shown in the consolidated notes (page 101, item 35 of the Annual Report 2014). They manage the Company on their own responsibility and define, in consultation with the Supervisory Board, the strategic direction of Drillisch Group. The distribution of authority on the Management Board is regulated in rules of procedure. Fundamentally, each member of the Management Board manages the Company on his sole authority within the framework of the business units assigned to him by the rules of procedure. Measures of special significance or which involve unusual risks always require 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

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required by other important events.

As required by statutory provisions, the Supervisory Board comprises six representatives who are elected solely and exclusively by the shareholders. The current membership of the Supervisory Board is shown in the consolidated notes (page 100, item 34 of the Annual Report 2014). The six members of the Supervisory Board (Marc Brucherseifer, Dipl.-Kfm.; Dr Susanne Rückert; Horst Lennertz, Dr.-Ing.; Frank Rothauge, Dipl.-Kfm.; Dr Bernd H Schmidt; and Johann Weindl, Dipl.-Kfm.) were elected by the ordinary Annual General Meeting of the Company on 16 May 2013.

The term of office of the current Supervisory Board members will end upon the adjournment of the ordinary Annual General Meeting which adopts a resolution discharging the Supervisory Board members for fiscal year 2017. The Board has an adequate number of members who are independent within the sense of Clause 5.4.2 of the German Corporate Governance Codex, i.e. who do not have any commercial or personal relationship to the Company, its officers and directors, a controlling shareholder or a company affiliated with the latter. The Supervisory Board carries out its duties as a supervisory body both by monitoring the Management Board and advising the latter's members in the conduct of business. The Supervisory Board meets at least twice in every six-month period of a calendar year. It is quorate if and when announcements have been properly sent to all of the members and a minimum of three members participate in the adoption of resolutions. Unless otherwise provided by law or company charter, the Supervisory Board's decisions are made by simple majority vote. The Supervisory Board's working methods are regulated in detail in rules of procedure adopted by the Supervisory Board. The Supervisory Board reports on the Board's work in a separate Supervisory Board report. This report is printed on pages 9 to 14 of the Annual Report for fiscal year 2014. 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 100, item 34 of the Annual Report 2014 of the consolidated notes.

Working methods and composition of the committees

The Supervisory Board has formed three committees, namely, a Nominating Committee, an Audit Committee and a Personnel Committee. The Audit Committee has adopted its own rules of procedure. Moreover, unless otherwise mandated by legal provisions, the provisions of the Company Charter applicable to the Supervisory Board as well as the Supervisory Board's rules of procedure apply mutatis mutandis to the committees.

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

The Audit Committee consists of Mr Rothauge (chairperson), Dr Lennertz and Dr Schmidt and is concerned in particular with the monitoring of the accounting process, the effectiveness of the internal controlling system, the internal risk ma-

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nagement system, the internal auditing system and the final audit. The chairperson of the Audit Committee is independent and, owing to his professional activities, 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. (chairperson); Dr Lennertz; and Dr Rückert (vice-chairperson). The Personnel Committee is concerned with the affairs of the Management Board, including the terms and conditions of their employment contracts. The compensation for the Management Board members is determined by the Supervisory Board acting in its entirety as required by statutory provisions.

Since there are two members of the Management Board, it has not formed any committees.

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

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

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 AG ensures the responsible handling of these risks. It is especially designed with the aim of recognising risks early, then assessing and controlling them. The system is subject to constant further development and adapted to changing circumstances. As necessary, the Management Board regularly reports to the Supervisory Board regarding current risks and the measures initiated to handle them. The effectiveness of the internal 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 46 of the Annual Report 2014) pursuant to Section 315 (2) no. 5 HGB. The Management Board also reports in detail in this document on current risks and their development.

Compensation of Management Board and Supervisory Board

The compensation paid to members of the Management and Supervisory Boards is commensurate with their tasks and the responsibility which has been assigned to them. The compensation system and the compensation paid to Management and Supervisory Boards in fiscal year 2014 are shown in the management report and notes and in the consolidated management report on pages 52 and 53 of the Annual Report 2014 (compensation report) and in the consolidated notes under page 101, item 36 of the annual Report 2014 of the Annual Report.

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Stock transactions and holdings of officers and directors

According to Section 15a WpHG [German Securities Trade Act], officers and directors of the Company and people with management tasks must disclose the purchase and sale of Drillisch AG stock to the Company. Drillisch AG was notified of the following purchase and sales transactions, which in accordance with Clause 6.3 of the German Corporate Governance Codex must be reported in the Corporate Governance Report, during fiscal year 2014.

Directors' Dealings in 2014

Date	Type of transaction	Shares	Price/€	Reporting person
12 February	„Sale“	700,000	€23.52	P Choulidis, Management Board
12 February	„Sale“	700,000	€23.52	V Choulidis, Management Board
12 February	„Sale“	700,000	€23.52	M Brucherseifer, Supervisory Board
13 March	„Sale“	800,000	€23.90	M Brucherseifer, Supervisory Board
02 April	„Sale“	600,000	€27.00	M Brucherseifer, Supervisory Board
26 September	„Purchase“	25,000	€26.95	P Choulidis, Management Board

Directors' Holdings in 2014

Management Board	Shares
Paschalis Choulidis	425,000 no-par shares
Vlasios Choulidis	400,000 no-par shares
Supervisory Board	**Shares**
Marc Brucherseifer, Dipl.-Kfm.	1,077,565 no-par shares
Johann Weindl, Dipl.-Kfm.	10,439 no-par shares
Horst Lennertz, Dr.-Ing.	2,407 no-par shares

THE DRILLISCH GROUP AND THE MARKET ENVIRONMENT

Dynamics of wireless services – using the mobile internet

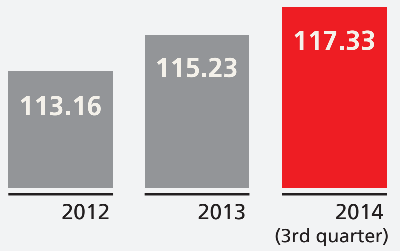
Drillisch Group and the market environment

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

December 2014 marked the 25th anniversary of the first licensing of private wireless frequencies in Germany. While the first portable telephones had begun to appear in 1989, the wireless services market had only the vaguest resemblance to mobile communications today. Calls from anywhere on large, heavy mobile telephones, plus monthly bills at the time of DM 300 or even significantly more – that was a luxury few people could afford. A low-cost product with the operational features taken for granted nowadays was unimaginable back then. Today, mobile communication is an everyday product, a major element in our daily lives that a large majority of people would not want to do without, whether in their personal or professional lives.

When the marketing of the D2 network began in 1992, the target for customer growth was set at 2 million subscribers by the year 2000. Now, 22 years later, there are 117.33 million wireless accounts (per 30/09/2014) in Germany. This highly dynamic development has reached dimensions which no one would have dared to imagine at the beginning. Industry experts believe that there will be a further increase in the number of accounts during Q4 2014. Once again, the number of SIM cards will grow at a significantly greater rate than in previous years. As of today, every person in Germany has an average of 1.45 SIM cards.

Number of Sim cards as per Q3/2014
(in m)

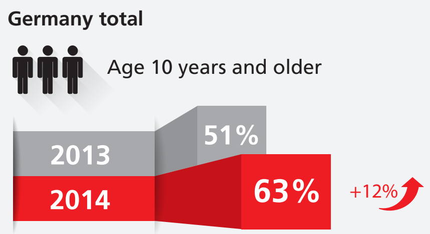


Source: Bundesnetzagentur via statista

More than half of the German population uses the mobile internet

Simple voice communication is no longer regarded as the major driver of growth dynamics in wireless services today and tomorrow; the star is now mobile internet use. According to figures published by the German Federal Statistical Office in December 2014, 63% of internet users surf on their mobile devices.

Share of Internet user which use mobile Internet as well
(1st quarter of the respective year)



Source: Statistisches Bundesamt (DESTATIS), December 2014

How often do people turn on their smartphones? Development of data traffic in Germany

So about 37 million people are online while on the go, 7.3 million more than in the same period last year. This increase of 25% is in itself impressive. If we examine the intensity of mobile internet use in the age group of 16- to 24-year-olds, the future dynamics really jump out because 90% of this group regularly use their smartphones and tablets to go online. According to this investigation, these are the most common activities:

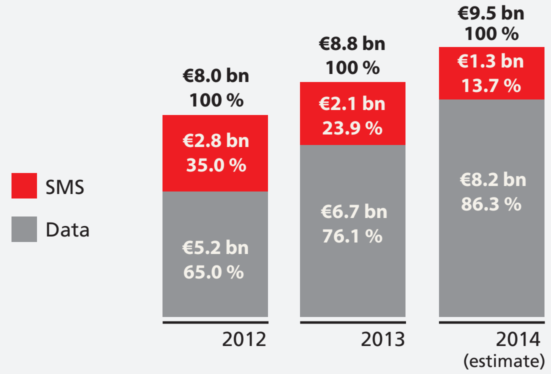
- Sending emails (91%)
- Searching for information about products and services (90%)
- Reading online news and newspapers (68%)
- Using travel services (61%)
- Activities on social networks (50%)

The University of Bonn employed an app to study how frequently smartphones are used. Of the 150,000 registered users in this investigation, most of them ranging between 17 and 23 in age, a random sampling among 500 people revealed surprising results: a smartphone is turned on 135 times a day, once every seven and a half minutes during a waking period of 16 hours. These results, published in June 2014, are substantially higher than those of the first pilot study at the beginning of 2014. The first study showed that an average user activated his or her smartphone only every twelve minutes, a total of 80 times a day. In addition, people phoned an average of 8 minutes and sent 2.8 text messages daily. Half of the time was spent using messenger services and social networks; for example, messenger services made up about 15% and social networks about 9% of the usage time.

Internet-based message services are increasing in popularity and taking the place of the traditional text messages

Internet-based message services are replacing the traditional short text messages (SMS) more and more often. The recent study (October 2014) from Dialog Consult/VATM reports a decline in the number of text messages sent daily in Germany to 73.8 million (2013: 101.3 million). This drop of 27.1% is more than compensated by the growth in mobile internet access. While revenues from text messaging have fallen by €1.5 billion over the last two years, mobile internet access in the same period has grown by €3.0 billion.

Revenues (SMS and Data) in bn€



Source: Marktstudie Dialog Consult / VATM, October 2014

At the beginning of 2015, WhatsApp reported that 700 million people worldwide send 30 billion messages every day. Communication via message services and the use of social networks are more and more frequently taking the place of personal conversations among young people and young adults. This became explicitly clear in a survey conducted by

Development of data traffic in Germany – not without my smartphone

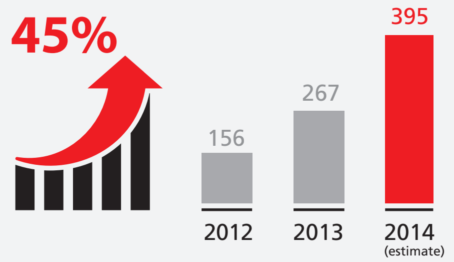
BITKOM (September 2014) on the usage behaviour of the "Always Online" generation. It shows that text messages are the most popular way to communicate with friends for 70% of the people in the age group from 10 to 18.

Another survey by the comparison portal schlaubi.de (December 2014) confirms the popular position enjoyed by text-based communication. One out of every four of the responding smartphone owners indicated that he or she could imagine doing without the telephone function completely. Only 37% of the survey respondents stated that they used their smartphones to make phone calls every day. In other words, the original reason for having a mobile telephone ranks no higher than seventh place. Functions such as email, text messages (for the moment) and social networks, along with camera and music players, are the clear favourites among users.

Mobile data traffic rises by 45% in Germany, but voice telephony from mobile networks also increases

The continuing trend to more and more frequent use of the mobile internet is impressively documented by the results of the market study from Dialog Consult and VATM. They show that an average user posted a volume of 283 megabytes (MB) a month in 2014. Within only one year, data traffic rose by 45% (2013: 195 MB per user and month). The total data volume transmitted via mobile devices came to 395 million gigabytes in 2014 (2013: 267m GB), an increase by 47.9%. Almost half of the total data volume (45%) is already being transmitted with LTE-capable devices.

Mobile Data Traffic (in million GB)



Source: Marktstudie VATM / Dialog Consult, October 2014

In 2020, a wireless services subscriber will presumably be using 3.5 GB of data a month. According to the "Mobility Report" (November 2014) from Ericsson, which examines worldwide usage behaviour, this enormous data volume will result above all from videos and streaming services for music as well as for TV programmes and films. Even today, half of all YouTube viewers use a mobile device, noted Susan Wojcicki (CEO YouTube) at the Code Mobile Conference at the end of October 2014. And the market researchers from Comscore determined in their study that about one-third of the 18- to 34-year-olds in the USA watched one complete episode of a TV series on their smartphones in September 2014. A survey by the consulting company Gartner (June 2014) indicated that even in Germany 20% of all adult Germans – more than eight million users – use their smartphones for video telephone calls. In the age group 18 to 24, the corresponding figure rises all the way to 30%. This also reveals the opportunities for the wireless services industry which could be created by the use of the latest technologies.

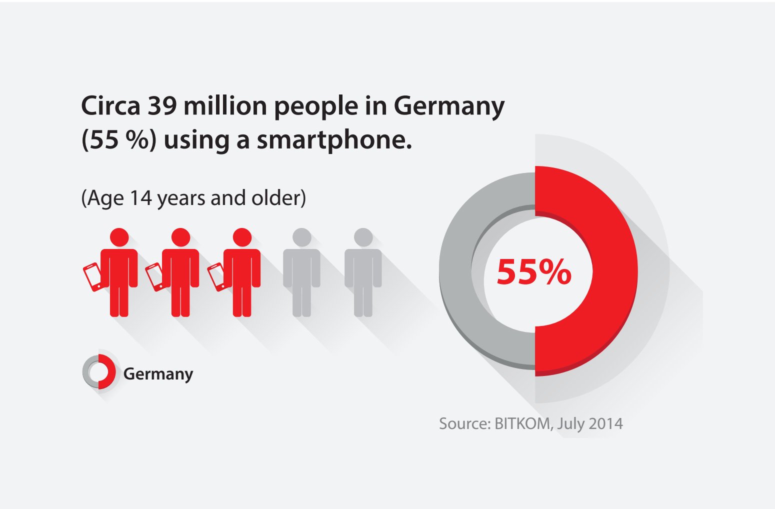
Despite the enormous growth in mobile internet usage, more phone calls are

LTE expansion – transparency and performance convincing arguments for Drillisch products

also being made with mobile phones or smartphones. This is documented in the market study from Dialog Consult and VATM: while the number of daily voice minutes originating in landlines declined in the year-on-year comparison from 463 million to 452 million minutes, voice transmissions originating from mobile devices over the same period posted a slight increase from 301 million to 303 million minutes a day.

Not without my smartphone – from a communication tool to a digital all-rounder

Smartphones have become today the primary and indispensable tool for communication. According to information from the industry association BITKOM from July 2014, 55% of the population in Germany age 14 and older has a smartphone. This corresponds to about 39 million people, 6% more than in the previous year. The smartphone has become an indispensable companion for many.



In a worldwide study conducted by B2X Care Solutions, 58% of the German smartphone owners stated that they carried their devices on their persons all day long or, at the least, kept it within their immediate reach. One out of every six German men would rather do without his car than his smartphone for a week.

Besides communication with family and friends, smartphones are also changing the world of shopping. As the market research institute Fittkau und Maass Consulting reported (January 2015), 64% of all internet users would like to be able to compare prices and offers online while they are doing their shopping. Information about special offers (39%) is mentioned more frequently than product information (36%). About one-third of the surveyed smartphone owners would also like to use their smartphones to pay in stores. Industry experts predict that mobile payment systems have a huge market potential. However, German users especially appear to be more sceptical than the industry experts. At the moment, not even 2% in this country use their smartphones as a digital wallet.

But cashless payment is only one aspect. Additional functions will make it possible in the future to use smartphones as identification or electronic keys for the home or car. According to a representative survey conducted by BITKOM in November 2014, 47% of all smartphone users could imagine leaving their personal identity cards at home and verifying their identity with their mobile phones.

LTE expansion – transparency and performance convincing arguments for Drillisch products

LTE expansion continues to make fast progress – flexible rate plans which include low-cost hardware are the key to success

Almost half of the mobile data traffic today is being transmitted via LTE devices. The expansion of the new and more powerful LTE networks continued to make fast progress in Germany in 2014. Besides the availability of the new wireless services standard, the availability of LTE-capable devices outside of the high-price segment as well as transparent, flexible and low-cost mobile rate plans which include access to the LTE network are of special significance for its continued expansion.

Drillisch, the first independent provider to take this step, has been marketing Germany's lowest-price LTE high-speed rate plans since October 2014 – initially with PremiumSIM, smartmobil.de and sim.de, later with virtually all of the corporation's brands. By doing so, Drillisch Group has staked out an excellent position for itself with its brand names and products even in this new growth segment by virtue of its simple and transparent rate plan structure. The products and services of the Drillisch brands, price leaders with the best service quality, offer to end customers substantial savings (as much as 75%) in comparison with the rates of network operators.

New: LTE plans best value for money

from €7.95 monthly

up to 50 Mbit/s

with 1 GB, 2 GB or 3 GB

smartmobil.de
www.smartmobil.de

yourfone.de
www.yourfone.de

MARKETING REPORT

Drillisch sets the pace

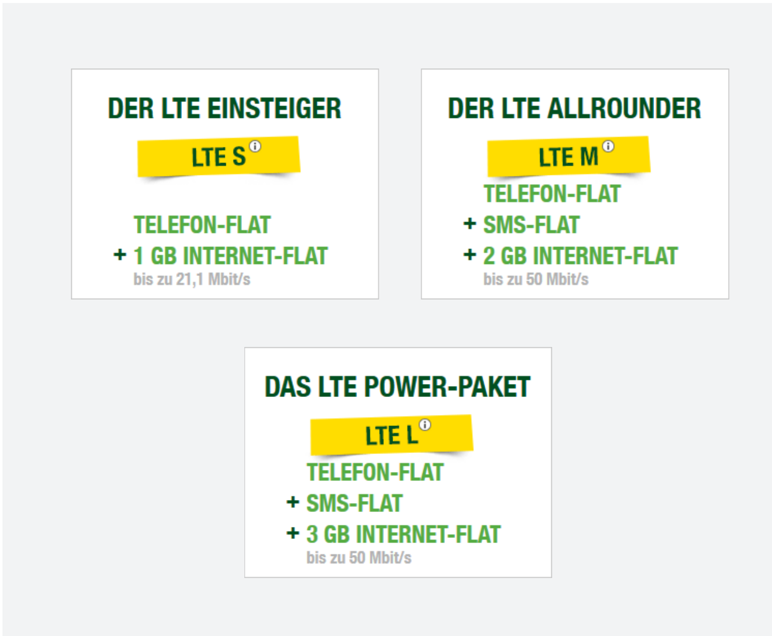
Drillisch sets the pace with innovative wireless services featuring state-of-the-art technology

Drillisch has created a transparent and clearly structured product portfolio to cover the broadest imaginable range of usage behaviour and to offer an exact fit for every type of user. Price leaders on the market for wireless services, the established online brands from Drillisch Group such as smartmobil.de, simply, discoTEL, McSIM, maXXim, Deutsch-landSIM, winSIM, helloMobil or Phonex offer to subscribers products featuring the greatest possible flexibility, including such options as terms ranging from one month to the 24 months commonly found in contracts in this sector. Moreover, the Company's wireless solutions stand out with convincing arguments in the form of comprehensive services such as access to the powerful LTE network, variable data packages and multi-SIM products. Repeated and new awards as well as best marks in the value for money ratings confirm the success of our product strategy.

Drillisch is the first independent provider to offer LTE rates without a fixed term

Drillisch began marketing fast LTE rate plans in October 2014. Initially, the group brands PremiumSIM and smart-mobil.de opened the door to the latest wireless technology.

The offers encompass three highly trans¬parent and attractive rate plans at mar¬ket-leading prices, all of them including a voice flat rate and partly a flat for messages to all German networks. In addition, subscribers can choose between data packages of 1GB, 2GB or 3GB and can surf on their mobile devices at speeds of up to 50 Mbit/s. These extraordinarily attractive LTE products have in the meantime been extended to include the other Drillisch brands and give end customers access to the world of LTE at prices starting as low as €9.95 a month. Each of the rate plans represents substantial savings – without any loss of quality – over the rate plans available from network operators and appeal both to smartphone newcomers as well as heavy users.



Initial experience with the marketing of the new LTE rate plans is grounds for confidence about the future.

Drillisch is the only independent provider on the German market for wireless services to market its own LTE rate plans on a par (in terms of both content and quality) with the network operators, but at significantly lower rates.

Attractive products and services – Stiftung Warentest recommends Drillisch products

The new TV brand sim.de steps up to the starting line – Heino presents smartmobil.de's LTE One in a new TV commercial

Parallel to the introduction of the new LTE rate plans, Drillisch heightened attention for its services and their market-leading prices by increasing advertising expenditures and purchasing additional television advertising. Just before Christmas 2014, eteleon AG launched a completely new mobile services brand called sim.de which concentrates exclusively on the marketing of two highly attractive end products. The two rate plans for smartphones feature extraordinarily fast LTE internet flat rates with volumes of 1 GB and 2 GB along with complete flexibility. sim.de is being advertised in a striking commercial on all of the channels belonging to the Pro7Sat1 Group. Even earlier (in November), smartmobil.de began marketing the new LTE One rate plan. This eye-catcher, designed with flat rates for landline, mobile phone, and internet, enables LTE high-speed surfing for as low as €7.95 a month. A clever TV spot featuring none other than Heino endorsing the new rate plan can be seen on all of the channels of the RTL Group. Contrary to what the start of the film suggests, the blond cult entertainer is not the star of the commercial; he is outdone by the wireless products from smartmobil.de.

Attractive bundled offers with top smartphones and top rate plans – with and without LTE

The PremiumSIM brand has become established as a platform for the marketing of attractive hardware bundles within the corporate association of Drillisch Group. The PremiumSIM online shop has been offering exclusive smartphone packages at top terms and conditions, including the current All-in and flat rate plans as well as mobile devices from all leading manufacturers, since July 2014. In the meantime, the emphasis is on the marketing of attractive LTE bundles. Even the entry-level plan LTE S gives subscribers a choice of attractive smartphones at no extra charge in the package price starting at €17.95 a month. And the newest premium smartphones are available as well in a worry-free package starting as low as €34.95.

Attractive products and services – Stiftung Warentest recommends Drillisch products

Drillisch introduced innovative EU rate plans and roaming options in April

Drillisch once again set the benchmark by introducing new, innovative EU rate plans and options for foreign calls within the EU which entered into effect on 1 April 2014. The reduction in roaming prices ordered by the EU Commission from 1 July 2014 was anticipated by three months with the introduction of standard roaming prices which were 36% lower for all rate plans than the guidelines in the EU regulation – to the benefit of our subscribers. In taking this step, Drillisch was the first mover to make smartphone use in Europe as simple and inexpensive as at home for new and current subscribers.

Parallel to this action, Drillisch expanded its product portfolio in April 2014 by the addition of rate plans with higher data volumes. Once again, the Company raised the bar for essential performance parameters and set new, attractive price benchmarks in the premium segment. The pricing leadership on the German wireless services market has been confirmed repeatedly and frequently by numerous awards from impartial testers.

Stiftung Warentest recommends powerful all-net flat rates from Drillisch

The magazine “test” (October 2014 issue) from Stiftung Warentest has published a comprehensive comparison of all-net flat rates for telephony, text messages and data packages. “Worry-free packages” in two categories from about 4,000 rate plans were tested.

- In addition to a flat rate for voice and text messages, the rate plan had to include a minimum of 500 megabytes in data volume.

Stiftung Warentest recommended the following rate plans as the most inexpensive all-net flat rates:

- Flat M 500 from DeutschlandSIM
- Flat XS 500S plus from the Drillisch Group brands helloMobil, simply, maXXim, McSIM, Phonex and smartmobil.de

The Drillisch products also came in first in the comparison of all-net flat rates for heavy surfers with a minimum data volume of 1,000 megabytes. The Stiftung Warentest study comes to the conclusion that comparable rate plans cost almost twice as much only two years ago. The Drillisch brands were positioned with this comparison test, which was of interest for all consumers and attracted attention across a broad range of media, in high-reach print media such as FOCUS, Süddeutsche Zeitung and BILD-Zeitung as well as in many regional daily newspapers and leading online magazines.

Drillisch also among the best in the connect readers’ choice

Every year, the editors of connect, Europe's largest journal for telecommunications, polls its readers to determine the most popular products and providers. This year, about 100,000 readers voted for their top favourites in the category “Networks, Products and Services 2014”. Drillisch found itself on the winners’ podium in two categories. In the “Wireless Services Providers” section, smartmobil.de for the first time took third place and is one of the most popular providers in a highly competitive environment. Drillisch Telecom GmbH also took third place in the “Service Providers/Dealers” category.

Among readers' top choices – TÜV confirms Drillisch brands are "Excellent"

Mobile Services Award 2014 from handytarife.de: Best "Provider of the Year"

The online portal handytarife.de gave out its "Mobile Services Award" for the eighth time and honoured the best products and providers in the categories of rate plans and mobile phones. The Power All-net Flat Rate from helloMobil came in tops as the best rate plan and was crowned "Mobile Phone Rate Plan of the Year" by users. smartmobil.de was honoured as the "Provider of the Year" for its attractive product portfolio and outstanding customer service. In contrast to many other competitions, the decision in this case is not made by a jury, but by end customers who use the free services from handytarife.de every day and determine the winners by their use of the database and rate calculator. In short, the Mobile Services Award is a genuine audience award.

TÜV confirms: "Excellent" value for money at Drillisch

Drillisch regularly undergoes comprehensive external quality tests conducted by acknowledged and impartial certifying companies. In July 2014, TÜV Saarland, after examining customer service and customer satisfaction, gave six top marks of "Excellent" regarding value for money to the brands smartmobil.de, simply, maXXim, McSIM, helloMobil and Phonex. Transparent order procedures as well as subscriber-friendly rate plans without fixed contract terms which can be terminated with one month's notice were convincing aspects for the testers. Other important test criteria such as clarity of invoices as well as professional competence and fast problem solving by the highly qualified customer service led to more than 90% of our customers recommending their provider to friends and acquaintances.

In December 2014, TÜV SÜD once again awarded all of the webshops in Drillisch Group the quality seal s@fer-shopping, reaffirming the high quality and security standards related to data and system security as well as performance of technical and organizational procedures. The catalogue of requirements includes more than 100 individual criteria, and the s@fer-shopping seal – the test sticker for online shops, so to speak – is not awarded unless all of them are met.

Moreover, the high standards of quality management at the Drillisch subsidiaries Drillisch Telecom GmbH and MS Mobile Services GmbH met with the full and complete approval of the testers during recertification on the basis of the demanding quality standards of the ISO norm 9001:2008 in October 2014.

Webshops and Service Worlds optimised for mobile devices – separate apps for Service Worlds

Besides the excellent value for money, simple and clear product presentation, a smooth ordering process and customer-friendly service are decisive arguments to buy for many potential customers when shopping online. In addition, more and more people are using their mobile devices to shop online.

According to a representative survey conducted by BITKOM in May 2014, 94% of all internet users over the age of 14 – 51 million Germans – buy goods and services on the internet. About one out of four (27%) uses a smartphone or

Customer service – user-friendly Service Worlds
BITKOM expects growth

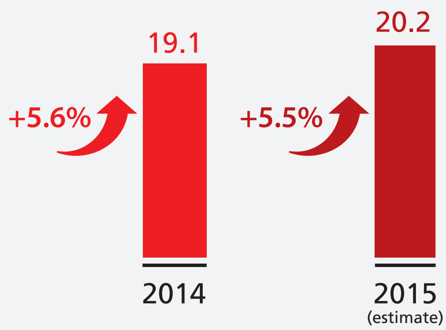
tablet computer for purchases. The Service Worlds of the Drillisch brands – the webshops and the personal subscriber sections – have been optimised for the use of these devices. The automatic recognition of the model in use guarantees user-friendly displays with perfect resolution. Moreover, the functions in the subscriber section are available as independent apps for the operating systems iOS and Android in the respective app stores. Subscribers can, for instance, easily and quickly review rate plans, see their invoices and activate options or other services.

Another important service is the support for setting up devices. The study by B2X Care Solutions conducted in December 2014 asked smartphone users about the greatest hurdles in using their smartphones. The setup of an email account and the network connections and the transfer of contacts and data from an old to a new device were mentioned most frequently. Drillisch explains these settings in detail in the Service Worlds and helps subscribers quickly and without complicated instructions so that the new devices can be used for text messaging, multimedia messaging, data connections and mailbox.

Revenues from software rise by more than 5% in 2014

Revenues from information technology products and services, telecommunications and entertainment electronics will presumably grow by 1.6% to €153.4 billion in 2014. This was the conclusion of a forecast from the high-tech association BITKOM at the end of October 2014. While the market as a whole is growing only at a moderate rate, growth in revenues from software sales is expected to be substantially stronger, increasing by 5.6% to €19.1 billion. Estimates for IT services foresee a rise of 2.7% to €36.3 billion. Industry experts point to the general weakening of the economy as one of the reasons for slower growth in project business.

Revenues with software (in bn€)



Source: BITKOM, October 2014

BITKOM expects business with software to grow by 5.5% to €20.2 billion in 2015. The revenue generated from IT services is projected to increase by 3.0% to €37.4 billion.

CONSOLIDATED MANAGEMENT REPORT

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1. General Information about the Company

1.1. The Drillisch Group

Drillisch AG, Maintal, along with its subsidiaries (collectively: "Drillisch"), is a mobile virtual network operator (MVNO) operating solely in Germany. In 2014, the Company added to the many years of its success story of profitable growth and once again raised its operating profit.

One of the most profitable and innovative providers of rate plans for voice and data communications in Germany, Drillisch is a regular source of new driving ideas on the German wireless services market. Operating as an MVNO, Drillisch compiles packages of flexible services based on its own product ideas, drawing on standardised and unbundled advance services from the network operators Telefónica Germany GmbH & Co. OHG ("Telefónica") and Vodafone GmbH ("Vodafone"). The internet is its most important sales channel. Moreover, Drillisch works with selected distribution and cooperation partners as well as with some traditional wireless services retailers. Drillisch expects the continuation of its successful corporate development in fiscal year 2015.

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

Transformation from an MVNO into an MBA MVNO

On 25 June 2014, MS Mobile Services GmbH ("MS Mobile"), a wholly-owned subsidiary of Drillisch AG, concluded an MBA MVNO (Mobile Bitstream Access Mobile Virtual Network Operator) agreement with Telefónica. Telefónica grants to MS Mobile, as the only competitor on the German wireless services market, access to up to 30% of the total utilised capacity that is available in the joint "consolidated" network after the merger of Telefónica and E-Plus. The acquisition of this network capacity also includes an accelerated and unconditional right to enter the market for 4G as well as any and all even more sophisticated technologies of the future.

In accordance with the agreement reached, MS Mobile also has the option of (1) becoming a so-called Full MVNO in the wireless network of Telefónica, that is, a wireless services provider that operates its own full core network and uses only the access network of Telefónica ("Full MVNO"), and/or (2) becoming a licensed mobile network operator ("MNO").

In addition, the companies have agreed that MS Mobile will select sites from a basket of about 600 shops circa 300 shops (both own as well as partner shops) which will mesh to create a full-coverage distribution network for MS Mobile. The data required for the exact selection was made available to MS Mobile by Telefónica immediately after the conclusion of the merger. After selection and acquisition of these sites, it will be possible to expand efficiently distribution capacity over a broad area as well in the future.

The technical launch, that is, the startup as an MBA MVNO, will take place on 1 July 2015.

Drillisch and its innovative rate plan models are in an outstanding position to meet the demands of mobile data society. The changing use of wireless services calls for new rate structures. This is especially

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important with regard to product transparency and individuality in customer use. According to information from the Federal Statistical Office from December 2014, 37 million people in Germany from the age of 10 are using the mobile internet, an increase of 25% over the previous year. The steadily growing number of smartphones and the expansion of the LTE technology are having an impact on users' hunger for data. In 2013, users worldwide surfed a per capita average of 700 MB a month; according to the Ericsson Mobility Report, average per capita data consumption in 2014 rose to 900 MB a month. Ericsson projects monthly data rates of 3.5 GB per smartphone user in Europe for the year 2020. Data volume is being driven more and more by video and streaming services. Sales of smartphones and tablet continue to grow at a rapid pace, so the need for transparent and low-cost rate plans will remain high for the foreseeable future.

Price leader with innovative and transparent products

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

Drillisch has placed two highly attractive plans featuring leading rates on the market with its brands sim.de and smartmobil.de; they have attracted media attention within the framework of a widespread television advertising campaign accompanying the introduction of the new LTE rate plans. In keeping with the slogan *"... ganz einfach besser!"* (...simply better!), sim.de customers can choose between two extremely fast LTE internet flat rates of 1 GB or 2 GB unthrottled data volume and enjoy in addition unlimited calls and text messages. smartmobil.de has been offering the rate plans LTE One and LTE S specifically for new LTE users since October 2014; these two especially attractive and low-cost services include 300 MB or 1 GB of monthly data volume and unlimited calls for a great entry into the LTE world. However, heavy surfers will also find the right package for their needs at smartmobil.de. The rate plans LTE M and LTE L offer high-speed surfing with 2 or 3 GB of monthly data volume along with unlimited calls and text messages. So Drillisch customers can enjoy high-speed surfing for as little as €7.95 a month. In the meantime, these or similarly attractive LTE rate plans have been established for almost all of the Drillisch brands. The latest in LTE-capable smartphones are also available at attractive prices in the online shops of the Drillisch brands.

Its family of new, own products and its innovative rate plan models are Drillisch's way of responding accurately to changed demand and of continuing to shape proactively the wireless services market in Germany. The flexibility of the MBA MVNO model plays an important role in this respect. The focus of future marketing will continue to be on the sale of innovative voice and data products on the internet and the establishment and expansion of our own distribution capacity in brick-and-mortar business and with selected cooperation partners.

Awards for product transparency and customer service

Drillisch has in the past regularly requested the performance of extensive quality tests by independent third parties. The

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certificates, which have consistently been awarded with ratings of "excellent" and "good", were confirmed without exception in the latest audits in July 2014. In the course of the renewal of the certification in accordance with the strict quality standards of the ISO norm 9001:2008 in December 2014, the high standard of quality management at the Drillisch subsidiaries Drillisch Telecom GmbH and MS Mobile Services GmbH satisfied the auditors fully and completely in every respect.

The products offered by Drillisch attain the highest levels of transparency and security in accordance with the strictest national and international standards. Our sustained work to achieve this transparency and security as well as customer satisfaction are important elements of our corporate success. Drillisch Group will continue to request these extensive audits in the future as well.

Drillisch AG is the Group's holding

Within Drillisch Group, Drillisch AG, the parent company, concentrates on holding tasks such as management, finances and accounting, controlling, cash management, human resources, risk management, corporate communications and investor relations along with the definition, management and monitoring of the global corporate strategy. The subsidiaries Drillisch Telecom GmbH, Maintal ("Drillisch Telecom"), MS Mobile Services GmbH, Maintal ("MS Mobile"), and eteleon AG, Munich ("eteleon"), are responsible for the operating wireless services business. The IT know-how of Drillisch Group has been concentrated in IQ-optimize Software AG, Maintal ("IQ-optimize"). MSP Holding GmbH, Maintal ("MSP"), is a subsidiary of Drillisch AG set up with the objective of holding and administrating investments.

Change in the group structure

The structure of Drillisch Group will also change with the commencement of its operations as an MBA MVNO. One point will be the merger of the online competence in wireless services distribution presently found in the activities of the subsidiaries Drillisch Telecom, MS Mobile and eteleon into a joint venture operating with the slogan "Best in Class". This company will in future assume all of the online sales. Secondly, after finalising the acquisition of yourfone GmbH at the beginning of January 2015 and the selection of about 300 shop locations during the first half of 2015, Drillisch will establish a strong pillar of operation in the offline sector as well.

Strong brands in mobile communications

Drillisch AG offers attractive rate plans customised to meet specific customer needs through its subsidiaries, which operate the online brands smartmobil.de, sim.de, McSIM, helloMobil, simply, PHONEX, maXXim, PremiumSIM, fiotel, winSIM, DeutschlandSIM, discoTEL and discoSURF plus the premium brands VICTORVOX and Telco. Every single customer will find a combination of mobile communications services just right for his/her needs in the current rate plan portfolio – including the high-speed LTE network if desired. Anyone using a number of mobile devices while on the go can choose multi-SIM products and simultaneously utilise smartphone, tablet and hands-free devices in the car, for instance, with only one phone number, one mailbox and one bill. By acquiring yourfone GmbH at the beginning of January 2015, Drillisch supplemented its portfolio with another brand that is well established on the German wireless services market.

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One great advantage for the subscribers of all Drillisch brands is that they can always use the state-of-the-art technology they require – today as well as in the future, and always on the basis of low-cost and transparent rate plans.

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

IQ-optimize guarantees IT competence

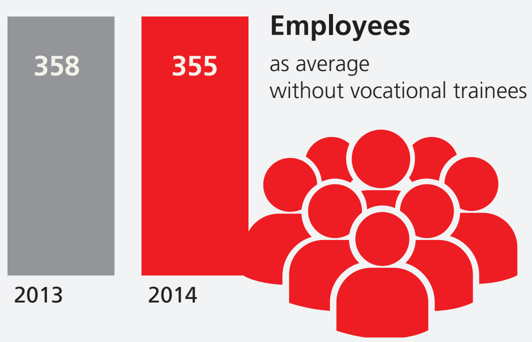
Drillisch has bundled its IT expertise in its subsidiary IQ-optimize. This company performs almost all of the IT services for the Group companies.

MSP Holding

MSP, a subsidiary of Drillisch AG, held 100% of the stock in eteleon and in Mobile Ventures GmbH, Maintal ("Mobile Ventures"), per 31 December 2014.

Employees

As an average for the year, Drillisch employed a workforce, including Management Board, of 355 (previous year: 358).



1.2. Company management – objectives and strategies

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

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 absolute profitability in terms of gross profit and EBITDA.

Value-oriented management system

The focus of the value-oriented management system at Drillisch is on a long-term increase in the corporate value through profitable growth. The key performance indicators are the adjusted consolidated EBITDA on IFRS basis (earnings before

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interest, taxes, depreciation and amortisation, adjusted for extraordinary and one-off factors) and gross profit.

Major elements of value-oriented management include the following:

1. Thanks to its lean structure, Drillisch is highly efficient in terms of costs. This approach has enabled the group to increase its EBITDA continuously over the past twelve years. Drillisch achieves this high level of economic efficiency by consistently optimising business processes and by making efficient use of its personnel.

2. All of the major IT services required at Drillisch are performed by its subsidiary IQ-optimize so that the Company is not dependent on external providers. The structure enables fast and flexible action and response on the market.

3. Drillisch is innovative in the design and development of new products and rate plans. For example, in 2005 the Company became one of the first providers to sell wireless services under its own discount brand name. Similarly, Drillisch began as early as in 2010 to align its product portfolio with the ongoing changes in the usage behaviour of smartphone customers. The budget and package plans containing a certain volume of call minutes, text messages and data for a fixed monthly charge were new creations at that time; today they are commonly available on the market. This innovation strength makes it possible for the group to develop new business fields ahead of competitors.

4. Drillisch constantly works on the further development of distribution channels, taking advantage of its competence and new ideas so that the Company can successfully market its innovative products.

5. Moreover, long years of experience in the Company and on the wireless services market are available to Drillisch at the first and second management levels.

2. Business report

2.1. General conditions in the industry

Wireless services sales in Germany declined slightly in 2014

According to a TC market analysis conducted jointly by Dialog Consult and VATM in October 2014, sales on the German wireless networks market dipped slightly from €25.2 billion in the previous year to €24.8 billion. This decline in sales is only slight and results from dynamic growth of 22.3% in revenues from mobile data and an overall decline in revenues from text messages. The number of active SIM cards rose from 115.2 million in the previous year to 117.5 million in 2014. Voice transmission using wireless services increased from 301 million minutes a day in 2013 to 303 million minutes in 2014 and compensated a part of the declining call minutes on landline phones, which fell from 463 million to 452 million minutes a day. Estimates from the VATM indicate that the total data volume in 2014 increased by 48% from 267 million gigabytes in 2013 to 395 million gigabytes in 2014. The share of revenue from mobile data transmission in the sector of non-voice sales grew from 76.1% in 2013 to 86.3% in 2014. Mobile data transmission

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thus accounted for about €8.2 billion of the wireless services revenues. The average data volume per user and month rose significantly by 45% from 195 MB in 2013 to 283 MB in 2014 MB. The demand for higher data volumes and new technologies for faster data transmission (e.g. LTE) along with the integration of various media on mobile devices will secure growth potential for wireless services providers in the future as well.

IT industry growth continues in 2014

The IT industry was able to continue the positive development of the previous year without even a hiccough in 2014. According to information from BITKOM (January 2015), sales in Germany rose by about 4.1% to €77.8 billion, substantially faster than the overall economy. Further growth in revenues of about 2.4% is expected in 2015. A press release from BITKOM published in November 2014 shows that there is currently a shortage of 41,000 IT specialists in Germany. While the IT industry is consequently unable to exploit its potential to the full, it 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 three remaining network operators (Vodafone, Telekom and Telefónica) as well as with other service providers and MVNOs. The network operators have a market share of about 84.7% in Germany as shown in a TC market analysis from VATM in 2014. The remaining market is essentially shared by the service provider freenet AG and the independent service providers Drillisch and United Internet. Despite the intensity of the competition, Drillisch was able to increase its clientele of postpaid customers by 11.4% in 2014.

2.2. General economic conditions

Economic development and growth of the gross domestic product (GDP) of only 1.2% in 2014 were marked, just as in 2013, by the weak development of the global economy and by the loss of trust and the financial crisis in Europe. The ongoing weakness of important trade partners in Europe could not be compensated by the demand from overseas. However, positive employment figures, rising earned income and the continuing strength of consumer demand from private households contributed to further economic growth in Germany in 2014. The German government expects growth of 1.3% in 2015.

Nonetheless, 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 use of the mobile internet has had greater impact.

2.3. Turnover and earnings position

Further EBITDA growth in fiscal year 2014 is impressive evidence that Drillisch has maintained its operating earning power. This good development of our business is supported by the ongoing dynamic developments in the fields of wireless services and mobile internet. Drillisch uses innovative products in conjunction with efficient marketing and sales concepts to maintain 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 ba-

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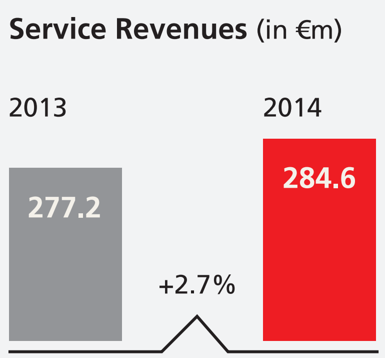
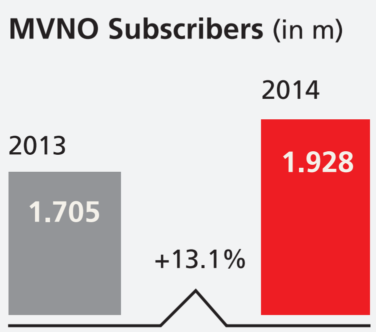
sis of the current customer relationships, rose by €7.4 million (2.7%) in fiscal year 2014 to €284.6 million (previous year: €277.2 million).

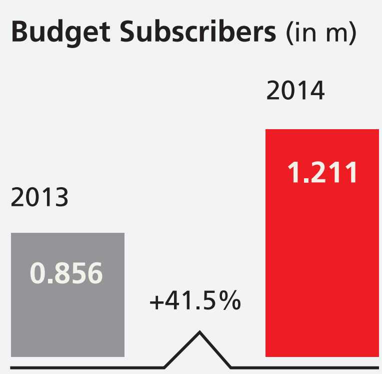


The low-margin item "Other revenues" declined as expected in comparison with the same period last year by €8.1 million to €5.1 million (previous year: €13.2 million). This item also includes the sales from the software services segment in the amount of €53k (previous year: €69k).

Total turnover in 2014 amounted to €289.7 million (previous year: €290.5 million).



The MVNO clientele increased further from in the course of the year by 223,000 (13.1%) to 1.928 million subscribers (31 December 2013: 1.705 million MVNO subscribers). The number of qualitatively higher-value budget subscribers increased by 41.5% to 1.211 million subscribers per 31 December 2014 (31 December 2013: 856,000 subscribers). The number of volume subscribers declined as expected from 848,000 subscribers per 31 December 2013 to 717,000 subscribers per 31 December 2014.



The number of subscribers in the prepaid sector decreased as expected to 91,000 (31 December 2013: 123,000). Overall, the ratio of postpaid to prepaid subscribers improved and is now 95.6% to 4.4%, an increase of 2.1% for postpaid compared to the end of 2013 (31 December 2013: 93.5% postpaid to 6.5% prepaid).

The total number of subscribers rose by 170,000 to 2.070 million (31 December 2013: 1.900 million). This continues the trend of a rising total number of subscribers, and the decrease in subscribers in the previous service provider business no longer has any major impact.

The cost of materials declined, overproportionately to the decline in revenues, by 14.3% to €147.0 million in fiscal year 2014 (previous year: €171.4 million). With the continuous increase in subscribers and the qualitative improvements of the tariff mix Gross profit improved as a con-

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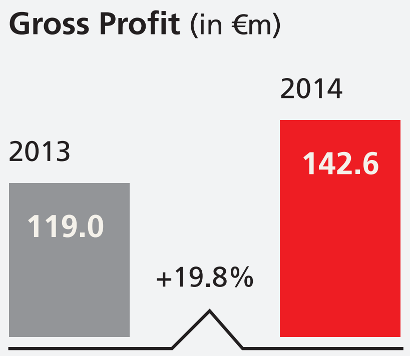
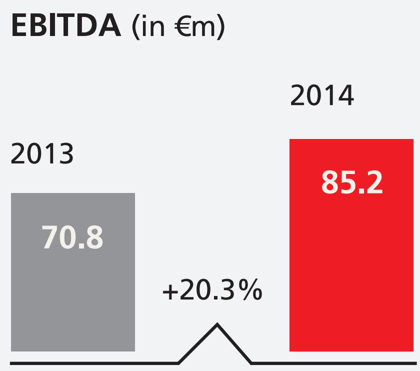
sequence by €23.6 million from €119.0 million in 2013 to €142.6 million in 2014. The gross profit margin increased by 8.3% to 49.3% (previous year: 41.0%).



Personnel expenses increased by 3.3% to €24.6 million (previous year: €23.8 million). Correspondingly, the personnel expenses ratio in 2014 rose by 0.3% to 8.5% (previous year: 8.2%). Other operating expenses rose in total by €5.5 million to €36.0 million (previous year: €30.5 million). The rise in comparison with the previous year resulted primarily from higher expenditures for advertising of €14.1 million (previous year: €9.7 million) and higher expenditures from bad debts and valuation allowances on receivables of €5.4 million (previous year: €3.9 million). In contrast, the costs for third-party services fell significantly from €2.7 million in 2013 to €1.7 million in 2014. The consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation), one of the most important management indicators in Drillisch Group, rose by €14.4 million (20.3%) to €85.2 million (previous year: €70.8 million). The EBITDA margin came to 29.4% (previous year: 24.4%). Write-offs remained virtually constant at €9.9 million (previous year: €9.6 million). The EBIT (earnings before interest and taxes) amounted to €75.3 million (previous year: €61.2 million). The EBIT ratio improved by 4.9% to 26.0% (previous year: 21.1%).



The results from the financial assets shown in the balance sheet according to the equity method in 2014 amounted to €0.0 (previous year: €10.3 million). In the previous year, the shares in freenet AG held by MSP and Drillisch AG were measured according to the equity method until 20 March 2013 because of the significant influence on the company from the voting rights quota of more than 20%.

Other financial results in 2014 also amounted to €0.0 (previous year: €155.5 million). In the same period of last year, the Other financial results essentially comprised income from the reclassification of securities as AFS (available for sale) assets and expenditures and income from the closing-date measurement and reversal of financial derivatives and hedging transactions which were sold or reversed completely in the course of fiscal year 2013.

The interest result improved by €46.4 million to €-2.7 million (previous year: €-49.1 million). In the same period last year, the interest result was essential-

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ly attributed to interest expenses in connection with cash compensation for exchanged debenture bonds as well as a significantly higher volume of long-term liabilities subject to interest charges.

Taxes on income rose slightly by €0.3 million to €22.5 million (previous year: €22.2 million). Consolidated profit amounted to €50.1 million (previous year: €155.8 million). In 2013, the consolidated profit was marked largely by effects from the conversion of the measurement of the freenet holding to the AFS method and the market valuation of hedging transactions and derivatives. Excluding these effects, the consolidated profit in 2013 amounted to €46.9 million. The consolidated comprehensive result per 31 December 2014 amounted to €49.7 million (previous year: €155.8 million) and thus reflects almost exclusively the earning power of the operating business. The undiluted profit per share came to €1.03 (previous year, excluding the freenet holding: €0.98).

General statement on business development

Operating in a friendly, although highly competitive, industrial environment, Drillisch Group achieved the upper end of the original EBITDA forecast of €82 million to €85 million confirmed again in November 2014 and even exceeded it slightly by posting a figure of €85.2 million. As planned, the Company also succeeded in increasing the number of MVNO subscribers again. The profitability and yield indicators relevant for Drillisch of gross profit and EBITDA continued to improve. Business development clearly demonstrates that Drillisch has been pursuing a course of consistently profitable growth for many years which is largely independent of general economic fluctuations. Management Board and Supervisory Board will therefore propose a dividend of €1.70 for each share entitled to dividends to the Annual General Meeting.

2.4. Assets, liabilities and financial position

Long-term liabilities declined in total by €8.4 million in 2014 to €101.9 million (31 December 2013: €110.3 million). Other intangible assets declined by €2.9 million to €31.3 million (31 December 2013: €34.2 million). Deferred tax reimbursements declined by €6.7 million to €0.7 million (31 December 2013: €7.4 million). The change in deferred tax reimbursements came essentially from the reversal of the deferred tax reimbursements from deficits carried forward created in 2013 and which were fully consumed in fiscal year 2014.

Owing to the dividend disbursement in May 2014, balanced against the positive cash flow of fiscal year 2014 and payments from the sale of own shares in November 2014, cash increased by €130.1 million to €317.1 million (31 December 2013: €187.0 million). Trade receivables amounted to €47.5 million, a slight increase (31 December 2013: €45.2 million). In total, current assets increased by €131.5 million to €373.6 million (31 December 2013: €242.1 million).

The balance sheet total for Drillisch Group increased by a total of €123.3 million to €475.6 million per 31 December 2014 (31 December 2013: €352.3 million).

In comparison with the previous year, equity increased by €113.5 million to €331.1 million (31 December 2013: €217.6 million). The sale of 5,189,015 own shares increased Subscribed capital from €52.8 million per 31 December 2013 to €58.5 per 31 December 2014. The part of the

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sales price in excess of the nominal value per share of €1.10 was balanced against the costs related to the sale of own shares in the amount of €2.9 million, and the difference of €134.9 million was allocated to capital surplus. As a consequence of the dividend distribution, balanced against the consolidated results 2014, the unappropriated retained earnings declined by €26.7 million to €10.8 million (31 December 2013: €37.6 million). The item Other equity of €-0.6 million (previous year: €-0.2 million) reflects the actuarial gain or loss from the measurement of the pension provisions recognised as non-operating results in accordance with IAS 19. The equity ratio per 31 December 2014 came to 69.6% (31 December 2013: 61.8%).

Long-term liabilities rose by €5.5 million to €98.8 million (31 December 2013: €93.3 million). This is primarily a consequence of the rise in liabilities from bonds related to accrued interest as well as the increase in Other liabilities.

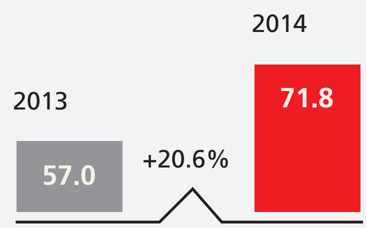
In December 2013, Drillisch AG issued a non-subordinated convertible bond with a total volume of €100.0 million and a term of five years; this bond was disclosed in the balance sheet per 31 December 2014 at a value of €88.8 million (31 December 2013: €86.2 million). The convertible bond includes an annual coupon of 0.75%. The bond was issued at 100% of the nominal value and will also be redeemed at 100%. The term of the bond ends on 12 December 2018.

Short-term liabilities increased over the end of fiscal year 2013 (31 December 2013: €41.4 million) by €4.2 million to €45.6 million. Trade payables increased by €6.0 million to €21.8 million (31 December 2013: €15.8 million). Tax liabilities declined by €2.3 million to €7.4 million (31 December 2013: €9.7 million). Payments received on account fell by €1.6 million to €5.9 million (31 December 2013: €7.5 million). Other liabilities rose by €1.9 million to €9.5 million (31 December 2013: €7.6 million).

Cash flow

Cash flow from current business activities in fiscal year 2014 amounted to €71.8 million (previous year: €57.0 million), and this further increase over the previous year reflects the earning power of the operating business.

Cash flow from current business activities
(in €m)



Cash flow from investment activities totalling €-4.8 million (previous year: €350.5 million) results primarily from payments for investments in fixed and intangible assets in the amount of €5.3 million (previous year: €19.9 million) and received interest of €0.6 million (previous year: €1.3 million). In the previous year, cash flow from investment activities was (besides the above-mentioned payments for investments in tangible and intangible assets) mainly characterised by income from the disposal of freenet shares in the amount of €357.3 million and received dividends of €11.7 million.

The balance of financing activities in 2014 was an inflow of funds of €63.1 mil-

Business Report

lion (previous year: outflow of funds of €297.7 million) and resulted from €139.7 million incoming payments from the sale of own shares (previous year: outgoing payments for the acquisition of own shares in the amount of €8.4 million) and from €76.8 million (previous year: €62.4 million) essentially from paid dividends. This high outflow of funds during the previous year essentially resulted from the repayment of a debenture bond in the amount of €125.0 million, from the taking out and amortisation of financing loans with a balance of €-158.3 million, from paid interest amounting to €43.7 million and payments for the acquisition of own shares in the amount of €8.4 million.

2.5. Principles and objectives of the financial and capital management

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

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

2.6. Non-financial performance indicators

In addition to 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 commonly applied and important standard for defining the quality of processes in a company.

Knowledge of the markets: As a consequence of the more than 20 years of activities by Drillisch and its predecessor companies on the wireless services market, the Company has established a position of trust among customers and network providers. This is what enables Drillisch to recognise upcoming trends in good time and to utilise them to raise value. Realising innovative marketing ideas and alternative distribution solutions has repeatedly led to Drillisch's success in offering products at an early stage which meet the needs of the customers. One important objective is increasing the subscriber base with long-term value by securing a greater market share in the relevant segments.

First-class customer service: Drillisch sets high standards for its own customer ser-

Business Report

vice, 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, efforts which have led to permanent increases in productivity. In the Company´s own estimation, Drillisch is one of the most profitable wireless services providers in Germany.

3. Forecast, opportunity and risk report

3.1. Risk management system

The risk management system is an integral component of corporate policy aimed at early exploitation of opportunities as well as the detection and limitation of risks. Drillisch operates a risk management system throughout the Group 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 operating units, the assignment of responsibilities and tasks and the documentation of these steps. The concrete implementation of the procedures which have been issued is secured by a monitoring system. The Drillisch risk management process utilises the following building blocks for the exploitation of opportunities without delay and the early discovery of risks:

- The internal controlling system
- The daily, weekly and monthly management reporting, especially in the areas controlling, cash management and the operating business segments
- 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 operating and strategic areas can be recognised early and incorporated into the risk portfolio by implementation of appropriate measures. Lines of responsibility and accountability are clearly regulated at Drillisch and are based on the corporate structure of Drillisch Group. Risk management includes the securing of risks outside of the Group as well. Adequate insurance policies, provided that they are regarded as being economically justifiable, have been concluded to cover incidents of loss and liability risks arising in the course of daily business.

Risk Report

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

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

The internal controlling system in Drillisch Group includes all of the principles, procedures and measures needed to secure the effectiveness, correctness and economic efficiency of the accounting and to assure compliance with the relevant legal requirements. Besides the manual process controls in the form of the "two sets of eyes principle", automatic IT process checks also form a major part of the integrated controlling measures.

The risk management system in Drillisch Group as a component of the internal controlling system is oriented, with respect to the accounting, to the risk of incorrect representation in the bookkeeping and the external reporting. A "monitoring system for the early recognition of risks threatening the Company´s existence" has been set up in Drillisch Group to ensure the systematic early detection of risks throughout the Group so that, going beyond the scope originally required by statutory provisions, other risks as well as those threatening the existence of the firm are detected early, controlled and monitored. In accordance with Section 317 (4) HGB, the auditor appraises the functional capability of the system for the early detection of risks, which is adapted without delay to any and all changes in the environment. The bookkeeping software from the manufacturer Sage is used for the posting of accounting items in Drillisch Group, while the consolidation software from the manufacturer Infor Global Solutions is used at the group level.

Risks related to accounting can arise from the conclusion of unusual or complex transactions, for example. Moreover, business transactions which are not handled as a matter of routine include a latent risk. The measures of the internal controlling system oriented to the correctness of the accounting ensure that all of the business transactions are recorded completely and contemporaneously in conformity with legal and statutory requirements. Furthermore, it is assured that assets and debts are correctly measured, appraised and disclosed in the annual accounts. The controlling activities include the analysis of material circumstances and developments, for example, using special indicator systems. The organisational separation of administrative, executive, billing and approval functions significantly reduce vulnerability to fraud. The internal controlling system also assures the representation of changes in the economic or legal environment of the Drillisch Group and ensues the application of any new or amended legal provisions for the accounting.

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

Risk Report

3.3. Market-related risks

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

- Drillisch operates in a market environment which is by and large saturated and consequently highly competitive. Substantial increases in overall turnover cannot be expected on the German wireless services market in 2015.
- Drillisch may possibly not be successful in acquiring and maintaining a satisfactory share of this market.
- The broad availability of low-cost rates and products may cause the prices which can be charged for wireless services to decline.
- A decline in prices on the market for wireless services or further reductions in the termination charges could result in falling sales and income.
- The expenditures required to acquire new customers and retain the loyalty of current customers are comparatively high, especially in the segment of fixed-term contracts. These expenditures may continue to rise in the future.
- Drillisch is subject to regulatory restraints in its business activities. These general conditions may change and could impact business.
- Wireless services providers are dependent on network operators in offering their products and services because they do not have their own network.

3.4. Company-specific risks

The major risks specific to Drillisch are as follows:

- The net financial debt of Drillisch could increase, e.g. as a consequence of the takeover of companies, leading to a worsening of the financial results and the equity ratio. This could have a long-term effect on the Company's ability to disburse dividends and to take out new loans.
- The maintenance of the functional capability and the regular evolvement of the software systems used by the Company, which it has in part developed itself, for the administration of the customers and the billing of performed services is of decisive importance for the success of Drillisch. Software errors can cause disruptions in the program execution, in extreme cases causing a permanent failure 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.
- As Drillisch does not operate its own network, it is, first of all, dependent for its range of services on the network access guaranteed by Telefónica, including the provision of any and all present and future wireless service technologies which are available. Second, whenever accounts are activated in another network, Drillisch is also dependent on the provision of all of the necessary preliminary wireless services.
- Drillisch is subject to the risk that contract customers will not meet their payment obligations under their wireless service contracts.

Risk Report

- Drillisch is highly dependent on members of the Management Board and on employees in key positions.
- Owing to the future obligation to take over at least 20% of the present and future network capacity of Telefónica for new customers as well as additional defined capacity for existing customers, there is a risk that Drillisch may not be able to utilise fully the purchased volume in future. Any unused capacities can entail costs that are not offset by direct income. However, Drillisch does not consider the ensuing risk to liquidity and earnings to be a threat to its existence.
- Fixed costs may result from the takeover of own shop locations which will initially not be offset by direct income in comparable volume. However, Drillisch does not consider the ensuing risk to liquidity and earnings to be a threat to its existence.

3.5. Opportunities

The major opportunities specific to Drillisch are as follows:

- The design of its own rate plans in the MVNO model gives Drillisch the opportunity to respond quickly and flexibly to changes on the market. This situation repeatedly creates opportunities to exploit or realise this competitive advantage to increase earnings.
- Drillisch now has the opportunity to improve its market position as well as its business volume significantly in the years to come on the basis of all products and technologies available in Germany at the moment and in future.
- Unrestricted access to 4G as well as to even more sophisticated future technologies guarantees Drillisch the long-term flexibility it needs to be absolutely independent in the design of new products, thus allowing fair competition on equal footing with the three remaining German network operators.
- The basic term of the agreement of 5 years and the option of extending this term twice to a total of 15 years offer Drillisch the opportunity for continuing long-term, successful corporate development as well as a high degree of planning security.
- In addition, the agreement concluded with Telefónica gives Drillisch the opportunity to become a Full MVNO on the Telefónica wireless network or even to become a licensed wireless network operator. The latter can initially and with technical support from Telefónica (“national roaming”) be limited to specific regions in Germany.
- The acquisition of brick-and-mortar sales locations offers Drillisch the chance to expand substantially its wide-area distribution capacity at central, established locations.
- The increase in mobile data traffic and the related demand for wireless services rate plans including data volume offer Drillisch the opportunity to continue to influence and guide the market proactively with its flexible rate plan concepts.
- The spreading utilisation of mobile applications such as music streaming, online games or the streaming of films and videos will continue to raise the demand for mobile data applications in the future.

Risk Report

- The good operating results and the related cash flow will also provide opportunities in future to disburse attractive dividends and, if necessary, to obtain loans with good terms and conditions.
- The utilisation and steady further development of software systems developed by the Company itself for the management of customers and billing of performed service mean almost total independence from any third-party services. The related efficiency, speed and flexibility give Drillisch a competitive advantage over other companies.

3.6. Summary of opportunity and risk position

There were not any significant changes in the opportunities and risks of ongoing business operations in 2014 in comparison with the previous year. However, the agreement reached between MS Mobile and Telefónica Deutschland on 25 June 2014 will give rise to new opportunities and risks in the future. The opportunities and risks described here are the major opportunities and risks which have been identified at this time. The possibility that additional major opportunities and risks which have not been recognised by management exist, or that the probability of the occurrence of such opportunities and risks has been wrongly assessed as negligible, cannot be excluded. Adequate precautions have been taken to counter any probable risks. There are at this time no known risks which would threaten the Company´s existence.

3.7. Forecast report

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

General economic conditions

In the opinion of the German government and the great majority of the most important economic research institutes, the economic upswing in Germany is not yet at an end. Owing to the ongoing economic weakness of the European environment, the German government expects economic growth of only 1.3% in Germany in 2015. The Macroeconomic Policy Institute (IMK) expects economic growth of about 1.9% for 2015. The ifo Economic Forecast 2014/2015 is assuming growth in the real gross domestic product of 2.2% for 2015. Thanks to the domestic German economy, which remains very healthy, real economic development in Germany is remarkably resilient.

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

The Drillisch Management Board expects the telecommunications and IT markets in Germany to remain important innovation drivers for the German economy. However, there will presumably not be any significant growth in revenues in the telecommunications industry because, although usage is increasing, the price sensitivity will remain at the same level. The most important growth segment in

Prediction Report

telecommunications will continue to be mobile data communications. Moreover, the displacement of the landline network by wireless services will continue.

Simplicity in making phone calls and "surfing" at low prices will remain the focus of interest for wireless services customers. The virtually full-area availability of mobile high-speed Internet, the continuing growth in popularity of powerful smartphones and of services such as cloud applications, streaming services for photos or music, "near-field" and "machine-to-machine communication" along with the spread of LTE give rise to the expectation that growth rates in the use of mobile data communications will continue to be high. The greatest 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. Drillisch is aiming to increase significantly its MVNO clientele and improve further its mix of rate plans, thereby continuing the positive development of gross profit in its operating business and a rise in turnover in the area of "service revenues". The launch of the MBA MVNO business model during 2015 is expected to lay the foundation for this expansion in the short and middle term. Extensive marketing activities in a mid double digit € million range have been planned to achieve this goal in the coming fiscal year especially. Overall, the Management Board expects a further increase in the adjusted EBITDA to between €95 million and €100 million for 2015, despite the changes in general conditions.

4. Compensation report

The structure of the compensation system for the Management Board is determined by the Supervisory Board. The criteria for the reasonableness of the compensation include in particular the duties and responsibilities of each of the Management Board members; their personal performance; the performance of the Management Board as a whole; and the economic position, the success and the future prospects of the Company, taking into account its comparative environment. The compensation for the Management Board members comprises short-term components and factors with long-term incentive components. The short-term components consist of elements not contingent on success and merit-based elements. The elements not contingent on success comprise fixed compensation as well as payment in kind and other benefits. The fixed compensation as basic compensation not contingent on success is paid monthly as a salary and reviewed annually. In addition, the Management Board members receive other benefits, in particular allowances for health and long-term care insurance, as well as payments in kind comprising essentially the use of a company vehicle. The Management Board's compensation always includes variable merit-based compensation elements. These elements are redefined every year by the Supervisory Board on the basis of targets.

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

Compensation Report

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 not contingent on success and a part of the merit-based compensation will be deemed earned. The Management Board members received total compensation of €19k for their Supervisory Board activities at IQ-optimize and eteleon. The Management Board members did not receive any loans or advance payments in the reporting period. No pension commitments have been made to the Management Board.

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

Compensation for the Members of the Management Board in 2014

Paid compensation (in €k)	**Paschalis Choulidis**				**Vlasios Choulidis**			
	Management Board Spokesperson, Executive Officer Finance, Finance Communications, Controlling and IT				Executive Officer Sales, Marketing, Customer Care			
	2013	**2014**	**2014** (Min)	**2014** (Max)	**2013**	**2014**	**2014** (Min)	**2014** (Max)
Fixed compensation	630	630	630	630	630	630	630	630
Fringe benefits	26	13	13	13	17	17	17	17
Total	656	643	643	643	647	647	647	647
One-year variable compensation	650	690	0	690	650	690	0	690
Multiannual variable compensation								
- LTI 2011 to 2015	305	600	335	600	305	600	335	600
Total	955	1,290	335	1,290	955	1,290	335	1,290
Pension expenses	2	2	2	2	2	2	2	2
Total compensation	**1,612**	**1,934**	**979**	**1,934**	**1,604**	**1,939**	**984**	**1,939**

Compensation Report

Compensation for the Members of the Management Board in 2014

Payments (in €k)	Paschalis Choulidis Management Board Spokesperson, Executive Officer Finance, Finance Communications, Controlling and IT				Vlasios Choulidis Executive Officer Sales, Marketing, Customer Care			
	2013	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)
Fixed compensation	630	630	630	630	630	630	630	630
Fringe benefits	26	13	13	13	17	17	17	17
Total	656	643	643	643	647	647	647	647
One-year variable compensation	650	690	0	690	650	690	0	690
Multiannual variable compensation								
- LTI 2011 to 2015	0	0	0	0	0	0	0	0
Total	650	690	0	690	650	690		690
Pension expenses	2	2	2	2	2	2	2	2
Total compensation	**1,307**	**1,334**	**645**	**1,335**	**1,299**	**1,339**	**649**	**1,339**

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

The multiannual compensation refers to a long-term incentive component which will be paid out in fiscal year 2016.

The members of the Supervisory Board receive fixed compensation for each full fiscal year of their participation in the Supervisory Board; the amount is specified in the company charter. The chairperson receives twice the amount, while the deputy chairperson and the chairperson of the Audit Committee each receive €12.5k in addition to the regular compensation. Moreover, attendance fees are paid per meeting and Supervisory Board member for each personal and physical participation in a physical meeting of the Supervisory Board and as a member of its committees. Supervisory Board members who did not belong to the Supervisory Board during the full fiscal year receive pro rata temporis compensation according to the duration of their membership on the Supervisory Board. One-quarter of the fixed compensation is payable upon the expiration of each and every quarter. The attendance fees as accrued are payable upon the expiration of each and every quarter. The Supervisory Board members are also reimbursed for all of their expenses and for any turnover tax which must be paid on their compensation and expenses. In its own interest, the Company provides reasonable insurance at its own expense to the members of the Supervisory Board to cover the exercise of their activities as Supervisory Board.

Supplemental Information in Accordance with Section 315, Subsection 4 HGB

The compensation for the Supervisory Board members in 2014 comprised the following elements.

Supervisory Board Compensation 2014

Supervisory Board Compensation 2014	Compensation paid (in €k)
Marc Brucherseifer, Dipl.-Kfm.	86.0
Dr Susanne Rückert	61.5
Dr Horst Lennertz, Dr.-Ing.	57.0
Frank Rothauge, Dipl.-Kfm.	58.1
Dr Bernd H Schmidt	47.0
Johann Weindl, Dipl.-Kfm.	46.1
	355.7

5. Supplementary information

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

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

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

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

Treasury stock

The Annual General Meeting on 28 May 2010 adopted a resolution authorising the Drillisch AG Management Board to acquire own shares totalling up to 10% of the share capital at the time of the Annual General Meeting 2010 (5,318,901 shares) on or before 27 May 2015. This authorisation was exercised in fiscal years 2011, 2012 and 2013, and own shares in the amount of 5,189,015 shares were repurchased, reducing the share capital by €5,707,916.50.

In fiscal year 2014, the Company exercised the authorisation to utilise treasury stock and sold 5,189,015 own shares equivalent to €5,707,916.50 of the share capital (9.76%) for €142.7m. €1.10 of the purchase price per share was attributed to subscribed capital. By selling treasury stock, Drillisch increased its financial flexibility for general company purposes as well as for company acquisitions.

In the Annual General Meeting on 21 May 2014, the current authorisation was revoked and the Company was re-authorised to acquire (using derivatives as necessary) and to utilise treasury stock so that additional shares of treasury stock can be acquired in the interest of the Company and

Supplemental Information in Accordance with Section 315, Subsection 4 HGB

the acquired own shares can be re-utilised. Pursuant to Section 71 (1) no. 8 AktG, the Company is therefore authorised to acquire own shares within the limits of statutory provisions which is not to exceed a total of 10% of the share capital existing at the point in time of the adoption of the resolution and subject to the condition that no more than 10% of the share capital may be attributable at any point in time to the acquired shares in combination with any other treasury stock in the Company’s possession or attributable to the Company pursuant to Sections 71a et seqq. AktG. The authorisation may not be exercised for the purpose of trading with treasury stock. The authorisation is valid to and including 20 May 2019.

Approved capital

The authorisation granted to the Management Board by the Annual General Meeting on 16 May 2013 to increase the Company’s share capital (approved capital), subject to the consent of the Supervisory Board, was revoked effective per 21 May 2014. The authorisation was never exercised.

The Annual General Meeting of 21 May 2014 authorised the Management Board, subject to the approval of the Supervisory Board, to increase the Company's share capital by as much as €23,403,166.60 by a single or multiple issue of new shares against cash contributions and/or contributions in kind on or before 20 May 2019 (approved capital). In the event of cash contributions, the new shares may also be taken over by one or more banks or other companies fulfilling the prerequisites of Section 186 (5), first sentence AktG, subject to the obligation to offer them for purchase to the shareholders (indirect subscription right). On principle, a subscription right is to be granted to the shareholders. However, the Management Board is authorised, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights:

- So that fractional amounts are excluded from the subscription right;
- If the capital increase is achieved by cash contributions and the issue price of the new shares is not significantly lower than that of the equivalent shares already traded on the exchange at the time of the final determination of the issue price by the Management Board. The number of shares issued subject to exclusion of the subscription pursuant to Section 186 (3), fourth sentence AktG may not exceed 10% of the share capital, 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;
- To the extent that, as protection from dilution, it is necessary to grant to the holders or creditors of option or conversion rights from

Supplemental Information in Accordance with Section 315, Subsection 4 HGB

option or conversion bonds which have been, or will be, issued by the Company and/or subordinate group undertakings subscription rights in the scope to which said persons would be entitled after the exercise of their conversion or option rights or after fulfilment of the conversion obligation;

- If the capital increase against contributions in kind is carried out for the purpose of providing shares within the framework of corporate mergers or of acquiring companies or parts of companies, holdings in companies or other assets;
- So that new shares up to a proportionate amount of the share capital totalling €2,925,395.00 may be issued as staff shares to employees of the Company or of affiliated companies within the sense of Section 15 et seqq. AktG.

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

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

Contingent capital

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

The Management Board was authorised by the Annual General Meeting on 21 May 2014, subject to the consent of the Supervisory Board, to increase contingently by 20 May 2019 the share capital by no more than €17,600,000.00 through

Important Events after the End of the Fiscal Year

the issue of no more than 16,000,000 no-par bearer shares entitled to participate in profits from the beginning of the fiscal year in which they are issued. The contingent capital increase serves to grant shares to the holders or creditors of option bonds, conversion bonds and/or income bonds with a total nominal value of no more than €750,000,000.00 issued against cash payment, pursuant to the authorisation granted by the Annual General Meeting of 21 May 2014, by the Company or by a company in which the Company, directly or indirectly, holds a majority interest. The contingent capital increase is to be carried out solely to the extent that the option and/or conversion rights from the debenture bonds are exercised or that conversion obligations from the debenture bonds are fulfilled, and provided that cash compensation is not paid or that treasury stock is not utilised for this purpose. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the details of the conduct of the contingent capital increase (contingent capital 2014).

The Company has concluded a number of agreements in which a change of control as a consequence of a takeover represents a condition precedent. They essentially include agreements with the network operators, but not, however, the MBA MVNO contract concluded between MS Mobile and Telefónica on 25 June. Furthermore, the occurrence of a so-called "change of control" can affect the financing of the Company.

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

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

On 2 January 2015, Drillisch AG executed the letter of intent regarding the purchase of the shares of yourfone GmbH, Hamburg, concluded with E-Plus Mobilfunk GmbH & Co. KG in November 2014 and acquired the company, including all of the trademark rights and clientele. Moreover, Drillisch AG acquired 97.5% of the shares of GTCom GmbH, Düsseldorf, on 3 February 2015.

Maintal, 6 March 2015

The Management Board

CONSOLIDATED ANNUAL ACCOUNTS

Consolidated Comprehensive Income Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2014 to 31 December 2014

		2014	2013
	Exhibit no.	€k	€k
Sales	1	289,648	290,469
Other own work capitalised		1,757	2,270
Other operating income	2	1,400	3,769
Raw material, consumables and services used	3	-147,007	-171,433
Personnel expenses	4	-24,597	-23,805
Other operating expenses	5	-35,998	-30,460
Amortisation and depreciation	6	-9,921	-9,644
Operating result		**75,282**	**61,166**
Result from financial investments shown in the balance sheet according to the equity method	12	0	10,281
Other financial results		0	155,589
Interest income		911	1,290
Interest and similar expenses		-3,587	-50,375
Financial result	7	**-2,676**	**116,785**
Profit before taxes		**72,606**	**177,951**
Taxes on income	8	-22,531	-22,177
Consolidated results		**50,075**	**155,774**
Actuarial gains/losses from pensions		-496	56
Taxes on income		150	-17
Items which cannot be included in operating results in the future		**-346**	**39**
Items which can be included in operating results in the future		**0**	**0**
Consolidated comprehensive results		**49,729**	**155,813**
Profit per share (in €)			
Undiluted	39	1.03	3.24
Diluted	39	0.99	3.23

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 1 January 2014 to 31 December 2014

ASSETS

	Exhibit no.	31.12.2014 €k	31.12.2013 €k
Fixed assets			
Other intangible assets	9	31,302	34,228
Goodwill	10	67,206	67,206
Tangible assets	11	2,596	1,412
Other financial assets		93	33
Deferred tax reimbursements	8	743	7,374
Fixed assets, total		**101,940**	**110,253**
Current assets			
Inventories	13	5,488	6,242
Trade accounts receivable	14	47,503	45,227
Tax reimbursement claims	15	1,507	1,015
Cash		317,090	187,032
Other current assets	16	2,023	2,560
Current assets, total		**373,611**	**242,076**
ASSETS, TOTAL		**475,551**	**352,329**

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 1 January 2014 to 31 December 2014

SHAREHOLDERS' EQUITY AND LIABILITIES

	Exhibit no.	31.12.2014 €k	31.12.2013 €k
Shareholders' equity			
Subscribed capital		58,508	52,800
Capital surplus		231,232	96,368
Earnings reserves		31,123	31,123
Other equity		-550	-204
Unappropriated retained earnings/ Accumulated deficit		10,830	37,555
Equity, total	17	**331,143**	**217,642**
Long-term liabilities			
Pension provisions	19	1,525	976
Deferred tax liabilities	8	3,051	2,928
Debenture bonds	20	88,787	86,216
Leasing liabilities	18	1,212	594
Other liabilities	25	4,267	2,621
Long-term liabilities, total		**98,842**	**93,335**
Short-term liabilities			
Short-term provisions	21	106	205
Tax liabilities	22	7,382	9,744
Trade accounts payable	23	21,784	15,775
Payments received on account	24	5,890	7,462
Leasing liabilities	18	885	519
Other liabilities	25	9,519	7,647
Short-term liabilities, total		**45,566**	**41,352**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**475,551**	**352,329**

Consolidated Statement of Change in Capital

Consolidated Annual Accounts for the Fiscal Year from 1 January 2014 to 31 December 2014

	Number of shares	Subscribed capital	Capital surplus	Earnings reserves	Other equity	Unappropriated retained earnings /Accumulated deficit	Equity, total
		€k	€k	€k	€k	€k	€k
Per 01/01/2013	**48,706,514**	**53,577**	**91,571**	**31,123**	**-243**	**-55,819**	**120,209**
Dividend payments		0	0	0	0	-62,400	-62,400
Change in own shares	-706,514	-777	-7,591	0	0	0	-8,368
Conversion right of the shares		0	12,388	0	0	0	12,388
Consolidated comprehensive		0	0	0	39	155,774	155,813
Per 31/12/2013	**48,000,000**	**52,800**	**96,368**	**31,123**	**-204**	**37,555**	**217,642**
Per 01/01/2014	**48,000,000**	**52,800**	**96,368**	**31,123**	**-204**	**37,555**	**217,642**
Dividend payments		0	0	0	0	-76,800	-76,800
Change in own shares	5,189,015	5,708	134,864	0	0	0	140,572
Conversion right of the shares		0	0	0	0	0	0
Consolidated comprehensive		0	0	0	-346	50,075	49,729
Per 31/12/2014	**53,189,015**	**58,508**	**231,232**	**31,123**	**-550**	**10,830**	**331,143**

Consolidated Capital Flow Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2014 to 31 December 2014

	2014	2013
	€k	€k
Consolidated earnings before interest and taxes	75,282	61,166
Income tax paid	-15,705	-13,802
Income tax received	1,062	4,331
Amortisation and depreciation	9,921	9,644
Results from the disposal of fixed assets	-203	-733
Change in inventories	754	1,687
Change in receivables and other assets	-524	-2,535
Change in trade payables, other liabilities and provisions	2,743	-1,104
Change in payments received on account	-1,572	-1,685
Cash flow from current business activities	**71,758**	**56,969**
Payments for investments in tangible and intangible assets and other financial assets	-5,361	-19,862
Interest received	600	1,319
Dividends received	0	11,713
Incoming payments from the sale of financial assets that are reported according to the equity method and of other financial assets	0	357,325
Cash flow from investment activities	**-4,761**	**350,495**
Change in own shares	139,709	-8,368
Dividend payments	-76,800	-62,400
Outgoing payments for amortisation of loans	0	-192,633
Incoming payments from the taking out of loans	0	34,370
Interest paid	-833	-43,708
Payments from issue of debenture bonds	0	100,000
Payments from repayment of debenture bonds	0	-125,000
Change in investment liabilities	985	4
Cash flow from financing activities	**63,061**	**-297,735**
Change in cash	**130,058**	**109,729**
Cash at end of period	317,090	187,032
Cash at beginning of period	187,032	77,303

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 and MS Mobile Services GmbH (both in Maintal) and in eteleon AG (Munich). In addition to the service provider licences held for the networks Telekom, Vodafone, E-Plus and O_2, the Group has concluded MVNO agreements with the network operators O_2 and Vodafone and markets primarily postpaid products for the O_2 and Vodafone networks. The address and registered office of Drillisch AG as the parent company of the Group is Wilhelm-Röntgen-Strasse 1–5, 63477 Maintal, Germany. The Company is registered at the Hanau Local Court under HRB 7384. The consolidated annual accounts are submitted electronically to the operator of the [German] Federal Gazette and subsequently published in the Federal Gazette.

The Management Board prepared the consolidated annual accounts and the consolidated management report per 31 December 2014 on 6 March 2015 and released them for submission to the Supervisory Board.

B. Basic accounting principles

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

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

Beginning in fiscal year 2014, application of the following standards and interpretations as revised or newly published by the IASB was mandatory:

Consolidated Notes

Standards/Interpretations

		Mandatory application for fiscal years beginning with
Standards		
IFRS 10	Consolidated Financial Statements	01.01.2014
IFRS 11	Joint Arrangements	01.01.2014
IFRS 12	Disclosure of Interests in Other Entities	01.01.2014
IAS 27	Separate Financial Statements	01.01.2014
IAS 28	Investments in Associates and Joint Ventures	01.01.2014
IAS 32	Offsetting Financial Assets and Financial Liabilities (Amendments)	01.01.2014
IAS 36	Disclosure of Recoverable Amount of Non-financial Assets (Amendments)	01.01.2014
IAS 39	Reclassification of Derivatives and Continuation of Hedge Accounting (Amendments)	01.01.2014
IFRS 10/11/12	Transition Guidance (Amendments)	01.01.2014
IFRS 10/12, IAS 27	Investment Entities (Amendments)	01.01.2014

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

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

The application of the following standards and interpretations which have already been adopted, revised or newly issued by the IASB was not yet mandatory in fiscal year 2014:

Consolidated Notes

Standards/Interpretations

		Mandatory application for fiscal years beginning with	adoption by EU Commission
Standards			
IAS 19	Employee Benefits (Amendment)	01.02.2015	Yes
Various	Improvements to IFRS 2010-2012	01.02.2015	Yes
Various	Improvements to IFRS 2011-2013	01.07.2014	Yes
IFRS 14	Regulatory Deferral Accounts	01.01.2016	No
IFRS 11	Accounting for Acquisition of Interests in Joint Operations (Amendment)	01.01.2016	No
IAS 16, IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendment)	01.01.2016	No
IAS 16, IAS 41	Agriculture: Bearer Plants (Amendment)	01.01.2016	No
IFRS 10/12, IAS 28	Investment Entities: Applying the Consolidation Exception (Amendment)	01.01.2016	No
IAS 1	Disclosure Initiative (Amendment)	01.01.2016	No
Various	Improvements to IFRS 2012-2014	01.07.2016	No
IFRS 10, IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	01.01.2016	No
IAS 27	Equity Method in Separate Financial Statements (Amendments)	01.01.2016	No
IFRS 15	Revenue from Contracts with Customers	01.01.2017	No
IFRS 9	Financial Instruments	01.01.2018	No
Interpretations			
IFRIC 21	Levies	17.06.2014	Yes

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

Consolidated Notes

C. Consolidation

Consolidation principles and consolidated companies

Corporate mergers are measured according to the acquisition method. The purchase price is distributed among the identified assets and liabilities, including contingent liabilities, of the acquired subsidiary. The value relationships at the point in time at which the control over the subsidiary is obtained are authoritative. The measurable assets and the assumed liabilities, including contingent liabilities, are measured in full at their fair values irrespective of the amount of the holding. Any remaining positive difference is recognised as goodwill. Any remaining negative difference is recognised directly as operating results after being reviewed once again. The disclosed hidden reserves and hidden encumbrances are carried forward to the following periods in the same way as the handling of the corresponding assets and liabilities, written off as scheduled or reversed.

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

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

All of the receivables and payables as well as income and expenditures among the companies included in the consolidated annual accounts are eliminated, as are interim results.

The parent company´s annual accounts as well as those of all of the important subsidiaries controlled by the former, whether directly or indirectly, were included in the consolidated annual accounts of Drillisch AG per 31 December 2014. There is control of a company if the parent company, legally or de facto, has the opportunity to determine the financial and business policies of a company with the aim of obtaining commercial benefits.

A company is included in the consolidated accounts for the first time from the moment at which control can be exercised or the criteria for joint ventures and associated companies are met. Companies which are not included are 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 held	capital in
		%	No.
1.	Drillisch AG, Maintal		
2.	Drillisch Telecom GmbH, Maintal	100	1
3.	IQ-optimize Software AG ("IQ-optimize AG"), Maintal	100	1
4.	MS Mobile Services GmbH ("MS Mobile GmbH"), Maintal	100	2
5.	MSP Holding GmbH, Maintal	100	1
6.	Mobile Ventures GmbH, Maintal	100	5
7.	eteleon AG, Munich	100	5

On 2 January 2015, Drillisch AG executed the letter of intent regarding the purchase of 100% of the shares of yourfone GmbH, Hamburg, concluded with E-Plus Mobilfunk GmbH & Co. KG in November 2014 and acquired the company, including all of the trademark rights and the clientele. yourfone GmbH is a wireless services provider operating in Germany. This acquisition further expanded the Drillisch portfolio to include another brand name well established on the German wireless services market, thereby not only increasing the number of subscribers, but also the potential for future growth.

The provisional net purchase price amounts to €51.4m and is calculated as the purchase price less acquired cash and a receivable from the seller. The final calculation of the purchase price and a detailed breakdown of the purchase price among the identifiable assets and liabilities at the attributable fair value in accordance with the provisions of IFRS 3 cannot yet be provided with these accounts because the final values and their allocation were not yet available at the time of preparation of the accounts. The value from the purchase price less cash which must be broken down essentially comprises the trademark yourfone, the clientele of yourfone GmbH and goodwill.

Moreover, Drillisch AG acquired 97.5% of the shares of GTCom GmbH, Düsseldorf, at the beginning of February 2015. GTCom GmbH is a mobile virtual network operator (MVNO) operating in Germany and has had many years of experience in marketing prepaid products.

The purchase price amounted to €1.6m. A detailed breakdown of the purchase price among the identifiable assets and liabilities at the attributable fair value in accordance with the provisions of IFRS 3 cannot yet be provided with these accounts because a final purchase price allocation was not yet available at the time of their preparation. The value from the purchase price less cash which must be broken down essentially comprises the clientele of GTCom GmbH and goodwill.

Consolidated Notes

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 the sale of mobile devices and accessories. Sales from wireless services include monthly service charges, charges for special features and connection and roaming charges. Revenues from wireless services are realised on the basis of usage units actually used and contractual fees, less any credit notes and adjustments pursuant to reduced prices. The revenues from the sale of mobile telephones, mobile data devices and accessories and the related expenditures are realised as soon as the products have been delivered and accepted by the customers.

Some of the end customer contracts are multiple-component contracts. In the case of multiple-component contracts, the revenue must be recognised for each of the separately identifiable components. Agreements for the sale of bundled products or the performance of bundled services must be broken down into their separate components and a separate contribution to earnings must be recognised for each 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 brokered by third parties, the proportionate fair value of a single component and therefore the revenue realised for this component is recognised separately from that part of the consideration to be paid by the customer for the multiple-component transaction in its entirety independently of the performance of further services. For this reason, the outstanding basic fees for these wireless services rate plans proportionately attributable to the wireless device are allocated to this device.

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

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

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

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

Consolidated Notes

Intangible assets

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

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

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

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

During the review of possible value depreciation, the goodwill acquired during a corporate merger is attributed to the cash-generating units which will presumably profit from the non-measurable assets determining the value. The recoverability test is conducted once a year and, in addition, whenever there are indications for a loss of value in the corresponding cash-generating unit. If the book value of the cash-generating entity exceeds its recoverable value, the goodwill attributed to this cash-generating unit is depreciated by the amount of the difference. Any loss of value will not be reversed.

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

Tangible assets

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

Financial instruments

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

A financial asset is derecognised when the conditions of IAS 39.17 f have been fulfilled. If and when the Group has assigned its contractual rights to payment flows from an asset and retained essentially all of the risks and opportunities associated with the

Consolidated Notes

ownership of this asset, the Group continues to record the asset in the scope of the Group's ongoing involvement.

Financial assets include in particular cash and cash equivalents, trade receivables, financial assets available for sale and loans and receivables and derivative financial assets maintained for commercial purposes. Financial liabilities include trade accounts payable, bank loans and overdrafts, liabilities from financing leasing relationships and derivative financial liabilities. Financial assets and financial liabilities are shown as balances only if there is an offset right with respect to the amounts and the intention is to realise a balance on a net basis.

Financial instruments are measured at fair value when recognised for the first time. The transaction expenses which are directly attributable to the acquisition must be taken into account for all of the financial assets and liabilities which are subsequently measured at fair value as non-operating results. The fair values measured in the balance sheet correspond as a rule to the market prices of the financial assets and liabilities.

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

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

Other financial assets

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

Inventories

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

Consolidated Notes

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 and O_2 are disclosed in the balance sheet as balances in each case. Any receivables which result from the calculation of the balance are disclosed in the other current assets; any liabilities are disclosed under the trade accounts payable.

Liabilities

Financial liabilities are disclosed at cost of acquisition carried forward in accordance with IAS 39. Directly attributable issue costs are deducted when the financial liabilities are taken out and distributed as operating results over the entire term.

Leases

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

Assets held within the framework of finance leases are capitalised at the beginning of the lease at fair value or, if this value is lower, at the cash value of the minimum leasing instalment and written off subsequently over a straight-line schedule. The corresponding liability to the lessor is recorded in the balance sheet as obligation from finance lease. The leasing instalments are allocated proportionately to financing expenses and reduction in the lease obligation so that over the periods a constant interest rate on the remaining balance of the obligations is created for each reporting period. Payments from operating leases are recorded according to the straight-line method as operating results over the term of the pertinent lease.

Pension provisions

Pension provisions for merit-based pension commitments are determined actuarially according to the projected unit credit method and disclosed in the balance sheet on the basis of an assessor's valuation on the balance sheet date.

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

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

Short-term provisions

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

Deferred taxes

Deferred taxes are shown according to the liability method for all temporary dif-

Consolidated Notes

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

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

Long-term incentive components

The variable compensation for Management Board members and other executive employees contains a long-term incentive component that will not be paid until fiscal year 2016. A provision has been created on the basis of the fair value.

Application of assumptions and estimates

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

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

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

Consolidated Notes

Explanatory comments on the consolidated comprehensive income statement

1. Sales

	2014	2013
	€k	€k
Telecommunications		
Service revenues	284,596	277,236
Other revenues	5,052	13,233
	289,648	**290,469**

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

2. Other operating income

	2014	2013
	€k	€k
Receipt of written-off receivables	410	1,037
Reversal of provisions and liabilities	285	1,054
Insurance benefits/Reimbursement of dunning fees	100	192
Other	605	1,486
	1,400	**3,769**

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

	2014	2013
	€k	€k
Wages and salaries	22,300	21,660
Social contributions	2,297	2,145
	24,597	**23,805**

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The number of employees (excluding Management Board) came to:	2014	2013
Annual average	353	356
Annual average - vocational trainees	49	61

5. Other operating expenses

	2014	2013
	€k	€k
Advertising expenses	14,096	9,714
Billing and external work	6,666	7,671
Bad debts and valuation allowances	5,354	3,925
Legal and professional fees	3,060	2,898
Rent and secondary costs	1,933	1,775
Postal and telephone fees / Dedicated lines	933	740
Incidental costs for money transactions	618	636
Travel and entertainment expenses	379	490
Vehicle costs	325	371
Other	2,634	2,240
	35,998	**30,460**

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

In the fiscal year, €1,468k (previous year: €1,301k) from rent and leasing payments was included in expenditures.

6. Depreciation and amortisation

	2014	2013
	€k	€k
Intangible assets		
Own produced software	2,123	2,131
Purchased software/licences	6,941	6,677
Tangible assets	857	836
	9,921	**9,644**

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7. Financial results

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

In the previous year, this item contained the portion of the updating of the proportional equity of the holding in freenet AG disclosed in the balance sheet according to the equity method and recorded as operating results up to March 2013.

Other financial results

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

Interest income/Interest and similar expenses

The interest income results solely from the valuation category of the "Loans and Receivables". Interest and similar expenses are allocated solely to the valuation category financial liabilities measured at amortised cost of acquisition ("Loans and Receivables").

Interest and other expenses include bank charges and commissions in the amount of €447k (previous year: €792k).

Interest results improved by €46.4m to €-2.7m. The change over the previous year is primarily a consequence of interest expense of €37.5m incurred in 2013 in the context of the repayment of debenture bonds.

8. Taxes on income

	2014	2013
	€k	€k
Current taxes on income	15,627	9,938
Deferred tax reimbursements	6,904	12,239
Disclosed expenses for income taxes	**22,531**	**22,177**

Taxes on income which have either been paid or which are owed as well as deferred taxes are disclosed as taxes on income. Taxes on income comprise corporate income tax, solidarity surcharge and trade tax. Effective and deferred taxes are levied on stock companies as follows: corporate income tax 15.0% (previous year: 15.0%), solidarity surcharge of 5.5% (previous year: 5.5%) and trade tax, levied according to the rates charged in the specific municipality.

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

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	2014	2013
	€k	€k
Profit before taxes on income	**72,606**	**177,951**
Tax expenses from application of Group's income tax rate of 30.25% (previous year 30.25%)	21,963	53,830
Taxes for previous year	-537	1,511
Trade tax additions	1,147	1,638
Non-deductible expenses and tax-exempt income	81	-28,627
Tax effects from accumulated deficits carried forward – deferred taxes	0	-5,719
Tax effects from accumulated deficits carried forward – taxes on income	0	-485
Other effects	-123	29
	22,531	**22,177**

The deferred taxes are calculated on the basis of the tax rates which are applicable according to the present legal situation or which are expected at the point in time of realisation. A tax rate of about 30.25% (previous year: about 30.25%) was applied, comprising corporate income tax of 15.0%, the solidarity surcharge of 5.5% and an average trade tax rate of 14.43%.

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

	2014	2013
	€k	€k
Deferred tax reimbursements for		
Other intangible assets	108	124
Leasing liabilities	634	337
Pension provisions	1	13
Accumulated deficits carried forward	0	6,900
	743	**7,374**
Deferred tax liabilities for		
Other intangible assets	2,229	2,229
Leasing assets	630	333
Other equity	-239	-88
Pension provisions	4	0
Debenture bonds	427	454
	3,051	**2,928**

Of the deferred tax reimbursements, €324k (previous year: €157k) is related to current assets and €419k (previous year: €317k) to fixed assets and liabilities as well as €0k (previous year: €6,900k) to accumulated deficits carried forward. Of the deferred tax payments, €0 (previous year: €0k) is related to current assets and €3,051k (previous year: €2,928k) to long-term assets and liabilities.

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Explanatory comments on the consolidated balance sheet

9. Other intangible assets

	Trademarks	Customer relationships	Own produced software	Purchased software/ licences	Total
	€k	€k	€k	€k	€k
Acquisition and manufacturing costs					
Per 1 January 2013	**7,367**	**8,650**	**22,521**	**36,867**	**75,405**
Additions	0	0	2,270	61	2,331
Disposals	0	0	18	846	864
Per 31 December 2013	**7,367**	**8,650**	**24,773**	**36,082**	**76,872**
Additions	0	0	1,757	4,980	6,737
Disposals	0	0	0	745	745
Per 31 December 2014	**7,367**	**8,650**	**26,530**	**40,317**	**82,864**
Accrued depreciation					
Per 1 January 2013	**0**	**8,650**	**18,994**	**7,035**	**34,679**
Additions	0	0	2,131	6,677	8,808
Disposals	0	0	0	843	843
Per 31 December 2013	**0**	**8,650**	**21,125**	**12,869**	**42,644**
Additions	0	0	2,123	6,941	9,064
Disposals	0	0	0	146	146
Per 31 December 2014	**0**	**8,650**	**23,248**	**19,664**	**51,562**
Book values					
Per 31 December 2013	7,367	0	3,648	23,213	34,228
Per 31 December 2014	**7,367**	**0**	**3,282**	**20,653**	**31,302**

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

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

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

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10. Goodwill

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

	Acquisition costs	Accrued depreciation per 31 December 2014	Book values
	€k	€k	€k
Drillisch Telecom GmbH	89,314	22,976	66,338
IQ-optimize AG	103	41	62
eteleon AG	806	0	806
	90,223	**23,017**	**67,206**

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

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

The value of the goodwill was reviewed using the amounts realisable for these cash-generating entities, calculated on the basis of their values of use. The values of use result from the discounted future cash flows. The company budget approved by management for the years 2015 to 2019 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 2019. The major fundamental assumption for the planning of the cash-generating units is the number of subscribers and the gross profit planning based on this subscriber number and our experience.

Cash flow was discounted at the following interest rates before taxes:

	Detailed budget period	Subsequent period	Detailed budget period	Subsequent period
	2014	2014	2013	2013
Drillisch Telecom GmbH	7.35 %	6.85 %	9.28 %	8.78 %
IQ-optimize AG	7.66 %	7.16 %	9.28 %	8.78 %
eteleon AG	7.23 %	6.73 %	9.28 %	8.78 %

A devaluation of goodwill was not required in fiscal year 2014. 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 2013	**6,303**	**244**	**6,547**
Additions	1,040	0	1,040
Disposals	2,038	0	2,038
Per 31 December 2013	**5,305**	**244**	**5,549**
Additions	2,606	0	2,606
Disposals	807	0	807
Per 31 December 2014	**7,104**	**244**	**7,348**
Accrued depreciation			
Per 1 January 2013	**4,861**	**221**	**5,082**
Additions	835	1	836
Disposals	1,781	0	1,781
Per 31 December 2013	**3,915**	**222**	**4,137**
Additions	855	2	857
Disposals	242	0	242
Per 31 December 2014	**4,528**	**224**	**4,752**
Book values			
Per 31 December 2013	1,390	22	1,412
Per 31 December 2014	**2,576**	**20**	**2,596**

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

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

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

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13. Inventories

	2014	2013
	€k	€k
Merchandise	3,044	3,590
Value allowances for merchandise	-23	-6
Payments on account	2,467	2,658
	5,488	**6,242**

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

14. Trade accounts receivable

	2014	2013
	€k	€k
Gross receivables	49,680	47,659
Valuation allowances on receivables	-2,177	-2,432
	47,503	**45,227**

Analysis of maturity of trade receivables

	Book value	Thereof neither devalued nor overdue as of closing date	Thereof not devalued as of closing date and overdue in the following time spans			
			Less than 30 days	Between 31 and 90 days	Between 91 and 180 days	More than 180 days
	€k	€k	€k	€k	€k	€k
31 December 2014	47,503	37,291	4,411	1,104	1,341	3,356
31 December 2013	45,227	39,369	1,428	655	866	2,784

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 €118k has been agreed. As long as the debtors are in compliance with their payment obligations, no valuation allowances will be taken and the receivables will continue to be measured at cost of acquisition.

In the Drillisch Group, valuation allowances are created on doubtful receivables to take into account estimated losses which result from customers' insolvency. The criteria used by management for the assessment of the reasonableness of the valuation allowances for doubtful receivables are the maturity structure of the receivable balances and experience related to the write-offs of receivables in the past, the

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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:

Value allowances

	2014	2013
	€k	€k
Valuation allowances per 1 January	**2,432**	**1,077**
Additions (expenses for valuation allowances)	10,777	9,844
Consumption / Reversal	-11,032	-8,489
Valuation allowances per 31 December	**2,177**	**2,432**

15. Tax reimbursement claims

	2014	2013
	€k	€k
Corporate income tax	1,507	863
Trade tax	0	152
	1,507	**1,015**

16. Other current assets

	2014	2013
	€k	€k
Residual claim from settlement	799	799
Advance payments	565	440
Security deposits	59	59
Other	600	1,262
	2,023	**2,560**

17. Equity

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

The Annual General Meeting of 21 May 2014 adopted a resolution to distribute a dividend of €1.60 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 to-

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talled 48,000,000, resulting in a total disbursement of €76,800k.

Management Board and Supervisory Board will propose a dividend of €1.70 for each share entitled to dividends to this year's Annual General Meeting. Based on the share capital entitled to dividends, the calculated disbursement will amount to €90.4m.

Treasury stock

The Annual General Meeting on 28 May 2010 adopted a resolution authorising the Drillisch AG Management Board to acquire own shares totalling up to 10% of the share capital at the time of the Annual General Meeting 2010 (5,318,901 shares) on or before 27 May 2015. This authorisation was exercised in fiscal years 2011, 2012 and 2013, and own shares in the amount of 5,189,015 shares were repurchased, reducing the share capital by €5,707,916.50.

In fiscal year 2014, the Company exercised the authorisation to utilise treasury stock and sold 5,189,015 own shares equivalent to €5,707,916.50 of the share capital (9.76%) for €142.7m. €1.10 of the purchase price per share was attributed to subscribed capital. The surplus amount was attributed to the capital surplus. The revenue from the sale will be used to finance the acquisition of companies.

In the Annual General Meeting on 21 May 2014, the current authorisation was revoked and the Company was re-authorised to acquire (using derivatives as necessary) and to utilise treasury stock so that additional shares of treasury stock can be acquired in the interest of the Company and the acquired own shares can be re-utilised. Pursuant to Section 71 (1) no. 8 AktG, the Company is therefore authorised to acquire own shares within the limits of statutory provisions which is not to exceed a total of 10% of the share capital existing at the point in time of the adoption of the resolution and subject to the condition that no more than 10% of the share capital may be attributable at any point in time to the acquired shares in combination with any other treasury stock in the Company's possession or attributable to the Company pursuant to Sections 71a et seqq. AktG. The authorisation may not be exercised for the purpose of trading with treasury stock. The authorisation is valid to the end of 20 May 2019.

Capital surplus

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

Earnings reserves

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

Approved capital

The authorisation granted to the Management Board by the Annual General Meeting on 16 May 2013 to increase the Company's share capital (approved capital), subject to the consent of the Supervisory Board, was revoked effective per

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21 May 2014. The authorisation was never exercised.

The Annual General Meeting of 21 May 2014 authorised the Management Board, subject to the approval of the Supervisory Board, to increase the Company's share capital by as much as €23,403,166.60 by a single or multiple issue of new shares against cash contributions and/or contributions in kind before the lapse of 20 May 2019 (approved capital). In the event of cash contributions, the new shares may also be taken over by one or more banks or other companies fulfilling the prerequisites of Section 186 (5) first sentence AktG, subject to the obligation to offer them for purchase to the shareholders (indirect subscription right). On principle, a subscription right is to be granted to the shareholders. However, the Management Board is authorised, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights:

- So that fractional amounts are excluded from the subscription right;
- If the capital increase is achieved by cash contributions and the issue price of the new shares is not significantly lower than that of the equivalent shares already traded on the exchange at the time of the final determination of the issue price by the Management Board. The total number of shares issued subject to exclusion of the subscription pursuant to Section 186 (3), fourth sentence AktG may not exceed 10% of the share capital, neither at the point in time at which the authorisation becomes effective nor at the point in time that it is exercised. Any shares which have been issued or must be issued to satisfy subscription rights from options or convertible bonds, provided that the debenture bonds have been issued during the term of this authorisation subject to application mutatis mutandis of Section 186 (3), fourth sentence AktG and excluding the subscription right, must be included in this figure. Furthermore, any shares which are issued or sold subject to the exclusion of a subscription right during the term of this authorisation on the basis of an authorisation for the use of treasury stock in accordance with Section 71 (1) no. 8 and Section 186 (3) fourth sentence AktG must be included in this figure;
- To the extent that, as protection from dilution, it is necessary to grant to the holders or creditors of option or conversion rights from option or conversion bonds which have been, or will be, issued by the Company and/or subordinate group undertakings subscription rights in the scope to which said persons would be entitled after the exercise of their conversion or option rights or after fulfilment of the conversion obligation;
- If the capital increase against contributions in kind is carried out for the purpose of providing shares within the framework of corporate mergers or of acquiring companies or parts of companies, holdings in companies or other assets;
- So that new shares up to a proportionate amount of the share capital totalling €2,925,395.00 may be issued as staff shares to employees of the Company or of affiliated companies within the sense of Section 15 et seqq. AktG.

This authorisation is restricted to the extent that, after exercise of the authorisation, the total value of the shares subject to exclusion of a subscription right

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

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

Contingent capital

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

The Management Board was authorised by the Annual General Meeting on 21 May 2014, subject to the consent of the Supervisory Board, to increase contingently by 20 May 2019 the share capital by no more than €17,600,000.00 through the issue of no more than 16,000,000 no-par bearer shares entitled to participate in profits from the beginning of the fiscal year in which they are issued. The contingent capital increase serves to grant shares to the holders or creditors of option bonds, conversion bonds and/or income bonds with a total nominal value of no more than €750,000,000.00 issued against cash payment, pursuant to the authorisation granted by the Annual General Meeting of 21 May 2014, by the Company or by a company in which the Company, directly or indirectly, holds a majority interest. The contingent capital increase is to be carried out solely to the extent that the option and/or conversion rights from the debenture bonds are exercised or that conversion obligations from the debenture bonds are fulfilled, and provided that cash compensation is not paid or that treasury stock is not utilised for this purpose. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the details of the conduct of the contingent capital increase (contingent capital 2014).

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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 2013	**2,242**
Additions	561
Disposals	1,123
Per 31 December 2013	**1,680**
Additions	1,503
Disposals	295
Per 31 December 2014	**2,888**
Accrued depreciation	
Per 1 January 2013	**1,174**
Additions	528
Disposals	1,123
Per 31 December 2013	**579**
Additions	521
Disposals	295
Per 31 December 2014	**805**
Book values	
Per 31 December 2013	1,101
Per 31 December 2014	**2,083**

Leasing liabilities	Up to 1 year	1 – 5 years
	€k	€k
Leasing payments	941	1,251
Interest	56	39
Cash values	**885**	**1,212**

Various fixed assets were sold to GE-FA-Leasing GmbH, Wuppertal, and then leased back on the basis of sale-and-lease transactions. The cash value of the leasing instalments was carried as a liability. The leasing agreements contain options for extension or purchase.

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19. Pension provisions

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

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

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

Calculation parameters	2014	2013
	%	%
Calculated interest rate	2.06	3.60
Expected income from scheme assets	4.00	5.00
Expected development of income	0.00	0.00
Expected development of pensions	0.00	0.00
Fluctuation	0.00	0.00

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

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	2014	2013
	€k	€k
Cash value of pension expectancies for merit-based pension commitments (DBO)	1,868	1,310
Fair value of scheme assets	343	334
Shortfall of scheme	**1,525**	**976**
Adjustment of obligations based on experience	20	-2
Adjustment of scheme assets based on experience	-4	-60

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

Balance sheet obligations	2014	2013
	€k	€k
Cash value of pension expectancies for pension commitments (DBO)	1,868	1,310
Actuarial profits (+)/losses (-) not considered	0	0
Costs for changes in claims from previous years not considered	0	0
Market value of scheme assets	-343	-334
Pension provisions per 31 December	**1,525**	**976**

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)	2014	2013
	€k	€k
Per 1 January	**1,310**	**1,315**
Costs for pension claims acquired in fiscal year	13	8
Interest	47	45
Pension payments	0	0
Service period expenses to be offset retroactively	0	0
Actuarial profits (-)/losses (+)	498	-58
Other changes	0	0
Per 31 December	**1,868**	**1,310**

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

Pension expenditures (NPPC)	2014	2013
	€k	€k
Costs for pension claims acquired in fiscal year	13	8
Interest	47	45
Expected income from scheme assets	-13	-19
Actuarial gains/losses recognised in operating results	0	0
Service period expenses to be offset retroactively	0	0
	47	**34**

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

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The reinsurance developed as follows:

Development of fair value of scheme assets	2014	2013
	€k	€k
Per 1 January	**334**	**375**
Expected income from scheme assets	13	19
Actuarial profits (+)/losses (-)	-4	-60
Per 31 December	**343**	**334**

Actual income from scheme assets	2014	2013
	€k	€k
Expected income from scheme assets	13	19
Actuarial gains (+)/losses (-)	-4	-60
Per 31 December	**9**	**-41**

No contributions were made to the reinsurance for fiscal year 2014. The scheme assets derive exclusively from one reinsurance policy.

Sensitivity analysis

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

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

Schemes oriented to contributions exist as well. This does not result in any obligations for Drillisch AG beyond the payment of the contributions to external institutes. Expenses for schemes oriented to contributions of this type amounted to €1.6m in the fiscal year (previous year: €1.5m).

20. Bank loans and overdrafts/ debenture bonds

Bank loans and overdrafts

A revolving loan agreement for a total of €100.0m was agreed between the Commerzbank Aktiengesellschaft, Frankfurt, and the BHF-Bank Aktiengesellschaft, Frankfurt, as the arrangers and Drillisch AG on 19 December 2014. The loan was not utilised in fiscal year 2014. The interest rate compromises two components: the EURIBOR applicable to the relevant interest period and a margin agreed in the loan agreement. The loan agreement runs until 19 December 2019.

The applicable margin is oriented to the ratio of consolidated net financial debt to consolidated EBITDA on the basis of the 12 months previous to the relevant quarterly closing date. The minimum margin is 0.85% which is reached for a ratio of

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consolidated net financial debt to consolidated EBITDA is less than 0.5 to 1. If this ratio is greater than 2 to 1, the maximum possible margin of 1.1% applies.

The loan is tied to a specific financial indicator (degree of indebtedness); in the event of failure to comply with this indicator, the loan agreement may be terminated. The Company was in compliance with these criteria throughout fiscal year 2014.

The interest expenses related to the loans totalled €0k in fiscal year 2014. In the previous year, the interest expenses related to the loan agreement which had been terminated per 31 December 2013 amounted to €233k.

Debenture bonds

In December 2013, Drillisch AG issued a non-subordinated convertible bond with a total volume of €100.0m and a term of five years. The convertible bond includes an annual coupon of 0.75%. The bond was issued at 100% of the nominal value and will also be redeemed at 100%. It has been possible to convert the bonds with a nominal value of €100k each into Drillisch AG stock since 22 January 2014, In accordance with the terms and conditions of the bonds, the conversion price was adjusted from the original €24.2869 to €22.8509 per share following the disbursement of a cash dividend in May 2014, corresponding to 4,376.195 shares per partial debenture. The term of the bond ends on 12 December 2018.

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

21. Short-term provisions

	Per 01/01/2014	Utilisations	Reversals	Creations	Per 31/12/2014
	€k	€k	€k	€k	€k
Litigation risks	126	74	25	0	27
Other	79	0	0	0	79
	205	**74**	**25**	**0**	**106**

Drillisch Group presumes that there will be an outflow of funds in fiscal year 2015.

Consolidated Notes

22. Tax liabilities

	2014	2013
	€k	€k
Corporate income tax	392	1,432
Trade tax	6,201	4,713
Turnover tax	789	3,599
	7,382	**9,744**

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.

25. Other liabilities

	2014	2013
	€k	€k
Payroll	8,112	6,281
Deferred revenue	4,182	671
Income tax	395	322
Liabilities due to sales partners/customers	336	2,541
Employers' liability insurance association	68	53
Security deposits	11	11
Other	682	389
	13,786	**10,268**

Liabilities for wages and salaries include €4.3m (previous year: €2.6m) with long-term character.

Consolidated Notes

26. Analysis of maturity

	2014 Book value	Cashflow 2015 < 1 month	Cashflow 2015 1 to 3 months	Cashflow 2015 3 months to 1 year	Cash flow 2016–2020 > 1 year
	€k	€k	€k	€k	€k
Debenture bonds	88,787	0	0	750	102,250
Trade accounts payable	21,784	21,774	0	0	0
Liabilities from finance leasing	2,097	84	169	687	1,251
Other liabilities	13,786	9,487	0	0	4,267

27. Net profits and losses from valuation categories

	Interest	from subsequent valuation at fair value	from subsequent valuation valu-ation allow-ances	from disposal	Net results 2014	Net results 2013
	€k	€k	€k	€k	€k	€k
Loans and receivables	317	0	-5,354	410	-4,627	-2,196
Available for sale (AFS – operating results)	0	0	0	0	0	-5,955
Trade values	0	0	0	0		
– Call option		0	0	0	0	82
– Hedge transactions	0	0	0	0	0	25,904
– Debenture bond (derivative)	0	0	0	0	0	13,625
Liabilities at cost of acquisition (carried forward)	-3,321	0	0	0	-3,321	-49,691
	-3,004	**0**	**-5,354**	**410**	**-7,948**	**-18,231**

Consolidated Notes

28. Other financial obligations

	Rents	Leasing	Total	Previous year
	€k	€k	€k	€k
Due in less than 1 year	1,172	137	1,309	1,445
Due in 1 to 5 years	2,927	31	2,958	4,636
Due in more than 5 years	686	0	686	676
	4,785	**168**	**4,953**	**6,757**

On 2 January 2015, Drillisch AG executed the letter of intent regarding the purchase of the shares of yourfone GmbH, Hamburg, concluded with E-Plus Mobilfunk GmbH & Co. KG in November 2014 and acquired the company, including all of the trademark rights and the clientele.

As a consequence of the acquisition of yourfone GmbH, Hamburg, there are financial obligations from pending transactions. The provisional net purchase price amounts to €51.4m and is calculated as the purchase price less acquired cash and a receivable from the seller.

In concluding the agreement with Telefónica Germany GmbH & Co. OHG (Telefónica) in 2014, Drillisch undertook the obligation to contribute to the investments being made by Telefónica for the expansion of the 4G network and future technologies. In return, Telefónica granted to Drillisch (among other concessions) an accelerated and unconditional right to enter the market for 4G as well as even more sophisticated future technologies. In accordance with these agreements, Drillisch will make a one-time payment totalling €150m to Telefónica in 2015.

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

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 implemented throughout Drillisch Group. Market, liquidity and loan risks of the Group can be identified and appropriate measures and strategies determined with the aid of this financial reporting system. The risks are managed centrally in accordance with guidelines adopted by the Management Board.

Drillisch Group is subject to various threats in its business fields. These threats and their management are described in detail in the risk report which is part of the consolidated management report. In cases in which no special provisions must be observed, the taxable equity is the equity as disclosed in the balance sheet. Capital management is described under Section 2.5 of the consolidated management report.

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

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

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

IFRS 7 requires sensitivity analyses to show market risks. The influence of risk variables on earnings and equity is to be described by hypothetical changes in these variables based on past experience.

Financial instruments which are measured at cost of acquisition are not subject to any risks from changes in the market interest level.

Original financial instruments with a variable interest rate are subject to market interest risks and are included in the sensitivity analysis. No such financial instruments existed on the balance sheet closing date.

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

Miscellaneous disclosures about financial instruments

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

Consolidated Notes

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

		Measurement according to IAS 39			
	Book value 31/12/2014	Cost of acquisition (carried forward)	Fair value non-operating results	Fair value operating results	Fair value 31/12/2014
	€k	€k	€k	€k	€k
Assets					
Trade accounts receivable	47,503				
Loans and receivables	47,503	47,503			47,503
Other current assets	2,023				
Loans and receivables	1,457	1,457			1,457
No financial instrument	566	566			566
Total financial assets	**48,960**	**48,960**	**0**	**0**	**48,960**
Shareholders' equity					
Trade accounts payable	21,784				
Loans and receivables	21,784	21,784			21,784
Debenture bonds	88,787				
Loans and receivables	88,787	88,787			88,787
Other liabilities	13,786				
Loans and receivables	377	377			377
No financial instrument	13,409				13,409
Total financial liabilities	**110,948**	**110,948**	**0**	**0**	**110,948**
Summarised according to valuation categories of IAS 39		**Measurement according to IAS 39**			
Financial assets					
Loans and receivables	48,960	48,960			48,960
Total financial assets	**48,960**	**48,960**	**0**	**0**	**48,960**
Financial liabilities					
Loans and receivables	110,948	110,948			110,948
Total financial liabilities	**110,948**	**110,948**	**0**	**0**	**110,948**

Consolidated Notes

		Measurement according to IAS 39			
	Book value 31/12/2013	Cost of acquisition (carried forward)	Fair value non-operating results	Fair value operating results	Fair value 31/12/2013
	€k	€k	€k	€k	€k
Assets					
Trade accounts receivable	45,227				
Loans and receivables	45,227	45,227			45,227
Other current assets	2,560				
Loans and receivables	2,120	2,120			2,120
No financial instrument	440				0
Total financial assets	**47,347**	**47,347**	**0**	**0**	**47,347**
Shareholders' equity					
Trade accounts payable	15,775				
Loans and receivables	15,775	15,775			15,775
Debenture bonds	86,216				
Loans and receivables	86,216	86,216			86,216
Other liabilities	10,268				
Loans and receivables	2,583	2,583			2,583
No financial instrument	7,685	0			0
Total financial liabilities	**104,574**	**104,574**	**0**	**0**	**104,574**
Summarised according to valuation categories of IAS 39		**Measurement according to IAS 39**			
Financial assets					
Loans and receivables	47,347	47,347			47,347
Total financial assets	**47,347**	**47,347**	**0**	**0**	**47,347**
Financial liabilities					
Loans and receivables	104,574	104,574		0	104,574
Total financial liabilities	**104,574**	**104,574**	**0**	**0**	**104,574**

Consolidated Notes

Financial assets and liabilities measured at fair value must be classified according to various valuation levels (so-called fair value hierarchy). The hierarchy levels are based on the factors used to determine the fair value. Level 1 utilises the quoted price (unadjusted) on active markets for identical assets or liabilities. Level 2 utilises inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 utilises inputs which are not based on observable market data and must be determined on the basis of valuation methods.

As in the previous year, there were no financial receivables and liabilities measured at fair value per 31 December 2014.

30. Segment reporting

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

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

The holding in freenet AG was presented in the freenet holding segment. freenet AG was disclosed in the consolidated annual accounts in accordance with the equity method and the profit disclosed in the Equity results until March of 2013.

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

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Segment Report 01/01/2014 – 31/12/2014	Telecommunications	Software services	freenet holding	Total
	€k	€k	€k	€k
Sales with third parties	289,595	53	0	289,648
Inner-company sales	0	7,348	0	7,348
Consolidation	0	-7,348	0	-7,348
Segment sales	**289,595**	**53**	**0**	**289,648**
Segment EBITDA	**85,268**	**-65**	**0**	**85,203**
Amortisation and depreciation	-9,921	0	0	-9,921
Segment EBIT	**75,347**	**-65**	**0**	**75,282**
Result from financial investments shown in the balance sheet according to the equity method	**0**	**0**	**0**	**0**
Result from fair value measurement of hedge transactions	0	0	0	0
Result from fair value measurement of financial derivatives related to the issue of a debenture bond	0	0	0	0
Result from change in valuation methods	0	0	0	0
Other financial results	0	0	0	0
Other financial results per comprehensive income statement	0	0	0	0
Interest income	911	0	0	911
Interest and similar expenses	-3,587	0		-3,587
Financial result	**-2,676**	**0**	**0**	**-2,676**
Profit before taxes	**72,671**	**-65**	**0**	**72,606**
Taxes on income	**-22,531**	**0**		**-22,531**
Consolidated results	**50,140**	**-65**	**0**	**50,075**

Consolidated Notes

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

Consolidated Notes

The Group's assets and liabilities are almost exclusively attributable to the telecommunications segment.

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 non-operating segment expenses and income 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 which are disclosed under Cash in the consolidated balance sheet.

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

32. Auditor's fee

	2014	2013
	€k	€k
1. Audit services	269	278
2. Other certification services	49	75
3. Tax accountant services	165	184
4. Other services	191	60
	674	**597**

33. Related party disclosures

Per 31 December 2014, there were amounts (income and expenses) owed from and owed to relatives and companies as shown below:

The company PM Choulidis oHG, Gelnhausen, consisting of the shareholders Paschalis Choulidis and Marianne Choulidis, has let office space in Maintal to Drillisch Group. The lease runs until 31 December 2020. Rent expenses in 2014 came to €507k (previous year: €507k).

The company VPM Immobilien Verwaltungs GmbH, Maintal (partners: Vlasios Choulidis, Paschalis Choulidis and Marc Brucherseifer), has let office space in Maintal to Drillisch Group. The lease runs until 31 December 2020. Rent expenses in 2014 came to €157k (previous year: €0k).

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

Consolidated Notes

There were no amounts due to or due from the related parties mentioned above per 31 December 2014.

The company Frequenzplan GmbH, Gräfelfing (shareholder Mr Tobias Valdenaire), realised sales in the amount of €376k (previous year: €366k) with Drillisch Group in fiscal year 2014. The amount of €13k (previous year: €23k) was owed to this company per 31 December 2014.

The company Flexi Shop GmbH, Frankfurt am Main (shareholder Mr Jannis Choulidis), realised sales in the amount of €103k (previous year: €151k) with Drillisch Group in fiscal year 2014. The amount of €53k (previous year: €12k) was owed to this company per 31 December 2014.

34. Supervisory Board

Marc Brucherseifer, Dipl.-Kfm.
Merchant, Cologne
- *Chairperson* -
Seats held on supervisory boards required by law or other supervisory bodies:
IQ-optimize Software AG, Maintal
(Supervisory Board chair)

Dr Susanne Rückert
Lawyer, Düsseldorf
- *Deputy Chair* -

Johann Weindl, Dipl.-Kfm.
Chartered Public Accountant and Tax Accountant, Munich

Horst Lennertz, Dr.-Ingenieur
(Doctor of Engineering), Consultant, Meerbusch
Seats held on supervisory boards required by law or other supervisory bodies:
E-Plus Mobilfunk Geschäftsführungs GmbH, Düsseldorf (until 12 November 2014)

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

Dr Bernd H Schmidt
CEO, Saarbrücken

The following members of the Supervisory Board were members of the following committees in 2014:

Audit Committee: Mr Weindl (until 20 March 2014), Dr Schmidt, Dr Lennertz and Mr Rothauge; chair: Mr Weindl (until 20 March 2014), Mr Rothauge (since 7 July 2014)

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

Consolidated Notes

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 AG, Munich
IQ-optimize Software AG, Maintal

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

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

Compensation paid to Management Board members in 2014 totalled €3,873k, thereof €2,580k variable (previous year: €3,215k, thereof €1,910k variable). The variable compensation includes a long-term incentive component (LTI) for fiscal year 2014 in the amount of €1,200k (previous year: €610k). The LTI programme has a term from 1 January 2011 to 31 December 2015. The total provisions for the LTI programme amount to €2,860k. There will not be any disbursement until after the expiration of the LTI program in fiscal year 2016. In addition, the Management Board members received compensation for their activities as Supervisory Board members of subsidiaries in the amount of €19k (previous year: €19k).

Compensation paid to the members of the Supervisory Board for their work in the parent company in the reporting period amounted to €356K (previous year: €373k).

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 2014, the Management Board members held the following stock in Drillisch AG:	
Paschalis Choulidis	425,000 shares
Vlasios Choulidis	400,000 shares

The Supervisory Board members held the following stock in Drillisch AG as per 31 December 2014:	
Marc Brucherseifer, Dipl.-Kfm.	1,077,565 shares
Johann Weindl, Dipl.-Kfm.	10,439 shares
Horst Lennertz, Dr.-Ing.	2,407 shares

➡ Management Board and Supervisory Board hold a total of 3.61% of the stock of Drillisch AG per 31 December 2014.

Consolidated Notes

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 20 March 2014 and made it permanently accessible to shareholders at the Internet address www.drillisch.de.

39. Profit per share

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

The diluted profit per share is calculated in accordance with IAS 33.30 et seqq. by dividing the consolidated results, adjusted for the after-tax effects of any interest recognised in the period related to potential ordinary shares, from continuing business operations by the weighted average number of shares outstanding plus the weighted number of shares which would be issued on the conversion of all dilutive potential shares into ordinary shares.

	2014	2013
Consolidated profit in €k	50,075	155,774
Weighted average less own shares held (number)	48,540,226	48,018,543
Undiluted consolidated profit per share in €	**1.03**	**3.24**
Consolidated profit in €k	50,075	155,774
Net effect on results from convertible bond in €k	2,316	94
Adjusted consolidated profit in €k	**52,391**	**155,868**
Weighted average less own shares held (number)	48,540,226	48,018,543
Shares from convertible bond to be included as average (number)	4,276,240	214,333
Adjusted weighted average less own shares held (number)	**52,816,466**	**48,232,876**
Diluted consolidated profit per share in €	**0.99**	**3.23**

Consolidated Notes

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 2013:

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

Maintal, 6 March 2015

Drillisch Aktiengesellschaft

Paschalis Choulidis und Vlasios Choulidis

Auditor´s Opinion

Auditor's Report

We have audited the consolidated financial statements prepared by the Drillisch Aktiengesellschaft, Maintal, comprising the consolidated statement of comprehensive income, the statement of financial position, statement of changes in equity, statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2014 to 31 December 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to sec. 315a para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Düsseldorf, 6 March 2015

BDO AG

Wirtschaftsprüfungsgesellschaft

signed Rauscher

Wirtschaftsprüfer (German Public Auditor)

signed ppa. Massing

Wirtschaftsprüfer (German Public Auditor)

Affidavity by legal representatives (balance sheet oath)

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

Maintal, 6 March 2015

Paschalis Choulidis and Vlasios Choulidis

Financial Calendar
Share Information

1. Financial Events Calendar

Financial Calendar 2015" Subject to change

Date	Subject
Friday, 20 March 2015	Annual Report 2014
Wednesday, 13 May 2015	Quarterly Close Q1 2015
Thursday, 21 May 2015	Annual General Meeting, Frankfurt
Thursday, 13 August 2015	Quarterly Close Q2 2015
Thursday, 12 November 2015	Quarterly Close Q3 2015

2. Investor Relations

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

3. Dividend Policy

The Annual General Meeting on 21 May 2014 adopted a resolution to pay a dividend of €1.60 per voting share for the past fiscal year 2013, an increase of 23%. For fiscal 2014, the general meeting will be provided with an increase of 6.25% to 1.70 per voting share. Our target for fiscal years 2015 and 2016 will be to disburse a dividend of the same amount as a minimum.

4. Current Analyst Assessments (Last revised 31 January 2015)

In view of the Company's performance (EBITDA of €70.8 million in fiscal year 2013 followed by €85.2 million (at the upper end of the forecast of between €82 million and €85 million) in fiscal year 2014 and a further increase to between €95 million and €100 million in fiscal year 2015) as well as a long-term dividend policy and the good strategic positioning on the German wireless services market, the capital market rates the Drillisch stock overall as promising.

Share Information

Latest analyst assessments (per 31 January 2015)

Analysis	Rating	Target	Date
Lampe	„Buy“	€39.00	22 January 2015
Citi	„Hold“	€42.00	15 January 2015
equinet	„Accumulate“	€35.00	13 January 2015
Close Brothers Seydler	„Buy“	€35.00	06 January 2015
Hauck & Aufhäuser	„Hold“	€30.00	15 December 2014
DZ Bank	„Buy“	€36.00	12 December 2014
LBBW	„Buy“	€33.00	09 December 2014
Goldman Sachs	„Buy“	€40.00	05 December 2014
Warburg Research	„Buy“	€32.00	17 November 2014
Commerzbank	„Reduce“	€23.00	14 November 2014

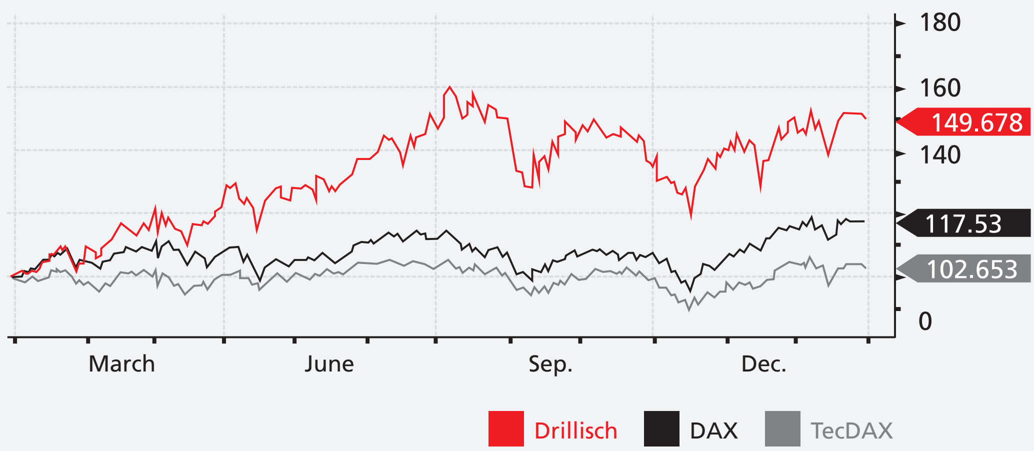
A constantly updated overview of the analysts' recommendations can be found on the Drillisch AG IR home page

www.drillisch.de

➡ Investor Relations ➡ Analysen

The performance of the Drillisch stock during 2014 in comparison with the indices

	2013 year end	2014 year end	%-change
Drillisch	€21.00	€29.58	+ 40.9
TecDAX	1,166.82	1,366.36	+ 17.1
DAX	9,552.16	9,805.55	+ 2.7

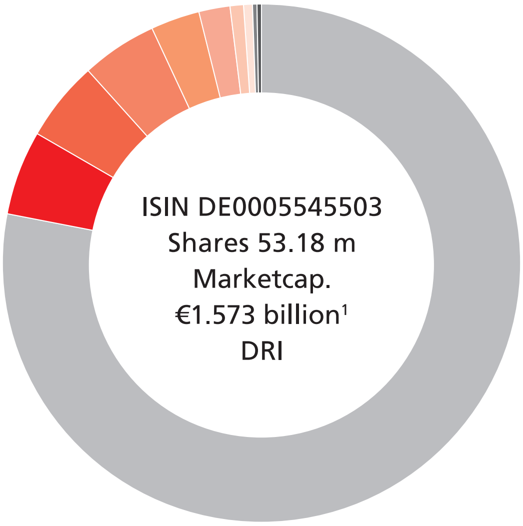


Share Information

5. Directors' Holdings per 31 December 2014

Management Board	No-par shares
Paschalis Choulidis	425,000 ➜ 0.80%
Vlasios Choulidis	400,000 ➜ 0.75%
Supervisory Board	**No-par shares**
Marc Brucherseifer, Dipl.-Kfm. (Chair)	1,077,565 ➜ 2.03%
Johann Weindl, Dipl.-Kfm.	10,439 ➜ 0.02%
Horst Lennertz, Dr.-Ing.	2,407 ➜ 0.01%

6. Shareholder Structure (as of 31 December 2014)



- 78.00% Free Float Shs. 41,490,385
- 5.18 % Fidelity Investment Trust St. 2.753.500
- 5.15 % Allianz Global Investors Europe GmbH Shs. 2,737,449
- 5.07 % Union Investment Privatfonds Shs. 2,694,500
- 3.00 % Alken Luxembourg S.A. Shs. 1,597,770
- 2.03 % M. Brucherseifer, Dipl.-Kfm. Shs. 1,077,565
- 0.75 % V. Choulidis Shs. 400,000
- 0.80 % P. Choulidis Shs. 425,000
- 0.02 % J. Weindl Shs. 10,439
- 0.01 % Dr. H. Lennertz Shs. 2,407

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 €29.58 on 31 December2014. Free Float acc. to the rule of Dt. Boerse AG: 100.00%.

Publications · Your Contacts
Information and Order Service

Publications

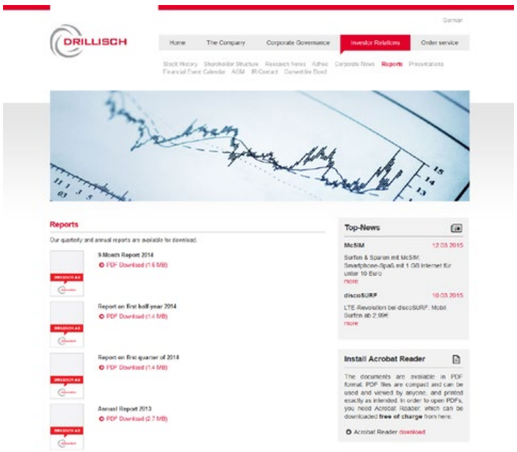
This Annual Report 2014 is also available in German.

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

Information and Order Service

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

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.



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Glossary

#

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

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

A

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

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

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

ARPU
(Abbreviation for *average revenue per user*) Shows the average revenue from each customer.

C

Cash Flow
Net inflow of all of the cash which results from sales activities and other ongoing activities during a specific period.

Consolidated Cash Flow Statement
The consolidated cash flow statement is the liquidity-oriented part of accounting. It represents a determination of the value of payment flows over the course of a fiscal year, broken down into the categories of current business operations, investment activities and financing activities. Incoming and outgoing payments during the relevant reporting period are compared with one another; on this basis, the changes in cash inventory are determined and explained.

Corporate Governance
Name of guidelines (code of conduct) for good management.

Credit Customer
Customer who has concluded a contract with a rate schedule designed by Drillisch and who is billed once monthly in the Company's own billing system.

D

DCF
(Abbreviation for *discounted cash flow*) A DCF analysis is based on the total of all of the cash flows projected for the future and discounts them to the present value.

Debit Customer
Customer who is billed in a network operator system in accordance with a prepaid rate schedule set by the network operator, requiring the prior top-up of the card with credit.

Directors' Dealings
Stock transactions undertaken by the Management Board or Supervisory Board or the relevant report of holdings.

Dividends
The dividend is the profit which is distributed proportionally for each share of stock in the stock corporation. The General Meeting of the stock corporation decides about the amount of the dividend and its distribution.

E

EBIT
Abbreviation for *earnings before interest and taxes.*

EBITDA
Abbreviation for *earnings before interest, taxes, depreciation and amortisation*, the most important performance indicator.

EDGE
(Abbreviation for *enhanced data rates for GSM evolution*) This special modulation protocol increases the transmission speed in ➡ GSM mobile telephony networks to as much as 473 kbit/s (in comparison: GPRS 171.2 kbit/s).

F

Flat Rates (mobile telephony services)
A flat rate is a lump-sum rate for telecommunications services such as telephony and data transmissions. The mobile telephone services industry offers flat rates for landline or mobile connections singly or as a combination flat rate for all networks.

Free Float
Number or proportion of shares which can be freely traded on the stock market rather than being held by strategic investors.

G

g~paid
Virtual cash card system which makes possible the secure distribution of activation codes for topping up ➡ pre-paid cards (e.g. in wireless networks, for online payment systems).

GPRS
(Abbreviation for *general packet radio service*) Technology providing higher data transmission rates in GSM networks (up to 171.2 kbit/s).

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

Glossary

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

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

MMS
(Abbreviation for *multimedia messaging service*) MMS makes it possible to use a mobile telephone to send multimedia messages – documents, pictures, even short video sequences – to other mobile end devices or to e-mail addresses.

Mobile Payment
Mobile payment (or m-payment) refers to the initiation, authorisation or realisation of payment (on the part of the debtor as a minimum) using a mobile electronic means of communication, e.g. cash card purchase using ➡ g~paid, payment of parking fees using a mobile phone or bank transfers via SMS.

Multimedia
Buzzword for the simultaneous integration of text information, still photos, video films and sounds.

MVNO (Mobile Virtual Network Operator)
Private telephone company without its own wireless network which, on its own behalf and for its own account, sells wireless services, ➡ SIM cards and wireless end devices as well as value-added services (e.g. ➡ SMS, SMS Premium, ➡ MMS). These services are based on standardised, unbundled advance services on the procurement side, allowing an MVNO significantly increased room for manoeuvring in the product and sales areas in comparison with an MSP.

N

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

No-frills Provider
These are products which are offered at comparatively low prices, but with very few options or additional features. On the wireless services market, the discounters are frequently referred to as "no-frills providers."

P

PIN
(Abbreviation for personal identification number) A number, usually consisting of four digits, saved on a data carrier, entered as verification when the holder uses a machine. The best-known examples are bank debit cards and cash points or ➡ SIM cards in a mobile phone. If the authorisation is blocked because of a series of incorrect entries, the device can no longer be used without entry of the ➡ PUK.

Post-paid
Payment model; the customer does not pay for the services he/she has used until the end of the statement period, when an invoice is issued.

Pre-paid
Payment model; the customer cannot use the services until a (pre-paid) account has been topped up.

Profit per Share
This figure shows the amount of the realised consolidated profit or deficit which can be appropriated to a single share of stock. The figure is calculated by dividing the results for the year (con-

Glossary

solidated 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.

Editorial Information

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This report contains certain statements oriented to the future which are based on the current assumptions and projections of the management of the Drillisch Group. Various risks, uncertainties and other factors, both known and unknown, can cause the actual results, financial position, development or performance of the Company to deviate substantially from the assessments shown here. Such factors include those which we described in reports to the Frankfurt securities exchange. The Company does not undertake any obligation to update such future-oriented statements and to adapt them to future events or developments.

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