DRILLISCH AG

Report on First Half-year 2017

BEST OFFERS FOR GERMAN MOBILE MARKET

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LTE 4G+

Up to 225 MBit/s

FLAT RATE in all German mobile networks

FLAT RATE in German landline network

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» **TODAY:** 4G+ LTE

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

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

DRILLISCH AG PREMIUM BRANDS

smartmobil.de

www.smartmobil.de

yourfone

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4 DATA AND FACTS

5 TO OUR SHAREHOLDERS
5 Letter from the Management Board

8 COMMERCIAL DEVELOPMENT OF THE DRILLISCH GROUP AS PER 30 JUNE 2017
9 Group Companies
11 The Wireless Services Market
15 Turnover and Earnings Position
18 Assets, Liabilities and Financial Position
20 Opportunities and Risk Report of the Future Business Development
20 Important events occurring after 30 June 2017 | Outlook

21 ABRIDGED CONSOLIDATED INTERIM ACCOUNTS PER 30 JUNE 2017
22 Consolidated Comprehensive Income Statement
23 Consolidated Balance Sheet
25 Consolidated Statement of Change in Capital
26 Consolidated Cash Flow Statement
27 Abridged Consolidated Notes

34 AFFIRMATION STATEMENT OF THE LEGAL REPRESENTATIVES

35 INVESTOR RELATIONS CORNER
36 Financial Calendar | Current Analyst Assessments
37 Share Price Development | Director's Holdings
38 Shareholder Structure

39 SERVICE CORNER
40 Publications | Contacts | Information and Order Service
41 Editorial Information
42 Drillisch AG Brands – the Choice is Yours!

Key Indicators of the Drillisch-Group	H1/2017	H1/2016	II/2017	I/2017	IV/2016	III/2016
Income Statement						
Revenue in €m	311.3	341.3	158.4	152.9	187.9	180.9
Service Revenues (total) in €m	307.8	261.6	156.6	151.1	146.9	142.9
MBA Service revenues in €m Gross[1]	279.6	196.0	144.6	134.9	128.9	120.4
MBA Service revenues in €m Net[2]	233.3	172.3	120.4	112.8	108.3	103.0
Gross profit in €m	145.8	137.1	73.6	72.1	73.2	68.6
Gross profit in % of revenue	46.8	40.2	46.5	47.2	39.0	37.9
EBITDA in €m	72.3	51.1	37.2	35.1	37.5	31.6
EBITDA in €m - adjusted*	74.0	51.1	38.9	35.1	37.5	31.6
EBITDA margin in % of revenue	23.2	15.0	23.5	23.0	20.0	17.5
EBITDA margin in % of revenue - adjusted*	23.8	15.0	24.6	23.0	20.0	17.5
Depreciation excluding goodwill in €m	29.7	24.5	15.3	14.5	15.6	12.1
EBIT in €m	42.5	26.6	21.9	20.6	12.7	19.4
EBIT in €m - adjusted*	44.3	26.6	23.7	20.6	21.9	19.4
EBIT margin in % of revenue	13.7	7.8	13.8	13.5	6.8	10.7
EBIT margin % of revenue - adjusted*	14.2	7.8	14.9	13.5	11.7	10.7
EBT in €m	33.5	24.8	13.7	19.7	12.1	18.6
EBT in €m - adjusted**	42.7	24.8	23.0	19.7	21.3	18.6
EBT margin in % of revenue	10.8	7.3	8.7	12.9	6.4	10.3
EBT margin in % of revenue - adjusted**	13.7	7.3	14.5	12.9	11.3	10.3
Consolidated profits in €m	22.8	17.2	9.1	13.7	-3.9	13.1
Consolidated profits in €m - adjusted***	29.0	17.2	15.3	13.7	14.8	13.1
Consolidated profit margin in % of revenue	7.3	5.0	5.7	9.0	-2.1	7.3
Consolidated profit margin in % of revenue - adjusted***	9.3	5.0	9.7	9.0	7.9	7.3
Profit/loss per share in €	0.39	0.31	0.14	0.25	-0.07	0.24
Profit/loss per share in € - adjusted***	0.50	0.31	0.25	0.25	0.28	0.24
Cash flow						
Cash flow from current business operations in €m	43.2	61.5	30.4	12.8	22.5	-3.6
Cash flow from investment activities in €m	-8.7	-3.3	-3.3	-5.4	-1.3	-19.9
Cash flow from financing activities in €m	-104.3	-86.8	-103.8	-0.4	0.5	-0.4
Cash in €m	23.1	94.9	23.1	99.8	92.8	71.1
Balance Sheet						
Balance sheet total in €m	953.2	611.7	953.2	582.2	595.2	582.6
Equity in €m	754.3	274.4	754.3	298.7	283.4	287.5
Equity ratio (equity as % of balance sheet total)	79.1	44.9	79.1	51.3	47.6	49.3
Debenture bonds in €m	3.1	92.8	3.1	93.3	94.2	93.5
Financial liabilities in €m	50.1	50.1	50.1	50.0	50.0	50.0
Employees						
Size of staff, annual average (incl. Management Board)	876	923	876	898	916	918
Wireless Services Subscribers (30/06/2017) (in Thousands)	**3,771**	**3,003**	**3,771**	**3,615**	**3,430**	**3,214**
Thereof MVNO subscribers	**3,707**	**2,922**	**3,707**	**3,548**	**3,359**	**3,138**
Thereof budget subscribers	3,243	2,338	3,243	3,068	2,863	2,600
Thereof volume subscribers	464	584	464	480	496	538
Revenue per MBA subscriber						
MBA ARPU Gross[3]	14.62	14.76	14.71	14.54	15.02	15.44
MBA ARPU Net[4]	12.20	12.98	12.25	12.16	12.63	13.22

* In Q II 2017 adjusted for professional expenses arising from the acquisition of 1&1 Telecommunication SE. In Q IV 2016 adjusted for the effects of the restructuring of Phone House and the sale of the network operator business.
** In Q II 2017 adjusted for professional expenses arising from the acquisition of 1&1 Telecommunication SE as well as expenses arising from cash settlements paid to bond creditors in the context of conversions of convertible bonds. In Q IV 2016 adjusted for the effects of the restructuring of Phone House and the sale of the network operator business.
*** In Q II 2017 adjusted for professional expenses arising from the acquisition of 1&1 Telecommunication SE as well as expenses arising from cash settlements paid to bond creditors in the context of conversions of convertible bonds and the tax effects arising from these adjustments. In Q IV 2016 adjusted for the effects of the restructuring of Phone House and the sale of the network operator business.
[1] MBA service revenue in €m, gross → before customer benefits
[2] MBA service revenue in €m, net → after deduction of customer benefits
[3] MBA ARPU, gross → before customer benefits
[4] MBA ARPU, net → after deduction of customer benefits

Letter from the Management Board

Vlasios Choulidis
Executive-Board, Director of Sales

André Driesen
Director of Finances

Dear Sir or Madam,

The first half of 2017 was highly successful. We were again able to sustain the course of growth that we are pursuing in our core business activities, as is evident particularly in the dynamic increase in the number of MVNO subscriber and in service revenues, as well as in the substantial increase in EBITDA that was adjusted for the one-off expenditure arising from the acquisition of the shareholding in 1&1 Telecommunication SE ("1&1).

In addition to our operating activities, we have spent the past few months paying very close attention to the acquisition of 1&1 and, in May, to the first 7.75% of that company to be acquired by way of a non-cash capital increase. Our objective is to press ahead to occupy the position of strong fourth power in the German telecommunication market and exploit the potential of the MBA MVNO contract even more effectively than before. On 25 July 2017, our shareholders granted us a clear and convincing mandate to do just that and we have initiated a second non-cash capital increase in order to acquire the remaining 92.25% of 1&1. When we complete the full acquisition, which we intend to do by the end of 2017, we will be ideally placed to serve a dynamically growing proportion of the network capacities provided by similarly dynamic, fast-growing demand for wireless products with our guaranteed and very long-term access – always in conformity with the respective state of the art. United Internet, our largest individual shareholder so far, will retain a 73.11% stake in Drillisch AG after the transaction has been completed.

In conjunction with 1&1, Drillisch will be able to offer its customers not only wireless products pure and simple, but also bundled products featuring wireless, landline,TV and further content as a one-stop shop which, according to the German Federal Network Agency's annual report, have developed into "standard offerings from the companies".

As early as the beginning of July, a sales collaboration between yourfone and 1&1 was launched. Within the framework of this arrangement, yourfone has expanded its spectrum with 1&1 DSL and landline products and, in more than 200 shops, now offers not only products for wireless services but also the most suitable connections for home use.

<u>Development of the Mobile Market:</u>

The demand for our wireless services is growing continuously. According to the annual report published by the Federal Network Agency in May 2017, the data volume transmitted in the wireless networks almost doubled from 575 million gigabytes in 2015 to 918 million gigabytes in 2016.

Letter from the Management Board

And there is no sign of this dynamic growth coming to an end. According to the 11th Visual Networking Index (VNI) from Cisco from February 2017, mobile data traffic in Germany is going to increase sixfold in the next five years. This corresponds to an average annual growth rate of 41 per cent up until 2021. The average user is expected to consume 5 GB in 2021 (2016: 1 GB per month).

Drillisch is reacting to this development and is continuously restructuring its tariff portfolio while adjusting it to customer requirements. Our position as an MBA MVNO allows us to profitably offer innovative individual wireless products geared towards offer our customers' needs that are every bit as good as the network operators' tariffs in respect of technology and performance.

Our brands excel not only with outstanding value for money, but also with excellent service. simply, for example, achieved second place in the "wireless services provider" category in the trade journal Connect's 2017 readers' poll and convinces with high customer satisfaction as well as excellent value for money.

Now for the operational side of the business:

In the first half of 2017 we managed to generate considerable growth compared to the previous year in a still fiercely competitive market environment. In the process, the positive trend in the first quarter continued into the second quarter with regard to key indicators such as gross profits and EBITDA as well as the growth in participant numbers.

With the customer portfolio showing a very pleasing overall trend compared to the same period last year in all customer groups and the aggregate figure of all these groups increasing by 25.6% or 768 thousand to 3.771 million participants (H1-2016: 3.003 million), we must again emphasise the dynamic growth of the budget customer segment. While we have generated an overall increase of 785 thousand participants or 26.9% to 3.707 million among MVNO customers over the past 12 months (H1-2016: 2.922 million), the number of our higher-quality budget participants has even increased by 38.7% or 905 thousand participants to 3.243 million participants (H1-2016: 2.338 million) and was therefore again the driver of our profitable growth.

With service revenues increasing sharply by 46.2 million euros or 17.7% to 307.8 million euros (H1-2016: 261.6 million euros), we generated gross profits in the first half of 2017 which, at 145.8 million euros, exceeded last year's comparable figure by 6.3% or 8.7 million euros respectively. (H1-2016: 137.1 million euros). Gross profit margin took advantage of the discontinuance of the low margin distribution business of The Phone House and increased by 6.6 percentage points to 46.8% (H1-2016: 40.2%).

In the first half of the year, against a backdrop of growth in customer numbers, direct customer acquisition costs, e.g. in the form of commissions, one-off or time-limited price discounts and MNP boni, have increased considerably, which is having at the start an initial negative impact on gross profits.

Consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation), adjusted for advisory costs in connection with the acquisition of 1&1 amounting to some 1.8 million euros, increased in the first half of the year by 22.9 million euros or 44.9% or to 74.0

Letter from the Management Board

million euros (H1-2016: 51.1 million euros). This means that we are heading for growth during the course of the year in accordance with our plan for the year as a whole. The adjusted EBITDA margin increased by 8.8 percentage points to 23.8% (H1-2016: 15.0%).

Advertising costs decreased by 10.2 million euros to 12.2 million euros (H1-2016: 22.4 million euros). This development, however, is offset by the aforementioned significant increase in direct customer acquisition costs that were already a burden on gross profits – with the result that ultimately, we invested more money in growing our customer numbers.

In the first half of 2017, cash flow from operating activities totalled 43.2 million euros (H1-2016: 61.5 million euros). In the second quarter of 2017 alone, operating cash flow amounted to 30.4 million euros (Q1-2017: 12.8 million euros). Operating cash flow in the first half of 2016 was influenced by balance-sheet-date effects and the shifting of periods, with the result that any comparability in the operating cash flow in H1-2017 and H1-2016 respectively is very limited.

This ability to generate positive payment flows sustainably, the available net liquidity that still amounted to some 23.1 million euros as at the cut-off date even after the distribution of the dividends totalling 98.6 million euros in May 2017, and the further attractive financing possibilities give us the flexibility to expand and augment our business sensibly going forward and to take any opportunities that arise.

Following the successful start to the new fiscal year 2017, we are facing the future with confidence. We are confirming our forecast and still anticipate that the fiscal year 2017 (stand alone without 1&1) will see EBITDA increase to between 160 and 170 million euros. For the fiscal year 2018 we are planning for a further increase in profitability in a consequently larger unit with our new subsidiary 1&1.

On 18 May 2017, we distributed a dividend for 2016 in the amount of 1.80 per share. In the interests of a corporate policy based on sustainability, we intend in future as well to give our shareholders an appropriate stake in our company's success.

In conclusion, we would like to take this opportunity to thank our employees explicitly and cordially for their sustained commitment and their high level of motivation, as trusting and dependable collaboration is very important for commercial success. In addition to that, we thank our shareholders, customers and business partners equally warmly for the trust that they place in us.

Best regards from Maintal

Vlasios Choulidis　　André Driesen

COMMERCIAL DEVELOPMENT OF THE DRILLISCH GROUP AS PER 30 JUNE 2017

9 Group Companies

11 The Wireless Services Market

15 Turnover and Earnings Position

18 Assets, Liabilities and Financial Position

20 Opportunities and Risk Report of the Future Business Development

20 Important events occurring after 30 June 2017 | Outlook

Group Companies

Drillisch AG – successful first half of 2017

Drillisch Group

Drillisch AG, Maintal, along with its subsidiaries (collectively: "Drillisch") is a mobile services provider and virtual network operator operating exclusively in Germany with guaranteed access to a specific share of the network capacity of Telefónica in Germany (a so-called mobile bitstream access mobile virtual network operator = MBA MVNO).

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

Drillisch becomes the fourth powerhouse of the German telecommunications industry

On 12 May 2017, the management board of Drillisch Aktiengesellschaft ("Drillisch") and the management board of United Internet AG ("United Internet") concluded an agreement in principle (business combination agreement) regarding the step-by-step acquisition of 1&1 Telecommunication SE ("1&1"), Montabaur, by Drillisch under the United Internet umbrella. The transaction represents the intent of the two companies to merge the mobile and landline network business of United Internet bundled in 1&1 with the mobile network business of Drillisch. Drillisch's acquisition of 1&1 is to be carried out in two steps.

In the first step (effective as per 16 May 2017), United Internet contributed about 7.75% of its holdings in 1&1 to Drillisch in the form of a non-cash capital increase and in return received 9,062,169 new shares of Drillisch stock.

On 25 July 2017, the Drillisch AG shareholders held an extraordinary general meeting and adopted a resolution agreeing to a second, significantly larger non-cash capital increase, the second step to the complete acquisition of 1&1. This acquisition makes Drillisch the fourth powerhouse of the German telecommunications industry. The number of subscriber contracts will quadruple, the revenues will in future approximately quintuple and the EBITDA will rise by almost half a billion euro.

The resulting synergies are significant; according to the latest estimates, they will annually amount to about €150 million from the year 2020 and to about €250 million from the year 2025. These savings will accrue in full to the future Drillisch Group that has been expanded by the addition of 1&1. On the other hand there are expected one-off implementation costs of c. €50 million. The integration of 1&1 will enable Drillisch to exploit the opportunities of the MBA MVNO contract even more fully. This is why Drillisch wishes to continue to give all shareholders a share in the Company's success in future as well by pursuing an attractive dividend policy.

Drillisch – sole MBA MVNO on the German mobile market

Pursuant to the MBA MVNO agreement concluded with Telefónica in June 2014, Drillisch (as the only competitor on the German mobile market) has guaranteed access to up to 30% of the utilised network capacity of Telefónica available on the Telefónica networks subsequent to the merger with E-Plus. This right ap-

Group Companies

plies to all future as well as current technologies. At the same time, Drillisch obtains access rights to the so-called "Golden Grid Network" of Telefónica that has been created by the merger. This means access to the enhanced footprint of the mobile network of Telefónica, including all necessary technical specifications and the technical capability to reduce speed and restrict transport in the event of excessive data utilisation by end customers.

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

Change in the Group structure

With the merger of the previously independently operating subsidiaries yourfone AG ("yourfone"), Maintal, and GTCom GmbH, Düsseldorf, completed at the end of June 2017, Drillisch bundled competencies and further optimised its processes and structures.

Drillisch AG Is the Group's holding

Within Drillisch Group, Drillisch AG, the parent company, concentrates on holding tasks such as management, finances and accounting, controlling, cash management, human resources, risk management, corporate communications and investor relations along with the definition, management and monitoring of the global corporate strategy.

Drillisch Online AG

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

yourfone AG

yourfone AG operates under its brand name and is responsible for the full range of offline sales. The company's wholly-owned subsidiaries, yourfone Retail AG and yourfone Shop GmbH (registered offices of both in Düsseldorf), have been in charge of shop operations since July 2015. During this time, yourfone has opened a total of more than 250 of its own and partner shops. 204 of them were still operating per 30 June 2017.

Drillisch Logistik GmbH

Drillisch Logistik GmbH (previously The Phone House Deutschland GmbH) is a subsidiary of Drillisch AG supporting both yourfone partner shops as well as yourfone's own shops; it is in charge of the provision of all hardware for online and offline sales. In the same period of the previous year, the wholly-owned subsidiary of Drillisch Logistik GmbH, The Phone House Telecom GmbH, essentially sold original products of network operators as well as the Group's own yourfone rate plans.

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

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

Segment Online

Drillisch Online AG and its broad range of established online brands are in charge of the mobile services business operations in the segment Online. Drillisch Online AG and its brands offer high-performance LTE rate plans tailored to match customer needs in Germany's largest mobile services network. Every customer will find the combination of unlimited calls and texts along with various data packages at maximum speed of up to 225

The Wireless Services Market

Mbit/s in the current rate plan portfolio that is just right for him or her. Customers can go to the online shops and select from a broad range of the latest smartphones the device that will best serve their purposes along with matching accessories.

Segment Offline

yourfone AG operates under its brand name and is responsible for the full range of offline sales. Its two subsidiaries yourfone Retail AG and yourfone Shop GmbH have been handling shop operations since July 2015. Drillisch has been operating at top locations in bustling pedestrian zones and shopping centres under the name of yourfone, the premium brand for the segment Offline, since the middle of 2015. The rate plans, tailored to meet the individual's needs, are also available in combination with the latest top-of-the-line smartphones. The attractive rate plans offered in the shops stand out for their extraordinarily good value for money.

The Drillisch AG subsidiary Drillisch Logistik GmbH provides service and products to both the yourfone partner shops and yourfone's own shops.

Employees

In the first six months of 2017, Drillisch Group had an average headcount of 876 employees, including the two members of the Management Board (last year: 923). The number of vocational trainees, who are not included in the above figure, was 54 (last year: 47).

The mobile market

The mobile market in Germany continues to grow dynamically. According to the annual report issued by the Federal Network Agency (May 2017), the data volume transmitted in mobile networks almost doubled from 575 million gigabytes in 2015 to 918 million gigabytes in 2016. The number of SIM cards in operation at the end of 2016 as announced by the network operators came to 129.9 million (2015: 113.8 million SIM cards). A share of 7.7 million of the SIM cards in operation was used for data communication between machines (M2M) (end of 2015: 4.9 million SIM cards). The number of active SIM cards using LTE grew to about 39 million by the end of 2016 (end of 2015: 27 million), an increase of 44%.

An end to this dynamic growth is not in sight. According to a study published by the technology provider Cisco in February 2017, mobile data traffic in Germany will sextuple in the next five years, corresponding to annual growth of 41%. The Ericsson Mobility Report that appeared in June of this year confirms the Cisco predictions. The monthly data volume transmitted during smartphone use in Western Europe is projected to increase from 2.7 gigabytes to 22 gigabytes in 2022, corresponding to an increase of 42% annually. The Ericsson Mobility Report notes that three-fourths of the mobile data traffic will be used for videos. A study conducted by the UAS Fresenius and the *Wissenschaftliches Institut für Infrastruktur und Kommunikationsdienste* indicates that 33% of the streamed music and 23% of the transmitted videos are even today being used on smartphones. This study concludes that users who make intense use of streaming services are significantly more willing to pay for a fast and stable mobile internet connection as well as for sufficiently available data volume.

The Internet of Things (IoT) is growing in importance as well, however. Cisco expects mobile data traffic between machines to increase by a factor of twelve by the year 2021, an annual growth rate of 66%. Even though current projections show that LTE will remain the dominant mobile network standard until 2022, a statement by the Federal Ministry for Transport and Infrastructure notes that the

The Wireless Services Market

conditions for real-time communication will decisively improve with the introduction of the next mobile generation 5G. 5G will provide data capacities that are many times higher and extremely short latency periods; it will more comprehensively meet future demands for communication in a completely interconnected society than has ever been possible before. This means that 5G will create a crucial foundation for new applications in intelligent mobility and the Internet of Things as a whole. The development of the technology of tomorrow and the preparation of the required standards are already moving ahead at full speed.

Thanks to the model of the MBA MVNO unique in Europe that assures Drillisch of up to 30% of the network capacities of Telefónica Germany, Drillisch is in an excellent position to take full advantage of the ongoing strong growth in mobile data traffic. Moreover, Drillisch will be able to use all future technologies just like the network operator itself.

Now that the Drillisch AG shareholders have given their approval to Capital Increase II (during the extraordinary general meeting on 25 July 2017), the process for the complete acquisition of 1&1 is almost finished – solely the registration in the Commercial Register is still required. The acquisition of 1&1 will enable Drillisch to offer to its customers bundled products as well as mobile-only products in future. These bundled products (i.e. landline, TV and mobile products from a single source) have turned into the “standard products offered by companies”, notes the annual report of the Federal Network Agency. This is also reflected in the growth in broadband business. The Federal Network Agency notes in its Annual Report 2016 that there has been an increase in monthly data volume per subscriber to 60 GB (2015: 47 GB per subscriber per month).

Innovative and transparent mobile products

Drillisch continues to set standards on the German mobile market. A business model of an MBA MVNO, unique in Europe, that guarantees access to the core network of Telefónica Germany and its latest future technologies (among others) gives Drillisch unique prospects for growth. A powerful rate plan portfolio that integrates the specific wishes of its clientele (about 3.8 million subscribers) plus award-winning customer service and qualified, motivated employees are and will remain major pillars of the Company’s commercial success.

Customer-friendly rate plans with Europe packages

The new EU roaming regulations went into effect on 15 June 2017. Provided that customers do not make unreasonable use of the services, providers are no longer permitted to bill extra charges for roaming services within the EU. Drillisch offers its customers a choice. In addition to these so-called regulated mobile rate plans, Drillisch sets itself apart from the competition with alternative roaming rate plans. These alternative plans include a Europe package that allows the use of services in countries in which the new EU roaming regulation does not apply. First and foremost of these countries is the popular transit and holiday country Switzerland. The data volume included in the Europe package is provided in addition to the volume that is usable within Germany. Besides the additional data volume, these rate plans always include all phone calls and texts within the EU and to Germany if they

The Wireless Services Market

are also elements of the rate plan package in Germany. By offering these alternative roaming plans, Drillisch provides a sensible option to the users of its brands.

Drillisch is the first (and, so far, the only) mobile services provider in Germany to offer extremely attractive rate plans for use strictly in Germany to all mobile services customers who do not travel abroad or who do not want to utilise mobile networks for surfing when abroad. By offering these new national rate plans, Drillisch provides a product that is perfectly tailored to the individual's needs and once again sets itself apart from the competition in a positive sense.

All-net flat rates and data rate plans at smartmobil.de with more data volume

As of 1 June 2017, the all-net flat rates of the online premium brand smartmobil.de have provided up to 80% more data volume. Customers can choose among 2, 4 and 8 GB of LTE data volume. All of the rate plans include as well unlimited calls and texts to all German landline and mobile networks. Along with unlimited calls and texts to Germany and in other European countries, the Europe package contained in each plan includes extra data volume for use in other EU countries as well as in further travel destinations such as Switzerland, Iceland, Andorra, Gibraltar or the Isle of Man.

smartmobil.de: Second round of the campaign featuring Lukas Podolski endorsement takes off

After its successful launch at the beginning of the year, the smartmobil.de campaign featuring the Lukas Podolski endorsement is taking off for its second round with the theme of "Changing Clubs". In the TV commercial, Lukas Podolski demands a change of clubs after the data volume of the two protagonists is fully

consumed in the middle of a thrilling football video. The wide-area campaign could be seen on far-reaching TV channels, on posters, in print advertisements, online and on social media.

yourfone the price leader in German pedestrian zones and shopping centres

yourfone and its rate plans are the price leaders in the segment Offline. yourfone offers an all-net flat rate with 1 GB of LTE data volume and Europe package starting at €7.99 (€9.99 from the 13th month). It includes unlimited

calls and texts within Germany as well as in the other 27 EU countries and Switzerland. In addition, 300 MB of data volume is available for surfing when abroad (in a total of 43 countries, including Switzerland and Andorra). In

The Wireless Services Market

addition to unlimited calls and texts, yourfone offers 5 GB of data volume at speeds up to 225 MBit/s for use within Germany and 1 GB data volume for surfing abroad (in a total of 43 countries, including Switzerland and Andorra), all for €14.99 (€24.99 from the 13th month). The yourfone portfolio includes national rate plans for all customers who do not travel abroad or who do not want to use their smartphones on the mobile networks in other countries. Attractive options such as the information service of BILDplus, music streaming from Napster or TV streaming from Zattoo offer additional added value on top, and customers can add them to their plan at any time in their personal service world.

yourfone launches sales cooperation with 1&1

yourfone, the wholly-owned subsidiary of Drillisch AG, and 1&1, a subsidiary of United Internet AG, launched a sales cooperation on 1 July. Within the framework of this cooperation, yourfone is expanding its portfolio by including 1&1 DSL and landline products and is now offering suitable connections for home along with its own products for mobile communications in more than 200 yourfone shops.

simply climbs the winner's podium several times

The Drillisch brand simply regularly receives awards for offering such great value for the money. The high favour enjoyed by simply among consumers is evidenced by its outstanding placement in the readers' poll conducted by the journal connect in 2017. More than 57,000 participants cast their votes for their favourites in the categories networks, products and services. Out of a total of 18 mobile brands, simply took 2nd place in the category "Mobile Services Providers". simply scored points with its outstanding value for money and the high level of customer satisfaction.

simply received yet another award from the Deutsches Institut für Service-Qualität (DISQ). The Drillisch brand was yet again crowned "Germany's Savings Champion" in the category Mobile Services Providers. The procedure used to determine the winners is not limited to a one-time price comparison; the price levels are observed and analysed over a period of several years.

As part of a special campaign, simply offered the largest all-net flat rate in its portfolio at a permanently very attractive price of €24.99 a month (regular price €34.99). Moreover, the LTE data volume was increased by 50% from 10 GB to 15 GB. The regular maximum speed of up to 50 MBit/s was raised to what is currently the highest possible speed of up to 225 MBit/s. Thanks to the included Europe package, it is possible to use 1 GB of data in the 43 countries of World Zones 1 and 2, and this is not deducted from the domestic data volume. These 43 countries also include states in which the EU roaming regulation does not apply, such as Switzerland, Andorra or the Channel Islands Guernsey and Jersey, as well as the Isle of Man. The Europe package also includes unlimited calls and texts in the holiday destination and to Germany.

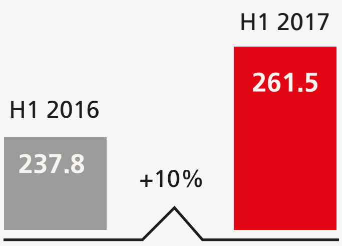
Turnover and Earnings Position

Revenue and earnings position

Drillisch was able to continue the profitable growth of the previous quarters by further increasing the "service revenues" and significantly raising the EBITDA in comparison with the same period last year. This good development of our business is supported by the ongoing dynamic developments in the fields of mobile services and mobile internet.

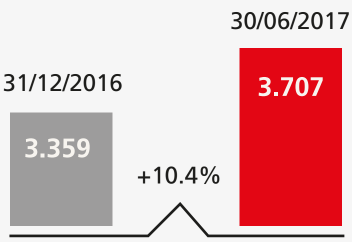
The "service revenues" – essentially the income from the provision of the ongoing mobile services (voice and data transmission) and their billing on the basis of the current subscriber contracts – amounted to €307.8 million gross (adjusted for included customer benefits in the form of one-off or limited-term discounts) in the first half of 2017 (HY1 2016: €261.6 million). Net (meaning after deduction of these customer benefits = cost of sales), service revenues rose by €23.7 million (10%) in the first half of 2017 to €261.5 million (HY1 2016: €237.8 million). During the same period, the direct cost of sales included in the service revenues rose correspondingly by €22.6 million to €46.3 million (HY1 2016: €23.7 million).

Service Revenues (in €m)



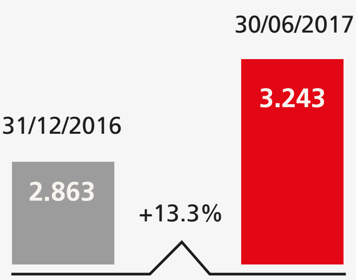
The low-margin "Other revenues" fell by €76.2 million to €3.5 million (HY1 2016: €79.7 million). The change over the same period of the previous year is essentially a consequence of the sale of the distribution business of Phone House in January 2017. Total turnover in the first half of 2017 amounted to €311.3 million (HY1 2016: €341.3 million). The decline in total revenues and of sales in the Offline segment also results from the sale of the low-margin distribution business. Revenue in the Online segment increased by €39.9 million (18.4%) to €256.3 million (HY1 2016: €216.4 million). The revenues in the Offline and Miscellaneous segments came to €98.3 million (HY1 2016: €150.6 million) and €0.5 million (HY1 2016: €0.6 million) respectively. The total of the segment revenues contains €43.8 million in sales revenues from intercompany relationships that were eliminated during the consolidation process (HY1 2016: €26.4 million).

MVNO Subscribers (in m)



The MVNO clientele increased further in HY1 2017 by 348,000 (10.4%) to 3.707 million subscribers (31 December 2016: 3.359 million MVNO subscribers). The number of qualitatively higher-value, high-margin budget subscribers increased by 13.3% to 3.243 million subscribers as per 30 June 2017 (31 Decem-

Budget Subscribers (in m)



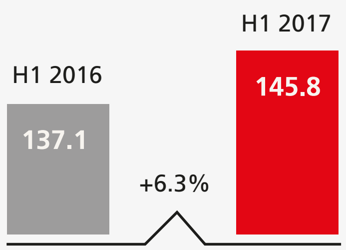
Turnover and Earnings Position

ber 2016: 2.863 million subscribers). The number of lower-margin volume subscribers decreased as expected from 496,000 as per 31 December 2016 to 464,000 subscribers as per 30 June 2017. In comparison with the first half of 2016, the MVNO clientele has increased by a total of 785,000 and the budget clientele has risen by 905,000 within one year.

The total number of customers, i.e. including the remaining subscriber contracts in the service provider model, has risen by 341,000 to 3.771 million (31 December 2016: 3.430 million). So the trend towards a rise in the total customer numbers continues.

During the first half of 2017, the cost of materials decreased by 18.9% to €165.5 million (HY1 2016: €204.2 million). The underlying cause for the decline in the total cost of materials and in the segment Offline is essentially found in the sale of the distribution business of Phone House in January 2017. In the Online segment, the cost of materials rose by €22.4 million (18.5%) to €143.7 million (HY1 2016: €121.3 million). The cost of materials in the Offline and Miscellaneous segments came to €65.5 million (HY1 2016: €109.1 million) and €0.1 million (HY1 2016: €0.2 million) respectively. The total of the segment expenses includes expenditures from intercompany relationships in the amount of €43.8 million that were eliminated during the consolidation process (HY1 2016: €26.4 million).

Gross Profit (in €m)



As a consequence of the continued growth in clientele, gross profits rose from €137.1 million in the first half of 2016 by €8.7 million to €145.8 million as per 30 June 2017. The gross profit margin rose to 46.8% because of the cessation of the low-margin distribution business (HY1 2016: 40.2%).

Gross profit in the Online segment in HY1 2017 amounted to €112.6 million (HY1 2016: €95.2 million). The gross profit margin in the Online segment came to 43.9% (HY1 2016: 44.0%). Gross profit in the Offline segment in HY1 2017 came to €32.8 million (HY1 2016: €41.6 million). The gross profit margin came to 33.4% (HY1 2016: 27.6%).

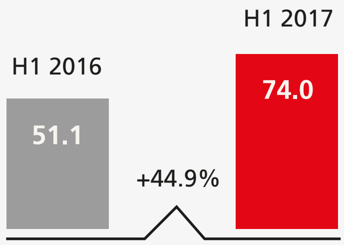
Personnel expenses decreased by 14.1% to €24.8 million as a result of the decline in headcount over the same period last year (HY1 2016: €28.9 million). The personnel expenses ratio decreased by 0.5% to 8.0% (HY1 2016: 8.5%).

Other operating expenses fell in total by €10.8 million to €52.8 million (HY1 2016: €63.6 million). Rent expenses and ancillary costs amounted to €7.3 million (HY1 2016: €8.4 million). Expenditures related to bad debts and valuation allowances on receivables in HY1 2017 increased by €3.7 million to €11.4 million (HY1 2016: €7.7 million). Advertising expenses declined by €10.2 million to €12.2 million (HY1 2016: €22.4 million) primarily because of the shift away from general brand advertising to direct expenditures for new customer acquisition that impact gross profit.

Consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation), one of the most important management indicators at Drillisch Group, amounted to €72.3 million (HY1 2016: €51.1 million). The EBITDA margin came to 23.2% (HY1 2016: 15%). Adjusted for the one-off expenses incurred for the acquisition of the 1&1 participation, con-

Turnover and Earnings Position

EBITDA adjusted (in €m)



solidated EBITDA (earnings before interest, taxes, depreciation and amortisation) improved by 44.9 percent to €74.0 million (HY1 2016: €51.1 million). The adjusted EBITDA margin came to 23.8% (HY1 2016: 15.0%). In the first half of 2016, there were no facts that would have led to an adjustment of consolidated EBITDA.

EBITDA in the Online segment increased by €19.0 million to €76.7 million (HY1 2016: €57.7 million). In the Offline segment, the EBITDA segment amounted to €-0.8 million (HY1 2016: €-4.5 million). The EBITDA in the Miscellaneous segment as per 30 June 2017 amounted to €1.1 million (HY1 2016: €0.7 million).

Depreciation and other write-offs increased by €5.2 million to €29.7 million (HY1 2016: €24.5 million). The increase results essentially from the trademark rights acquired in fiscal year 2016 that have been capitalised as intangible assets and will be written off over the expected useful life of 3 years. This resulted in write-offs and depreciation in HY1 2017 totalling €5.0 million (HY1 2016: €0.0). The intangible assets identified within the framework of the purchase price allocation of yourfone and of Phone House will be written off over the usual useful life of 6 and 2.5 years, respectively. This resulted in write-offs and depreciation in HY1 2017 totalling €10.3 million (HY1 2016: €10.4 million). Additional depreciation and amortisation of €5.0 million (HY1 2016: €5.0 million) result from Drillisch's contribution pursuant to the MBA MVNO agreement concluded with Telefónica of €150 million to the investments previously made and to be made in future by Telefónica in the expansion of the LTE network and in future technologies; this contribution has been capitalised under Other intangible assets and will be written off over the expected useful life of 15 years.

EBIT (earnings before interest and taxes) amounted to €42.5 million (HY1 2016: €26.6 million). The EBIT margin rose from 7.8% in the first half of 2016 by 5.9% to 13.7% as per 30 June 2017.

The interest result amounted to €-9.1 million (H1-2016: €-1.8 million). The increase in interest paid from €2.2 million in the first half of 2016 to €9.5 million as per 30 June 2017 mainly results from the conversions effected in the first half of 2017 within the framework of the convertible bond issued by Drillisch AG. This figure contains €5.0 million (HY1 2016: €0.0) from payments to bond creditors who, within the framework of their conversions, have received a cash settlement after the authorised but unissued capital available for the convertible bond had been completely used up on account of the conversions as well as €2.5 million (HY1 2016: €0.0) additional expenses from the compounding of the convertibles' conversions.

Taxes on income and earnings increased by €3.1 million to €10.7 million (HY1 2016: €7.6 million).

Consolidated profit amounted to €22.8 million (HY1 2016: €17.2 million). The consolidated comprehensive result as per 30 June 2017 also amounted to €22.8 million (HY1 2016: €17.2 million). The undiluted profit per share came to €0.39 (HY1 2016: €0.31).

Assets, Liabilities and Financial Position

Assets, liabilities and financial position

All in all, long-term assets rose on balance by €426.8 million to €804.5 million during the first half of 2017 (31 December 2016: €377.7 million). This rise is primarily due to the acquisition of 7.75% of the shares of 1&1 in the amount of €453.1 million in the course of a non-cash capital increase against the issue of 9,062,169 new Drillisch shares. By contrast, intangible assets were reduced by €25.0 million in the first half of 2017, mainly due to regular depreciation over the normal useful life

Deferred tax assets increased slightly by €1.4 million to €14.1 million (31 December 2016: €12.7 million).

The cash balance declined by €69.7 million to €23.1 million (31 December 2016: €92.8 million). This change is primarily due to the dividend payment made in May in the amount of €98.6 million. Trade receivables amounted to €102.9 million (31 December 2016: €92.7 million). Other current assets increased by €10.7 million to €15.7 million (31 December 2016: €5.0 million). All in all, current assets declined by €51.8 million to €148.7 million (31 December 2016: €200.5 million).

The assets of the disposal group per 31 December 2016 concerned the current assets to be presented separately of Phone House Telecom Vertrieb GmbH, which was sold in January 2017. These assets comprised essentially receivables due from network operators in the amount of €16.9 million from the Phone House brokerage activities. In accordance with the provisions of IFRS 5, these assets were classified as being held for sale and presented appropriately as separate items in the balance sheet.

The balance sheet total for Drillisch Group increased by a total of €358.0 million to €953.2 million as per 30 June 2017 (31 December 2016: €595.2 million).

In comparison with 31 December 2016, total equity increased by €470.1 million to €754.3 million (31 December 2016: €283.4 million). As a result of the conversions in the first half of 2017 related to the convertible bonds issued by Drillisch AG in December 2013 and the capital increase effected in connection with the acquisition of the shares of 1&1, Subscribed capital rose by €15.5 million and now amounts to €75.7 million (31 December 2016: €60.2 million). As a further consequence of the conversions and the capital increase effected in May, capital reserves increased by €531.3 million to €826.8 million (31 December 2016: €295.6 million). Owing to the dividend disbursement, accumulated deficit (balanced against the semi-annual profit) increased by a total of €75.8 million to €-178.7 million (31 December 2016: €-102.9 million). The item Other equity of €-0.6 million (31 December 2016: €-0.6 million) reflects the actuarial gain or loss from the measurement of the pension provisions recognised as non-operating results in accordance with IAS 19. The equity ratio as per 30 June 2017 came to 79.1% (31 December 2016: 47.6%).

Long-term liabilities declined by €94.4 million to €47.0 million (31 December 2016: €141.5 million). The deferred tax liabilities declined by €3.3 million to €24.8 million as per 30 June 2017 (31 December 2016: €28.1 million) and result essentially from the assets and liabilities identified within the framework of the purchase price allocations of yourfone and Phone House in 2015. The long-term Other liabilities as per 30 June 2017 amounted to €17.0 million (31 December 2016: €16.7 million) and include €14.7 million (31 December 2016: €14.7 million) in liabilities owed primarily to Telefónica pursuant to the 2016 purchase of the trademark rights for the use of the brand name Telefónica.

Assets, Liabilities and Financial Position

In December 2013, Drillisch AG issued a non-subordinated convertible bond with a total volume of €100.0 million and a term of five years. The convertible bond includes an annual coupon of 0.75%. The bond was issued at 100% of the nominal value and will also be redeemed at 100%. The term of the bond ends on 12 December 2018. Shares with a nominal volume of €96.9 million were converted into shares of stock in Drillisch AG in the first half of 2017. A total of 5,000,000 Drillisch shares were issued for this purpose; they will be entitled to dividends for the first time in fiscal year 2018. The bond was presented in the balance sheet at €3.1 million as per 30 June 2017 (31 December 2016: €94.2 million).

Short-term liabilities fell by €1.9 million to €151.8 million as per 30 June 2017 (31 December 2016: €153.7 million). Trade accounts payable rose by €0.9 million to €45.8 million (31 December 2016: €44.9 million). The Other financial liabilities in the amount of €4.5 million (31 December 2016: €5.8 million) are related to contingent short-term purchase price liabilities from the acquisition of Phone House. Tax liabilities rose by €2.2 million to €13.6 million (31 December 2016: €11.4 million). Payments received on account declined to €3.5 million (31 December 2016: €4.2 million). Bank loans and overdrafts in the amount of €50.1 million (31 December 2016: €50.0 million) result from the utilisation of the credit line that has been available since December 2014. Other liabilities declined by €2.7 million to €23.0 million (31 December 2016: €25.7 million). Short-term provisions as per 30 June 2017 amounted to €10.5 million (31 December 2016: €10.7 million).

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

Cash flow

Cash flow from current business activities in the first six months of 2017 amounted to €43.2 million (HY1 2016: €61.5 million), reflecting the earning power of the operating business. The operating cash flow of the first half of 2016 was influenced by effects related to closing dates and period shifts, so that the operating cash flows of HY1 2017 and HY1 2016 can only be compared to a limited extent.

Cash flow from investment activities came to €-8.7 million (HY1 2016: €-3.3 million) and concerns €6.9 million in payments for investments in tangible and intangible assets (HY1 2016: €2.1 million) and €0.4 million in interest received (HY1 2016: €0.3 million). Payments for acquisitions in the amount of €1.3 million concern subsequent payouts for the acquisition of Drillisch Logistik GmbH (formerly The Phone House Deutschland GmbH). Payments for investments in other financial assets in the amount of €0.9 million (HY1 2016: 0.0 Euro) concern transaction costs directly related to the May 2017 capital increase within the framework of the acquisition of the holding in 1&1. These costs were to be offset directly against the capital reserves.

During the first half of 2017, there was a total outflow of funds of €104.3 million from financing activities (HY1 2016: outflow of funds of €86.8 million). The funds include €98.6 million (HY1 2016: €95.8 million) essentially concerning the dividend paid in May 2017, €5.2 million (HY1 2016: €0.6 million) concerning interest paid and €-0.5 million (HY1 2016:

Opportunities and Risk Report of the Future Business Development Important events occurring after 30 June 2017 | Outlook

€-0.3 million) concerning the change in investment liabilities. The change in Other financial liabilities during the first half of 2016 results in outgoing payments in the amount of €40.0 million and incoming payments in the amount of €50.0 million from the utilisation of short-term financing loans.

Opportunity and risk report

The risk management system is an integral component of corporate policy aimed at early exploitation of opportunities and the detection and limitation of risks. Drillisch operates a risk management system throughout the Group that includes continuous observation to ensure early recognition and the standardised recording, assessment, control and monitoring of risks. The objective is to obtain information about negative developments and the related financial effects as early as possible so that the appropriate measures can be initiated to counteract them. The management of the company results and company value makes use of the instruments of risk management, which can thus become a strategic success factor for the Company's management for subsidiaries and Drillisch itself.

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

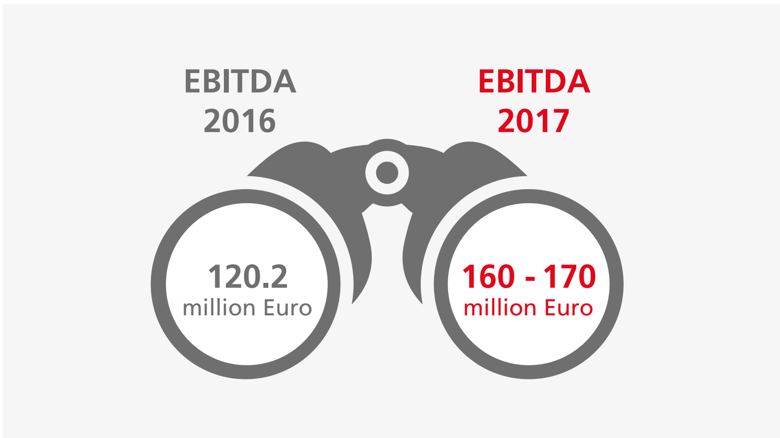
Important events occurring after 30 June 2017

On 25 July, the Drillisch AG shareholders present at the extraordinary general meeting approved the non-cash capital increase for the complete acquisition of 1&1 Telecommunication SE (1&1).

As part of the streamlining of the organisational structure, yourfone AG was merged with Drillisch Online AG with the registration in the Commercial Register of 28 July 2017.

Outlook

In view of these general conditions, the Management Board expects a significant increase in MVNO clientele and a related continuation of the positive development of gross profit in its operating business and a substantial rise in turnover in the area of "service revenues" for 2017 as a whole. The Management Board expects an increase in adjusted EBITDA to between €160 million and €170 million for 2017 (stand alone without 1&1).



ABRIDGED CONSOLIDATED INTERIM ACCOUNTS PER 30 JUNE 2017

22 Consolidated Comprehensive Income Statement

23 Consolidated Balance Sheet

25 Consolidated Statement of Change in Capital

26 Consolidated Cash Flow Statement

27 Abridged Consolidated Notes

Consolidated Comprehensive Income Statement

	I-II/2017	I-II/2016	II/2017	II/2016	I/2017	I/2016
	€k	€k	€k	€k	€k	€k
Sales	311,255	341,252	158,384	167,849	152,871	173,403
Other own work capitalised	1,539	1,192	968	678	571	514
Other operating income	2,556	5,259	1,171	2,084	1,385	3,175
Raw material, consumables and services used	-165,501	-204,151	-84,741	-98,944	-80,760	-105,207
Personnel expenses	-24,806	-28,861	-12,595	-14,496	-12,211	-14,365
Other operating expenses	-52,780	-63,594	-26,012	-30,042	-26,768	-33,552
Write-offs	-29,730	-24,489	-15,277	-12,225	-14,453	-12,264
Operating result	**42,533**	**26,608**	**21,898**	**14,904**	**20,635**	**11,704**
Interest income	410	367	210	186	200	181
Interest and similar expenses	-9,472	-2,160	-8,371	-1,152	-1,101	-1,008
Financial result	**-9,062**	**-1,793**	**-8,161**	**-966**	**-901**	**-827**
Profit before taxes	**33,471**	**24,815**	**13,737**	**13,938**	**19,734**	**10,877**
Taxes on income	-10,701	-7,631	-4,653	-4,261	-6,048	-3,370
Consolidated Earnings	**22,770**	**17,184**	**9,084**	**9,677**	**13,686**	**7,507**
Items which cannot be included in operating results in the future	0	0	0	0	0	0
Items which can be included in operating results in the future	0	0	0	0	0	0
Consolidated comprehensive results	**22,770**	**17,184**	**9,084**	**9,677**	**13,686**	**7,507**
Profit per share (in €)						
Undiluted	0.39	0.31	0.14	0.17	0.25	0.14
Diluted	0.39	0.31	0.14	0.17	0.24	0.14

Consolidated Balance Sheet

ASSETS	30/06/2017	31/12/2016
	€k	€k
Fixed assets		
Other intangible assets	230,297	255,330
Goodwill	98,546	98,546
Tangible assets	7,815	10,584
Other financial assets	453,687	561
Deferred taxes	14,120	12,697
Fixed assets, total	**804,465**	**377,718**
Current assets		
Inventories	6,969	9,984
Trade accounts receivable	102,893	92,658
Tax reimbursement claims	38	38
Cash	23,058	92,771
Other current assets	15,742	5,021
Current assets, total	**148,700**	**200,472**
Assets of the disposal group	**0**	**17,014**
ASSETS, TOTAL	**953,165**	**595,204**

Consolidated Balance Sheet

SHAREHOLDERS’ EQUITY AND LIABILITIES

	30/06/2017	31/12/2016
	€k	€k
Shareholders’ equity		
Subscribed capital	75,709	60,241
Capital reserves	826,816	295,559
Earnings reserves	31,123	31,123
Other equity	-636	-636
Unappropriated retained earnings	-178,693	-102,887
Equity, total	**754,319**	**283,400**
Long-term liabilities		
Pension provisions	1,692	1,655
Deferred tax liabilities	24,763	28,062
Debenture bonds	3,066	94,231
Leasing liabilities	533	796
Other liabilities	16,984	16,730
Long-term liabilities, total	**47,038**	**141,474**
Short-term liabilities		
Short-term provisions	10,462	10,712
Tax liabilities	13,643	11,397
Trade accounts payable	45,798	44,940
Payments received on account	3,493	4,179
Other financial liabilities	4,540	5,800
Leasing liabilities	781	1,029
Bank loans and overdrafts	50,080	50,011
Other liabilities	23,011	25,678
Short-term liabilities, total	**151,808**	**153,746**
Liabilities of the disposal group	**0**	**16,584**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	**953,165**	**595,204**

Consolidated Statement of Change in Capital

	Number of shares	Subscribed capital	Capital reserves	Earnings reserves	Other equity	Accumulated deficit	Equity, total
		€k	€k	€k	€k	€k	€k
Per 01/01/2016	**54,764,649**	**60,241**	**295,559**	**31,123**	**-417**	**-33,483**	**353,023**
Dividend payments		0	0	0	0	-95,838	-95,838
Issue of new shares in the context of the acquisition of 1&1 Telecommunication SE	0	0	0	0	0	0	0
Convertible bond	0	0	0	0	0	0	0
Consolidated comprehensive results		0	0	0	0	17,184	17,184
Per 30/06/2016	**54,764,649**	**60,241**	**295,559**	**31,123**	**-417**	**-112,137**	**274,369**
Per 01/01/2017	**54,764,649**	**60,241**	**295,559**	**31,123**	**-636**	**-102,887**	**283,400**
Dividend payments		0	0	0	0	-98,576	-98,576
Issue of new shares in the context of the acquisition of 1&1 Telecommunication SE*	9,062,169	9,968	441,708	0	0	0	451,676
Convertible bond	5,000,000	5,500	89,549	0	0	0	95,049
Consolidated comprehensive results		0	0	0	0	22,770	22,770
Per 30/06/2017	**68,826,818**	**75,709**	**826,816**	**31,123**	**-636**	**-178,693**	**754,319**

*Transaction costs in the amount of €1,432k were taken into account in the capital reserves.

Consolidated Cash Flow Statement

	I-II/2017	I-II/2016
	€k	€k
Consolidated earnings before interest and taxes	42,533	26,608
Income tax paid	-14,216	-10,508
Income tax received	104	3,194
Write-offs	29,730	24,489
Results from the disposal of fixed assets	-46	141
Change in inventories	3,014	15,154
Change in receivables and other assets	-3,943	12,246
Change in trade payables, other liabilities and provisions	-13,250	-9,277
Change in payments received on account	-686	-510
Cash flow from current business activities	**43,240**	**61,537**
Payments for investments in tangible and intangible assets	-6,927	-2,144
Payments for acquisitions less acquired cash	-1,260	-1,500
Outgoing payments for investments in other financial assets	-909	0
Interest received	410	367
Cash flow from investment activities	**-8,686**	**-3,277**
Dividend payments	-98,576	-95,838
Incoming payments from the taking out of loans	0	50,000
Interest paid	-5,183	-604
Amortisation of Other financial liabilities	0	-40,000
Incurrence/amortisation of investment liabilities	-508	-344
Cash flow from financing activities	**-104,267**	**-86,786**
Change in cash	**-69,713**	**-28,526**
Cash at end of period	23,058	94,906
Cash at beginning of period	92,771	123,432

Abridged Consolidated Notes

1. General information

Drillisch AG is a listed stock corporation that offers telecommunication services. Drillisch was founded in 1997. The core business of Drillisch Group is telecommunications and is essentially conducted by the wholly-owned subsidiaries Drillisch Online AG and yourfone AG, both of which are registered in Maintal.

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

The address and registered office of Drillisch AG as the parent company of the Group is Wilhelm-Röntgen-Strasse 1–5, 63477 Maintal, Germany. The Company is registered at Hanau Local Court under HRB 7384.

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

These consolidated interim accounts per 30 June 2017 have neither been audited pursuant to Section 317 HGB [German Commercial Code] nor reviewed by a chartered public accountant.

2. Applied accounting principles

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

The same accounting and valuation methods were applied as to the consolidated annual accounts per 31 December 2016. This abbreviated interim report as per 30 June 2017 has been prepared in accordance with IAS 34, "Interim Financial Reporting". The rate for the consolidated tax on income remains unchanged at 30.25%. The preparation of the interim report requires management to make a number of assumptions and estimates, a situation that can lead to discrepancies between the values disclosed in the interim report and the actual values.

In December 2013, Drillisch AG issued a non-subordinated convertible bond with a total volume of €100.0m and a term of five years. The convertible bond includes an annual coupon of 0.75 %. The bond was issued at 100 percent of the nominal value and will also be redeemed at 100 percent. The conversion right was recognised at the time of its emission in the capital reserves at a value of €12.4m. An interest rate of 3.47 percent was applied for the allocation and led to an initial measurement of the bond of €86.1m. It has been possible to convert the bonds with a nominal value of €100k each into Drillisch AG shares since 22 January 2014. In accordance with the terms and conditions of the bonds, the conversion price was adjusted from the original €24.2869 to €20.3217 per share following the disbursement of a cash dividend in May 2014, May 2015, May 2016 and May 2017, corresponding to 4,920.848 (previous year: 4,764.718) shares per partial debenture. Due to the change in control which occurred twice in the period under review within the framework of the non-cash capital increase and the related issue of 9,062,169 new shares of Drillisch AG to United

Abridged Consolidated Notes

Internet AG, the conversion price had to be adjusted, and amounted to €19.5990 on the effective date of 26 June 2017, or €19.0759 by the effective date of 15 August 2017, corresponding to 5,102.301 and 5,242.217 shares respectively per partial debenture. The term of the bond ends on 12 December 2018. Interest will accrue to the liability for the bond in accordance with the effective interest rate method.

No bonds were repaid during the reporting period. The convertible bond issued in 2013 was converted in the amount of a nominal volume of €96,900k during the first half of 2017. This resulted in 5,000,000 new shares, which in 2018 will be entitled to dividends for fiscal year 2017. The subscribed capital increased by €5,500k and the capital reserves increased by €89,549k because of the conversion.

For the first time with the beginning of the 2018 financial year, IFRS 15 – Revenue from Contracts with Customers – is compulsory for financial years beginning on or after 1 January 2018. The new standard replaces the existing standards IAS 18 – Revenue and IAS 11 – Construction Contracts, and provides for a uniform, principle-based, five-step model for determining and recording revenue that is to be applied to all contracts with customers. For the transition to IFRS 15, Drillisch will exercise the right to choose in favour of the modified retrospective transition method. The cumulative effects of the application of IFRS 15 on contracts that are not yet completed will be recorded in equity without effect on income at the beginning of the 2018 reporting period. It is not expected that the application of IFRS 15 will have a significant impact on the revenue recognition of open-ended contracts. For contracts with a term of 24 months, on the other hand, specific changes are anticipated from the conversion to IFRS 15 which are expected to affect both the level of sales of individual service components as well as at the point in time of revenue recognition. The new features – which may lead to changes in revenue recognition – essentially concern the one-off connection fees received at the beginning of the contract, as well as the direct costs incurred in connection with the acquisition of a contract (sales commissions).

In future, one-off connection fees received at the beginning of the contract are to be carried as liabilities. This can result in both an impact on the point in time of revenue recognition as well as – with several contractual performance obligations – on the level of sales of the individual performance obligations, whereby the sum of the revenues will remain unchanged over the entire term of the contract. Carrying the connection fees as liabilities also leads to an increase in the balance sheet total.

In future, direct costs incurred in connection with the acquisition of a contract (sales commissions) are to be carried on the assets side and written off depending on the transfer of the individual contractual performance obligations to the customer, instead of recognising these costs as expenses at the point in time of payment to the sales partner. On the one hand, this results in an increase in the balance sheet total, and on the other hand leads to shifts within the profit and loss account. Assuming a proportional distribution of customer acquisition costs, a smoothing can be expected in the profit and loss account.

A split into several contractual performance obligations (in particular mobile services and hardware – multiple-component transaction) on the basis of their relative fair values and

Abridged Consolidated Notes

recognition of revenue at the point in time of fulfilment of the individual performance obligations is already taking place now, so that this will not result in any significant effects on revenue recognition.

At the moment, a reliable concrete estimate of the quantitative effects is not possible.

3. Treasury stock

The Annual General Meeting on 21 May 2015 adopted a resolution authorising the Drillisch AG Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2015 on or before 20 May 2020 (including the use of derivatives). Per the closing date 30 June 2017, Drillisch AG did not hold any shares of its own stock.

4. Profit per share

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

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

	I-II/2017	I-II/2016
Consolidated profit in €k	22,770	17,184
Weighted average less own shares held (number)	58,006,009	54,764,649
Undiluted consolidated profit per share in €	**0.39**	**0.31**
Consolidated profit in €k	22,770	17,184
Net effect on results from convertible bond in €k	0	1,220
Adjusted consolidated profit in €k	**22,770**	**18,404**
Weighted average less own shares held (number)	58,006,009	54,764,649
Shares from convertible bond to be included as average (number)	0	4,764,718
Adjusted weighted average less own shares held (number)	**58,006,009**	**59,529,367**
Diluted consolidated profit per share in €	**0.39**	**0.31**

Dilution effects can result because of potential ordinary shares from the issue of the convertible bond. The calculation of the diluted profit as per 30 June 2017 did not take account of a net effect on results of €4,089k from the convertible bond, because this would have counteracted dilution.

Abridged Consolidated Notes

5. Explanatory comments on capital flow statement

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

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

6. Segment presentation

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

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

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

In the segment Offline, mobile services on the network of Telefónica Germany GmbH & Co. OHG are marketed basically via own shops, yourfone partner shops and other indirect distribution channels and provided to the customers acquired via these channels on the basis of mobile services contracts. Moreover, the segment Offline encompasses all of the activities related to the full operation of own and partner shops, including the provision of hardware and the distribution business (until end of 2016). The advance services acquired from the network operator Telefónica Germany GmbH & Co. OHG are resold to end consumers for the Company's own account and at rates that Drillisch defines itself based on its own calculations. Last year, the rates of the network operators were calculated on a commission basis in the distribution sector.

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

Abridged Consolidated Notes

Segment Report 01/01/2017– 30/06/2017	Online	Offline	Miscellane-ous	Consoli-dation	Total
	€k	€k	€k	€k	€k
Sales with third parties	244,936	65,874	445	0	311,255
Inter-company sales	11,336	32,449	51	-43,836	0
Segment sales	**256,272**	**98,323**	**496**	**-43,836**	**311,255**
Cost of materials external third parties	-129,181	-36,269	-51	0	-165,501
Cost of materials from inter-company relationships	-14,486	-29,251	-82	43,819	0
Cost of materials for segment	**-143,667**	**-65,520**	**-133**	**43,819**	**-165,501**
Gross profit for segment	**112,605**	**32,803**	**363**	**-17**	**145,754**
Segment EBITDA	**76,724**	**-762**	**1,138**	**-4,837**	**72,263**

Segment Report 01/01/2016 – 30/06/2016	Online	Offline	Miscellane-ous	Consoli-dation	Total
	€k	€k	€k	€k	€k
Sales with third parties	200,123	140,638	491	0	341,252
Inter-company sales	16,299	9,968	126	-26,393	0
Segment sales	**216,422**	**150,606**	**617**	**-26,393**	**341,252**
Cost of materials external third parties	-111,157	-92,924	-70	0	-204,151
Cost of materials from inter-company relationships	-10,095	-16,126	-178	26,399	0
Cost of materials for segment	**-121,252**	**-109,050**	**-248**	**26,399**	**-204,151**
Gross profit for segment	**95,170**	**41,556**	**369**	**6**	**137,101**
Segment EBITDA	**57,656**	**-4,542**	**738**	**-2,755**	**51,097**

*Adjusted

In the same period last year, Drillisch AG business activities related to its holding activities were attributed to the Miscellaneous/Holding segment. In the period under review, these are shown in the Consolidation column.

Abridged Consolidated Notes

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

	I-II/2017	I-II/2016
	€k	€k
Total segment profits (EBITDA)	72,263	51,097
Write-offs	-29,730	-24,489
Operating result	42,533	26,608
Financial result	-9,062	-1,793
Profit before taxes on income	**33,471**	**24,815**

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

7. Relations to relatives and companies

Per 30 June 2017, there were amounts (income and expenses) owed from and owed to relatives and companies as shown below:

The Baugemeinschaft Maintal, consisting of the shareholders Paschalis Choulidis and Marianne Choulidis, has let office space in Maintal to Drillisch Group. The lease runs until 31 December 2020. Rent expenses for the first 6 months of 2017 amounted to €254k (last year: €254k).

The company VPM Immobilien Verwaltungs GmbH, Maintal (shareholders: Vlasios Choulidis, Paschalis Choulidis and Marc Brucherseifer), has let office space in Maintal to Drillisch Group. The lease runs until 31 December 2020. Rent expenses for the first 6 months of 2017 amounted to €89k (last year: €89k).

The company SP Beteiligungs GmbH, Langenselbold (shareholder: Ms Simone Choulidis), realised sales in the amount of €79k (previous year: €0k) with Drillisch Group in the first 6 months of 2017.

There were no amounts due to or due from the related parties mentioned above per 30 June 2017.

Abridged Consolidated Notes

8. Financial instruments

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

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

As per 30 June 2017, there were other financial assets in the amount of €453.7m; these are presented in the balance sheet at fair value. The financial assets obtained from the acquisition of 7.75% shares of 1&1 Telecommunication SE were measured in accordance with Level 3 (no observable market values, valuation based on valuation models). In total, €453.7m (31 December 2016: €0.6m) is to be classified at Level 3.

As per 30 June 2017, there were financial liabilities in the amount of €4.5m (31 December 2016: €5.8m); these are measured at fair value. The variable purchase price liability from the acquisition of The Phone House Deutschland GmbH was measured in accordance with Level 3 (no observable market values, valuation based on valuation models). The variable purchase price liabilities arise from legal disputes related to Phone House that are still pending. If and when further payments are received, Drillisch must (pursuant to the purchase contract) forward them to the seller. The measurement is oriented to the amount that in all likelihood must be paid. In total, €4.5m (31 December 2016: €5.8m) is to be classified at Level 3.

The financial instruments included in Level 3 developed as shown below during the first half of 2017:

	I-II/2017
	€k
1 January (liability)	**-5.2**
Additions to Other financial assets	453.1
Amortisation and depreciation	1.3
30 June (asset)	**449.2**

Affirmation Statement of the Legal Representatives

Declaration according § 37y WpHG in connection with § 37w Sec. 2 Nr. 3 WpHG

We warrant, to the best of our knowledge, that the consolidated interim accounts, in accordance with the applicable accounting principles for interim reporting, present a true and fair view of the assets and liabilities, financial position and profit and losses of the Group, and that the course of business described in the consolidated interim management report, including the results of business activities and the Group's position, is presented in such a manner as to give a true and fair view thereof as well as of the major opportunities and risks of the foreseeable development of the Group during the remainder of the business year.

Maintal, 10 August 2017

Vlasios Choulidis   André Driesen

INVESTOR RELATIONS CORNER

36 Financial Calendar | Current Analyst Assessments

37 Share Price Development | Director’s Holdings

38 Shareholder Structure

Financial Calendar | Current Analyst Assessments

1. Financial Events Calendar

Financial Events 2017*

Date	Subject
Thursday, 10 August 2017	Quarterly Close Q2 2017
Tuesday, 14 November 2017	Quarterly Close Q3 2017

* Date is preliminary and subject to change.

2. Dividend Policy

For fiscal 2016, the general meeting (18 May 2017) approved an increased dividend of €1.80 per voting share (2016: €1.75). Since 2009, the eighth increase of the dividend. Drillisch want to ensure that the shareholder benefit appropriately from the success of the Company in future as well.

3. Current Analyst Assessments (Last Revised 04 July 2017)

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

Latest analyst assessments (per 04 July 2017)

Analysis	Rating	Target	Date
Lampe	„Buy“	€66.00	04 July 2017
Hauck & Aufhäuser	„Sell“	€44.00	23 June 2017
NewStreet	„Hold“	€61.00	22 June 2017
Barclays	„Overweight“	€70.00	19 June 2017
Goldman	„Hold“	€60.00	13 June 2017
Warburg	„Hold“	€56.00	13 June 2017
UBS	„Buy“	€68.00	12 June 2017
HSBC	„Buy“	€70.00	31 May 2017
UBS	„Buy“	€53.00	30 May 2017
Kepler	„Buy“	€64.00	24 May 2017
Barclays	„Overweight“	€70.00	22 May 2017
Lampe	„Buy“	€66.00	22 May 2017

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

www.drillisch.de

→ Investor Relations
→ Research Notes

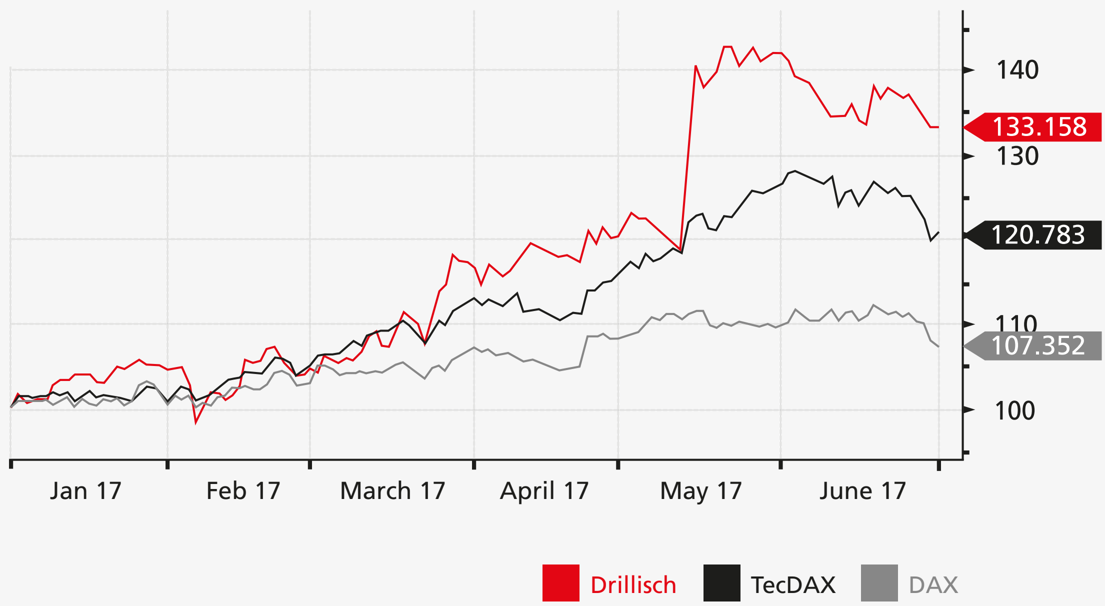
Share Price Development | Director's Holdings

4. Share Price Development in First Half of 2017

The performance of the Drillisch stock in First Half of 2017 in comparison with the indices

	2016 year end	30 June 2017	%-change
Drillisch	€40.895	€52.65	+ 28.7
TecDAX	1,811.72	2,188.25	+ 20.8
DAX	11,481.06	12,325.12	+ 7.4

Performance of the of the Drillisch stock significantly better than DAX and TecDAX

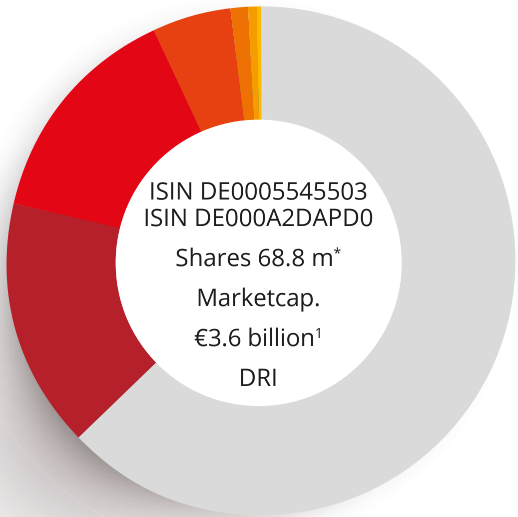


5. Directors' Holdings per 30 June 2017

Management Board	No-par-shares
Vlasios Choulidis	208,333 ▶ 0.30 %
MV Beteiligungs GmbH	65,000 ▶ 0.09 %
Supervisory Board	**No-par-shares**
Marc Brucherseifer, Dipl.-Kfm. (Chair)	828,108 ▶ 1.20 %

Shareholder Structure

6. Shareholder Structure (as of 30 June 2017)



Supervisory Board:

- 1.20% | Dipl.-Kfm. M. Brucherseifer | shs. 828,108

Management Board:

- 0.30% | V. Choulidis | shs. 208,333
- 0.09% | MV Beteiligungs GmbH | shs. 65,000

Other:

- 16.00% | United Internet Investments Holding GmbH | shs. 11,012,730
- 14.39% | United Internet AG | shs. 9,901,339
- min. 5% | Allianz Global Investors GmbH

Other Shareholders:

- max. 63.01% | max. shs. 43,369,967

* Per the voting rights notifications published to date as well as the announcement of United Internet pursuant to Sec. 23 para. 1 sentence 1 no. 1 German Securities and Takeover Act; number of shares admitted to trading: 59,764,649

1) On the basis of the XETRA closing price €52.65 on 30 June 2017. Free Float acc. to the rule of Dt. Boerse AG: 69.61%.

Note: Share numbers in the structure chart do not include instruments pursuant to Sec. 25 WpHG

7. Investor Relations

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

SERVICE CORNER

40 Publications | Contacts | Information and Order Service

41 Editorial Information

42 Drillisch AG Brands – the Choice is Yours!

Publications | Contacts | Information and Order Service

Publications

The present report o is also available in a German version.

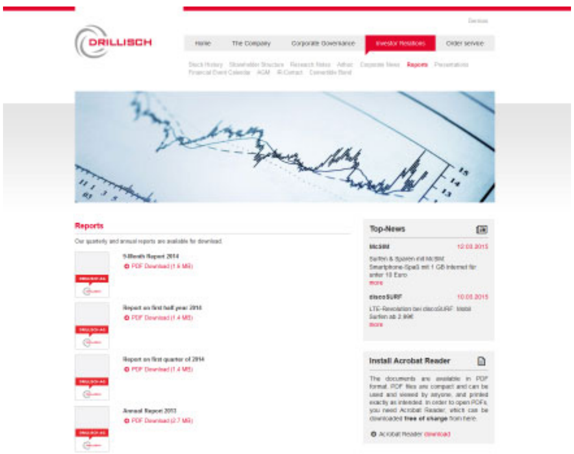
You can view and download our business and quarterly reports, ad-hoc announcements, press releases and other publications about Drillisch AG at **www.drillisch.de**.

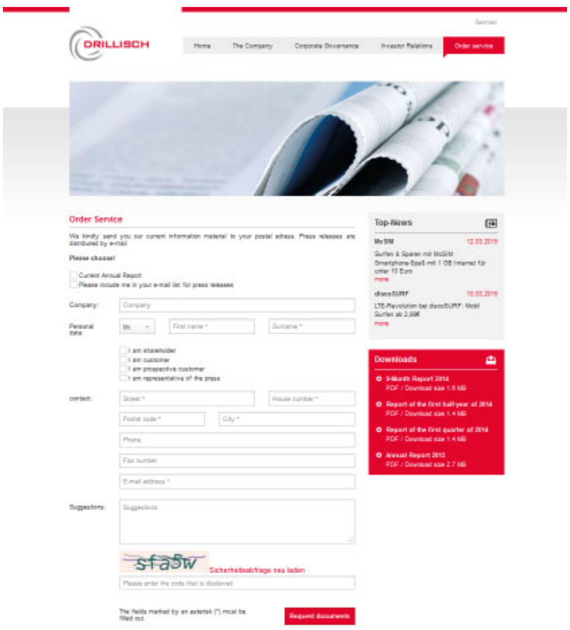
Information and Order Service

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

We will of course be glad to send you the requested information by post or fax as well.

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





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Dr Susanne Rückert (Deputy Chair)

Norbert Lang

Horst Lennertz, Dr.-Ing.

Frank Rothauge, Dipl.-Kfm.

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Disclaimer:

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

Future-oriented Statements:

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