DRILLISCH AG

Annual Report 2015

BEST VALUE FOR MONEY!

IN GERMANY'S LARGEST WIRELES SERVICES NETWORK

BEST SMARTPHONE RATE PLANS

- » TODAY: 4G LTE
- » TOMMORROW: With The Features of a Network Operator
- » FUTURE: Only Provider At Eye Level With MNOs

To Range From 500 MB up to 10 GB
With Up To 50 Mbit/s
From €7.99 Monthly

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Key Indicators of the Drillisch-Group	2015	2014	IV/2015	III/2015	II/2015	I/2015
Income Statement						
Revenue in €m	629.5	289.6	174.4	201.6	154.4	99.2
Service revenues in €m	433.7	284.6	120.2	113.2	104.8	95.4
Gross profit in €m	254.4	142.6	75.0	76.2	55.4	47.8
Gross profit in % of revenue	40.4%	49.2%	43.0%	37.8%	35.9%	48.2%
EBITDA in €m*	105.6	85.2	17.4	34.9	26.4	26.9
EBITDA margin in % of revenue	16.8%	29.4%	10.0%	17.3%	17.1%	27.1%
EBITDA adjusted in €m*	107.9	85.2	17.4	35.3	28.2	26.9
EBITDA margin adjusted in % of revenues	17.1%	29.4%	10.0%	17.5%	18.3%	27.1%
Depreciation excluding goodwill in €m	36.1	9.9	17.7	11.2	3.7	3.4
EBIT in €m*	69.5	75.3	-0.4	23.7	22.7	23.5
EBIT margin in % of revenue	11.0%	26.0%	-0.2%	11.7%	14.7%	23.7%
EBT in €m*	66.1	72.6	-1.2	22.9	21.8	22.7
EBT margin in % of revenue	10.5%	25.1%	-0.7%	11.3%	14.1%	22.8%
Consolidated profits in €m*	46.1	50.1	-1.5	16.5	15.3	15.8
Consolidated profit margin in % of revenue	7.3%	17.3%	-0.8%	8.2%	9.9%	15.9%
Profit/loss per share in €*	0.85	1.03	-0.03	0.30	0.28	0.30
Cash Flow						
Cash flow from current business operations in €m	76.2	71.8	10.6	33.5	14.2	18.0
Cash flow from investment activities in €m	-169.2	-4.8	-4.0	-156.1	58.7	-67.8
Cash flow from financing activities in €m	-100.7	63.1	-0.7	-0.3	-98.8	-0.9
Cash in €m	123.4	317.1	123.4	117.5	240.4	266.3
Balance Sheet						
Balance sheet total in €m	688.7	475.6	688.7	683.1	843.6	524.5
Equity in €m	353.0	331.1	353.0	354.4	337.8	346.9
Equity ratio (equity as % of balance sheet total)	51.3%	69.6%	51.3%	51.9%	40.0%	66.1%
Debenture bonds in €m	91.5	88.8	91.5	90.8	90.1	89.4
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)	733	355	733	655	520	386
Wireless Services Subscribers (31/12/2015) (in Thousands)(1)	**2,678**	**2,070**	**2,678**	**2,547**	**2,449**	**2,361**
Thereof MVNO subscribers	**2,587**	**1,928**	**2,587**	**2,449**	**2,327**	**2,229**
Thereof budget subscribers(2)	1,932	1,211	1,932	1,770	1,629	1,497
Thereof volume subscribers(3)	655	717	655	679	698	732
Gross Profit per User (AGPPU)						
AGPPU(4) budget subscribers	9.08 €	8.66 €	8.77 €	9.12 €	9.28 €	9.20 €
AGPPU(4) volume subscribers	3.13 €	3.46 €	3.07 €	3.31 €	3.06 €	3.07 €
AGPPU(4) subscribers (total)	7.34 €	6.47 €	**7.28 €**	**7.47 €**	**7.38 €**	**7.23 €**

* - Includes results from closed divisions of €310k

(1) - Thereof per 31/12/2015 65,000 prepaid subscribers and 26,000 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

Letter from the Management Board

Paschalis Choulidis
Executive-Board Spokesman,
Financial Communication and IT

Vlasios Choulidis
Director of Sales

André Driesen
Director of Finances

Dear Shareholders,

Drillisch AG was able to add yet another chapter to its history of success in fiscal year 2015 and increase all of our most important performance indicators, above all the EBITDA, the number of MVNO subscribers and the average profit per MVNO user. One year ago, we reported to you in great detail on how we were charting our Company's course for the future. During the past fiscal year 2015, we successfully completed the announced transformation into an MBA MVNO. Now we want to give you the details of the completed transformation.

Realisation of the MBA MVNO agreement – independent, yet on a peer level with the network operators

Since 1 July 2015, we have been entitled to a share of as much as 30% of the total network capacity of Telefónica, assuring us of extensive access to the largest wireless services network in Germany; we are the only MBA MVNO in Germany to enjoy such an entitlement. For the next 15 years, we will have contractually ensured, unrestricted access to 4G (LTE) and – what is more – to any and all more advanced future technologies. Thanks to this unique situation, we are able to perform like a network operator, yet do not have the burden of investing billions in the installation and expansion of a network. This model assures us of maximum flexibility and independence along with simultaneous improved plannability in our operating business.

New corporate structure of the Group – successful build-out of the online activities and launch of business in the offline segment

Along with the launch of MBA MVNO operations, we optimised the structure of Drillisch Group during 2015 and, as we reported one year ago, turned our major attention to two focus brands.

Aiming to enhance our efficiency and clout even further, we merged the online competence of the subsidiaries Drillisch Telecom, MS Mobile and eteleon (previously operating autonomously) into one single company while continuing to operate on the market with all of our established online brands. The result is Drillisch Online AG, the Group firm that is now fully in charge of our complete and highly successful internet sales. The premium brand for the segment Online is “smartmobil.de”.

In Q3 2015, we began to establish a nationwide position on the offline channel as well, operating under the brand name “yourfo-

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ne". We started in July 2015 with 102 of our own shops in carefully selected locations in Germany. As of today, we have taken over a total of more than 200 shop sites from Telefónica. With the catchy slogan *Für Dich. Für Sie. Für Alle.*, we offer the best price-performance relationship for mobile communications in our own and partner shops and are now active in the brick-and-mortar trade. Customers select the rate plans that best match their individual needs and can bundle the selected plan with state-of-the-art smartphones. Our objective in opening this new segment is to open the door to additional customer groups that were beyond our direct reach in the past.

The telecommunications market in a state of transformation

Mobile communications in Germany as a whole continues to grow at a very rapid pace and is taking place above all on smartphones. This was the finding of a study entitled "Global Mobile Consumer Survey 2015" released by the consultancy Deloitte in the middle of September 2015.

The comprehensive market study from Dialog Consult and VATM from October 2015 additionally examined the daily connection minutes from landlines, wireless lines and the so-called OTT connections. OTT connections are connections that at this time are mostly used from desktop PCs at home such as conversations via Skype or FaceTime. Expectations are that the substantial rise in voice traffic via the OTT applications will in future be conducted more and more from mobile devices as well. VATM and Dialog Consult projected that OTT connections would rise to 231 million minutes a day in 2015 (2104: 214 million minutes). The assumption of dynamically rising mobile data use (its share in total revenue in 2015 is expected to increase by 4.3% to 42.7% in comparison with 38.4% in 2014) is also related to the ever greater spread of VoLTE (voice volume that is transported via the 4G data channel). It is to be assumed that the share of data revenue in future will reach a significantly greater share of total revenues.

Independently of this, the market study from VATM and Dialog Consult from October 2015 furthermore predicted that strictly data traffic over wireless networks in Germany would rise by 29.1% to 510 million GB in 2015 (2014: 395 million GB). The average data volume per user and month was forecast to increase correspondingly by 30.4% to 377 MB in 2015 (2014: 289 MB).

This dynamic rise is being driven above all by the accelerating spread of smartphones, the use of high-speed mobile connections via LTE and applications that require increasingly greater volumes of data. The consequence is that in future providers of high-performance rate plans at attractive prices will enjoy excellent opportunities for development.

In its September study, Deloitte prophesied the break-through for the new LTE technology to a mass market. In Germany, about 22% of wireless services customers use the fast broadband connections at this time (+14%-points over 2014). This technological evolution offers outstanding growth opportunities for the future. The network outfitter Cisco also expects more than 80% of the total mobile data traffic to be realised via LTE in the next three years. Projections up to the year 2021 expect an increase in monthly data volume per user to 13 gigabytes a month, an almost unimaginable figure today. The technological further development of the current wireless standard (4G) is presently being tested in Germany and other countries and is expected to be

Letter from the Management Board

ready for the market in four to five years. The first 5G networks in Europe are predicted to start operation at that time.

Attractive offers and outstanding quality

Since Drillisch Group (as described above) has unlimited, long-term access and a marketing right protected by regulations to both current and all future technologies on the largest German wireless network, we will be able to continue offering the right service for every type of use in the future, not just today.

The focus of our current range of rate plans is on various full flat rates; all of them include unlimited calls and text messages and have data packages ranging from 500 MB to 10 GB. All of our data packages offer up to 50 Mbit/s, the maximum speed currently available on the Telefónica LTE network. The smallest flat-rate plan gives entry-level users the opportunity to use the mobile high-speed internet with yourfone, for instance, at prices starting at €9.99 a month. We have offered a highly diversified range of campaign rate plans for different user groups via other established online brands besides yourfone and smartmobil.de in the past months. As Stiftung Warentest has just recently confirmed once again, the Drillisch brands offer the best product for every type of user. In its 10/2015 issue of the magazine "test", for instance, Stiftung Warentest contrasted volume rate plans and all-net flat rates. Drillisch products took the top places in both categories. In the category of the all-net flat rates featuring unlimited telephony, text messages and internet usage, the Drillisch brands sim.de, maXXim, discoPLUS, DeutschlandSIM and Phonex took the first five places.

In addition to price, sustained transparency and security as well as customer satisfaction are important elements of the Company's success. In the past, Drillisch has regularly submitted to comprehensive external quality audits to secure these elements and will continue to do so in future. The awarded certificates have all featured the ratings "Excellent" and "Good". In the course of the renewal of the certification in accordance with the demanding quality requirements of the ISO norm 9001:2008 in September 2015, the high standard of quality management at the Drillisch subsidiaries Drillisch Online and yourfone satisfied the auditors fully and completely in every respect.

The operating business

As previously announced and described in our outlook for both fiscal years 2015 and 2016, our operating business during this period will be marked by high investments in future growth. During fiscal year 2015, the expenditures for campaign-related advertising alone and the general brand build-up in many different media came to a total of €64.5 million (2014: €14.1 million). We increased these expenditures once again in Q4 2015 and intend to maintain the high level of advertising in fiscal year 2016 as well. Our efforts in this area in 2015 paid off in that we were able to grow dynamically in a market environment that remains highly competitive and significantly increased the number of customers, enabling us to raise our EBITDA target by another 5% in December.

In comparison with the closing date of the previous year, our clientele grew by 608,000 (29.4%) to 2.678 million subscribers (2014: 2.070 million). We were able to grow especially strongly in the segment of MVNO customers; their total numbers grew by 659,000 (34.2%) to 2.587 million subscribers (2014: 1.928 million). We achieved especially strong growth in the highly profi-

Letter from the Management Board

table budget subscriber segment, posting an increase of 721,000 subscribers (59.5%) to 1.932 million subscribers (2014: 1.211 million). Thanks to the improved customer and rate plan mix, the average gross profit per MVNO customer (AGPPU) increased as well over the year and has now reached the mark of €7.34 (2014: €6.47).

Revenues in fiscal year 2015 increased by €339.9 million (117.3%) to €629.5 million (2014: €289.6 million). The largest share of revenues, €358.2 million, came from the segment Online (2014: €288.5 million). In the segment Offline, which includes the brokerage business of Phone House to specialist trade as well as our yourfone shops and customers and others, €290.7 million in revenue was realised in the reporting period (2014: €0). The EBITDA in the segment Miscellaneous/Holding amounted to €9.8 million (previous year: €7.2 million).

In particular, a rise of 52.4% in service revenues to a total of €433.7 million (2014: €284.6 million) enabled us to generate a gross profit in fiscal year 2015 that, at €254.4 million, is €111.8 million (78.4%) higher than the level of the previous year (2014: €142.6 million), a significant increase. Here as well, the greatest part (€183.5 million) came from the segment Online. The gross profit margin in the segment Online improved to 51.2% (2014: 49.1%). The segment Offline achieved gross profit of €70.3 million in 2015 (2014: €0) and a gross profit margin of 24.2% (2014: 0%).

Compared with the same period last year, the consolidated EBITDA, one of the most important performance indicators in our business, increased by €20.4 million (23.9%) to €105.6 million (2014: €85.2 million). This includes €310k from closed business divisions coming from the sale of Phone House Management GmbH, Münster, completed in November. The EBITDA forecast, which had been increased in December, was exceeded slightly. The EBITDA in the segment Online declined slightly (a consequence of the major increase in advertising expenditures) to €85.8 million over the previous year (2014: €88.5 million). The segment Offline made its first contribution to the consolidated EBITDA, a total of €25.9 million. The EBITDA in the segment Miscellaneous/Holding per 31 December 2015 amounted to €-6.4 million (previous year: €-3.3 million). The change over the previous year is essentially a consequence of the higher legal and professional expenses incurred during the reporting period pursuant to the company acquisitions.

Amortisation and depreciation rose by €26.2 million to €36.1 million (2014: €9.9 million). This rise in amortisation and depreciation is basically a consequence of the first-time inclusion of Phone House and yourfone in the consolidated annual accounts. The intangible assets identified within the framework of the (provisional) purchase price allocation of Phone House and the purchase price allocation of yourfone will be written off over the usual useful life of 2.5 and 6 years, respectively. The resulting amortisation and depreciation totals €15.8 million (2014: €0.0). Since the provisional purchase price allocation for Phone House was taken into account for the first time in Q4, there was retroactively an impact on the amortisation and depreciation in Q4 for the period as of the acquisition in May 2015. Depreciation and amortisation of €5.0 million (2014: €0.0) resulted for the period beginning with the start of MBA operations per 1 July 2015 from Drillisch's contribution of €150 million agreed with Telefónica 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 was capitalised under Other

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intangible assets and will be written off over the expected useful life of 15 years.

Based on the highly positive development in our earnings position, we generated an operating cash flow of €76.2 million in fiscal year 2015, representing an increase of €4.5 million (6.2%) over the same period last year (2014: €71.8 million).

Following disbursement of the dividends in the amount of €90.4 million (previous year: €76.8m) in Q2 2015 and the agreed payment to Telefónica in Q3 of €150.0 million related to the launch of the MBA MVNO model for the expansion of the LTE network and future technologies, cash at the end of fiscal year 2015 amounted to €123.4m (31/12/2014: €317.1m). In combination with attractive financing opportunities, Drillisch AG has adequate flexibility to expand or supplement its business activities as expedient even after these payments.

Outlook

The successful course of fiscal year 2015, including the start of MBA MVNO operations, saw the expected growth in subscribers from the build-out of the segment Online and the establishment of the segment Offline. The significant rise in advertising expenditures of the past year will be continued in 2016 so that we maintain our support of the dynamics in the expansion of our MVNO clientele.

We are looking ahead to the future with confidence and expect an increase in EBITDA to between €115 million and €120 million for fiscal year 2016. Furthermore, we intend to ensure that shareholders benefit appropriately from the success of the Company in future as well. Supervisory Board and Management Board propose a raised dividend of €1.75 per voting share for the past fiscal year 2015. Our target for fiscal year 2016 will be to disburse a dividend of the same amount as a minimum.

In conclusion, we would like to take this opportunity to thank our employees expressly and warmly for their continued commitment and their high readiness to perform because dependable collaboration in a spirit of trust is very important for our commercial success. But we are also just as deeply grateful to our shareholders, customers and business partners for the trust they have placed in us.

Best regards from Maintal.

Paschalis Choulidis | Vlasios Choulidis | André Driesen

Report of the Supervisory Board

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

Dear Shareholders,

During the reporting period 2015, 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 2015. 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 activities of the Supervisory Board were based on the reports regularly submitted orally and in writing by the Management Board regarding the development of the Company's business and its commercial and financial position; its strategic further development and corporate planning; its risk position and risk management; and the 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 were held during the re-

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porting period 2015. The members attended six meetings (on 19 March 2015, 12 May 2015, 21 May 2015, 12 August 2015, 5 November 2015 and 11 November 2015) and six meetings were held in the form of phone conferences (on 27 January 2015, 5 March 2015, 12 April 2015, 4 May 2015, 22 July 2015 and 15 September 2015). Moreover, two resolutions were adopted outside of Supervisory Board meetings during the reporting period 2015 (on 28 August 2015 regarding approval of the conclusion of a management board service agreement between Drillisch Online AG and Mr Jochen Mogalle and on 30 October 2015 regarding the approval of the revocation of the Prokura [full commercial authority of representation] of Messrs Julian and Tobias Valdenaire).

The most important point of the Supervisory Board activities in the reporting period concerned the consultations related to, and adoption of, resolutions regarding specific measures that facilitated the realisation of the MBA-MVNO contract regarding the wholly-owned subsidiary MS Mobile Services GmbH concluded between Drillisch and Telefónica Germany GmbH & Co. OHG during fiscal year 2014. The measures included in particular the acquisition of all of the shares in GTCom GmbH from Global Telecom Holding GmbH; the acquisition of all of the shares in The Phone House Deutschland GmbH from Dixons Carphone plc; the conclusion of a business transfer agreement between Telefónica and yourfone GmbH; the establishment of Drillisch Netz AG and the possible conclusion of contracts with hardware suppliers. Furthermore, the Supervisory Board approved an increase in share capital, using the approved capital, against the contribution of all of the newly acquired shares in The Phone House Deutschland GmbH. These subjects were the focal points of deliberations in a total of seven Supervisory Board meetings during the reporting period; in the other meetings, the Board also received information regarding the ongoing implementation as an MBA MVNO, particularly in the offline and online segments.

Personnel issues represented another focal point of Supervisory Board activities during the reporting period that was especially significant for the Company and Drillisch Group. In March 2015, Mr André Driesen was appointed to be the third member of the Drillisch AG Management Board, and the distribution of business responsibilities was adjusted. In July 2015, Mr Paschalis Choulidis and Mr Vlasios Choulidis were re-appointed to the Management Board ahead of the required date. While on the subject, the Supervisory Board examined carefully and in detail the service agreements with each of the Management Board members; the agreements are subject in part to special rights of termination. In addition, the Supervisory Board, in consultation with the Personnel Committee, discussed the executive situation in detail, approved the appointment of management board members and managing directors and the granting of full authority of commercial representation in the subsidiaries, and considered the policy for travel expenses and the long-term incentive programme (LTI) in the Group.

Furthermore, the Supervisory Board regularly received information about key points concerning the commercial development and position of the Company and the Group, especially the development of sales and profits, the development in the number of subscribers, the gross profit indicators, the AGPPU (average gross profit

Report of the Supervisory Board

per user) and the liquidity position and development as well as the Management Board's planning and discussed these matters with the Management Board in consideration of current market changes. In particular, the Supervisory Board examined in detail the separate financial statements for every quarter.

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. At this time, the Supervisory Board reviewed the composition of the committees and adopted a resolution for the revision the Supervisory Board rules of procedure (not yet realised) that will improve the efficiency of the Supervisory Board's work even further.

Moreover, the Supervisory Board set target values for the proportion of women on the Supervisory Board and the Management Board pursuant to Section 111 (5) first sentence AktG [Germany Company Law] and a general term limit for membership in the Supervisory Board pursuant to Clause 5.4.1 of the German Corporate Governance Codex. Furthermore, the Supervisory Board and Management Board jointly deliberated on the cooperation of the governing bodies.

In addition, the Supervisory Board considered the accounting for fiscal year 2015, the audit of the annual accounts 2014, the Annual General Meeting 2015 (including the proposal for the appropriation of profits for submission to the Annual General Meeting), the Declaration on Corporate Management and the joint Declaration of Conformity, and the Supervisory Board report for fiscal year 2014.

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

The Personnel Committee of the Supervisory Board, whose members are Mr Marc Brucherseifer (committee chair), Dr Susanne Rückert (deputy committee chair) and Dr Horst Lennertz, held two meetings with the members present (on 27 February 2015 and 5 May 2015) and one meeting in the form of a phone conference (on 19 June 2015). Its primary activities concerned the preparation of the nomination of André Driesen for appointment as a third member of the Drillisch AG Management Board and the proposal for the re-appointment of Mr Paschalis Choulidis and Mr Vlasios Choulidis as Management Board members for submission to the full Supervisory Board and the preparation and negotiation of the service agreements for the Management Board members and the adjustment in the distribution of business responsibilities among the members. In addition, the Personnel Committee discussed and appraised the Management Board's work and its membership as well as the long-term succession planning for the Management Board, taking into account the executive planning of the Company.

The Audit Committee of the Supervisory Board, whose members are Mr Frank Rothauge (committee chair), Dr Bernd H Schmidt and Dr Horst Lennertz, held four meetings with members present during the reporting period (on 12 March 2015, 21 May 2015, 12 August 2015 and 10 November 2015). The Audit Committee monitors the accounting and the accounting process, the audit of the annual accounts, the internal controlling system and the risk management system in accordance with a

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defined schedule of meetings for the year. What is more, the Audit Committee did intensive work on the adaptation of the internal risk reporting to the changes in the corporate structure resulting from the acquisitions of last year.

The Nomination Committee, whose membership includes all of the Supervisory Board members (chair: Mr Marc Brucherseifer), met once during the reporting period (on 12 August 2015) and advocated submitting a proposal to Hanau Local Court for Mr Norbert Lang to become a court-appointed member of the Supervisory Board pursuant to Section 104 (2) AktG.

Personnel changes on the Management Board and Supervisory Board

Regarding the Management Board, the Supervisory Board in its meeting on 19 March 2015 appointed Mr André Driesen to the Drillisch AG Management Board for a period of three years, effective per 1 April 2015; since his appointment, Mr Driesen has been responsible for the Finances division. In addition, the Management Board members Mr Paschalis Choulidis and Mr Vlasios Choulidis were re-appointed ahead of time (on 22 July 2015) to remain Management Board members until 31 December 2018. Regarding the Supervisory Board, Mr Johann Weindl resigned his office as member of the Supervisory Board, effective immediately per 22 July 2015, with the consent of the Supervisory Board. Mr Norbert Lang was appointed to replace him on the Supervisory Board pursuant to a decision issued by the Hanau Local Court per 12 November 2015. The terms of office of the other Supervisory Board members (Mr Marc Brucherseifer, Dr Susanne Rückert, Dr Horst Lennertz, Mr Frank Rothauge and Dr Bernd H Schmidt) remain unchanged. They were elected on 16 May 2013 for a term of office lasting until the closing of the Annual General Meeting that adopts a resolution on discharging them for fiscal year 2017. The Supervisory Board was chaired again in the reporting period 2015 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 2015, the management reports for the stock corporation and the Group for fiscal year 2015 (including the explanatory report on the information pursuant to Section 289 (4) and Section 315 (4) HGB [German Commercial Code]), were prepared and submitted on time by the Management Board, and the accounting and risk management system were examined by BDO AG Wirtschaftsprüfungsgesellschaft, the firm appointed by the Annual General Meeting to be the auditors, and certified by an unqualified auditor's opinion.

Concerning the Company's system for the early detection of risks, the auditor determined that the Management Board had appropriately taken measures required pursuant to Section 91 (2) AktG, especially for the installation of a monitoring system, and that the monitoring system is suitable for the early detection of developments that could threaten the continued operation of the Company.

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

Report of the Supervisory Board

Focal points of the audit engagement to the auditor included in particular the initial consolidation of acquired companies (consolidated annual accounts), impairment test for goodwill (consolidated annual accounts)/participation assessments (separate annual accounts), new systems/data migration at the acquired companies, mergers (separate annual accounts) and the consequences of the MBA MVNO contract for the balance sheet. The closing documents were finally gone through and discussed during a meeting of the Audit Committee on 15 March 2016 in the presence of the auditor. At that time, the auditor reported on the most significant results of his audit and explained the results; he also gave detailed answers to questions posed by the members of the Audit Committee. This discussion revolved in particular around the results of the audit related to the defined focal points of the audit, the accounting process, the internal controlling system, and the risk report and 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 23 March 2015, the Supervisory Board approved the annual accounts and consolidated annual accounts 2015. The annual accounts have therefore been adopted pursuant to Section 172 AktG.

During the Supervisory Board meeting on 23 March 2015, Management Board and Supervisory Board adopted a joint resolution to propose the disbursement of a dividend in the amount of €1.75 per share to the Annual General Meeting. 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. All members took part in the total of twelve Supervisory Board meetings. All committee members also took part in each of their respective 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. The Supervisory Board also decided to prepare a revised version of its rules of procedure.

No conflicts of interest within the sense of Clause 5.5.3 of the Corporate Governance Codex arose during the reporting period.

Management Board and Supervisory Board report on corporate governance pursuant to Clause 3.10 of the German Corporate Governance Codex within the context of the Declaration on Corporate Management. During the reporting period, Management Board and Supervisory Board submitted a joint Declaration of Conformity pursuant to Section 161 AktG, most recently on 19 March 2015, which by and large followed the recommendations of the 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

Report of the Supervisory Board

the remarks in the corporate governance report included in the Annual Report 2015.

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, 23 March 2016

On behalf of the Supervisory Board

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 23 March 2016 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 5 May 2015:

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 4.2.3 (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 agreements with the Management Board members, including the company pensions, were concluded before the ent-

Statement on Corporate Governance / Corporate Governance Report

ry 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, 23 March 2016

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

The Management Board
Paschalis Choulidis *Vlasios Choulidis*
André Driesen

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.

Statement on Corporate Governance / Corporate Governance Report

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

The Management Board currently has three members; the membership on the Management Board at this time is shown in the consolidated notes (page 109, item 35 of the Annual Report 2015). 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 required by other important events.

Legal provisions stipulate that the Supervisory Board must have six members. Mr Johann Weindl, Dipl.-Kfm., stepped down from the Supervisory Board per 22 July 2015. Per resolution of 12 November 2015, the Local Court Hanau appointed Mr Norbert Lang, Waldbrunn Lahr, to be a member of the Supervisory Board. As he joined the five Supervisory Board members elected by the Company's Annual General Meeting on 16 May 2013 (Marc Brucherseifer, Dipl.-Kfm.; Dr Susanne Rückert; Horst Lennertz, Dr.-Ing.; Frank A. Rothauge, Dipl.-Kfm.; Dr Bernd H. Schmidt), the Supervisory Board now has its full complement of members. The current membership of the Supervisory Board is shown in the consolidated notes (page 108, item 34 of the Annual Report 2015).

The term of office of from the general meeting elected and the current Supervisory Board members will end upon the adjournment of the ordinary Annual General

Statement on Corporate Governance / Corporate Governance Report

Meeting which adopts a resolution discharging the Supervisory Board members for fiscal year 2017. Mr Norbert Lang has been nominated to complete the term of office of Mr Johann Weindl, Dipl.-Kfm.; the Annual General Meeting on 19 May 2016 will be asked to adopt a resolution confirming the nomination. 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 10 to 15 of the Annual Report for fiscal year 2015. 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 108, item 34 of the consolidated notes.

Working methods and composition of the committees

The Supervisory Board has formed three committees, namely, a Nominating Committee, an Audit Committee and a Personnel Committee. 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 management 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.

Statement on Corporate Governance / Corporate Governance Report

Since there are three members of the Management Board (until April 2015 two members only), 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 48 of the Annual Report 2015) 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 2015 are shown in the management report and notes and in the consolidated management report on pages 53 to 56 of the Annual Report 2015 (compensation report) and in the consolidated notes under on page 109, item 36 of the Annual Report.

Stock transactions and holdings of officers and directors

According to Section 15a WpHG [German Securities Trade Act], officers and directors of the Company and people with management tasks must disclose the purchase and sale of Drillisch AG stock to the Company. Drillisch AG was notified of the following purchase and sales transactions, which in accordance with Clause 6.3 of the German Corporate Governance Codex must be reported in the Corporate Governance Report, during fiscal year 2015.

Statement on Corporate Governance / Corporate Governance Report

Directors' Dealings in 2015

Date	Type of tran-saction	Shares	Price/€	Reporting person
22 January	„Sale"	2,407	€25.67	H. Lennertz, Supervisory Board
26 November	„Sale"	57,790	€42.39	M Brucherseifer, Supervisory Board

Directors' Holdings in 2015

Per 31/12/2015, the Management Board members held the following stock in Drillisch AG:

Management Board	Shares
Paschalis Choulidis	425,000 no-par shares
Vlasios Choulidis	400,000 no-par shares

Per 31/12/2015, the following Supervisory Board members held the following stock in Drillisch AG:

Supervisory Board	Shares
Marc Brucherseifer, Dipl.-Kfm.	1,019,775 no-par shares

THE DRILLISCH GROUP AND THE MARKET ENVIRONMENT

Provider of Innovative Voice and Data Rate Plans on Germany's Largest Wireless Services Network

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.

The wireless services market in Germany has undergone fundamental change in the last ten years. An innovative mover on the German wireless services market, Drillisch continues to repeatedly generate new trends. The brand simply from Drillisch, for instance, offered not only low prices for call minutes and texts to wireless services customers, but was also the first provider to do away with the 2-year contracts that had been standard up to that point. From Drillisch's perspective, the proposition that the offer of a fair rate without the usual contract term of 24 months would lead to higher customer loyalty in most cases has proved to be true.

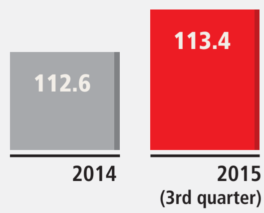
In the age of the mobile internet, simple, low-price and powerful access to mobile data networks with sufficient data volume according to each individual's specific needs and a fast connection are the major criteria determining customers' decision when selecting a rate plan and provider.

Operating in a constantly changing market environment, Drillisch, now an MBA MVNO, offers its customers an unrivalled "best price-performance ratio".

More wireless lines in Germany

The Federal Network Agency issues quarterly reports on the number of SIM cards in Germany on its website. The report from Q3 2015 showed registrations of about 113.4 million mobile lines (2014: 112.6 million active SIM cards).

Number of Sim cards as per Q3/2015
(in m)



Source: Bundesnetzagentur via statista

More and more of these SIM cards are required in technical communications such as the monitoring and control of industrial equipment. According to a recent market study from DIALOG CONSULT and the VATM from October 2015, the share used in so-called "machine-to-machine" applications rose from 4% in 2014 to 6% in 2015. Industry experts are predicting a powerful boom from the "Internet of Things" (e.g. smart home, connected car or wearables applications) accompanied by a dynamic development in market share.

Further market aspects that were examined were the daily connection minutes from landlines, mobile lines and the so-called OTT connections. OTT connections are connections that at this time are mostly used from desktop PCs at home such as conversations via Skype or FaceTime. Expectations are that the substantial rise in voice traffic via the OTT applications will in future be conducted more and more from mobile devices as well. Forecasts from VATM and

Data Revenues and Data Volume Growing Steadily

DIALOG CONSULT indicate that OTT connections will increase from 214 million minutes a day in 2014 to 231 million minutes a day in 2015.

Daily connections from landlines will fall from 437 million minutes in the year before to 418 million minutes in 2015. The connection minutes from mobile lines every day, however, is expected to rise slightly from 303 million minutes in 2014 to 305 million in this year.

Data revenues growing dynamically – voice, messages and streaming come in data packages

Mobile communications as a whole continue to grow strongly in Germany. This is also the conclusion reached by the market study from VATM and DIALOG CONSULT in October 2015: while total revenues will remain stable at a level of €24.8 billion (2014: €25.0 billion), data revenues will have a share of 42.7% (2014: 38.4%). The revenue realised from traditional telephony, estimated at €12.9 billion in 2015 (share: 52.1%), will decline slightly in comparison with the €13.9 billion in 2014 (share: 55.6%).

The following are some of the factors playing a role in this development:

» More and more people are using messenger services in preference to traditional phone calls;

» The growing use of voice over data;

» The use of messenger services in lieu of texting;

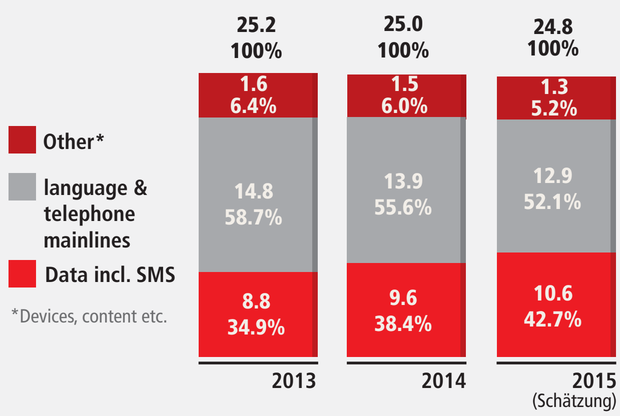
» Substantially more high-speed wireless connections are using LTE;

» The trend to data-intensive utilisation scenarios such as photo sharing, music and video streaming.

Data traffic posts steady growth – by 30% in Germany in 2015

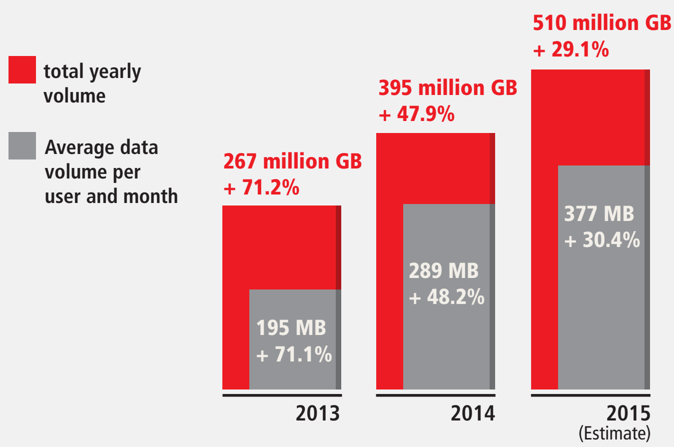
The market study from VATM and DIALOG CONSULT from October 2015 assumes that data traffic over wireless networks in Germany will rise by 29.1% to 510 million GB in 2015 (2014: 395 million GB). The average data volume per user and month is forecast to increase correspondingly by 30.4% to 377 MB in 2015 (2014: 289 MB).

SMS revenues and mobile internet revenues
(in € bn)



Source: Marktstudie Dialog Consult / VATM, October 2015

Data traffic over wireless networks in Germany 2015



Source: Marktstudie Dialog Consult / VATM, October 2015

Successful Breakthrough of LTE on the Mass Market

In the "*Forecast: Mobile Data Traffic*" published by Gartner in the middle of 2015, the market researchers refined their forecast for worldwide mobile data traffic. The projection showed that 52 million TB will have been carried over mobile networks by the end of 2015, an increase of 59% over 2014.

Successful breakthrough of LTE on the mass market – launch of next generation expected as early as 2020

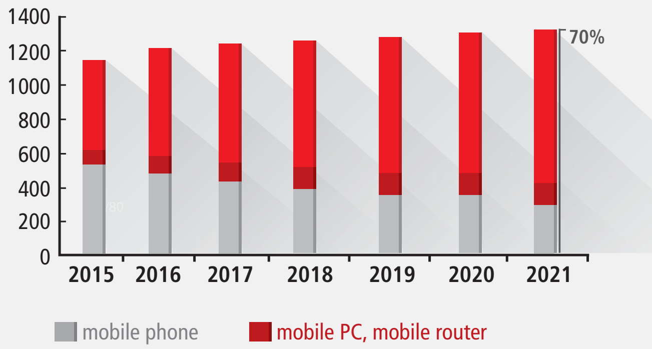
The consulting company Deloitte examined the market for fast internet access using LTE in Germany for the study "Global Mobile Consumer Survey 2015" released in September 2015. Its results revealed that 22% of German wireless services customers use the fast broadband connections, an increase of 14 percentage points over the previous year. The network outfitter Cisco expects that more than 80% of all mobile data traffic will be carried via LTE over the next three years. A large share of these data will come from the transmission of moving images, notes the "Mobility Report" of November 2015 published by Ericsson. Projections up to the year 2021 expect an increase in monthly data volume per user to 13 gigabytes a month, an almost unimaginable figure today. Observers believe that between 10 and 20 minutes of high-resolution video images will be viewed daily on smartphones in 2021. By then, however, the next generation (5G) with transmission rates of 10 GBit/s will presumably be in use. The technological further development of the current wireless standard (4G) is presently being tested in Germany and other countries and is expected to be ready for the market in four to five years. The first 5G networks in Europe are predicted to start operation at that time.

Drillisch Group is the only MVNO that has an unrestricted, long-term access and marketing right with regulatory protection to current and all future technologies on the largest German wireless services network.

Smartphone use increases in all age groups, fastest in the Generation 65+

Smartphones have replaced simple mobile phones. According to the network outfitter Ericsson, one out of two mobile lines in Europe is used with a smartphone. This proportion will probably rise to 70% over the next five years according to the forecast of the *Mobility Report 2015* issued in November 2015.

Sim cards in Europe over different devices (in million)



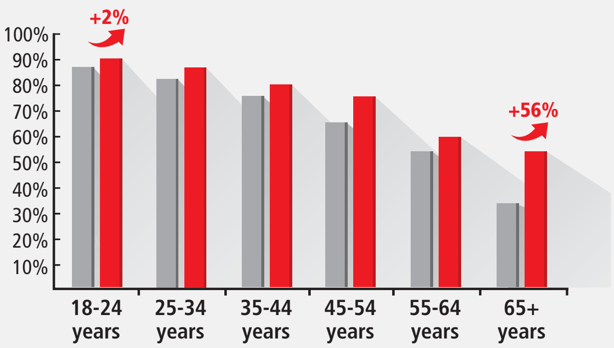
Source: Ericsson Mobility-Report-2015

Only a small proportion of smartphone use is for phone calls. Thanks to simple access to the mobile internet, the smartphone symbolises customers' digital identity as it is the point of access to messenger services, social networks and email accounts. Communication, information and entertainment – no one in the early days of wireless services ever thought that all of this would one day be possible on a mobile device.

Growing Acceptance of Smartphones Across All Age Groups

Prior to the technology trade fair Consumer Electronics Show (CES) in Las Vegas at the beginning of January 2016, the consulting company Deloitte published the study *Ständig auf Empfang* ("Always On") on the use of smartphones. It reveals that 75% of all mobile phone users in Germany have access to a smartphone – an increase of 7 percentage points over the previous year. Smartphones are used by 90% of the age group of 18- to 24-year-olds. The Generation 65+ has done the most to catch up. Smartphone acceptance in this age group rose from below 40% to almost 60%.

Smartphone user over age groups

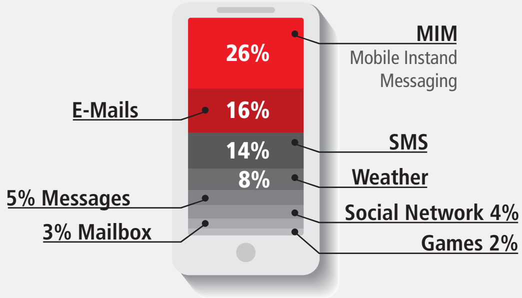


Source: Deloite Marktforschung

The smartphone is today the constant companion in daily life and determines how many users plan their day.

For instance, 36% of the respondents in the Deloitte study stated that they checked their smartphones within 15 minutes of waking up every morning. Seven percent of the respondents do so immediately; 13% wait no more than five minutes. The question expressly excluded the use of the device's alarm clock function as that would falsify the findings. The question expressly asked about the retrieval of personal messages, online news or weather information.

Rise and shine – which service is checked at first

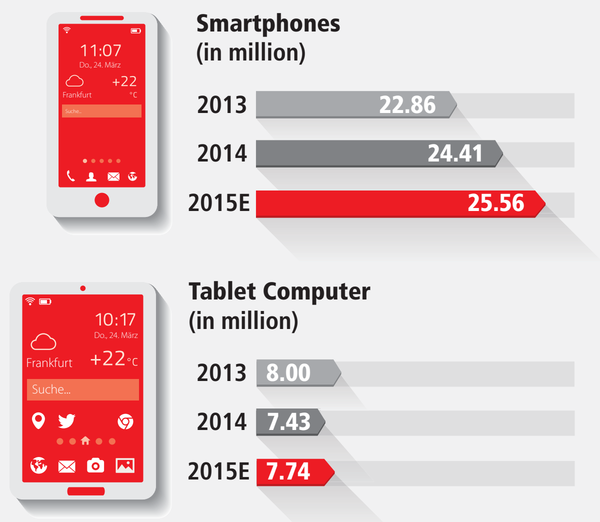


Source: Deloitte Marktforschung

Sales of smartphones exceed expectations

The tremendous interest in modern, internet-capable wireless devices is also reflected in the sales and revenue figures for smartphones and tablets. The digital association Bitkom adjusted its forecast from spring 2015 upwards at the start of the *Internationale Funkausstellung* (IFA, Berlin) at the beginning of September 2015 and expects total revenues of €9.1 billion, 7% more than in 2014. A new sales record for smartphones will be set this year – 25.6 million devices sold, 5% growth over 2014.

Sales trend in Germany 2013-2015

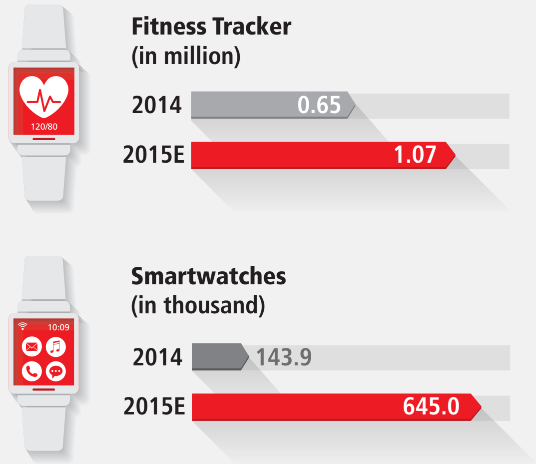


Source: BITKOM, EITO, IDC

Positive Outlook for Software Industry

“The trend is clear: all of the mobile telephones delivered in the next four to five years will be smartphones,” stated an analyst from the market research company Gartner during an interview with the *Deutsche Presseagentur* in November 2015.

Sales trend in Germany 2014-2015



Source: BITKOM, GfK

A new class of devices such as fitness armbands and smartwatches is presumed to have great potential for growth. Even though only a small part of these so-called wearables requires a SIM card for direct communication, data are collected wirelessly, transmitted to connected smartphones and other devices and analysed and assessed while users are on the go, for example. According to Bitkom, sales of €70.8 million and 1.1 million devices will be realised with fitness trackers in 2015. For the entire year, expectations for smartwatches are 645,000 devices sold for revenues of €169.2 million.

Positive outlook for software sector – more than one million employees in the ITC industry for the first time ever

By the end of 2015, companies for information technology, telecommunications and entertainment electronics (ITC) will employ 1.002 million workers. This was the figure announced by the digital association Bitkom during its autumn commercial forecast in Berlin at the end of October 2015. The revenue generated with ITC products and services will increase by 1.9 % to €156 billion in 2015. Bitkom had previously assumed growth of 1.5%.

Information technology continues to be the driver behind the growth in the industry. According to the Bitkom forecast, its revenues will increase by 3.5% to €80.4 billion. The software segment will post the fastest growth of 5.4% to €20.1 billion while business with IT services such as IT consulting and project business will also continue its growth trend of the past and presumably increase by 3.0% to €37.3 billion in 2015.

MARKETING REPORT

Drillisch Sets the Bar for Price and Service

Drillisch sets benchmarks with innovate and flexible wireless services products

Drillisch offers a transparent and extensive portfolio of innovative wireless services products. Consistent with the concept of a multi-brand strategy, the premium brands smartmobil (in the online segment) and yourfone (in the offline segment) have the right products and services to match any type of use. They are supplemented by effective sales cooperation ventures with well-known partners and attractive special rate plans, most of which are sold via additional online brands. Besides the best possible service, the Drillisch rate plans benefit customers with the greatest possible flexibility thanks to minimum contract terms of only one month.

This flexibility for customers in conjunction with state-of-the-art technology is unique on the German market for wireless services products. Since powerful and fast mobile internet access is becoming increasingly important for most mobile phone users, Drillisch has created offers with the lowest entry prices for LTE, the latest in wireless services technology, from October 2014. Various awards as well as top rankings for price-performance ratio confirm that the product strategy pursued by Drillisch hits the bull's-eye dead centre.

Drillisch introduces new LTE rate plan portfolio

Based on the premium brand smartmobil.de, a new rate plan portfolio featuring five powerful LTE rate plans made its appearance on 1 April 2015. The current plans include unlimited calls and texts to all German networks as well as data packages ranging from 500 MB to 10 GB at a top speed of up to 50 Mbit/s. Entry at the low end of the scale is possible for as little as €9.99 a month. The attractive additional services included in the monthly package price are a great bonus of the plans. The LTE 1500 (€19.90) and the LTE 3000 (€24.99), for instance, also include the practical roaming option "EU 100 + Internet" of 100 minutes or texts as well as 100 MB of data for use in all countries of the EU. When customers choose LTE 3000, they receive on request a second (multi-)SIM card free of charge, enabling them to use their flat rate conveniently on a second mobile device. Two free multi-SIM cards come with the premium rate plans LTE 5000 for €39.99 and LTE 10000 for €69.99 a month. Thanks to the unlimited calls and texts across all of the EU along with 1 GB LTE for use in EU countries outside of Germany, customers with the two most comprehensive LTE rate plans are all set to travel.

3 € Rabatt mtl.! LTE 500 Die Top-Allnet-Flat	LTE 1500 Die Allrounder-Flat	LTE 3000 Die Super-Flat	LTE 5000 Die Power-Flat	LTE 10000 Die Mega-Flat
Festnetz-Flat	Festnetz-Flat	Festnetz-Flat	Festnetz-Flat	Festnetz-Flat
Mobilfunk-Flat	Mobilfunk-Flat	Mobilfunk-Flat	Mobilfunk-Flat	Mobilfunk-Flat
SMS-Flat	SMS-Flat	SMS-Flat	SMS-Flat	SMS-Flat
500 MB LTE bis zu 50 Mbit/s + Datenautomatik	1500 MB LTE bis zu 50 Mbit/s + Datenautomatik	3 GB LTE bis zu 50 Mbit/s + Datenautomatik	5 GB LTE bis zu 50 Mbit/s + Datenautomatik	10 GB LTE bis zu 50 Mbit/s + Datenautomatik

Source: smartmobil.de/smartphone-tarife

Drillisch Sets the Bar for Price and Service

Compared with similar LTE offers from network operators, the LTE rate plans of the Drillisch brands offer better performance, a substantial price advantage and the greatest flexibility. For instance, LTE 500 (500 MB at 50 Mbit/ and unlimited calls and texts) can be obtained for only €9.99 a month. Customers have to dig deeper in their pockets for comparable rate plans for network operators. While O_2 charges a monthly price of €19.99 for its Blue Smart plan, but can offer only a speed of 21.1 Mbit/s and limits phone calls, Vodafone charges €29.99 a month for Smart L, also at a speed of 21.6 Mbit/s, and requires a contract term of 24 months. In comparison with competitors, LTE 500 features not only a significantly lower price, but superior performance as well – and that is what ultimately matters to customers.

The range of rate plans offered by Drillisch, however, is not restricted to all-net flat rates with LTE, but includes as well rate plans for users who primarily want to surf a lot at high speed on mobile devices. They can go to winSIM, maXXim and simply to purchase LTE data rate plans of 1, 2 or 3 GB along with free call minutes and unlimited texts starting as low as €5.99 a month.

In addition, there has been a new data-only LTE rate plan since the end of February 2015. The unlimited internet rate plans provide up to 5 GB of data at a speed of up to 50 Mbit/s. The special twist: contracts can be terminated with one month's notice or concluded with a term of 24 months. Customers deciding in favour of the long-term option benefit from a hefty discount on the monthly package price, even though it is so low to start with. Unlimited internet access with 1 GB at LTE speeds can be purchased for as low as €2.99 a month (one-month contracts: €6.99).

Im Vergleich: LTE 500

Anbieter (Netz)	smartmobil.de (o2)	Telekom (Telekom)	Vodafone (Vodafone)	Base (E-Plus)	o2 (o2)	1&1 (E-Plus)
Tarif	3 € Rabatt mtl.! LTE 500	Magenta Mobil S[1]	Smart L[2]	All-in[3]	Blue All-in S+ Surf Upgrade XS[4]	All-Net-Flat Special + SMS Flat[5]
Paketpreis (monatlich)	9,99 € statt ~~42,00 €~~	29,95 € 26,95 € in den ersten 12 Monaten	29,99 €	17,00 €	24,98 €	19,98 € 14,98 € in den ersten 12 Monaten
Telefonie	Allnet-Flat	Allnet-Flat	Allnet-Flat	Allnet-Flat	Allnet-Flat	Allnet-Flat
SMS	SMS-Flat	SMS-Flat	SMS-Flat	SMS-Flat	SMS-Flat	SMS-Flat
Datenvolumen	500 MB + Datenautomatik	500 MB	500 MB	500 MB Aktion bis 10.01.: 2 GB statt 500 MB + Datenautomatik	500 MB + Datenautomatik	250 MB Aktion: 1 GB statt 250 MB
Neuste Mobilfunkgeneration LTE (4G)	✓	✓	✓	✓	✓	✓
Highspeed Download	50 Mbit/s neue LTE-4G Technologie	150 Mbit/s neue LTE-4G Technologie	21,6 Mbit/s neue LTE-4G Technologie	42 Mbit/s neue LTE-4G Technologie	21,1 Mbit/s neue LTE-4G Technologie	14,4 Mbit/s neue LTE-4G Technologie
Laufzeit	1 Monat	24 Monate	24 Monate	24 Monate	24 Monate	24 Monate
Anschlusspreis	29,99 €	29,95 €	29,99 €	0,- €	0,- €	29,90 €

Source: www.smartmobil.de/anbietervergleich#lte500

A new Shop Experience – yourfone "Für Dich. Für Sie. Für Alle"

Drillisch blazes new trails – creating a new shop experience with yourfone

At the beginning of July 2015, Drillisch expanded its distribution network to include brick-and-mortar stores. Drillisch now appears in bustling pedestrian zones and shopping centres under the name of yourfone, the premium brand for the offline segment. The yourfone shops score points with their striking appearance as well as their top locations. Using a catchy brand message – "*Für Dich. Für Sie. Für Alle.*" – the brand appeals to new target groups and offers them a different kind of shop experience.

Moreover, the attractive rate plans available in the shops that can also be combined with the latest models of the top smartphones make a convincing argument with their outstanding price-performance ratio. Options include unlimited calls and texts in combination with various LTE data packages from 500 MB to 5 GB. If customers choose a complete package of rate plan and smartphone, they can decide whether to buy the smartphone for a one-time surcharge and a monthly hardware charge or to take it as part of a right-to-use agreement at especially low monthly terms and conditions.

As of the end of the year, yourfone was represented by more than 200 shops. yourfone generated brand awareness with a broad marketing mix, including a nationwide radio campaign, a TV campaign on the stations with the greatest reach, cinema spots, posters, infoscreen advertising, and on-site print ads, media cooperation and promotions.

Additional distribution channels and access to independent retailers through Phone House

Phone House has been a wholly-owned subsidiary of Drillisch Group since May 2015. The distributor gives Drillisch access to independent retailers and opens up additional sales opportunities through its connection to indirect trade. As early as the beginning of July, the first distribution cooperation agreements had been concluded with partners like Stahlgruber Communication, EinsAmobile, Faro-com. Selectric and WES, who have been selling yourfone products all across Germany since that time. Moreover, Phone

Two Premium Brands Honoured as "Provider of the Year" and "Top Class"

House had an integrated role to play in the fast and scheduled opening of the first more than 100 own yourfone shops at the beginning of July 2015, has accompanied the expansion of the shop chain and has been in charge of the IT process for the shops, supported distribution activities and assured uninterrupted supplies of hardware from the very beginning.

CHIP Hotline Test 2016: smartmobil.de the test

winner in reachability, yourfone is "Top Class"

The rankings of the focus brands smartmobil.de and yourfone during the major hotline test conducted by CHIP and Statista GmbH are proof that the Drillisch brands score points for service as well as price and performance. The examiners put the new customer hotlines of 169 companies in twelve industries to the test. Each of the companies was called at least 50 times (wireless service providers 100 times) at five different times of day. smartmobil.de was able to claim the victory in the category "Reachability" and yourfone was awarded an overall ranking of "Top Class".

Tariftipp.de chooses smartmobil.de as the "Provider of the Year 2015"

For the fourth time, the independent consumer portal *Tariftipp* chose the "Provider of the Year" in eight important categories of telecommunications. In the wireless services segment, the editorial staff at Tariftipp.de crowned the best prepaid discounter, network operator, smartphone rate plan and all-net flat rate provider as well as the mobile phone and mobile phone provider of 2015.

Candidates could not rely on scoring points for price-performance ratio alone if they wanted to come out the victor. In contrast to the rate plan seals that Tariftipp.de awards to the lowest-price rate plans every quarter, the award of Provider of the Year 2015 also assesses criteria such as a company's innovative capabilities or the customer friendliness of a rate plan. The interest of visitors to the Tariftipp.de site was also incorporated into the decision. All of the winning providers were able to post a large number of hits on the relevant provider or rate plan sites.

This year, smartmobil.de was able to come out on top in the category "All-Net Flat Rates". According to Tariftipp.de, the provider opened up "new price horizons for surfing at LTE high speed."

Heino rocks smartmobil.de

The blonde cult entertainer with the dark sunglasses has been highly successful in advertising the low-prices for mobile phone calls, texting and surfing at LTE high speed from smartmobil.de since 2014. The two follow-up campaigns, "*Der Preis rockt*" and "*Ja,*

Successful Cooperation Equals Greater Brand Awareness – Mobile Phone Rate Plan of the Year

ja, so schnell, schnell, schnell ist das LTE...", appeared in 2015. The lyrics of his popular hit song, "Blau blüht der Enzian", were rewritten for the current TV commercial. It did not take long for the revision of the song to become an earworm in its own right. At this time, it is advertising the all-net flat rate LTE 500 with 500 MB of data at LTE high speed of up to 50 Mbit/s for €9.99. The spot can be seen on the RTL and Pro-SiebenSat.1 Group stations with the greatest reach.

Successful distribution cooperation with Springer-Verlag

Over the course of the year, a number of attractive special rate plans were offered by smartmobil.de in cooperation with BILD.de and COMPUTER BILD. The campaigns were able to attract new target groups. The first of these campaigns was the "*Volks-Aktion*" with BILD.de. The advertising for the "*Volks-Flat*" with unlimited calls and texts in all networks and 1 GB of data at LTE speed for €14.99 a month was based on the motto "Langsam macht's keinen Spass mehr". The campaign was accompanied by nationwide advertising measures such as print ads, editorial articles, posters and the TV spot with the Heino testimonial. smartmobil.de bowled a strike at the end of August with LTE Hammer, a unique price brand for only €12.99 a month. The new joint campaign with BILD.de offered unlimited calls and texts and included 1 GB of data at LTE high speed. The LTE Hammer appeared once again in the special issue of *BILD-Zeitung* on the 25th anniversary of German unification. The occasion was celebrated with a 6-month price discount as well as a bonus of €25 for keeping the same phone number. In November, the LTE 1500 *Volks-Flat* stirred plenty of attention with a generous inclusion of services. For €14.99, customers enjoyed unlimited calls and texts in all networks along with 1.5 GB of data at LTE high speed of up to 50 Mbit/s in addition to an EU option and a *BILD plus* subscription.

smartmobil.de also joined COMPUTER BILD, Germany's largest computer journal, to present exclusive campaigns. Readers could take advantage of a doubling of the call minutes and text allowances as well as of 1 GB of data at LTE speed of up to 50 Mbit/s for €6.99 a month with the COMPUTER BILD Edition of the LTE Mini Special. smartmobil.de offered a highly flexible product in the All-Net Flat + LTE for €9.99 a month. The basic rate included unlimited calls and texts along with 500 MB LTE; an increase up to 5.5 GB could be requested as well. During the first three months, a gift was made of the basic charge, and the connection price was reduced by €25. At the end of the year, there was the COMPUTER BILD Edition of the LTE 2000, a highlight for €12.99. Besides unlimited calls and texts, it included 2 GB at LTE speed as well as an additional 100 free units and 100 MB in the EU. smartmobil.de reduced the connection charge by €25 here as well.

Mobile Services Award 2015 from *handytarife.de*: sim.de has the "Mobile Phone Rate Plan of the Year"

The online consumer portal *handytarife.de* presented its "Mobile Services Award" in various categories for the ninth year in succession. In contrast to many other competitions, this prize is truly awarded by the public. The winners are chosen by customers who access daily the free services offered on handytarife.de. LTE Eins

Stiftung Warentest Recommends the Least Expensive Provider for Every User Type

from sim.de was able to take the victory in the category “Mobile Phone Rate Plan of the Year”. sim.de is another Drillisch brand that is marketed in exclusive cooperation with SevenVentures, a wholly-owned subsidiary of ProSiebenSat.1 Group.

Drillisch all-net flat rates recommended by *Stiftung Warentest*

Drillisch rate plans have been the winners of many different awards, and *Stiftung Warentest* has once again confirmed: the Drillisch online brands are the lowest-priced providers for every type of user.

The 10/2015 issue of the magazine “test” compared all-net flat rate plans and data rates. Drillisch products were among the top places in both categories. Among the all-net flat rates, treble rate plans with unlimited phone calls, texts and internet use were tested. The Drillisch brands sim.de, DeutschlandSIM, maXXim, discoPLUS and Phonex took places 1 to 5.

According to a recent market studied conducted by the Association of the Providers of Telecommunications and Added-value Services (VATM) in conjunction with Dialog Consult, the average mobile phone user makes 82 minutes of calls, sends 11 texts and uses 377 MB of data. This indicates that limited volume rate plans are a less expensive alternative to flat rates for many users. The text examined closely limited volume rate plans with a minimum of 200 minutes in calls, 100 texts and 1 GB of data. Drillisch brands were ranked at the top in this category as well.

sim.de with a new spot on “Freedom”

Almost exactly one year after the launch of sim.de, the brand made another attention-grabbing appearance in the TV advertising blocks at the end of 2015. The concept of the new commercial built on the launch campaign, but the computer animations were supplemented by live-action elements depicting the theme of “Freedom” in grand, emotional images. The focus of the campaign was on the LTE Zwei Mini featuring 100 minutes of calls, unlimited texts and 2 GB of data at LTE speed for €8.99 a month and LTE Zwei that offered unlimited calls as well for a total of €14.99 a month. As usual at sim.de, both rate plans can be terminated with one month’s notice, allowing the greatest possible flexibility and freedom.

CONSOLIDATED MANAGEMENT REPORT

Business Report

1. General Information About the Company

1.1. The Drillisch Group

Drillisch AG, Maintal, along with its subsidiaries (collectively: "Drillisch"), is a mobile bitstream access mobile virtual network operator (MBA MVNO) operating exclusively in Germany. In 2015, 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 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 and the firm's own shop channel operating under the brand name yourfone. Drillisch cooperates as well with selected sales and cooperation partners and the traditional wireless services specialist trade through its subsidiary The Phone House Deutschland GmbH, Münster ("Phone House"), one of the largest distributors of contracts for wireless and landline services in Germany. Drillisch expects its successful corporate development to continue in fiscal year 2016 as well.

Drillisch continues to serve current customers in the Telekom Deutschland GmbH ("Telekom") and the former (until 30 June 2015) E-Plus Mobilfunk GmbH ("E-Plus") networks on the basis of existing service provider agreements. The share of the clientele in this less profitable segment is declining as planned.

Drillisch – sole MBA MVNO on the German wireless services market

Pursuant to the MBA MVNO agreement concluded with Telefónica in June 2014, Telefónica grants to Drillisch (as the only competitor on the German wireless services market) access to up to 30% of the utilised network capacity of Telefónica in the controlled wireless network of Telefónica and E-Plus that is available after the merger. This right applies to all future as well as current technologies. At the same time, Drillisch obtains access rights to the so-called "Golden Grid Network" of Telefónica that has been created by the merger. This means access to the enhanced footprint of the wireless network of Telefónica, including all necessary technical specifications and the technical capability to reduce speed and restrict transport in the event of excessive data utilisation by end customers.

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

Furthermore, Drillisch, acting through its wholly-owned subsidiary yourfone AG, concluded a business transfer agreement with Telefónica in June 2015 regulating the transfer of a total of 301 own shops and partner shops. Of these locations, Drillisch quickly re-opened the first approximately 100 of its own shops at the beginning of July 2015 and has subsequently followed with more than 100 partner shops under the brand name yourfone. The integration of further locations will follow successively.

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Change in the Group structure

By merging the previously separate operations of the subsidiaries Drillisch Online AG ("Drillisch Online") (formerly Drillisch Telecom GmbH), MS Mobile Services GmbH ("MS Mobile") (registered office of both in Maintal) and eteleon AG ("eteleon") (registered office in Munich) into a single company at the beginning of April 2015, Drillisch bundled its online competence in wireless services sales into one single company and simultaneously optimised the processes and structures in this area. The full scope of online sales has now been incorporated into Drillisch Online AG.

Another step was taken with the acquisition of yourfone AG, Maintal ("yourfone") (formerly yourfone GmbH, Hamburg), concluded on 2 January 2015, and the selection and acquisition of 301 shop sites previously operating for Telefónica and BASE that have now been used by Drillisch to build up and expand a strong pillar of business in the offline sector as well. Above all, the shops in highly frequented locations and in shopping centres of downtown urban commercial districts will attract additional customer groups.

The purchase contract for the acquisition of The Phone House Deutschland GmbH concluded on 15 April 2015 completes Drillisch's build-up of a new offline distribution channel with full-area coverage. Phone House has had many years of experience in distribution and brick-and-mortar sales, has outstanding access to independent specialist retailers and is in possession of all of the technical requirements necessary for the complete operation of partner shops as well as its own shops, including the provision of hardware.

Raising the bar with innovative and transparent wireless services products

Optimal performance, good service at the best price. Within the framework of a proven multi-brand strategy, even the premium brands smartmobil (in the segment Online) and yourfone (in the segment Offline) have the right products and services to match any type of use.

smartmobil.de, the premium brand in the segment Online, made its appearance on 1 April 2015 with the offer of a new rate plan portfolio featuring five powerful LTE rate plans. The current plans include unlimited calls and texts to all German networks as well as data packages ranging from 500 MB to 10 GB at a top speed of up to 50 Mbit/s. Entry at the low end of the scale is possible for as little as €12.99 a month. The attractive additional services included in the monthly package price are a great bonus of the plans. The LTE 1500 (€19.99) and the LTE 3000 (€24.99), for instance, also include the practical roaming option "EU 100 + Internet" of 100 call minutes or texts as well as 100 MB of data for use in all countries of the EU. When customers choose LTE 3000, they receive on request a second multi-SIM card free of charge, enabling them to use their flat rate conveniently on a second mobile device. Two free multi-SIM cards come with the premium rate plans LTE 5000 for €39.99 and LTE 10000 for €69.99 a month. Thanks to the unlimited calls and texts across all of the EU along with 1 GB LTE for use in EU countries outside of Germany, customers with the two most comprehensive LTE rate plans are all set to travel.

The range of rate plans offered by Drillisch, however, is not restricted to all-net flat rates with LTE, but includes as well rate plans for users who primarily want to surf a lot at high speed on mobile devices. They can go

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to winSIM, maXXim and simply to purchase LTE data rate plans of 1, 2 or 3 GB along with free call minutes and unlimited texts starting as low as €5.99 a month.

At the beginning of July 2015, Drillisch expanded its distribution network to include brick-and-mortar stores. Drillisch now appears in bustling pedestrian zones and shopping centres under the name of yourfone, the premium brand for the segment Offline. The yourfone shops score points with their striking appearance as well as their top locations. Using a catchy brand message – "*Für Dich. Für Sie. Für Alle.*" – the brand appeals to new target groups and provides a new shop experience as well as competent, customer-oriented advice in all areas of wireless communications.

Moreover, the attractive rate plans available in the shops that can also be combined with the latest models of the top smartphones make a convincing argument with their outstanding price-performance ratio. Options include unlimited calls and texts in combination with various LTE data packages from 500 MB to 5 GB. If customers choose a complete package of rate plan and smartphone, they can decide whether to buy the smartphone for a one-time additional payment and a monthly hardware surcharge or to take it as part of a right-to-use agreement at especially low monthly terms and conditions.

Product transparency and customer service

Drillisch has in the past regularly requested the performance of extensive quality tests by independent third parties. The awarded certificates have consistently displayed the ratings "Excellent" and "Good". In the course of the renewal of the certification in accordance with the demanding quality requirements of the ISO norm 9001:2008 in September 2015, the high standard of quality management at the Drillisch subsidiaries Drillisch Online and yourfone 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.

Drillisch Online AG

Drillisch Online AG is in charge of the wireless services operating business in the segment Online with all of the Group's established online brands 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. Its two wholly-owned subsidiaries yourfone Retail AG (formerly Telefónica Germany Shoptransfer AG) and yourfone Shop GmbH (formerly Telefónica Germany Retail Ausgliederungs GmbH), both headquartered in Düsseldorf, have been handling the operating shop business since July 2015.

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GTCom GmbH

GTCom GmbH is a wireless services provider specialising in prepaid products and operating in Germany as a subsidiary of Drillisch AG.

The Phone House Deutschland GmbH

The Phone House GmbH, a Drillisch AG subsidiary, is one of the largest distributors for mobile communications in Germany. Within Drillisch Group, Phone House also manages the system and process side of both partner and own shops and is in charge of the provision of the complete line of hardware for offline sales.

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 wireless services providers in particular.

Segment Online

Drillisch has merged the online competence in wireless services distribution of the former subsidiaries Drillisch Telecom GmbH, MS Mobile and eteleon into Drillisch Online, operating under the banner "Best in Class". Drillisch Online, having all of the Group's established online brands under its wing, has since been handling the wireless services operations in the segment Online. Drillisch and its brands offer high-performance LTE rate plans tailored to match customer needs in Germany's largest wireless services network. Every subscriber can find a combination of mobile communication services that is a perfect fit for his/her demands in the current rate plan portfolio. What is more, customers can go to the 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.

Segment Offline

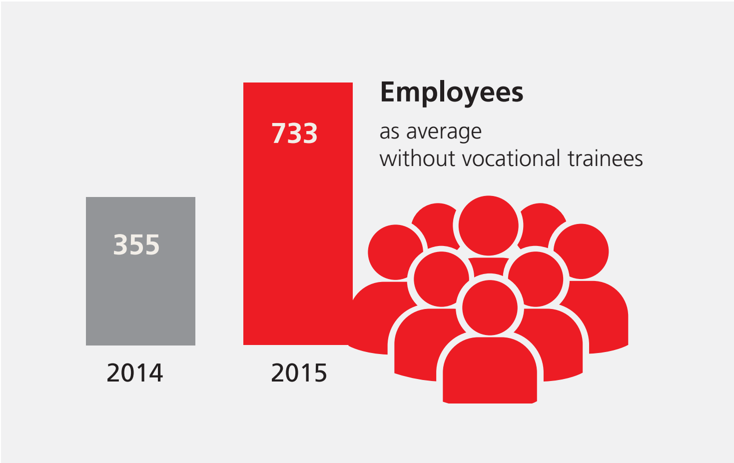
yourfone AG operates under its brand name and is responsible for the full range of offline sales. Its two subsidiaries yourfone Retail AG and yourfone Shop GmbH have been handling shop operations since July 2015. Drillisch has been operating at top locations in bustling pedestrian zones and shopping centres under the name of yourfone, the premium brand for the segment Offline, since July 2015. The attractive rate plans available in the shops that can also be combined with the latest models of the top smartphones make a convincing argument with their outstanding price-performance ratio.

The Phone House, operating as a Drillisch AG subsidiary, is in charge of partner and its own shops as well as distribution business.

As of the end of the year, yourfone was represented by more than 200 shops.

Employees

As an average for the year, Drillisch employed a workforce, including the three Management Board members, of 733 (previous year: 355).



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1.2. Company Management – Objectives and Strategies

The Company´s strategy emphasises profitable growth. The focus for new business is on the marketing of innovative and high-performance flat-rate products. In the estimation of the Management Board, high-performance, transparent rates in the LTE segment represent the greatest opportunities for growth on the German market. The highest growth rates are expected in data communications. The Company has placed its own successful brands: the premium brands smartmobil.de and yourfone along with the other online brands. Drillisch also offers attractive rate plan packages in combination with smartphones and tablets, enabling the Company to benefit from the continuing boom in demand for high-end mobile devices. The growing number of potential users who already own a mobile phone of this type and are now looking for a high-performance, yet low-cost, rate plan, can also 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 based on IFRS (earnings before 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 fourteen 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.

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» 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 2015

According to a TC market analysis conducted jointly by Dialog Consult and VATM in October 2015, sales on the German wireless networks market dipped slightly in 2015 from €25.0 billion in 2014 to €24.8 billion. Contrary to the overall development, revenues with mobile data continued to rise dynamically, increasing by 10.4% from €9.6 billion in 2014 to about €10.6 billion in 2015. The number of active SIM cards grew slightly in comparison with the previous year to 113.4 million (2014: 112.6 million). Voice transmission using wireless services increased from 303 million minutes a day in 2014 to 305 million minutes in 2015 and compensated a part of the declining call minutes on landline phones, which fell from 437 million to 418 million minutes a day. The study estimates that the call minutes carried by OTT (over the top) providers will increase from 214 million minutes in 2014 to 231 million minutes in 2015. Estimates from VATM indicate that the total data volume in 2015 increased by 29.1% from 395 million gigabytes in 2014 to 510 million gigabytes in 2015. The share of revenue from mobile data transmission in the sector of non-voice sales grew from 86.5% in 2014 to 89.1% in 2015. The average data volume per user and month rose significantly by 30.5% from 289 MB in 2014 to 377 MB in 2015 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 2015

The IT industry was able to continue the positive development of the previous year without even a hiccough in 2015. According to information from BITKOM (October 2015), sales in Germany rose by about 1.9% to €156 billion, substantially faster than the overall economy. Figures from BITKOM press information in October 2015 show that, for the first time ever, more than one million people are working in the IT industry. About 135,000 new jobs have been created in the past five years. The IT industry is one of the job engines driving the German economy and 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 83.1% in Germany as shown in a TC market analysis from VATM in 2015. 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 about 32% in 2015.

2.2. General Economic Conditions

Economic development and growth of the gross domestic product (GDP) of 1.7% in 2015 were marked by the problematic conditions in the international environment and by the financial crisis and the loss of

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trust in Europe. 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 2015. The German government expects further steady growth of 1.7% in 2016.

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. Revenue and Earnings Position

Further EBITDA growth in fiscal year 2015 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. Yet another factor is the initial consolidation of the acquisitions, especially of yourfone GmbH. Drillisch uses innovative products in conjunction with efficient marketing and distribution concepts to maintain its top position in the German telecommunications industry.

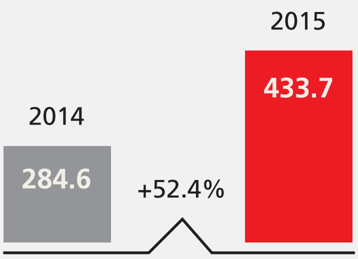
The "service revenues", essentially the income from the provision of the ongoing wireless services (voice and data transmission) and their billing on the basis of the current customer relationships, rose by €149.1 million (52.4%) in fiscal year 2015 to €433.7 million (previous year: €284.6 million).

The low-margin "Other revenues" rose by €190.8 million to €195.9 million (previous year: €5.1 million). The change in comparison with the previous year results essentially from the brokerage and hardware revenues of Phone House (acquired at the beginning of May 2015) that was included in the interim consolidated financial statements for the first time per 30 June 2015. This item also includes the sales from the segment Software Services in the amount of €15k (previous year: €53k).

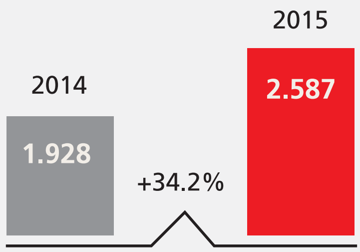
Total turnover in 2015 amounted to €629.5 million (previous year: €289.6 million). External revenue in the segment Online increased by €54.3 million (18.8%) to €342.7 million (previous year: €288.4 million). External revenues in the segment Offline and the segment Miscellaneous/Holding amounted to €285.7 million (previous year: €0.0) and €1.1 million (previous year: €1.2 million), respectively. External revenues in the segment Offline includes €25 million which has been paid from the seller and are related to the purchase of yourfone Retail AG.

The MVNO clientele increased further over the course of the year by 659,000 (34.2%) to 2.587 million subscribers (31 December 2014: 1.928 million MVNO subscribers).

Service Revenues (in €m)



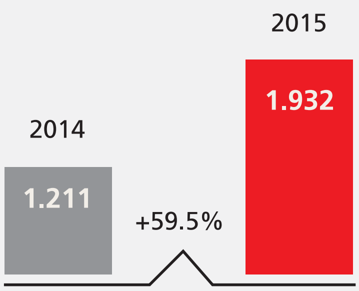
MVNO Subscribers (in m)



Business Report

The number of qualitatively higher-value, high-margin budget subscribers increased by 59.5% to 1.932 million subscribers per 31 December 2015 (31 December 2014: 1.211 million subscribers). The number of lower-margin volume subscribers declined as expected from 717,000 subscribers per 31 December 2014 to 655,000 subscribers per 31 December 2015.

Budget Subscribers (in m)



In the service provider business, the number of subscribers declined from 142,000 per 31 December 2014 to 91,000 subscribers per 31 December 2015.

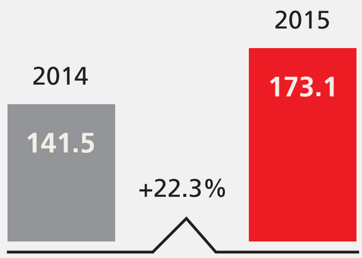
The total number of customers rose by 608,000 to 2.678 million (31 December 2014: 2.070 million). This continues the trend of a rising total number of subscribers, and the decrease in subscribers in the legacy service provider business no longer has any major impact.

In fiscal year 2015, cost of materials increased by 155.2% to €375.1 million (previous year: €147.0 million). In the segment Online, the external cost of materials rose underproportionately to the revenue increase by €22.7 million (15.4%) to €169.6 million (previous year: €146.9 million). External cost of materials in the segment Offline and the segment Miscellaneous/Holding amounted to €205.2 million (previous year: €0.0) and €0.4 million (previous year: €0.1 million), respectively.

As a consequence of the continued growth in clientele and the qualitative improvement of the rate plan mix, gross profit rose by €111.8 million from €142.6 million in 2014 to €254.4 million in 2015. The gross profit margin came to 40.4% (previous year: 49.2%).

In fiscal year 2015, external gross profit in the segment Online increased by 22.3% to €173.1 million (previous year: €141.5 million). The external gross profit margin in the segment Online came to 50.5% (previous year: 49.1%). External gross profit in the segment Offline in 2015 came to €80.5 million (previous year: €0.0).

External Gross Profit (in €m)



The external gross profit margin came to 28.2% (previous year: 0.0%). External gross profit in the segment Miscellaneous/Holding for the fiscal year came to €0.8 million (previous year: €1.1 million) and the external gross profit margin amounted to 68.2% (previous year: 91.7%).

Personnel expenses increased by 90.5% to €46.9 million (previous year: €24.6 million) as a result of the major growth in headcount. The personnel expenses ratio decreased slightly by 1.0% to 7.5% (previous year: 8.5%).

Other operating expenses rose in total by €88.7 million to €124.7 million (previous year: €36.0 million). The rise in comparison with the previous year results essentially

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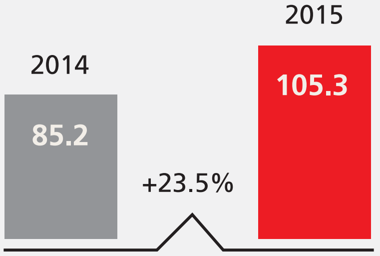
from the higher expenditures of €64.5 million for advertising (previous year: €14.1 million), in particular for the television, radio and out-of-home campaigns for the smartmobil.de and yourfone brands. Expenses for third-party services also rose by €8.8 million from €6.7 million in 2014 to €15.5 million. Expenditures for rent and ancillary rent costs rose by €8.5 million to €10.4 million (previous year: €1.9 million), primarily because of the operation of the Company's own shops that began in July. In addition, legal and professional expenses rose by €4.8 million to €7.9 million (previous year: €3.1 million) primarily as a consequence of the company acquisitions during the reporting period. Expenditures related to bad debts and valuation allowances on receivables in 2015 amounted to €10.5 million (previous year: €5.4 million).

EBITDA
(from the ongoing business divisions)
(in €m)



The consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation) from the ongoing business divisions –one of the most important management indicators in Drillisch Group – rose by €20.1 million (23.5%) to €105.3 million (previous year: €85.2 million) in 2015. The EBITDA margin amounted to 16.7% (previous year: 29.4%).

Essentially a consequence of the significant increase in advertising expenditures, the EBITDA in the segment Online decreased by €2.7 million to €85.8 million (previous year: €88.5 million). In the segment Offline, the segment EBITDA amounted to €25.9 million (previous year: €0.0). The EBITDA in the segment Miscellaneous/Holding per 31 December 2015 amounted to €-6.4 million (previous year: €-3.3 million). The change over the same period of the previous year is essentially a consequence of the higher legal and professional expenses incurred during the reporting period pursuant to the company acquisitions.

Amortisation and depreciation rose by €26.2 million to €36.1 million (previous year: €9.9 million). This rise in amortisation and depreciation is basically a consequence of the first-time inclusion of yourfone and Phone House in the consolidated annual accounts. The intangible assets identified within the framework of the purchase price allocation of yourfone and the (provisional) purchase price allocation of Phone House will be written off over the usual useful life of 6 and 2.5 years, respectively. The resulting amortisation and depreciation in 2015 totals €15.8 million (previous year: €0.0). Depreciation and amortisation of €5.0 million (previous year €0.0) result for the period beginning with the start of MBA MVNO operations per 1 July 2015 from Drillisch's contribution of €150 million agreed with Telefónica as part of the MBA MVNO model 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 was capitalised under Other intangible assets and will be written off over the expected useful life of 15 years.

The EBIT (earnings before interest and taxes) amounted to €69.2 million (previous year: €75.3 million). The increase in amorti-

Business Report

sation and depreciation led to a decline in the EBIT margin of 15.0 percentage points from 26.0% in 2014 to 11.0% per 31 December 2015.

The interest result amounted to €-3.4 million (previous year: €-2.7 million).

Taxes on income declined by €2.5 million to €20.0 million (previous year: €22.5 million). Consolidated profit from the ongoing divisions amounted to €45.8 million (previous year: €50.1 million). The consolidated profit from closed divisions came to €0.3 million (previous year: €0.0) and includes the profit from the sale of the participation in The Phone House Management GmbH that was scheduled for resale at the time of its acquisition at the beginning of May 2015. The consolidated total profit per 31 December 2015 amounted to €46.2 million (previous year: €49.7 million). The undiluted profit per share came to €0.85 (previous year: €1.03).

General statement on business development

Operating in a friendly, although highly competitive, industrial environment, Drillisch Group not only achieved the upper end of the original EBITDA forecast of €95 million to €100 million confirmed again in November 2015; it even exceeded slightly the EBITDA forecast raised to €105 million in December by posting a figure of €105.3 million. The Company also succeeded, as planned, 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, a course that is largely independent of general economic fluctuations. Management Board and Supervisory Board will therefore propose a dividend of €1.75 for each share entitled to dividends to the Annual General Meeting.

2.4. Assets, Liabilities and Financial Position

Long-term assets rose in total by €302.9 million to €404.8 million (31 December 2014: €101.9 million) during fiscal year 2015. The increase resulted in part from the assets in the form of customer relationships, trademarks and other intangible assets with a value of €113.7 million (previous year: €0.0) identified during the purchase price allocation within the context of the acquisitions of yourfone, GTCom and Phone House and in part from Drillisch's contribution of €150 million agreed with Telefónica as part of the MBA MVNO model to the investments previously made and to be made in future by Telefónica in the expansion of the LTE network and in future technologies. The company acquisitions of the fiscal year also result in an increase in goodwill of €39.8 million to €107.0 million (31 December 2014: €67.2 million). Deferred tax reimbursements increased by €14.3 million to €15.0 million (31 December 2014: €0.7 million). This rise is primarily a consequence of the initial consolidation of Phone House.

The cash balance declined by €193.7 million to €123.4 million (31 December 2014: €317.1 million). This decline was essentially caused by the outflow of funds for the acquisition of yourfone and the related payment of the purchase price, the payment of the Drillisch contribution within the framework of the MBA MVNO model agreed with Telefónica and the dividend disbursement in May 2015. A positive effect was recorded from the assumption of cash related to the acquisition of Phone House in addition to the cash flow from current business activities. Trade receivables amounted to €88.5 million (31 December 2014: €47.5 million). This rise is

Business Report

also basically a further consequence of the initial consolidation of yourfone and Phone House. Other current assets of €24.0 million essentially represent receivables due from network operators (previous year: €0.0). In total, current assets decreased by €89.7 million to €283.9 million (31 December 2014: €373.6 million).

The balance sheet total for Drillisch Group increased by a total of €213.1 million to €688.7 million per 31 December 2015 (31 December 2014: €475.6 million).

In comparison with the previous year, equity increased by a total of €21.9 million to €353.0 million (31 December 2014: €331.1 million). The rise in Subscribed capital and Capital reserves results from the issue of 1,575,634 new shares with a nominal value of €1.10 per share related to the acquisition of Phone House. The value of the issue totalled €66.6 million. Subscribed capital increased by €1.7 million to €60.2 million (31 December 2014: €58.5 million). The amount in excess of the par value of €1.10 was attributed to the capital reserves. Capital reserves increased by €64.3 million to €295.6 million (31 December 2014: €231.2 million). Owing to the dividend disbursement in May 2015, unappropriated retained earnings (balanced against the consolidated profit totalling €44.3 million) declined to €-33.5 million (31 December 2014: €10.8 million). The item Other equity of €-0.4 million (31 December 2014: €-0.6 million) reflects the actuarial gain or loss from the measurement of the pension provisions recognised as non-operating results in accordance with IAS 19. The equity ratio per 31 December 2015 came to 51.3% (31 December 2014: 69.6%).

Long-term liabilities rose by €35.7 million to €134.5 million (31 December 2014: €98.8 million). The fundamental cause for this is the increase in deferred tax liabilities of €28.1 million from €3.1 million per 31 December 2014 to €31.2 million per 31 December 2015. This results in turn from the assets and liabilities identified during the purchase price allocation of yourfone and the (currently) provision purchase price allocation of Phone House. Other long-term liabilities comprise liabilities from the acquisition of Phone House within the framework of long-term earn-out components.

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 2015 at a value of €91.5 million (31 December 2014: €88.8 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 with respect to the end of fiscal year 2014 by €155.5 million to €201.1 million (31 December 2014: €45.6 million). Trade accounts payable rose by €59.1 million to €80.9 million (31 December 2014: €21.8 million). The increase basically came from the initial inclusion of yourfone and Phone House in the consolidated accounts. Short-term provisions increased, primarily owing to the provisions to be disclosed in the balance sheet as part of the acquisition of Phone House and yourfone, by €12.1 million to €12.2 million (31 December 2014: €0.1 million). Other financial liabilities of €64.7 million (previous year: €0.0 million) also result from the initial inclusion of Phone House and GTCom in the consolidated accounts of Drillisch and are related to a cash agreement (€40 million) with a large provider and to short-term contingent purchase price liabilities (€24.7m) from the

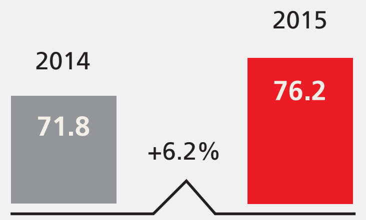
Business Report

acquisition of Phone House and GTCom. Tax liabilities declined by €2.3 million to €5.1 million (31 December 2014: €7.4 million). Payments received on account declined slightly to €5.4 million (31 December 2014: €5.9 million). Other liabilities rose by €22.7 million to €32.2 million (31 December 2014: €9.5 million).

Cash flow

Cash flow from current business activities in fiscal year 2015 amounted to €76.2 million (previous year: €71.8 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 €-169.2 million (previous year: €-4.8 million) results from €162.7 million (previous year: €5.3 million) in payments for investments in fixed and intangible assets, from €7.3 million (previous year: €0.0 million) in payments for acquisitions less acquired cash and from received interest of €0.4 million (previous year: €0.5 million).

During fiscal year 2015, there was overall an outflow of funds from financing activities of €100.7 million (previous year: inflow of funds of €63.1 million) resulting largely from €90.4 million (previous year: €76.8 million) in dividend disbursements paid in May 2015 and from €7.6 million (previous year: €0.0 million) in the change in Other financial liabilities and from €1.8 million (previous year: €0.8 million) in interest paid.

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.

Risk Report

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 service, based on its many years of experience as a wireless services provider. Not content just to maintain these standards, the Company has succeeded in improving them even further through consistent quality management.

Efficiency of business processes: Drillisch works constantly on the improvement of efficiency in business processes, 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 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. 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 manage-

Risk Report

ment reporting, especially in the areas controlling, cash management and the operating business segments

» The continuous monitoring of the market

» The quarterly risk inventory

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 suitable 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.

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

Risk Report

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 individual and consolidated annual accounts by the auditor are especially important as major monitoring measures with respect to the accounting process.

3.3. Market-related Risks

The major cross-segment 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 2016.
- » 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 cross-segment 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.
- » Drillisch is highly dependent on the Management Board members and on em-

Risk Report

ployees in key positions.

- There is a fundamental possibility that there will be changes for assessment periods that have not been finally reviewed resulting in tax back payments or changes in the accumulated deficits carried forward if and when tax authorities, in the course of their tax audits, should decide on different interpretations of tax statutes or deviating measurements of the circumstances on which the assessments are based. This is also true of types of expenditures that have in part never been audited, especially because they are usually not the subject of an audit by tax authorities.

Furthermore, the following major risks specific to Drillisch exist for the segments Online and Offline:

- 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 vulnerable to the risk that contract customers will not meet their payment obligations under their wireless service contracts.
- 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.
- Fixed costs may result from the takeover of own shop locations which will initially not be offset by direct income in comparable volume.
- Since the contracts between TPH and the network operators can be terminated on short notice, there is a risk that the current terms and conditions could change to the Company’s detriment.
- However, Drillisch does not regard the resulting cross-segment risks and the risks for the segments Online and Offline to be of an existential nature.

3.5. Opportunities

The major cross-segment 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 on the Telefónica network at the moment and in future.
- Unrestricted access to LTE 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 MBA agreement

Forecast Report

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 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 rate plans in the future.

» 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.

There are additional opportunities for Drillisch in the segment Offline:

» The acquisition of brick-and-mortar sales locations offers Drillisch the chance to expand substantially its wide-area distribution capacity at central, established locations.

» Since the contracts between TPH and the network operators can be terminated on short notice, there is a possibility that the current terms and conditions could change to the benefit of TPH.

3.6. Summary of Opportunity and Risk Position

There were not any significant changes in the opportunities and risks of ongoing business operations in 2015 in comparison with the previous year. 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 that at this time 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.

Compensation Report

General economic conditions

In the opinion of the German government and the great majority of the most important economic research institutes, the economic upswing in Germany is not yet at an end. Despite the ongoing economic weakness of the European environment, the German government expects steady economic growth of 1.7% in Germany in 2016. The Institute of the German Economy expects economic growth of about 1.5% for 2016. The ifo Economic Forecast 2015/2016 is assuming growth in the real gross domestic product of 1.9% for 2016. Thanks to the domestic German economy, which remains very healthy, real economic development in Germany is remarkably resilient.

Drillisch Management Board forecast regarding 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. Mobile data communications will remain the most important growth segment in telecommunications. Network quality and the availability of fast data connections continue to gain in importance for consumers. 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 turnover growth 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.

In the segment Online, Drillisch is aiming to increase significantly its MVNO clientele and improve further its mix of rate plans in the coming fiscal year, thereby continuing the positive development of gross profit in its operating business and a substantial rise in turnover in the area of "service revenues".

In the segment Offline, Drillisch is aiming to increase significantly its MVNO clientele, improve further its mix of rate plans and achieve a substantial rise in turnover in the area of "service revenues" as well. Parallel to the ongoing expansion of offline sales, the Management Board expects a slight decline in gross profit and the EBITDA in the coming fiscal year, above all because of higher expenditures for commissions and advertising.

In view of these general conditions, the Management Board expects overall 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". The Management Board expects an increase in the adjusted EBITDA to between €115 million and €120 million in 2016.

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

Compensation Report

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 established a long-term incentive component and concluded an agreement for a "Long-term Incentive Bonus" (LTI) covering a period of five years for the two Management Board members Paschalis and Vlasios Choulidis; in 2015, a "Management Bonus 2015–2017" with a term of three years was concluded with the Management Board member André Driesen. The parameter for determining success is the consolidated EBITDA. In the event of premature termination of the employment relationship within the agreed term, the Management Board members Paschalis and Vlasios Choulidis will receive a predetermined amount based on the point in time at which they leave the Company's service.

The agreements with the Management Board have been concluded for terms until 31 March 2018 (Mr André Driesen) and until 31 December 2018 (Mr Paschalis Choulidis and Mr Vlasios Choulidis). 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 before maturity. 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 by the Management Board members Paschalis Choulidis and Vlasios Choulidis. The Management Board members Paschalis and Vlasios Choulidis will each receive a retention bonus for each and every fiscal year between 2016 and 2018 in which these Management Board members are active on behalf of the Company throughout the entire period pursuant to their appointment and their service agreements. The Management Board members receive compensation of €33k for their Supervisory Board activities at various subsidiaries. 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 Report

Compensation for the members of the Company's Management Board 2015

Compensation Paid (in €k)	Paschalis Choulidis CEO, Chief Officer for Finance Communication and IT				Vlasios Choulidis Chief Officer for Sales, Marketing, Customer Care				André Driesen Chief Financial Officer			
	2014	2015	2015 (min)	2015 (max)	2014	2015	2015 (min)	2015 (max)	2014	2015	2015 (min)	2015 (max)
Fixed compensation	630	630	630	630	630	630	630	630	0	300	300	300
Fringe benefits	13	0	0	0	17	17	17	17	0	7	7	7
Total	**643**	**630**	**630**	**630**	**647**	**647**	**647**	**647**	**0**	**307**	**307**	**307**
One-year variable compensation	690	720	0	720	690	720	0	720	0	200	0	200
Multiannual variable compensation												
- LTI 2011-2015	600	790	274	790	600	790	274	790	0	0	0	0
- Management bonus 2015-2017	0	0	0	0	0	0	0	0	0	100	0	100
Total	**1,290**	**1,510**	**274**	**1,510**	**1,290**	**1,510**	**274**	**1,510**	**0**	**300**	**0**	**300**
Pension	2	2	2	2	2	2	2	2	0	**1**	**1**	**1**
Total compensation	**1,934**	**2,142**	**906**	**2,142**	**1,939**	**2,159**	**923**	**2,159**	**0**	**608**	**308**	**608**

Compensation for the members of the Company's Management Board 2015

Payments (in €k)	Paschalis Choulidis CEO, Chief Officer for Finance Communication and IT				Vlasios Choulidis Chief Officer for Sales, Marketing, Customer Care				André Driesen Chief Financial Officer			
	2014	2015	2015 (min)	2015 (max)	2014	2015	2015 (min)	2015 (max)	2014	2015	2015 (min)	2015 (max)
Fixed compensation	630	630	630	630	630	630	630	630	0	300	300	300
Fringe benefits	13	0	0	0	17	17	17	17	0	7	7	7
Total	643	630	630	630	647	647	647	647	0	307	307	307
One-year variable compensation	690	720	0	720	690	720	0	720	0	200	0	200
Multiannual variable compensation												
- LTI 2011-2015	0	0	0	0	0	0	0	0	0	0	0	0
- Management bonus 2015-2017	0	0	0	0	0	0	0	0	0	0	0	0
Total	**690**	**720**	**0**	**720**	**690**	**720**	**0**	**720**	**0**	**200**	**0**	**200**
Pension	2	2	2	2	2	2	2	2	0	**1**	**1**	**1**
Total compensation	**1,334**	**1,352**	**632**	**1,352**	**1,339**	**1,369**	**649**	**1,369**	**0**	**508**	**308**	**508**

Compensation Report

Compensation paid to the Management Board member André Driesen is related to his term as a Management Board member.

Contributions of €230k for the each of the Management Board members Paschalis Choulidis and Vlasios Choulidis 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 or 2018.

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.

The compensation for the Supervisory Board members in 2015 comprised the following elements.

Supervisory Board Compensation 2015

Supervisory Board Compensation 2015	Compensation Paid (in €k)
Marc Brucherseifer, Dipl.-Kfm.	77.0
Dr Susanne Rückert	55.5
Norbert Lang	3.4
Horst Lennertz, Dr.-Ing.	51.0
Frank Rothauge, Dipl.-Kfm.	63.5
Dr Bernd H Schmidt	47.3
Johann Weindl, Dipl.-Kfm.	20.6
	318.3

Supplemental Information in Accordance with Section 315 (4) HGB

5. Supplementary Information

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

The subscribed capital amounts to €60,241,113.90 and is distributed in 54,764,649 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. 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. Per 31 December 2015, United Internet Ventures AG, Montabaur, held 20.11% of the Drillisch AG stock.

Capital increase

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 no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2019 (approved capital).

In May 2015, the Management Board exercised this authorisation and issued 1,575,634 new no-par shares at a share price of €42.2687. The capital increase against contributions in kind was carried out in utilisation of the approved capital and with the exclusion of any subscription rights of the shareholders; its purpose was to provide one component of the purchase price for acquisition of The Phone House Deutschland GmbH.

The total issue value amounted to €66.6 million. The number of shares after the capital increase amounts to 54,764,649. The capital subscribed since that time amounts to €60.2 million.

Approved Capital I

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 no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2019 (approved capital). There is a balance of €21,669,969.20 subsequent to the capital increase of May 2015. 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 subscription 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

Supplemental Information in Accordance with Section 315 (4) HGB

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 convertible 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 that are issued to compensate fractional amounts and/or as protection from dilution for holders or creditors of option or convertible bonds or as staff shares are excluded from consideration. Shares that 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 that are issued pursuant to the exercise of option and/or convertible bonds or option/conversion rights or obligations associated with convertible bonds, provided that the corresponding option and/or convertible 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 associated with option or convertible 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

Supplemental Information in Accordance with Section 315 (4) HGB

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.

Approved Capital II

The Management Board is authorised, subject to the approval of the Supervisory Board, to increase the Company's share capital by as much as €5,850,791.65 by a single or multiple issue of new no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2020 (Approved Capital II). 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 subscription solely and exclusively to the shareholders (indirect subscription right). On principle, a subscription right is to be granted to the shareholders. The Management Board is authorised, however, subject to the consent of the Supervisory Board, to exclude shareholders’ subscription rights for new no-par shares from Approved Capital II if and when the capital increase is undertaken against contributions in kind for the purpose of granting shares within the context of corporate mergers or for the purpose of acquiring companies, parts of companies, holdings in companies or other assets.

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 Approved Capital II or after the expiration of the authorisation.

Contingent capital 2013

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 €100.0 million was exercised in full (contingent capital 2013). 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 term of the bond ends on 12 December 2018.

Contingent capital 2015

There has been a contingent increase in capital of up to €17,600,000.00 by the issue of up to 16,000,000 no-par value bearer shares with profit entitlement from the beginning of the fiscal year of their issue. The contingent capital increase serves the purpose of granting shares to the holders or creditors of option bonds, convertible bonds, profit-sharing rights and/or income bonds or combinations of these instruments that, pursuant to the authorisation of agenda item 10 of the Annual General Meeting of 21 May 2015, are issued against cash by the Company or by a company in which the Company, directly or indirectly, holds a majority interest and that grant a conversion or option right to no-par bearer shares of the Company or that determine a conversion/option obligation. 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 option/conversion obligations from the debenture bonds are fulfilled, and provided that cash compensation is not paid or that treasury stock or stock from another listed company is not utilised for this purpose. The Management

Important Events After the End of the Fiscal Year

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 2015).

Treasury stock

The Annual General Meeting on 21 May 2015 adopted a resolution authorising the Drillisch AG Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2015 on or before 20 May 2020 (including the use of derivatives). Per the closing date 31 December 2015, Drillisch AG did not hold any shares of its own stock.

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

No important events occurred after the balance sheet date.

Maintal, 18 March 2016

CONSOLIDATED ANNUAL REPORT

Consolidated Comprehensive Income Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2015 to 31 December 2015

		2015	2014
	Exhibit no.	€k	€k
Sales	1	629,546	289,648
Other own work capitalised		2,238	1,757
Other operating income	2	20,175	1,400
Raw material, consumables and services used	3	-375,101	-147,007
Personnel expenses	4	-46,860	-24,597
Other operating expenses	5	-124,741	-35,998
Amortisation and depreciation	6	-36,074	-9,921
Operating result		**69,183**	**75,282**
Interest income		643	911
Interest and similar expenses		-4,029	-3,587
Financial result	7	**-3,386**	**-2,676**
Profit before taxes		**65,797**	**72,606**
Taxes on income	8	-19,998	-22,531
Consolidated profit from ongoing divisions		**45,799**	**50,075**
Consolidated profit from closed divisions	**12**	**310**	**0**
Consolidated profit		**46,109**	**50,075**
Actuarial gains/losses from pensions		182	-496
Taxes on income		-49	150
Items which cannot be included in operating results in the future		**133**	**-346**
Items which can be included in operating results in the future		**0**	**0**
Consolidated comprehensive results		**46,242**	**49,729**
Profit per share (in €) from ongoing divisions			
Undiluted	39	0.85	1.03
Diluted	39	0.82	0.99

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 1 January 2015 to 31 December 2015

ASSETS

	Exhibit no.	31.12.2015 €k	31.12.2014 €k
Fixed assets			
Other intangible assets	9	271,341	31,302
Goodwill	10	106,994	67,206
Tangible assets	11	11,012	2,596
Other financial assets		499	93
Deferred taxes	8	14,977	743
Fixed assets, total		**404,823**	**101,940**
Current assets			
Inventories	13	32,384	5,488
Trade accounts receivable	14	88,504	47,503
Tax reimbursement claims	15	7,475	1,507
Cash		123,432	317,090
Other current assets	16	32,084	2,023
Current assets, total		**283,879**	**373,611**
ASSETS, TOTAL		**688,702**	**475,551**

Consolidated Balance Sheet

Consolidated Annual Accounts for the Fiscal Year from 1 January 2015 to 31 December 2015

SHAREHOLDERS' EQUITY AND LIABILITIES		31.12.2015	31.12.2014
	Exhibit no.	€k	€k
Shareholders' equity			
Subscribed capital		60,241	58,508
Capital surplus		295,559	231,232
Earnings reserves		31,123	31,123
Other equity		-417	-550
Unappropriated retained earnings/Accumulated deficit		-33,483	10,830
Equity, total	17	**353,023**	**331,143**
Long-term liabilities			
Pension provisions	19	1,361	1,525
Deferred tax liabilities	8	31,169	3,051
Debenture bonds	20	91,457	88,787
Other financial liabilities	20	9,930	0
Leasing liabilities	18	518	1,212
Other liabilities	25	111	4,267
Long-term liabilities, total		**134,546**	**98,842**
Short-term liabilities			
Short-term provisions	21	12,162	106
Tax liabilities	22	5,104	7,382
Trade accounts payable	23	80,911	21,784
Payments received on account	24	5,440	5,890
Other financial liabilities	20	64,670	0
Leasing liabilities	18	694	885
Other liabilities	25	32,152	9,519
Short-term liabilities, total		**201,133**	**45,566**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**688,702**	**475,551**

Consolidated Change in Equity Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2015 to 31 December 2015

	Number of shares	Subscribed capital	Capital reserves	Earnings reserves	Other equity	Unappropria-ted retained earnings/ Accumulated deficit	Equity, total
		€k	€k	€k	€k	€k	€k
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
Capital Increase		0	0	0	0	0	0
Change in own shares	5,189,015	5,708	134,864	0	0	0	140,572
Consolidated comprehensive results		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**
Per 01/01/2015	**53,189,015**	**58,508**	**231,232**	**31,123**	**-550**	**10,830**	**331,143**
Dividend payments		0	0	0	0	-90,422	-90,422
Capital Increase	1,575,634	1,733	64,327	0	0	0	66,060
Change in own shares		0	0	0	0	0	0
Consolidated comprehensive results		0	0	0	133	46,109	46,242
Per 31/12/2015	**54,764,649**	**60,241**	**295,559**	**31,123**	**-417**	**-33,483**	**353,023**

Consolidated Capital Flow Statement

Consolidated Annual Accounts for the Fiscal Year from 1 January 2015 to 31 December 2015

	2015	2014
	€k	€k
Consolidated earnings before interest and taxes	69,493	75,282
Income tax paid	-23,573	-15,705
Income tax received	2,427	1,062
Amortisation and depreciation	36,074	9,921
Results from the disposal of fixed assets	82	-203
Change in inventories	-17,269	754
Change in receivables and other assets	-35,396	-524
Change in trade payables, other liabilities and provisions	45,263	2,743
Change in payments received on account	-892	-1,572
Cash flow from current business activities	**76,209**	**71,758**
Payments for investments in tangible and intangible assets	-162,721	-5,301
Payments for acquisitions less acquired cash	-7,310	-60
Payments from the resale of financial assets	569	0
Outgoing payments for investments in other financial assets	-103	0
Interest received	355	600
Cash flow from investment activities	**-169,210**	**-4,761**
Change in own shares	0	139,709
Dividend payments	-90,422	-76,800
Interest paid	-1,750	-833
Amortisation of Other financial liabilities	-885	985
Amortisation of investment liabilities	-7,600	0
Cash flow from financing activities	**-100,657**	**63,061**
Change in cash	**-193,658**	**130,058**
Cash at end of period	123,432	317,090
Cash at beginning of period	317,090	187,032

Consolidated Notes

A. General information

Drillisch AG is a listed stock corporation which offers telecommunication services. Drillisch was founded in 1997. The core business of Drillisch Group is telecommunications and is located essentially in the wholly-owned subsidiaries Drillisch Online AG, yourfone AG (registered office of both in Maintal) and Phone House Deutschland GmbH and its subsidiaries (registered offices of all in Münster)

At the beginning of April 2015, the former operating companies MS Mobile Services GmbH (Maintal), eteleon AG (Munich) and MSP Holding GmbH (Maintal) were merged into Drillisch Telecom GmbH. The company, which is registered in Maintal, was renamed Drillisch Online AG on 24 September 2015.

The Group has concluded an MBA MVNO agreement with the network operator Telefónica and an MVNO agreement with the network operator Vodafone and, in addition to these agreements, 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. The consolidated annual accounts are submitted 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 2015 on 18 March 2016 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 2015, 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		
Various	Improvements to IFRS 2011-2013	01.07.2014
Interpretations		
IFRIC 21	Levies	01.06.2014

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 2015:

Consolidated Notes

Standards/Interpretations

		Anwendungspflicht für Geschäftsjahre beginnend ab	Übernahme durch EU-Kommission
Standards			
IAS 19	Employee Benefits (Amendment)	01.02.2015	Yes
Various	Improvements to IFRS 2010-2012	01.02.2015	Yes
IFRS 14	Regulatory Deferral Accounts	01.01.2016	No
IFRS 11	Accounting for Acquisition of Interests in Joint Operations (Amendment)	01.01.2016	Yes
IAS 16, IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendment)	01.01.2016	Yes
IAS 16, IAS 41	Agriculture: Bearer Plants (Amendment)	01.01.2016	Yes
IFRS 10/12, IAS 28	Investment Entities: Applying the Consolidation Exception (Amendment)	01.01.2016	No
IAS 1	Disclosure Initiative (Amendment)	01.01.2016	Yes
Various	Improvements to IFRS 2012-2014	01.01.2016	Yes
IAS 27	Equity Method in Separate Financial Statements (Amendments)	01.01.2016	Yes
IFRS 15	Revenue from Contracts with Customers	01.01.2018	No
IFRS 9	Financial Instruments	01.01.2018	No
IFRS 16	Leases	01.01.2019	No
IAS 12	Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendment)	01.01.2017	No
IAS 7	Statement of Cash Flows (Amendment)	01.01.2017	No

Drillisch is currently examining the possible impact from the amendment of IFRS 15 (Revenue from Contracts with Customers), IFRS 9 (Financial Instruments) and IFRS 16 (Leases) on future financial reporting. A final statement on the possible effects cannot be made at this time.

From today's perspective, no major effects are to be expected on the consolidated annual accounts from the future application of further new regulations.

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.

Consolidated Notes

Minor holdings and holdings on which no decisive control is exercised are disclosed in the balance sheet at cost of acquisition carried forward.

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 2015. 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.

The following companies are included in the consolidated annual accounts:

		Share of capital	Held by
		%	No.
1.	Drillisch AG, Maintal		
2.	Drillisch Online AG, Maintal	100	1
3.	IQ-optimize Software AG (“IQ-optimize AG”), Maintal	100	1
4.	Drillisch Netz AG, Düsseldorf	100	1
5.	The Phone House Deutschland GmbH, Münster	100	1
6.	GTCom GmbH, Düsseldorf	97.5	1
7.	yourfone AG, Maintal	100	1
8.	Mobile Ventures GmbH, Maintal	100	2
9.	The Phone House Telecom GmbH, Münster	100	5
10.	The Phone House Services GmbH, Münster	100	5
11.	yourfone Retail AG, Düsseldorf	100	7
12.	yourfone Shop GmbH, Düsseldorf	100	11

yourfone AG

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. Within the framework of its integration into Drillisch Group, yourfone GmbH was renamed yourfone AG and its registered office was relocated to Maintal. yourfone AG is a wireless services provider operating in Germany. The purchase price came to €139.8m. The purchase of the shares in yourfone AG included the acquisition of €77.8m in cash.

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The allocation of the purchase price to the identifiable assets and liabilities at the attributable fair values was carried out as a purchase price allocation pursuant to IFRS 3.

The following adjustments for assets and liabilities resulted in the purchase price allocation:

Adjustment to Assets and Liabilities	02 Jan 15
	€k
Brand name/Trade mark yourfone	40,560
Customer relationships	36,351
Software	-4,000
Short-term liabilities and provisions	15,000
Deferred tax liabilities	17,168
	40,743

The goodwill was calculated as shown in the table below:

Calculation of Goodwill	02 Jan 15
	TEUR
Total purchase price	**139,805**
Less net assets measured at the attributable market value	120,620
Goodwill	**19,185**

The book values of the acquired assets and assumed liabilities immediately before the corporate merger and the corresponding fair values are attributable to the takeover of yourfone AG as shown below:

as per 2 January 2015	Book value	Adjusted PPA	Attributable fair value
	€k	€k	€k
Other intangible assets	7,100	72,911	80,011
Tangible assets	783	0	783
Receivables and other assets as well as cash	93,816	0	93,816
Deferred tax reimbursements	5,508	0	5,508
Short-term liabilities and provisions	27,330	15,000	42,330
Deferred tax liabilities	0	17,168	17,168
Acquired net assets	**79,877**	**40,743**	**120,620**

The gross amount of the trade receivables at the time of the acquisition came to €17.9m, the attributable fair value of these receivables €8.9m. The gross amount of the Other receivables at the time of the acquisition came to €69.3m and corresponds to the attributable fair value of these receivables. The best possible estimate for the presumably irrecoverable contractual cash flow is €9.1m.

Revenue of yourfone AG from the time of the acquisition to 31 December 2015 came to €100.4m with profit of €11.5m. If the company had been included in the con-

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solidated annual accounts per 1 January 2015, it would have contributed €100.4m to the consolidated revenue and €11.5m to Group profit.

GTCom GmbH

At the beginning of February 2015, Drillisch AG directly acquired 97.5% of the shares of GTCom GmbH, Düsseldorf. 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 came to €3.1m. The purchase of the shares in GTCom GmbH included the acquisition of €0.1m in cash.

The allocation of the purchase price to the identifiable assets and liabilities at the attributable fair values was carried out as a purchase price allocation pursuant to IFRS 3.

The following adjustments for assets and liabilities resulted in the purchase price allocation:

Adjustment to Assets and Liabilities	03 Feb 15
	€k
Trade mark	50
Customer relationships	309
Other intangible assets	398
Short-term liabilities and provisions	189
Deferred tax liabilities	177
	391

The goodwill was calculated as shown in the table below:

Calculation of Goodwill	03 Feb 15
	€k
Purchase price	1,585
Contingent purchase price (earn-out component)	1,500
Total purchase price	**3,085**
Less net assets measured at the attributable market value	197
Goodwill	**2,888**

The book values of the acquired assets and assumed liabilities immediately before the corporate merger and the corresponding fair values are attributable to the takeover of GTCom GmbH as shown below:

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Per 3 February 2015	Book value	Adjusted PPA	Attributable fair value
	€k	€k	€k
Trade mark	0	50	50
Customer relationships	0	309	309
Other intangible assets	115	398	513
Tangible assets	4	0	4
Receivables and other assets as well as cash	380	0	380
Short-term liabilities and provisions	693	189	882
Deferred tax liabilities	0	177	177
Acquired net assets	**-194**	**391**	**197**

The gross amount of the trade receivables acquired at the time of the acquisition came to €0.1m and corresponds to the attributable fair value. The gross amount of Other receivables at the time of the acquisition comes to €0.1m and also corresponds to the attributable fair value of these receivables. The best possible estimate for the presumably irrecoverable contractual cash flow is €0.0m.

From the time of the acquisition to 31 December 2015, the turnover at GTCom GmbH amounted to €650k and the losses to €224k. If the company had already been included in the consolidated accounts as of 1 January 2015, it would have made a contribution of €718k to the consolidated turnover and €-253k to the Group's profit.

The Phone House Deutschland GmbH

Furthermore, Drillisch AG acquired all of the shares of The Phone House Deutschland GmbH, Münster, pursuant to a purchase contract with Dixons Carphone PLC concluded on 15 April 2015 and executed on 5 May 2015. The Phone House Deutschland GmbH has had many years of experience in brick-and-mortar sales, has outstanding access to independent specialist retailers and is in possession of all of the technical requirements necessary for the complete operation of partner shops as well as its own shops, including the provision of hardware. The preliminary purchase price amounted to €102.4m. The amount of €66.6m was paid by issue of 1,575,634 no-par shares of Drillisch AG directly to the seller. Costs incurred within the context of the capital increase in the amount of €1.0m were recorded as expenditures and in the amount of €0.4m as non-operating results in equity. Moreover, a variable purchase price component resulting from certain future cash flow surpluses of The Phone House was agreed with the seller. The variable purchase price liability results from the expected percentage compensation on the monthly revenues from the end customers brokered by Phone House during the minimum term of each contract between the network operators and Phone House, to the extent that Drillisch must forward this compensation proportionately to the seller in accordance with the purchase contract. The purchase of the shares on The Phone House Deutschland GmbH included the acquisition of cash in the amount of €64.3m.

The allocation of the purchase price to the identifiable assets and liabilities at the attributable fair values was carried out as a purchase price allocation (which was still provisional at the time the consolidated annual accounts were prepared) pursuant to IFRS 3.

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The provisional purchase price allocation resulted in the following provisional adjustments for assets and liabilities:

Provisional Adjustment to Assets and Liabilities	05 May 15
	€k
Customer relationships	36,400
Tangible assets	-124
Onerous contracts	7,216
Deferred tax liabilities	8,828
	20,232

The provisional goodwill was calculated as shown in the table below:

Provisional Calculation of Goodwill	05 May 15
	€k
Purchase price	66,600
Contingent purchase price (earn-out component)	35,800
Total purchase price	**102,400**
Less net assets measured at the attributable market value	84,685
Goodwill	**17,715**

The book values of the provisionally acquired assets and assumed liabilities immediately before the corporate merger and the corresponding fair values are attributable to the takeover of The Phone House Deutschland GmbH as shown below:

Per 5 May 2015	Book value	Adjusted PPA	Anpassungen IFRS	Attributable fair value
	€k	€k	€k	€k
Other intangible assets	1,615	36,400	0	38,015
Tangible assets	4,900	-124	0	4,776
Deferred tax reimbursements	0	2,183	0	2,183
Inventories	9,778	0	0	9,778
Receivables and other assets as well as cash	174,364	0	-28,396	145,968
Short-term liabilities and provisions	97,809	7,216	0	105,025
Deferred tax liabilities	0	11,011	0	11,011
Acquired net assets	**92,849**	**20,232**	**-28,396**	**84,685**

The gross amount of the trade receivables at the time of the acquisition came to €52.7m, the attributable fair value of these receivables €46.1m. The gross amount of the Other receivables at the time of the acquisition came to €11.8m and corresponds to the attributable fair value of these receivables. The best possible estimate for the presumably irrecoverable contractual cash flow is €6.6m.

Revenue of The Phone House Deutschland GmbH and its subsidiaries from the time of the acquisition to 31 December 2015 came to €167.1m and a loss of €13.7m. If the company had been included in the consolidated annual accounts per 1 January 2015, it would have contributed €262.8m to the consolidated revenue and €-60.8m to Group profit. The first four months contain

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extraordinary expenditures resulting from the restructuring and related to the sale of the own shop chain.

yourfone Retail AG

Pursuant to a purchase contract of 26 June 2015, Drillisch AG, acting through its wholly-owned subsidiary yourfone AG, acquired all of the shares in Telefónica Germany Shop-transfer AG from Telefónica Germany GmbH & Co. OHG and renamed the company yourfone Retail AG. yourfone Retail AG in turn holds 100% of the shares in yourfone Shop GmbH (previously Telefónica Germany Retail Ausgliederungs GmbH). Both of these companies are registered in Düsseldorf and are responsible for operation of the shop locations acquired from Telefónica. The purchase contract was executed on 29 June 2015.

The purchase price came to €-25.0m. The purchase of the shares in yourfone Retail AG included the acquisition of €2.0m in cash.

The allocation of the purchase price to the identifiable assets and liabilities at the attributable fair values was carried out as a purchase price allocation pursuant to IFRS 3.

The purchase price allocation resulted in the following adjustments for assets and liabilities:

Adjustment to Assets and Liabilities	30 June 15
	€k
Tangible assets	-4,726
Deferred tax reimbursements	1,786
Provisions for restoration obligations/employee bonuses	603
Short-term liabilities and provisions	682
	-4,225

The goodwill was calculated as shown in the table below:

Calculation of Goodwill	30 June 15
	€k
Total purchase price	**-25,000**
Less net assets measured at the attributable market value	720
Badwill	**-25,720**

The book values of the acquired assets and assumed liabilities immediately before the corporate merger and the corresponding fair values are attributable to the takeover of yourfone Retail AG as shown below:

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Per 30 June 2015	Book value	Adjusted PPA	Attributable fair value
	TEUR	TEUR	TEUR
Tangible assets	5,962	-4,726	1,236
Deferred tax reimbursements	0	1,786	1,786
Receivables and other assets as well as cash	2,276	0	2,276
Long-term provisions	1,016	603	1,619
Short-term liabilities and provisions	2,277	682	2,959
Acquired net assets	**4,945**	**-4,225**	**720**

The gross amount of the trade receivables acquired at the time of the acquisition came to €0.1m and corresponds to the attributable fair value. The gross amount of Other receivables at the time of the acquisition came to €0.2m and also corresponds to the attributable fair value of these receivables. The best possible estimate for the presumably irrecoverable contractual cash flow is €0.0m.

Revenue of yourfone Retail AG and the subsidiary yourfone Shop GmbH from the time of the acquisition to 31 December 2015 came to €0.4m with profit of €0.7m. If the companies had been included in the consolidated annual accounts per 1 January 2015, they would have contributed €0.4m to the consolidated revenue and €-11.2m to Group profit. yourfone Shop GmbH was operated strictly as a cost centre within the Telefónica corporate group and consequently did not realise any revenues in the period from 1 January 2015 to the time of the acquisition. As a result, there were expenditures of €11.9m from this time period that would not have been incurred if the company had already been incorporated into the Drillisch corporate group per 1 January 2015.

Within the framework of the purchase price allocation related to the acquisition of yourfone Retail AG, including the subsidiary yourfone Shop GmbH, a repeated assessment resulted in a negative difference of €25.7m. This is based on the assumption that the business operations of these companies will presumably lead to losses during the initial years because revenues will be low at the beginning while rent expenses, personnel expenses and bonus expenditures will at the same time be higher. These factors were given consideration during negotiation of the purchase price. Since provisions for these losses are not possible pursuant to IFRS 3.11, the over-assessment of the net assets is in conformity with regulations. The negative economic value of the acquired company therefore leads to a negative difference in the amount of the future losses amounting to €25.7m. The resulting income is recognised as sales revenue in the consolidated annual accounts per 31 December 2015 because the negative difference (pursuant to the agreements in the purchase contract as well) has the character of advertising cost subsidies that are always recognised under the sales revenues in Drillisch Group.

Owing to the major changes in the group of consolidated companies during the reporting period, a comparison with previous accounting periods is subject to limitations.

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General accounting and evaluation methods

Realisation of income and expenses

In the segments Online and Offline, revenues are generated from the offered wireless services, one-time installation charges and the sale of mobile devices and accessories. Revenues 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. Moreover, revenues are generated for the brokerage of wireless services rate plans to other providers and from the receipt of advertising cost subsidies.

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 segment Miscellaneous/Holding, revenues are generated from the offering of custom software solutions, maintenance and support services, holding services and (to a slight extent) the offering of wireless services. Revenues from software solutions, revenues from maintenance and support services and revenues from holding services are based on contractual provisions.

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

Interest expenses are recognised 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 corresponding to the net book value.

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 fifteen years is taken as the basis. The manufacturing costs include overhead

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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 is no scheduled depreciation of goodwill.

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. The depreciation period for tenant installations varies between two and five 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. In the case of purchases and sales usual on the market, however, the day of performance is relevant for the initial recognition and derecognition in the balance sheet.

A financial asset is derecognised when the conditions of IAS IAS 29.17 et seq. have been fulfilled. If and when the Group has assigned its contractual rights to payment flows from an asset and retained essentially all of the risks and opportunities associated with the ownership of this asset, the Group continues to recognise the asset in the scope of the Group's ongoing involvement.

Financial assets include in particular cash

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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 finance leasing relationships and derivative financial liabilities. Financial assets and financial liabilities are disclosed 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 extended by 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 acquisition costs or the lower of realisable net sales value.

Receivables and other assets

Receivables and other assets are measured at nominal value in the balance sheet. Valuation allowances are created for default risks. Receivables and liabilities related to the network operators Telekom, Vodafone, E-Plus and Telefónica are disclosed in the balance sheet as balances in each case.

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Any receivables that 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 assumed 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 attributable 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 recognised 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.

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

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

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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 or 2018. 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, trademark rights, inventories 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 inventories, trade receivables and 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.

Explanatory comments on the consolidated comprehensive income statement

1. Sales

	2015	2014
	€k	€k
Telecommunications		
Service revenues	433,679	284,596
Other revenues	195,867	5,052
	629,546	**289,648**

Service revenues comprise essentially the earnings related to the provision of the ongoing wireless services (voice and data transmission).

Other revenues comprise essentially revenue from brokerage and hardware sales, income from commissions and bonuses and sales from software services. The change in comparison with the previous year results essentially from the brokerage and hardware revenues of The Phone House (acquired at the beginning of May 2015) that has been included in the consolidated annual accounts for the first time.

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2. Other operating income

	2015	2014
	€k	€k
Income settlement leasing	10,000	0
Rent income shop	3,262	0
Insurance benefits/Reimbursement of dunning fees	3,023	100
Receipt of written-off receivables	935	410
Reversal of provisions and liabilities	696	285
Other	2,259	605
Other operating income from ongoing business operations	**20,175**	**1,400**
Remaining other operating income from closed business divisions	**631**	**0**
Other operating income, total	**20,806**	**1,400**

3. Cost of materials/Expenditures for purchased services

Cost of materials essentially concerns the fees for the ongoing use of the network operators' wireless networks (air time), expenditures from the capacity model within the framework of the MBA MVNO agreement with Telefónica, commissions and bonuses paid to sales partners and expenditures from business with goods (purchase of mobile devices, SIM cards).

4. Personnel expenses

	2015	2014
	€k	€k
Wages and salaries	41,759	22,300
Social contributions	5,101	2,297
	46,860	**24,597**

The increase in the personnel expenses in comparison with the previous year results from the substantial increase in headcount from the acquisition of companies in 2015.

The number of employees (excluding Management Board) came to:	2015	2014
Annual average	730	353
Annual average – vocational trainees	51	49

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5. Other operating expenses

	2015	2014
	€k	€k
Advertising expenses	64,542	14,096
Billing and external work	15,544	6,666
Rent and secondary costs	10,374	1,933
Bad debts and valuation allowances	10,463	5,354
Legal and professional fees	7,930	3,060
Incidental costs for money transactions	2,165	618
Postal and telephone fees/Dedicated lines	1,677	933
Vehicle costs	1,173	325
Licences	1,006	385
Travel and entertainment expenses	815	379
Other	9,052	2,249
Other operating expenses from ongoing business operations	**124,741**	**35,998**
Other operating expenses from closed divisions	**321**	**0**
	125,062	**35,998**

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

6. Depreciation and amortisation

	2015	2014
	€k	€k
Intangible assets		
Own produced software	1,640	2,123
Customer relationships	15,808	0
Purchased software/licences/utilisation rights	14,857	6,941
Tangible assets	3,769	857
	36,074	**9,921**

7. Financial results

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 €732k (previous year: €447k).

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8. Taxes on income

	2015	2014
	€k	€k
Current taxes on income	16,434	15,627
Deferred taxes	3,564	6,904
Disclosed expenses for income taxes	**19,998**	**22,531**

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

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

	2015	2014
	€k	€k
Profit before taxes on income (from ongoing business operations)	**65,797**	**72,606**
Tax expenses from application of Group's income tax rate of 30.25% (previous year 30.25%)	19,903	21,963
Taxes for previous year	-104	-537
Trade tax additions	329	1,147
Non-deductible expenses and tax-exempt income	52	81
Other effects	-182	-123
	19,998	**22,531**

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:

Consolidated Notes

	2015	2014
	€k	€k
Deferred tax reimbursements for		
Other intangible assets	87	108
Tangible assets	1,405	0
Financial assets	699	0
Other current assets	3,428	0
Leasing liabilities	367	634
Trade accounts receivable	353	0
Pension provisions	1	1
Short-term provisions	3,037	0
Accumulated deficits carried forward	5,600	0
	14,977	**743**
Deferred tax liabilities for		
Other intangible assets	30,255	2,229
Tangible assets	321	0
Leasing assets	360	630
Other equity	-190	-239
Pension provisions	48	4
Debenture bonds	375	427
	31,169	**3,051**

Of the deferred tax reimbursements, €6,899k (previous year: €324k) is related to current assets and €2,478k (previous year: €419k) to fixed assets and liabilities as well as €5,600k (previous year: €0k) to accumulated deficits carried forward. Of the deferred tax payments, €6,421k (previous year: €0k) is related to current assets and €24,748k (previous year: €3,051k) to long-term assets and liabilities.

The capitalisation of accumulated deficits carried forward related to taxes in the amount of €5,600k results from initial losses within the framework of the business model conversion at The Phone House. Once the business model has been established, the company will generate adequate taxable income to ensure the recoverability of the deferred tax reimbursements.

Consolidated Notes

Explanatory comments on the consolidated balance sheet

9. Other intangible assets

	Trade-marks	Customer relation-ships	Own produced software	Purchased software/ licences	Total
	€k	€k	€k	€k	€k
Acquisition and manufacturing costs					
Per 1 January 2014	**7,367**	**8,650**	**24,773**	**36,082**	**76,872**
Additions	0	0	1,757	4,980	6,737
Additions Change in consolidated companies	0	0	0	0	0
Disposals	0	0	0	745	745
Per 31 December 2014	**7,367**	**8,650**	**26,530**	**40,317**	**82,864**
Additions	0	0	2,238	150,633	152,871
Additions Change in consolidated companies	40,610	73,060	268	29,384	143,322
Disposals	0	0	0	6,967	6,967
Per 31 December 2015	**47,977**	**81,710**	**29,036**	**213,367**	**372,090**
Accrued depreciation					
Per 1 January 2014	**0**	**8,650**	**21,125**	**12,869**	**42,644**
Additions	0	0	2,123	6,941	9,064
Additions Change in consolidated companies	0	0	0	0	0
Disposals	0	0	0	146	146
Per 31 December 2014	**0**	**8,650**	**23,248**	**19,664**	**51,562**
Additions	0	15,808	1,640	14,857	32,305
Additions Change in consolidated companies	0	0	35	19,790	19,825
Disposals	0	0	0	2,943	2,943
Per 31 December 2015	**0**	**24,458**	**24,923**	**51,368**	**100,749**
Book values					
Per 31 December 2014	7,367	0	3,282	20,653	31,302
Per 31 December 2015	**47,977**	**57,252**	**4,113**	**161,999**	**271,341**

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

The additions of purchased software/licences and utilisation rights concern basically Drillisch's contribution of €150.0 million agreed with Telefónica (as part of the MBA MVNO model) to the investments previously made and to be made in future by Telefónica in the expansion of the LTE network and in future technologies

Per 31 December 2015, the book value of the utilisation right was €145m and has a remaining amortisation period of 14.5 years.

The customer relationships identified

Consolidated Notes

within the framework of the PPA have a book value of €57.3m per 31 December 2015 and an average remaining amortisation period of 2 to 5 years.

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

During the purchase price allocation process for Telco GmbH in 2007 and eteleon AG in 2009, of yourfone AG in 2015 and of GTCom GmbH in 2015, customer relationships, own produced software and the trademarks Telco, eteleon and yourfone were identified. The trademarks are intangible assets with an indefinite 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.

The trademarks Telco and eteleon are disclosed in the cash-generating unit Drillisch Online AG at a book value of €7.4m and the trademark yourfone is disclosed in the cash-generating unit yourfone AG at a book value of €40.6m.

10. Goodwill

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

	Acquisition Costs	Addition from Merger	Accrued Depreciation per 31 December 2015	Book Value 2015	Book Value 2014
	€k	€k	€k	€k	€k
Drillisch Online AG (formerly Drillisch Telecom GmbH)	89,314	806	22,976	67,144	66,338
IQ-optimize AG	103	0	41	62	62
yourfone AG	19,185	0	0	19,185	–
GTCom GmbH	2,888	0	0	2,888	–
TPH Deutschland GmbH*	17,715	0	0	17,715	–
eteleon AG	0	0	0	0	806
	129,205	**806**	**23,017**	**106,994**	**67,206**

*Provisional goodwill

At the beginning of April 2015, the former operating companies MS Mobile Services GmbH (Maintal), eteleon AG (Munich) and MSP Holding GmbH (Maintal) were merged retroactively per 1 January 2015 into Drillisch Telecom GmbH. The company, which is registered in Maintal, was renamed Drillisch Online AG on 24 September 2015. The goodwill of eteleon AG transferred to Drillisch Online AG as part of the merger.

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 2016 to 2020 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 2020. 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.

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

	Detailed Budget Period	Subsequent Period	Detailed Budget Period	Subsequent Period
	2015	2015	2014	2014
Drillisch Online AG (formerly Drillisch Telecom GmbH)	5.59 %	5.09 %	7.35 %	6.85 %
IQ-optimize AG	5.74 %	5.24 %	7.66 %	7.16 %
yourfone AG	5.51 %	5.01 %	–	–
GTCom GmbH	5.45 %	4.95 %	–	–
TPH Deutschland GmbH	5.63 %	5.13 %	–	–
eteleon AG	–	–	7.23 %	6.73 %

A devaluation of goodwill was not required in fiscal year 2015. There was no devaluation of goodwill even from an increase in the discount interest rate by about 1% and in consideration of a lump-sum deduction of 25% from the expected cash flow.

11. Tangible assets

	Fixtures, Fittings and Equipment	Tenant Installations	Total
	€k	€k	€k
Acquisition costs			
Per 1 January 2014	**5,305**	**244**	**5,549**
Additions	2,606	0	2,606
Additions Change in consolidated companies	0	0	0
Disposals	807	0	807
Per 31 December 2014	**7,104**	**244**	**7,348**
Additions	3,743	1,515	5,258
Additions Change in consolidated companies	25,857	5,604	31,461
Disposals	1,754	0	1,754
Per 31 December 2015	**34,950**	**7,363**	**42,313**
Accrued depreciation			
Per 1 January 2014	**3,915**	**222**	**4,137**
Additions	855	2	857
Additions Change in consolidated companies	0	0	0
Disposals	242	0	242
Per 31 December 2014	**4,528**	**224**	**4,752**
Additions	3,734	35	3,769
Additions Change in consolidated companies	20,499	3,838	24,337
Disposals	1,557	0	1,557
Per 31 December 2015	**27,204**	**4,097**	**31,301**
Book values			
Per 31 December 2014	2,576	20	2,596
Per 31 December 2015	**7,746**	**3,266**	**11,012**

Consolidated Notes

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

12. Consolidated profit from closed divisions

The profit from closed divisions includes income from the sale of The Phone House Management GmbH, Münster, in November 2015. This company was acquired in combination with the acquisition of Phone House Group at the beginning of May 2015 and was scheduled for resale as of its acquisition. The share of the total profit from ongoing divisions to which Drillisch AG shareholders are entitled amounts to €45,799k (previous year: €50,075k) and the share from discontinued activities comes to €310k (previous year: €0k). Income tax due on the profit from closed divisions amounts to €4.7k (previous year: €0.0).

13. Inventories

	2015	2014
	€k	€k
Merchandise	30,219	3,044
Value allowances for merchandise	-231	-23
Payments on account	2,396	2,467
	32,384	**5,488**

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

	2015	2014
	€k	€k
Gross receivables	107,383	49,680
Valuation allowances on receivables	-18,879	-2,177
	88,504	**47,503**

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 Dec. 2015	88,504	75,285	4,630	3,399	1,574	3,616
31 Dec. 2014	47,503	37,291	4,411	1,104	1,341	3,356

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

Receivables that as of the closing date were not devaluated, but that were overdue, comprise receivables due from customers and suppliers with whom payment in instalments in the amount of €655k (previous year: €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 Drillisch Group, valuation allowances are created on doubtful receivables to take into account estimated losses which result from customers' insolvency. The criteria used by management for the assessment of the reasonableness of the valuation allowances for doubtful receivables are the maturity structure of the receivable balances and experience related to the write-offs of receivables in the past, the creditworthiness of the customers and the changes in terms and conditions of payment. If the customers' financial position deteriorates, the scope of the write-offs which must actually be taken can exceed the scope of the expected write-offs.

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

	2015	2014
	€k	€k
Valuation allowances per 1 January	**2,177**	**2,432**
Additions from the change in the group of consolidated companies	13,948	0
Additions (expenses for valuation allowances)	28,094	10,777
Consumption / Reversal	-25,340	-11,032
Valuation allowances per 31 December	**18,879**	**2,177**

15. Tax reimbursement claims

	2015	2014
	€k	€k
Corporate income tax	3,551	1,507
Turnover tax	3,924	0
	7,475	**1,507**

16. Other current assets

	2015	2014
	€k	€k
Other receivables due from network operators	23,970	0
Residual claim from settlement	0	799
Other receivables acquisition yourfone	2,149	0
Advance payments	2,126	565
Other	3,839	659
	32,084	**2,023**

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Other receivables due from network operators essentially comprise receivables from commissions and bonuses due from all of the wireless network operators in Germany from brokerage business conducted by the subsidiary The Phone House, which is not classified as the core business of Drillisch Group. They are consequently not disclosed under trade receivables.

17. Equity

The Company's share capital in the amount of €60,241,113.90 (previous year: €58,507,916.50) is distributed in 54,764,649 (previous year: 53,189,015) no-par shares issued to the bearer with an unchanged proportionate share in the share capital of €1.10.

The Annual General Meeting of 21 May 2015 adopted a resolution to disburse a dividend of €1.70 for each and every share entitled to receive a dividend. The number of shares issued at the point in time of the Annual General Meeting totalled 53,189,015, The disbursement consequently amounted to a total of €90.4m.

Management Board and Supervisory Board will propose a dividend of at least €1.75 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 €95.8m.

Capital increase

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 no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2019 (approved capital).

In May 2015, the Management Board exercised this authorisation and issued 1,575,634 new no-par shares at a share price of €42.2687. The capital increase against contributions in kind was carried out in utilisation of the approved capital and with the exclusion of any purchase rights of the shareholders; its purpose was to provide one component of the purchase price for acquisition of The Phone House Deutschland GmbH.

The total issue value amounted to €66.6m. The number of shares after the capital increase amounts to 54,764,649. The capital subscribed since that time amounts to €60.2m.

Capital reserves

The capital reserves contain 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 issue of new shares in 2015 and for the sale of treasury stock in 2014 was attributed to the capital reserves. Furthermore, the capital reserves contain the equity component of the conversion bond described in the subheading "Debenture bond" under item 20.

The rise in Capital reserves essentially results from the issue of 1,575,634 new shares with a nominal value of €1.10 per share related to the acquisition of Phone House. Capital reserves increased in total by €64.3m to €295.6m.

Earnings reserves

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

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Approved Capital I

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 no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2019 (Approved Capital). There is a balance of €21,669,969.20 subsequent to the capital increase of May 2015. 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 subscription 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 option 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 convertible bonds that 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 exclusi-

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on 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 that are issued to compensate fractional amounts and/or as protection from dilution for holders or creditors of option or convertible bonds or as staff shares are excluded from consideration. Shares that 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 that are issued pursuant to the exercise of option and/or convertible bonds or option/conversion rights or obligations associated with convertible bonds, provided that the corresponding option and/or convertible 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 associated with option or convertible 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.

Approved Capital II

The Management Board is authorised, subject to the approval of the Supervisory Board, to increase the Company's share capital by as much as €5,850,791.65 by a single or multiple issue of new no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2020 (Approved Capital II). 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 subscription solely and exclusively to the shareholders (indirect subscription right). On principle, a subscription right is to be granted to the shareholders. The Management Board is authorised, however, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights for new no-par shares from Approved Capital II if and when the capital increase is undertaken against contributions in kind for the purpose of granting shares within the context of corporate mergers or for the purpose of acquiring companies, parts of companies, holdings in companies or other assets.

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 Approved Capital II or after the expiration of the authorisation.

Contingent Capital 2013

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

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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.

Contingent Capital 2015

There has been a contingent increase in capital of up to €17,600,000.00 by the issue of up to 16,000,000 no-par value bearer shares with profit entitlement from the beginning of the fiscal year of their issue. The contingent capital increase serves the purpose of granting shares to the holders or creditors of option bonds, convertible bonds, profit-sharing rights and/or income bonds or combinations of these instruments that, pursuant to the authorisation of agenda item 10 of the Annual General Meeting of 21 May 2015, are issued against cash by the Company or by a company in which the Company, directly or indirectly, holds a majority interest and that grant a conversion or option right to no-par bearer shares of the Company or that determine a conversion/option obligation. 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 option/conversion obligations from the debenture bonds are fulfilled, and provided that cash compensation is not paid or that treasury stock or stock from another listed company 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 2015).

Treasury stock

The Annual General Meeting on 21 May 2015 adopted a resolution authorising the Drillisch AG Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2015 on or before 20 May 2020 (including the use of derivatives). Per the closing date 31 December 2015, Drillisch AG did not hold any shares of its own stock.

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18. Leases

The tangible assets include the following finance leases:

	Fixtures, Fittings and Equipment
	€k
Acquisition costs	
Per 1 January 2014	**1,680**
Additions	1,503
Disposals	295
Per 31 December 2014	**2,888**
Additions	0
Disposals	824
Per 31 December 2015	**2,064**
Accrued depreciation	
Per 1 January 2014	**579**
Additions	521
Disposals	295
Per 31 December 2014	**805**
Additions	894
Disposals	824
Per 31 December 2015	**875**
Book values	
Per 31 December 2014	2,083
Per 31 December 2015	**1,189**

Leasing liabilities	Up to 1 year	1–5 years
	€k	€k
Leasing payments	724	527
Interest	30	9
Cash values	**694**	**518**

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

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.

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

Pension provisions	2015	2014
	%	%
Calculated interest rate	2.40	2.06
Expected income from scheme assets	2.40	2.06
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. 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 expected income from scheme assets is oriented to the calculated interest rate.

Analysis of pension model	2015	2014
	€k	€k
Cash value of pension expectancies for merit-based pension commitments (DBO)	1,792	1,868
Fair value of scheme assets	431	343
Shortfall of scheme	**1,361**	**1,525**
Adjustment of obligations based on experience	-5	20
Adjustment of scheme assets based on experience	-2	-4

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

Balance sheet obligations	2015	2014
	€k	€k
Cash value of pension expectancies for pension commitments (DBO)	1,792	1,868
Actuarial profits (+)/losses (-) not considered	0	0
Costs for changes in claims from previous years not considered	0	0
Market value of scheme assets	-431	-343
Pension provisions per 31 December	**1,361**	**1,525**

In the current fiscal year as in the previous year, the obligations were financed essentially by scheme assets.

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Development of cash value of pension expectancies (DBO)	2015	2014
	€k	€k
Per 1 January	**1,868**	**1,310**
Addition to consolidated companies	59	0
Costs for pension claims acquired in fiscal year	9	13
Interest	38	47
Pension payments	0	0
Service period expenses to be offset retroactively	0	0
Actuarial profits (-)/losses (+)	-182	498
Other changes	0	0
Per 31 December	**1,792**	**1,868**

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)	2015	2014
	€k	€k
Costs for pension claims acquired in fiscal year	9	13
Interest	38	47
Expected income from scheme assets	-10	-13
Actuarial gains/losses recognised in operating results	0	0
Service period expenses to be offset retroactively	0	0
	37	**47**

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

The reinsurance developed as follows:

Development of fair value of scheme assets	2015	2014
	€k	€k
Per 1 January	**343**	**334**
Addition to consolidated companies	79	0
Expected income from scheme assets	10	13
Actuarial profits (+)/losses (-)	-1	-4
Per 31 December	**431**	**343**

Actual income from scheme assets	2015	2014
	€k	€k
Expected income from scheme assets	10	13
Actuarial profits (+)/losses (-)	-1	-4
Per 31 December	**9**	**9**

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No contributions were made to the reinsurance for fiscal year 2015. The scheme assets derive exclusively from two reinsurance policies.

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 €242k higher or €140k 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 €226k higher or €152k 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 €3.0m in the fiscal year (previous year: €1.6m).

20. Bank loans and overdrafts, Debenture bonds and Other financial liabilities

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 2015. The interest rate comprised 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 consolidated net financial debt to consolidated EBITDA of 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 in fiscal year 2015.

The interest expenses related to the loans amounted to €0k in fiscal year 2015 (previous year: €0k).

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%. The conversion right is recognised in the capital reserves at a value of €12.4m. The distribution was based on an interest rate of 3.47% 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 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 €21.9783 per share following the disbursement of a cash dividend in May 2014 and May 2015, corresponding to 4,549.942 (previous year: 4,376.195) sha-

Consolidated Notes

res 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.

Other financial liabilities

Other financial liabilities include liabilities from a cash agreement with a large supplier and contingent purchase price liabilities of €34.6m, thereof €9.9m long-term.

21. Short-term provisions

	Per 01/01/2015	Addition to consolidated companies	Utilisations	Reversals	Creations	Per 31/12/2015
	€k	€k	€k	€k	€k	€k
Commissions	0	5,130	0	0	0	5,130
Removals	79	1,619	0	0	135	1,833
Litigation risks	27	3,445	0	0	19	3,491
Other	0	9,179	7,662	0	191	1,708
	106	**19,373**	**7,662**	**0**	**345**	**12,162**

Drillisch Group presumes that there will be an outflow of funds in fiscal year 2016.

22. Tax liabilities

	2015	2014
	€k	€k
Corporate income tax	1,368	392
Trade tax	3,736	6,201
Turnover tax	0	789
	5,104	**7,382**

23. Trade accounts payable

This item includes essentially invoices from network operators.

24. Payments received on account

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

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

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25. Other liabilities

	2015	2014
	€k	€k
Payroll	14,801	8,112
Deferred income	15,388	4,182
Income tax	305	395
Other	1,769	1,097
	32,263	**13,786**

Liabilities for wages and salaries include €0.1m (previous year: €4.3m) in long-term liabilities from the bonus 2015–2017.

26. Analysis of maturity

	2015	Cash flow 2015			Cash flow 2017-2020
	book value	< 1 month	1–3 months	3 months to 1 year	> 1 year
	€k	€k	€k	€k	€k
Debenture bonds	91,457	0	0	750	101,500
Trade accounts payable	80,911	74,807	2,648	3,442	14
Liabilities from finance leasing	1,212	60	121	543	527
Other financial liabilities	74,600	0	41,500	23,170	9,930
Other liabilities	32,263	3,636	8,251	5,151	111

27. Net profits and losses from valuation categories

	Interest	From subsequent valuation			Net results	
		At fair value	Valuation allowances	From disposal	2015	2014
	€k	€k	€k	€k	€k	€k
Loans and receivables	120	0	-10,463	935	-9,408	-4,627
Salable assets	0	0	0	0	0	0
Trade assets	0	0	0	0	0	0
Liabilities at cost of acquisition (carried forward)	-3,420	0	0	0	-3,420	-3,321
	-3,300	**0**	**-10,463**	**935**	**-12,828**	**-7,948**

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28. Other financial obligations/Availability for use

Other financial obligations

	Rents	Leasing	Total	Previous year
	€k	€k	€k	€k
Due in less than 1 year	12,678	8,645	21,323	1,309
Due in 1 to 5 years	26,686	2,321	29,007	2,958
Due in more than 5 years	3,646	0	3,646	686
	43,010	**10,966**	**53,976**	**4,953**

In the fiscal year, €7,959k (previous year: €1,468k) for rent and leasing payments was included in expenditures. The change in comparison with the previous year results essentially from the operation of the Company's own shops that began in July 2015 and from the acquisition of companies during the year and the related increase in the number of corporate locations. Additional other financial liabilities are related to the procurements of supplies and services and amount to €24m. Of this amount, €8m will be due each year in 2016, 2017 and 2018.

Drillisch has acquired network capacities comprising data volume as well as voice and text message allotments from Telefónica pursuant to binding provisions of the MBA MVNO agreement 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 Telefónica network.

Availability for use

There are receivables due from end customers related to the provision of devices within the scope of wireless service contracts per 31 December 2015 that have not yet been realised. The payments are due in the following years:

	2015	2014
	€k	€k
Due in less than 1 year	2,018	0
Due in 1 to 5 years	2,013	0
Due in more than 5 years	0	0
	4,031	**0**

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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 issued 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 that 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.

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 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).

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

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		Measurement according to IAS 39			
	Book value 31/12/2015	Cost of acquisition (carried forward)	Fair value non-operating results	Fair value operating results	Fair value 31/12/2015
	€k	€k	€k	€k	€k
Assets					
Trade accounts receivable	88,504				
Loans and receivables	88,504	88,504			88,504
Other current assets	32,084				
Loans and receivables	29,958	29,958			29,958
No financial instrument	2,126				0
Total financial assets	**118,462**	**118,462**	**0**	**0**	**118,462**
Shareholders' Equity and Liabilities					
Trade accounts payable	80,911				
Loans and receivables	80,911	80,911			80,911
Debenture bonds	91,457				
Loans and receivables	91,457	91,457			91,457
Other financial liabilities	74,600				
Loans and receivables	74,600	40,000		34,600	74,600
Other liabilities	32,333				
Loans and receivables	42	42			42
No financial instrument	32,291				0
Total financial liabilities	**247,010**	**212,410**	**0**	**34,600**	**247,010**

Summarised according to valuation categories of IAS 39		Measurement according to IAS 39			
Financial assets					
Loans and receivables	118,462	118,462			118,462
Total financial assets	**118,462**	**118,462**	**0**	**0**	**118,462**
Financial liabilities					
Loans and receivables	247,010	212,410		34,600	247,010
Total financial liabilities	**247,010**	**212,410**	**0**	**34,600**	**247,010**

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	Book value 31/12/2014	Measurement according to IAS 39: 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 and Liabilities					
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 financial liabilities	0				
Loans and receivables	0	0			0
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**

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

Financial liabilities in the amount of €34.6m (previous year: €0.0m) existed per 31 December 2015; they are measured at the attributable fair value. As in the previous year, there were no financial receivab-

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les measured at the attributable fair value.

The variable purchase price liability from the acquisition of The Phone House Deutschland GmbH was measured in accordance with Level 3 (no observable market values, valuation based on valuation models). The variable purchase price liability results from the expected percentage compensation on the monthly revenues from the end customers brokered by Phone House during the minimum term of each contract between the network operators and Phone House, to the extent that Drillisch must forward this compensation proportionately to the seller in accordance with the purchase contract.

The measurement is based on the amount that will most probably have to be paid. In total, €34.6m (previous year: €0.0m) is to be classified at Level 3.

30. Segment reporting

As a consequence of the expansion in business activities and the related adaptations in the corporate structure, the segment reporting has been changed in comparison with the previous year and the third quarter. The segment reporting is aligned with the internal organisation and reporting enlarged structure. The differentiation between the segments Online and Offline is based on the sales structure. The segment Miscellaneous/Holding is described in addition to the segments Online and Offline.

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

In the segment Online, wireless services of the network operator 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 wireless services contracts. The services acquired from the 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, wireless services on the network of Telefónica Germany GmbH & Co. OHG are marketed basically via own and partner shops and provided to the customers acquired via these channels on the basis of wireless services contracts. Moreover, the segment Offline encompasses all of the activities related to the full operation of own and partner shops, the provision of hardware in the segment Offline and the distribution business. The advance services acquired from the network operator Telefónica Germany GmbH & Co. OHG are resold to end consumers for the Company's own account and at rates that Drillisch defines itself based on its own calculations.

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

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Segment Report 01/01/2015 – 31/12/2015	Online	Offline	Miscellaneous / Holding	Consolidation	Total
	€k	€k	€k	€k	€k
Sales with third parties	342,729	285,688	1,129	0	629,546
Inner-company sales	15,485	4,993	8,638	-29,116	0
Segment sales	**358,214**	**290,681**	**9,767**	**-29,116**	**629,546**
Cost of materials external third parties	-169,588	-205,154	-359	0	-375,101
Cost of materials from inner-company relationships	-5,126	-15,219	-266	20,611	0
Cost of materials for segment	**-174,714**	**-220,373**	**-625**	**20,611**	**-375,101**
Gross profit for segment	**183,499**	**70,308**	**9,142**	**-8,505**	**254,444**
Segment EBITDA	**85,761**	**25,901**	**-6,405**	**0**	**105,257**

In the segments Offline and Online, sales revenues of €69.8m (more than 10% of the Group sales revenues) were achieved with one external customer/business partner.

Segment Report 01/01/2014 – 31/12/2014*	Online	Offline	Miscellaneous / Holding	Consolidation	Total
	€k	€k	€k	€k	€k
Sales with third parties	288,445	0	1,203	0	289,648
Inner-company sales	72	0	5,993	-6,065	0
Segment sales	**288,517**	**0**	**7,196**	**-6,065**	**289,648**
Cost of materials external third parties	-146,908	0	-100	0	-147,007
Cost of materials from inner-company relationships	-9	0	-72	81	0
Cost of materials for segment	**-146,917**	**0**	**-172**	**81**	**-147,007**
Gross profit for segment	**141,600**	**0**	**7,024**	**-5,984**	**142,640**
Segment EBITDA	**88,478**	**0**	**-3,275**	**0**	**85,203**

*adjusted

In the same period of the previous year, the Drillisch AG business activities related to its holding activities were attributed to the segment Telecommunications. The business activities of IQ-optimize Software AG were presented in the segment Software Services in the same period of the previous year.

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

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	2015	2014
	€k	€k
Total segment profits (EBITDA)	105,257	85,203
Amortisation and depreciation	-36,074	-9,921
Operating result	69,183	75,282
Financial result	-3,386	-2,676
Profit before taxes on income	**65,797**	**72,606**

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.

The transfer prices correspond on principle to the prices determined by arm's length comparison. The major segment expenditures and income without effect on payments contain the allocations to the provisions.

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 that is 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.

The balance of cash flow from investment activities includes payments from closed divisions of €0.6m. These payments result from the sale of The Phone House Management GmbH acquired in May 2015 with the intention of immediate resale.

The disclosure in the Cash flow from financing activities under Other financial liabilities concerns a pre-financing (cash agreement) by a business partner of The Phone House Telecom GmbH.

32. Auditor's fee

	2015	2014
	€k	€k
1. Audit services	445	269
2. Other certification services	3	49
3. Tax accountant services	152	165
4. Other services	294	191
	894	**674**

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33. Related party disclosures

Per 31 December 2015, there were amounts (income and expenses) owed from and owed to relatives and companies as shown below:

The Baugemeinschaft Maintal, consisting of the shareholders Paschalis Choulidis and Marianne Choulidis, has let office space in Maintal to Drillisch Group. The lease runs until 31 December 2020. Rent expenses in 2015 came to €507k (previous year: €507k).

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 in 2015 came to €179k (previous year: €157k).

Ms Marianne Choulidis and Ms Simone Choulidis received compensation totalling €94k (previous year: €78k) as employees of Drillisch Online AG.

The company Frequenzplan GmbH, Planegg (shareholder Mr Tobias Valdenaire), realised sales in the amount of €1,047k (previous year: €376k) with Drillisch Group in fiscal year 2015.

The company Flexi Shop GmbH, Frankfurt am Main (shareholder Mr Jannis Choulidis), realised sales in the amount of €13k (previous year: €103k) with Drillisch Group in fiscal year 2015.

There were no amounts due to or due from the related parties mentioned above per 31 December 2015.

34. Related party disclosures

Marc Brucherseifer, Dipl.-Kfm.
Merchant, Frechen
- *Chairperson* -
Seats held on supervisory boards required by law or other supervisory bodies:
IQ-optimize Software AG, Maintal (Supervisory Board chairperson) (until 12 May 2015)

Dr Susanne Rückert
Lawyer, Düsseldorf
- *Vice Chairperson* -

Norbert Lang
Merchant, Waldbrunn
(since 12 November 2015)
Seats held on supervisory boards required by law or other supervisory bodies:
Rocket Internet SE, Berlin (since 23 June 2015) (supervisory board vice chairperson since 16 December 2015)
HI-Media SA, Paris
United Domains AG, Starnberg (until 3 December 2015) (supervisory board vice chairperson)

Johann Weindl, Dipl.-Kfm.
Chartered Public Accountant and Tax Accountant, München
(until 22 July 2015)

Horst Lennertz, Dr.-Ingenieur
[Doctor of Engineering], Consultant, Meerbusch

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

Dr Bernd H Schmidt,
Managing Director, Saarbrücken
Seats held on supervisory boards required by law or other supervisory bodies:
IQ-optimize Software AG, Maintal (since 12 May 2015) (supervisory board chairperson)

Consolidated Notes

The following members of the Supervisory Board were members of the following committees in 2015:

Nominating Committee:

Mr Brucherseifer, Dr Rückert, Mr Weindl (until 22 July 2015), Mr Rothauge, Dr Schmidt, Dr Lennertz, Mr Lang (since 12 November 2015);

chair: Mr Brucherseifer

Audit Committee:

Mr Rothauge, Dr Lennertz, Dr Schmidt; chair: Mr Rothauge

Personnel Committee:

Mr Brucherseifer, Dr Rückert and Dr Lennertz,

chair: Mr Brucherseifer

35. Management Board

Paschalis Choulidis

Langenselbold
Executive Officer Finance Communications and IT
- CEO -
Seats held on supervisory boards required by law or other supervisory bodies:
eteleon AG, Munich (until 1 April 2015)
IQ-optimize Software AG, Maintal (until 12 May 2015)
Drillisch Online AG, Maintal
(since 24 September 2015)
Drillisch Netz AG, Düsseldorf (since 12 October 2015)
yourfone AG, Maintal (since 24 September 2015)
yourfone Retail AG, Düsseldorf (since 29 June 2015)

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 (until 1 April 2015)
IQ-optimize Software AG, Maintal (until 12 May 2015)
Drillisch Online AG, Maintal
(since 24 September 2015)
The Phone House Deutschland GmbH, Münster (Supervisory Board chair) (since 22 June 2015)
yourfone AG, Maintal (since 24 September 2015)
yourfone Retail AG, Düsseldorf (since 29 June 2015)

André Driesen

Krefeld
- Chief Financial Officer -
(since 1 April 2015)
Seats held on supervisory boards required by law or other supervisory bodies:
The Phone House Deutschland GmbH, Münster
(since 22 July 2015)
IQ-optimize Software AG, Maintal (since 12 May 2015)

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

Compensation paid to Management Board members in 2015 totalled €4,909k, thereof €3,320k variable (previous year: €3,873k, thereof €2,580k variable).

The variable compensation includes long-term incentive components (LTI or bonus 2015–2017) for fiscal year 2015 in the amount of €1,680k (previous year: €1,200k). The LTI programme has a term from 1 January 2011 to 31 December 2015, the bonus 2015–2017 from 1 April 2015 to 31 December 2017. The total provisions for the LTI programme and bonus 2015–2017 amount to €4,540k. Payments will not be made until the expiration of the LTI programme in fiscal year 2016 or (for the bonus 2015–2017) in fiscal year 2018. In addition, the Management Board members received compensation for their activities as Supervisory Board members of subsidiaries in the amount of €33k (previous year €19k).

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Compensation paid to the members of the Supervisory Board for their work in the parent company in the reporting period amounted to €318k (previous year: €356k).

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 2015, the Management Board members held the following stock in Drillisch AG:	
Paschalis Choulidis	425,000 no-par shares
Vlasios Choulidis	400,000 no-par shares

The Supervisory Board members held the following stock in Drillisch AG as per 31 December 2015:	
Marc Brucherseifer, Dipl.-Kfm.	1,019,775 no-par shares

As per 31 December 2015, Management Board and Supervisory Board held combined 3.37% of the shares of the Drillisch AG.

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 19 March 2015 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.

Consolidated Notes

	2015	2014
Consolidated profit in €k	45,799	50,075
Weighted average less own shares held (number)	54,022,158	48,540,226
Undiluted consolidated profit per share in €	**0.85**	**1.03**
Consolidated profit in €k	45,799	50,075
Net effect on results from convertible bond in €k	2,386	2,316
Adjusted consolidated profit in €k	**48,185**	**52,391**
Weighted average less own shares held (number)	54,022,158	48,540,226
Shares from convertible bond to be included as average (number)	4,549,942	4,276,240
Adjusted weighted average less own shares held (number)	**58,572,100**	**52,816,466**
Diluted consolidated profit per share in €	**0.82**	**0.99**

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 2015:

» Drillisch Online AG, Maintal

» IQ-optimize Software AG, Maintal

Maintal, 18 March 2016

Drillisch Aktiengesellschaft

Paschalis Choulidis Vlasios Choulidis André Driesen

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 2015 to 31 December 20015. 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, den 18. March 2016

BDO AG Wirtschaftsprüfungsgesellschaft

signed Rauscher	signed Meier
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Affidavit 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, den 18. March 2016

Paschalis Choulidis | Vlasios Choulidis | André Driesen

Financial Calendar | Current Analyst Assessments

1. Financial Events Calendar

Finacial Events 2016*

Date	Subject
Thursday, 24 March 2016	Annual Report 2015
Thursday, 12 May 2016	Quarterly Report Q1 2016
Thursday, 19 May 2016	Annual General Meeting, Frankfurt
Thursday, 11 August 2016	Quarterly Report Q2 2016
Thursday, 10 November 2016	Quarterly Report Q3 2016

* These provisional dates are subject to change.

2. Dividend Policy

In view of the Company's performance (EBITDA of €85.2 million in fiscal year 2014 followed by €105.6 million from the ongoing business divisions, the EBITDA forecast, which had been increased in December to €105 million, was exceeded slightly. (old guidance: €95-100 million). With a long-term dividend policy and a good strategic positioning on the German wireless services market, the capital market rates the Drillisch stock overall as promising.

3. Current Analyst Assessments (Last Revised 02 March 2016)

In view of the Company's performance (EBITDA of €85.2 million in fiscal year 2014 followed by €105.6 million from the ongoing business divisions million at the upper end of the raised forecast of between €100 million and €105 million (previous forecast €95 million to €100 million) in fiscal year 2015 and a further forecast increase to between €115 million and €120 million in fiscal year 2016) 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 02 March 2016)

Analysis	Rating	Target	Date
News Street Research	„Buy“	€50.00	02 March 2016
equinet	„Neutral“	€41.00	26 February 2016
Jefferies	„Buy“	€49.00	22 February 2016
UBS	„Buy“	€48.00	22 February 2016
LBBW	„Buy“	€43.00	28 January 2016
Barclays	„Overweight“	€60.00	26 January 2016
Goldman Sachs	„Hold“	€45.00	21 January 2016
BoA Merrill Lynch	„Neutral“	€42.00	19 January 2016
Citi	„Buy“	€50.00	11 January 2016
HSBC	„Buy“	€50.00	11 January 2016
Commerzbank	„Reduce“	€30.00	08 January 2016
Lampe	„Buy“	€51.00	06 January 2016
Berenberg	„Buy“	€55.00	04 January 2016

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

Middle- and Long-term Dividend Development

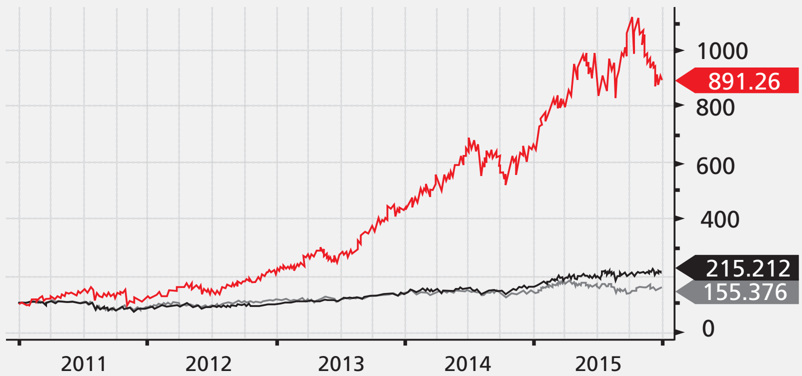
4. Share Price Development in Trading Year 2015

The performance of the Drillisch stock during 2015 in comparison with the indices

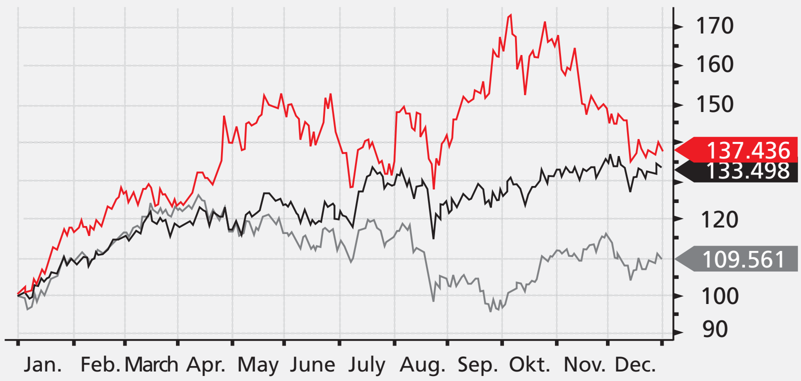
	2014 year end	2015 year end	%-change
Drillisch	€29.58	€39.09	+ 32.2
TecDAX	1,371.36	1,830.74	+ 33.5
DAX	9,805.55	10,743.01	+ 9.6

Middle- and long-term price performance of the Drillisch stock significantly better than DAX and TecDAX

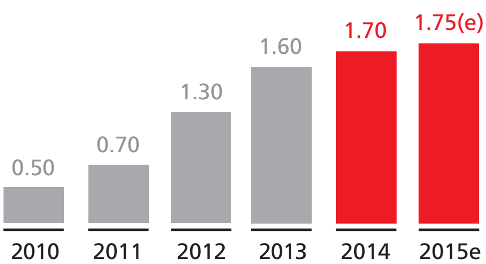
The successful realisation of the transformation from a mobile service provider (MSP) to an MVNO in combination with an average annual increase in EBITDA of 14.8% in the period from 2011 to 2015 has led to a revaluation of the Drillisch stock on the exchange.



Drillisch stock outperformed the indices even in the year of transition from MVNO to MBA MVNO although extensive investments were required for the expansion of the business model.



Dividend disbursement



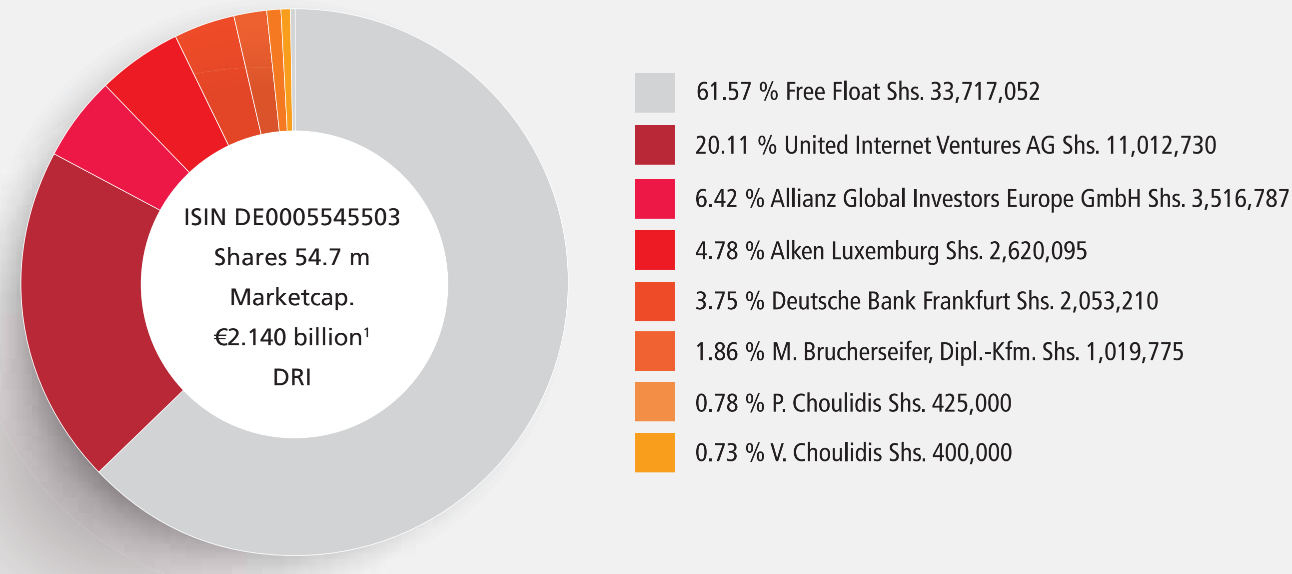
Our sustained and attractive dividend policy runs parallel to the favourable development of operations. By pursuing this policy, we share our corporate success with our shareholders even during growth and investment phases. We accept a certain leverage to accomplish this objective. We are assuming that the total disbursement will be covered by positive cash development following the expansion into an MBA MVNO.

Director´s Holdings | Shareholder Structure

5. Directors’ Holdings per 31 December 2015

Management Board	No-par-shares
Paschalis Choulidis	425,000 ▸ 0.78 %
Vlasios Choulidis	400,000 ▸ 0.73 %
Supervisory Board	**No-par-shares**
Marc Brucherseifer, Dipl.-Kfm. (Chairman)	1,019,775 ▸ 1.86 %

6. Shareholder Structure (as of 31 December 2015)



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 €39.09 on 31 December2015. Free Float acc. to the rule of Dt. Boerse AG: 79.89%.

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.

Publications | Contacts | Information and Order Service

Publications

This Annual Report 2015 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.

Your Contacts

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

Oliver Keil,
Head of Investor Relations

Wilhelm-Röntgen-Straße 1-5
D – 63477 Maintal
Telefon: +49 (0) 6181 / 412 200
Fax: +49 (0) 6181 / 412 183
E-Mail: ir@drillisch.de

Peter Eggers,
Press Spokesman (Products)

Wilhelm-Röntgen-Straße 1-5
D – 63477 Maintal
Telefon: +49 (0) 6181 / 412 124
Fax: +49 (0) 6181 / 412 183
E-Mail: presse@drillisch.de

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.

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.

Glossary

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 (consolidated profit/deficit) by the weighted average of the number of issued shares.

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

R

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

Glossary

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.

Legal Information

Company Headquarters:
Wilhelm-Röntgen-Straße 1-5
D – 63477 Maintal

Telephone: +49 (0) 6181 / 412 3
Fax: +49 (0) 6181 / 412 183

Responsible:
Drillisch AG

Management Board:
Paschalis Choulidis (Spokesperson)
Vlasios Choulidis
André Driesen (since 1 April 2015)

Supervisory Board:
Marc Brucherseifer, Dipl.-Kfm.
(Chairman)

Dr Susanne Rückert
(Deputy Chairperson)

Norbert Lang
(since 12 November 2015)

Dr Horst Lennertz, Ingenieur

Frank Rothauge, Dipl.-Kfm.

Dr Bernd H. Schmidt

Johann Weindl, Dipl.-Kfm.
(until 22 July 2015)

Investor Relations Contact:
Telephone: +49 (0) 6181 / 412 200
Fax: +49 (0) 6181 / 412 183
E-mail: ir@drillisch.de

Commercial Register Entry:
HRB 7384 Hanau
VAT ID No.: DE 812458592
Tax No.: 03522506037
Offenbach City Tax Office

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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McSIM
www.mcsim.de
kontakt@mcsim.de
Tel. +49 6181 708 3060

hello mobil
www.hellomobil.de
kontakt@hellomobil.de
Tel. +49 6181 708 3025

DeutschlandSIM
www.deutschlandsim.de
Contactformular
Tel +49 6181 708 3093

simply
www.simplytel.de
kontakt@simplytel.de
Tel +49 6181 708 3010

DISCOTEL
www.discotel.de
Contactformular
Tel +49 6181 708 3090

PHONEX
www.phonex.de
kontakt@phonex.de
Tel +49 6181 708 3015

PremiumSIM
www.premiumsim.de
Contactformular
Tel +49 6181 708 3074

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www.winsim.de
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Bochum 1x
Bonn 1x
Braunschweig 1x
Bremen 3x
Bruchsal 1x
Brühl 1x

Chemnitz 3x
Cottbus 2x
Cuxhaven 1x

Datteln 1x
Deggendorf 1x
Dessau-Roßlau 1x
Dinslaken 1x
Dormagen 1x
Dorsten 1x
Dortmund 2x
Dresden 2x
Duisburg 1x
Düren 1x
Düsseldorf 2x

Eggenfelden 1x
Erfurt 1x
Erlangen 1x
Eschwege 1x
Essen 3x
Esslingen am Neckar 1x
Euskirchen 1x
Eutin 1x

Flensburg 1x
Frankfurt am Main 2x
Freiburg im Breisgau 1x
Freising 1x
Friedberg 1x
Friedberg (Hessen) 1x
Fürth 1x

Garbsen 1x
Geesthacht 1x
Gelsenkirchen 1x
Gera 2x
Gevelsberg 1x
Gießen 2x
Gladbeck 1x
Göppingen 1x
Goslar 1x
Greifswald 1x
Grevenbroich 1x
Gummersbach 1x

Halle (Saale) 1x
Haltern am See 1x
Hamburg 6x
Hameln 1x
Hamm 1x
Hanau 1x
Hannover 3x
Hattingen 1x
Heide 1x
Heidelberg 1x
Heidenheim an der Brenz 1x
Helmstedt 1x
Hennef (Sieg) 1x
Herford 1x

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Ingolstadt 1x
Iserlohn 1x
Itzehoe 1x

Jena 2x

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Karlsruhe 1x
Kassel 2x
Kiel 2x
Koblenz 1x
Köln 6x
Konstanz 1x
Krefeld 1x

Landshut 1x
Langenhagen 1x
Lehrte 1x
Leipzig 3x
Lemgo 1x
Lengerich 1x
Leverkusen 1x
Limburg a.d. Lahn 1x
Lübbecke 1x
Lübeck 1x
Lüdenscheid 1x
Ludwigshafen am Rhein 2x
Lüneburg 1x

Mainz 2x
Mannheim 1x
Marl 1x
Meißen 1x
Menden (Sauerland) 1x
Merseburg 1x
Minden 1x
Mönchengladbach 1x
Mülheim an der Ruhr 1x
München 2x
Münster 1x

Neumünster 1x
Neunkirchen 1x
Neuss 1x
Nordhausen 1x
Nürnberg 4x

Oberhausen 1x
Offenbach am Main 1x
Oranienburg 1x
Osnabrück 1x

Paderborn 1x
Peine 1x
Pirmasens 1x
Potsdam 2x

Rastatt 1x
Regensburg 1x
Remscheid 1x
Reutlingen 1x
Rostock 1x

Saarbrücken 1x
Saarlouis 1x
Schenefeld 1x
Schorndorf 1x
Schweinfurt 1x
Schwerin 1x
Schwerte 1x
Siegen 1x
Sindelfingen 1x
Solingen 1x
Speyer 1x
St. Ingbert 1x
Stralsund 1x
Straubing 1x
Stuttgart 1x
Sulzbach (Taunus) 1x

Trier 2x
Troisdorf 1x
Tübingen 1x

Unna 1x

Velbert 1x
Vellmar 1x
Villingen-Schwenningen 1x

Waiblingen 1x
Weinheim 1x
Weißenfels 1x
Wernigerode 1x
Wiesbaden 1x
Wilhelmshaven 1x
Witten 1x
Wolfsburg 1x
Wuppertal 2x
Würzburg 1x

Zwickau 1x

As per 31 December 2015

Drillisch AG
Wilhelm-Röntgen-Straße 1-5
63477 Maintal
Germany