2017

Annual Report

ecotel®

all around communication

20th anniversary

Key figures

Income statement (IFRS)		2015	2016	2017
Sales	in million €	**106.3**	**116.6**	**120.6**
ecotel Business Customers	in million €	43.1	45.3	47.6
ecotel Wholesale	in million €	45.6	54.5	55.8
easybell	in million €	15.1	15.1	15.2
nacamar	in million €	2.5	1.7	2.0
Gross income	in million €	**27.8**	**28.4**	**29.9**
ecotel Business Customers	in million €	20.9	21.7	22.7
ecotel Wholesale	in million €	0.4	0.4	0.4
easybell	in million €	5.2	5.5	5.9
nacamar	in million €	1.3	0.8	0.9
EBITDA [1,2]	in million €	**7.9**	**7.0**	**7.0**
Operating result (EBIT)	in million €	3.6	2.3	2.2
Consolidated net income [3]	in million €	1.6	0.8	0.5
Earnings per share [4]	in €	0.46	0.24	0.13

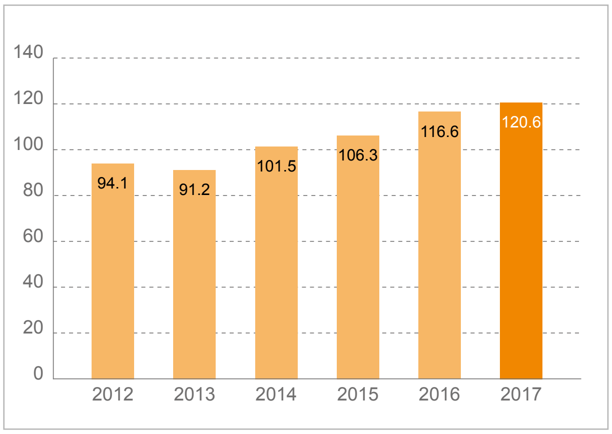
Cashflow		2015	2016	2017
Cash and cash equivalents at beginning of period	in million €	5.0	7.7	7.5
Cash flow from operating activities	in million €	8.5	6.0	4.2
Cash flow from investing activities	in million €	-3.2	-3.6	-5.0
Cash flow from financing activities	in million €	-2.6	-2.6	-0.3
Cash and cash equivalents as at 31 December	in million €	7.7	7.5	6.4
Free cash flow [5]	in million €	**5.4**	**2.4**	**-0.8**

Statement of financial position (IFRS)		2015	2016	2017
Total assets	in million €	50.2	41.5	41.8
Equity	in million €	22.0	22.4	22.5
in % of total assets		43.8 %	54.1 %	53.9 %
Net financial assets	in million €	**2.6**	**3.5**	**1.2**

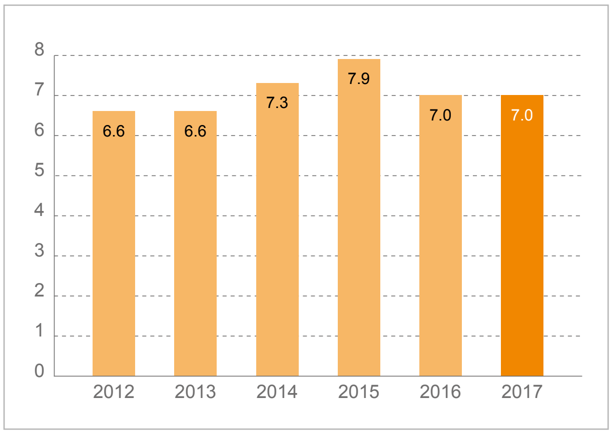
Other ratios		2015	2016	2017
Number of shares as at 31 December (outstanding)	Number	3,510,000	3,510,000	3,510,000
Employees as at 31 December [6]	Number	212	241	239
Staff costs	in million €	11.9	13.1	13.7

1 Earnings before depreciation. amortisation and impairment losses. net finance costs and income taxes
2 In 2016 before expenses for management reon rganisation (€ 0.4 million); in 2017 before expenses from pro-rata settlement (€ 0.1 million) of damages from manipulated contracts to the detriment of ecotel and other carriers
3 Corresponds to consolidated net income after deducting minority interests
4 Both basic and diluted
5 Free cash flow = cash flow from operating activities + cash flow from investing activities
6 Not including minority-owned companies (mvneco GmbH)

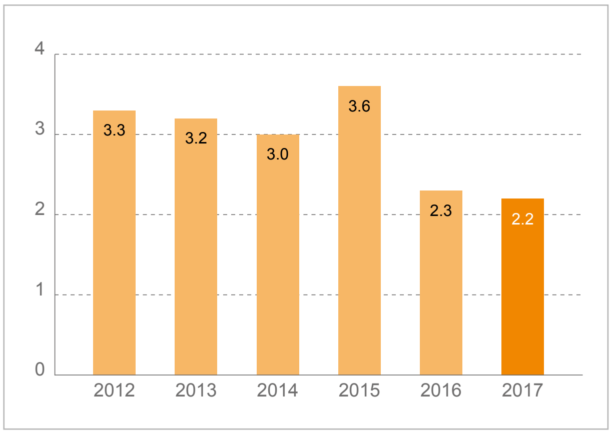
Sales in million €



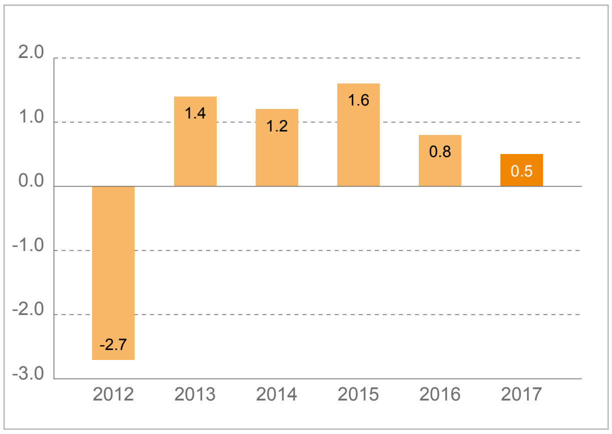
EBITDA in million €



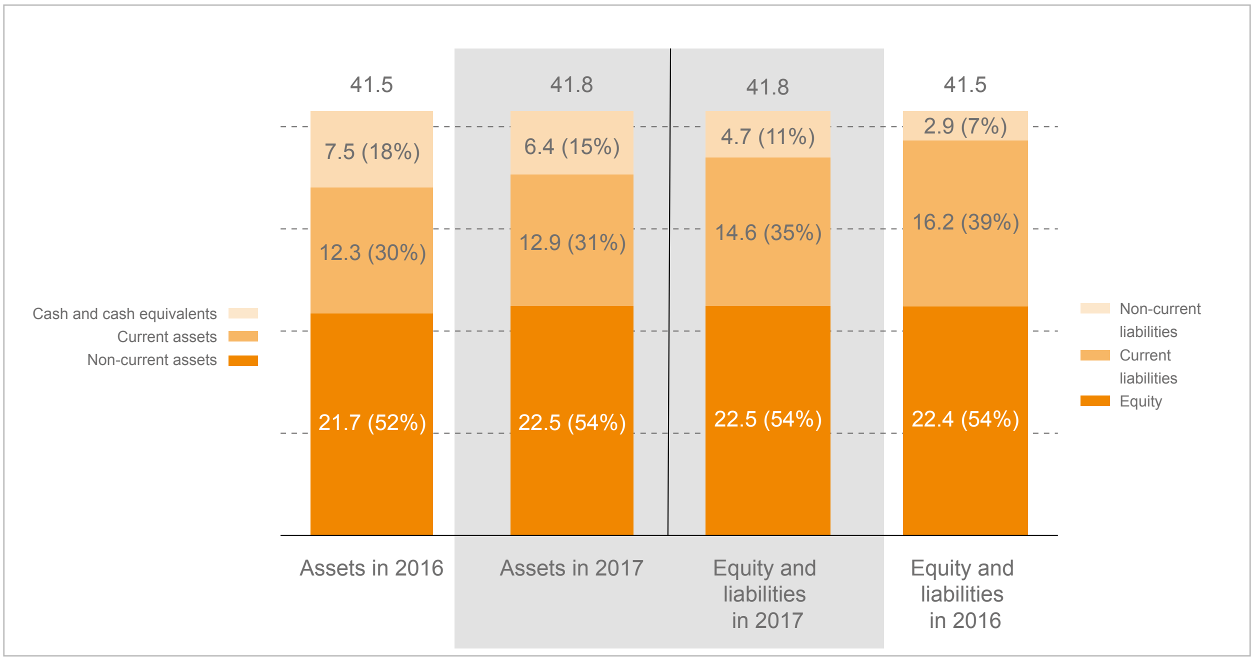
EBIT in million €



Net income in million €



Assets and equity/liabilities in million €



Company profile

The ecotel Group (referred to hereinafter as »ecotel«) has been operating throughout Germany since 1998 and specialises in marketing information and telecommunication solutions in the respective target group. Its parent company is ecotel communication ag, headquartered in Düsseldorf (referred to hereinafter as »ecotel ag«).

ecotel currently supports more than 50,000 customers throughout Germany with around 10,000 data lines and over 80,000 voice lines.

The »ecotel Business Customers« segment represents ecotel's core area. Here, ecotel offers business customers throughout Germany an integrated product portfolio of voice and data services (ICT solutions). The focus is on companies with more than 50 employees.

In the »ecotel Wholesale« segment, ecotel groups together offers for other telecommunication companies and maintains network interconnections with more than 100 international carriers.

The »easybell« segment comprises all business of the easybell Group, consisting of four companies. Here, easybell markets broadband internet connections and VoIP telephony for private customers and SIP trunking offers for smaller companies.

In the »nacamar« segment, nacamar GmbH offers streaming services for media companies on the basis of its own content delivery network (CDN). nacamar is the market leader in Germany with its AddRadio product.

The Group is headquartered in Düsseldorf and has around 270 employees including those at its subsidiaries and affiliated companies.

Contents

Foreword by the Management Board

Dear Shareholders,
We are happy to be able to look back at the year 2017 with you. The transformation from traditional ISDN connections to future-proof all-IP products was a key focus in the past year alongside the successful implementation of major projects.

Last year, we once again increased our total sales to € 120.6 million (previous year: € 116.6 million). The high-margin core Business Customers segment continued the positive trend of the past years. A number of major customer projects were completed and some new ones were gained. While the market as a whole decreased by 1.5% in 2017, ecotel recorded growth of around 5% in the B2B area with sales of € 47.6 million.

The easybell segment posted a slight increase in sales to € 15.2 million in 2017. In this segment, too, business with NGN voice services for small business customers (SIP trunk) is developing very positively. In connection business, easybell has almost entirely completed the supplier migration from Telefonica Deutschland to other suppliers over the past two years. Business with call-by-call minutes continued to decline as planned, but this was offset by new product launches.

The »nacamar« segment's new strategy resulted in sales (€ 2.0 million) in this segment increasing again for the first time in 2017. For example, it won a bid for public radio in the 2017 financial year. nacamar has thus been the service provider for radio streaming for the public-sector ARD stations (including BR, NDR, SWR and WDR) since mid-2017.

The sales and development of the »ecotel Wholesale« segment are still difficult to predict. With sales of € 55.8 million (previous year: € 54.5 million), this segment also grew in 2017.

We once again increased consolidated gross income to € 29.9 million (previous year: € 28.4 million). The gross profit margin was kept almost stable, particularly in the core »Business Customers« segment at 47.7% (previous year: 47.9%) Over the coming years, we expect to see significant positive total margin effects due to the growing share of NGN business and the associated higher value added.

With the new IP-based and therefore promising product portfolio, we are deliberately exploiting additional sales opportunities and market potential even if this temporarily has a negative impact on profitability. For example, the increased order volumes and the new product range temporarily require higher expenditure on resources (technical and staff) and system and process adjustments, resulting in a negative impact on EBITDA. As a result, ecotel generated EBITDA of € 7.0 million (previous year: € 7.0 million). This does not include expenses of € 0.1 million from the pro-rata settlement of damages from manipulated contracts to the detriment of ecotel and other carriers.

The necessary investments in efficient and individual customer equipment result in higher write-downs. Taking account of the net finance costs, income taxes and the deduction of minority interests, this results in consolidated net profit of € 0.5 million (previous year: € 0.8 million) and earnings per share of € 0.13 (previous year: € 0.24).

The very good order backlog, the signs of a positive business development and the continued sound balance sheet ratios allowed us to make the decision together with the Supervisory Board to propose a dividend totalling 100% of the consolidated net profit, i.e. € 0.13 per share, to the Annual General Meeting.

We will continue to make purposeful, performance-based investments in efficient customer equipment in the years ahead, which will have a negative impact on free cash flow. However, these growth investments will mean that the high-margin local exchange carrier operations and the resulting positive earnings effects can be expanded further in practice. With the new product range, ecotel has everything customers need to handle the current change from ISDN to all-IP successfully and efficiently. This product range is selected and managed by us on a customer-specific basis as part of the multi-carrier strategy. Confirmation that this is the right path is provided not least by the incoming orders in the new ecotel Business Customers segment, which increased significantly again in terms of new orders in 2017. In this context, we anticipate consolidated sales of between € 90 million and € 120 million and EBITDA in a range of € 7.0 million to € 8.0 million in 2018, with a slight rise in the gross profit margin and therefore a rise in gross income in the core segment with business customers.

On 30 January 2018, we celebrated the company's 20th anniversary and can thus look back on a sustainably successful corporate development. We would therefore like to take this opportunity to thank our employees, customers, business partners and you, our shareholders, for the achievements and trust-based collaboration not just in the past financial year, but over the last 20 years. We look forward to tackling future challenges together with you.

Achim Theis
Management Board member

Peter Zils
Chairman of the Management Board

The medal table of broadband expansion

Why compare things that are not comparable

In the news and in public opinion, comparisons are constantly being drawn. For example, an oil slick, or alternatively a forest fire or a flooded area, is typically described as being “the size of Saarland”.

Either nature or fate is considerate enough to keep the affected area to the exact size of Saarland, or there is some rather excessive generalisation going on so that the average newsreader can form at least a vague idea of the scale.

Now, it is always a little tricky with comparisons: Naming certain countries is intended to show us what level our country is at, but the more sensitive among us might pick up on a slightly discriminatory attitude here – it is implied that a position “just ahead of Morocco” in the international ranking is a real disgrace. Even if we don’t know much about this country, it is nonetheless assumed that this is not a good sign.

Similar rhetoric has also been used for many years when describing the capability of nationwide broadband coverage in Germany. Germany is shown – or rather, shown up – behind Romania but ahead of Yemen when it comes to fibre optic connections, and behind almost all other European countries but just ahead of Georgia and Belarus when it comes to LTE coverage and performance.

But this type of comparison is not just problematic from the perspective of political correctness, it is also meaningless in terms of content. Neither the number of businesses and households nor the economic structure, the number of internet users or the potential demand for bandwidth are compared in a comprehensible way.

And perhaps we don’t always need to use comparisons for everything. After all, the seagulls drowning in the oil slick and the trees that have been burnt to a crisp couldn’t care less about Saarland.

Germany is a country with a highly SME-dominated economic structure – and it is a country with few deserted areas. Of course, there are more and less densely populated areas, but on the whole the space is used well – and is in fact drastically undersupplied, at least when it comes to intact roads and bridges and particularly broadband coverage. There are absurd extreme cases in which a municipality that takes charge of fibre optic expansion itself after years of begging and pleading to no avail ends up being undermined – with a fibre optic superstructure hurriedly tacked on by the dominant carrier. Then, if not before, it should be clear that a commercial enterprise primarily acts selfishly and does not display any altruistic, socially beneficial attitude.

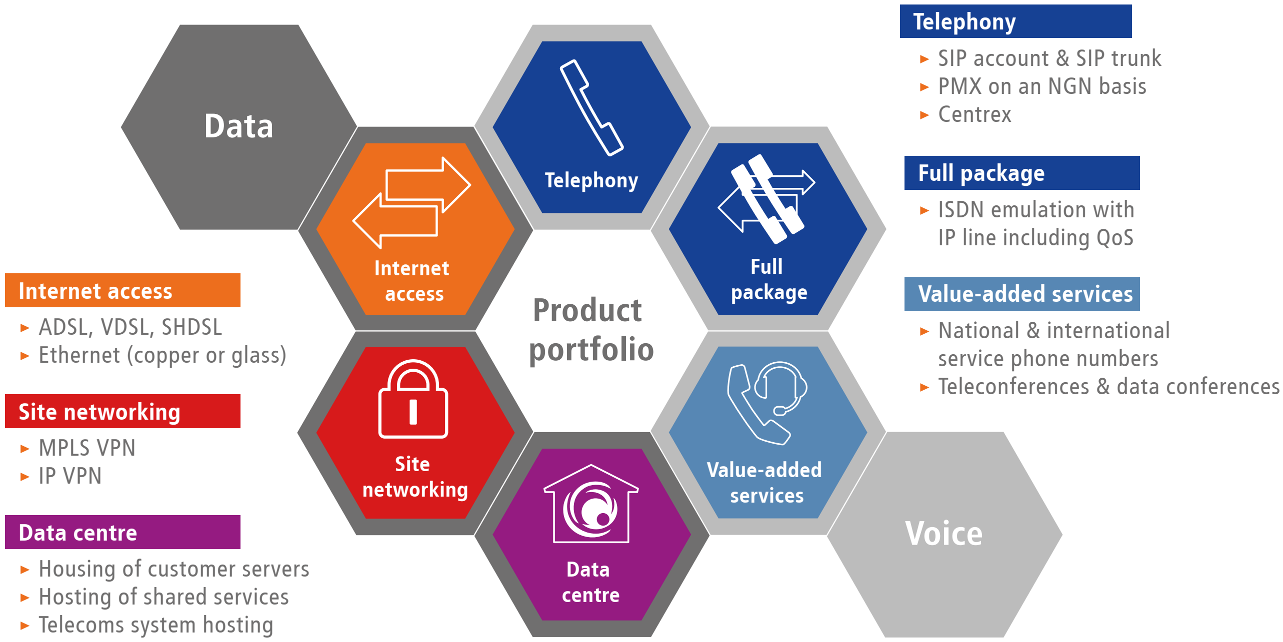
Oliver Jansen
Chief Operating Officer (COO)

One effective option for bundling infrastructure resources better is to moderate network-related bandwidth and user-oriented services. An infrastructure union of this kind, combined with lively competition for services, can unleash unimagined strength. An isolated competitive procedure wastes resources and results in latently undersupplied areas.

There is just one comparison with another country that seems appropriate and legitimate to me personally: Sweden. This country is almost 100,000 square kilometres larger than Germany and has very challenging geology for cable routing work, relatively few inhabitants (around ten million) and thus potential users and an economic structure comparable to Germany's – but its broadband coverage is four times better.

Perhaps this, in addition to our actual, objective broadband requirements, is enough for us to focus on for now.

The ecotel product portfolio

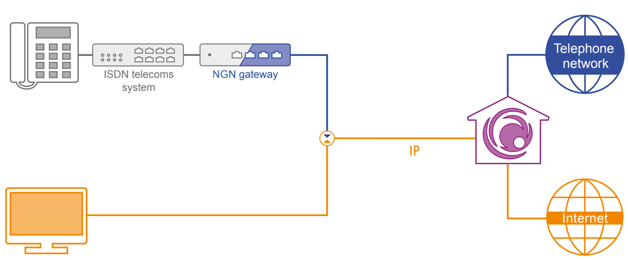


ecotel's services are made in Germany and offer an integrated portfolio of voice and data solutions. These include broadband data connections based on DSL and Ethernet technologies, scalable networking of company sites (VPNs), housing and hosting services in ecotel's own ISO-27001-certified data centres in Frankfurt am Main and Düsseldorf and innovative NGN solutions. As an independent local exchange carrier (LEC), ecotel can develop completely autonomous ICT products and tariffs specifically for business customers.

ecotel's NGN solutions offer a wide variety of possible applications for the current transition to VoIP telephony in landline business: With the emulation of ISDN connections, existing telecoms systems can continue to be operated or can be used in a parallel hybrid mode with ISDN connection and SIP trunk. In the case of native VoIP solutions, previous ISDN connections are being completely changed over to IP-based voice connections. And centrex technology allows for flexible and secure telephone services in the cloud.

PMX on an NGN basis

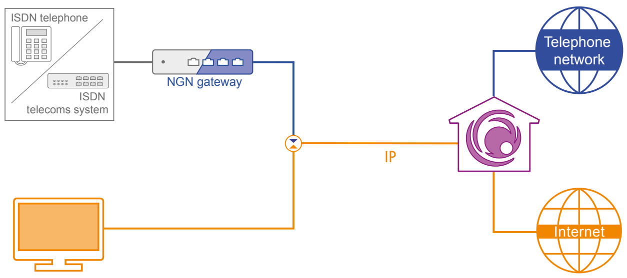
With the product PMX VoIP ready, ecotel customers throughout Germany can benefit from attractive hook-up and connection fees for PMX telephone connections. To this end, customers receive an additional network termination component from ecotel. A so-called NGN gateway that is used here converts the incoming and outgoing signals of the existing ISDN telephone systems into IP-based protocols without having to retrofit the existing telephone system or replace it with a new system.



In addition to monetary savings in relation to the base price and connection fees, this also gives customers a high degree of flexibility, as they can use the data bandwidth dynamically for voice and data services. At the same time, the ISDN telephone system already purchased can still be used.

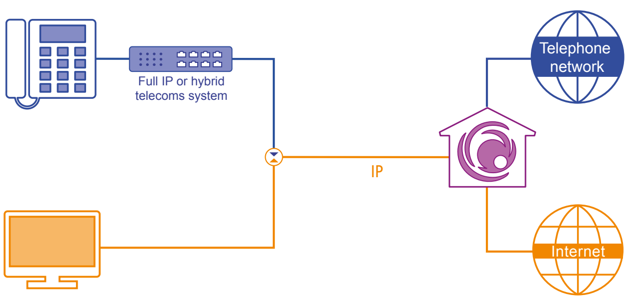
S0 on an NGN basis

With ecotel office-flat/voice-direct NGN, ecotel customers have an emulated ISDN connection with all standard features, including voice prioritisation (QoS). The full NGN package combines a voice connection including a telephone flat-rate (optional in the voice-direct NGN tariff) to the national landline network with an ADSL connection (optionally VDSL) and a data flat-rate. ecotel thus offers suitable emulation products for any type and number of S0 or S2M connections that optimally satisfy business customers' requirements.



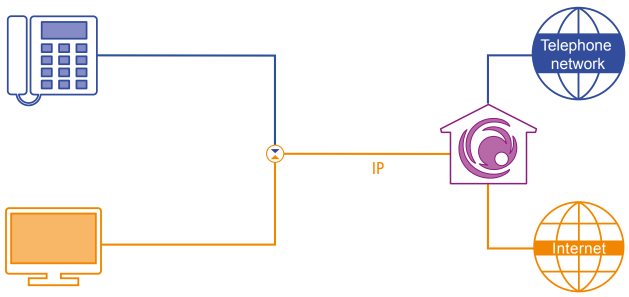
SIP trunk for customers with IP-capable telephone systems

If ecotel customers already have a completely IP-capable telephone system, the IP-based voice product sipTrunk 2.0 is used. With the ecotel SIP trunk and a data line with adequate dimensions (ecotel or third-party line), between 2 and 300 voice channels can be used depending on the customer's needs. The existing phone numbers can either be kept or can be replaced or added to by allocating new phone numbers.



SIP account for customers with IP telephones

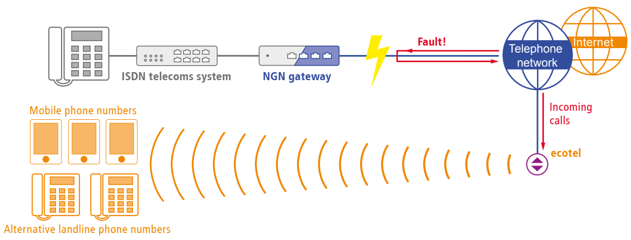
If instead of a telephone system ecotel customers use IP telephones connected directly to the data network, these can be supplied with the access product sip-Account 2.0. SIP accounts are thus a typical replacement product for previous ISDN multi-device connections. Like these, SIP accounts serve individual phone numbers (without an extension function). In addition to use at smaller business customers, the sipAccount 2.0 product with its two voice channels is also particularly suitable in decentralised application environments, for example in branch operations without a central telephone system or for region-based phone numbers for field staff.



As with sipTrunk 2.0, existing phone numbers can either be kept or can be replaced or added to by allocating new phone numbers.

Seamless availability even in the event of a fault

The ecotel @once product option ensures seamless availability of the customer even in the event of a fault (e.g. a power failure or line fault) for the first time. By saving target phone numbers (e.g. mobile phone numbers) based on phone numbers/extensions in the ecotel switching unit (LEC, C5 switch), it is possible to redirect incoming calls to the saved target phone number automatically and immediately. This redirecting remains active for the entire duration of the fault and returns to normal operation immediately and automatically once the connection has been restored.

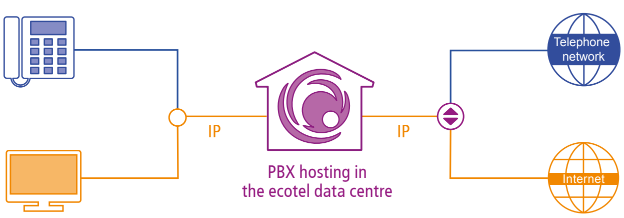


The option is currently available for the following products:

- sipAccount 2.0
- sipTrunk 2.0
- office-flat NGN / office-flat NGN Plus
- voice-direct NGN / voice-direct NGN Plus
- centrex Premium

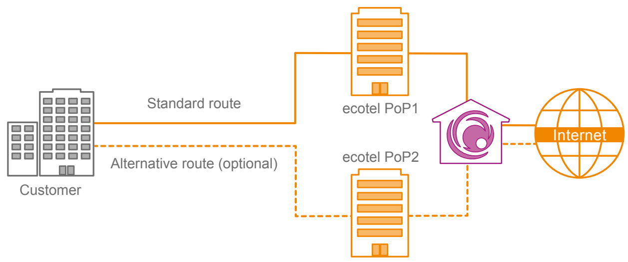
Telecoms system hosting

With pbxHosting, ecotel provides a hosting services on a virtual server as a standard product. These products are aimed at customers such as telecoms system marketers for the company Unify (formerly SIEMENS). As an alternative to a physical telephone system installed at the end customer's premises, these marketers chose a virtual system hosted centrally in ecotel's data centre and market it to their customers – as before – as part of their respective business model. The aim here is to broker additional products to Unify customers as well as ecotel's data centre services. Once an ecotel data line and – for the transmission of external calls – an ecotel SIP trunk are used for access to the telecoms system, partners and customers can benefit from cheaper bundle prices. This concept is also available for virtualisable telecom systems from other manufacturers.



Nationwide data line availability

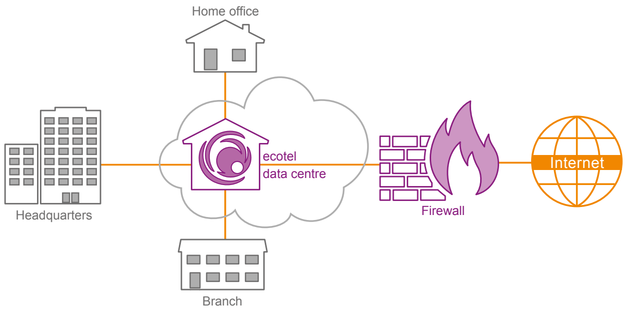
ecotel's professional internet access creates optimal conditions for efficient communication and smooth data transfer. Based on high-performing Ethernet transmission technology, ecotel offers fixed connections with guaranteed bandwidths – and thanks to the multi-carrier concept, it can also do so at locations where DSL-based connections are unavailable or are only available with insufficient bandwidth.



Site networking via MPLS VPN

ecotel implements site networking on the basis of this broadband access with ISO-certified security made in Germany via MPLS VPN.

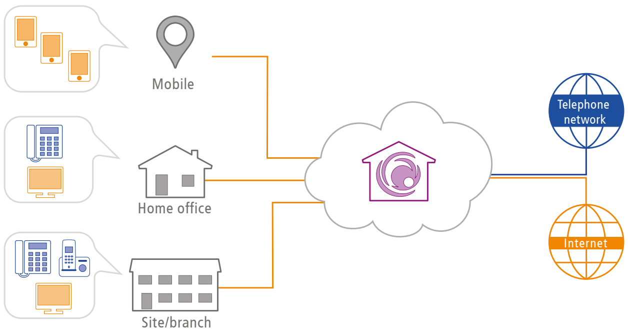
The high degree of scalability of the connection technology and a large number of additional services guarantee needs-based and cost-effective networking of the sites – which is ideal as a platform for future-proof IP telephony. The connection of the individual sites within the MPLS VPN is implemented by ecotel both with Ethernet lines including guaranteed bandwidth performance and also with SHDSL and ADSL lines and mobile UMTS/LTE router solutions. To ensure the availability of particularly critical sites, dedicated back-up connections including hot standby routing protocol (HSRP) can also be incorporated in the automatic changeover of the VPN connection where necessary. ecotel provides particular security for communication with the public internet by means of a high-availability central internet breakout with a 1 Gbit/s port.



With the multi-carrier concept in the area of site networking, ecotel customers benefit from the highest possible availability of bandwidth and connection technologies with central management from a single source.

Secure telephone system from the cloud

ith centrex Premium, ecotel offers a virtual VoIP telephone system for business customers. This secure and flexible solution including SIP voice channels and extensive functions can be integrated quickly and seamlessly in a company's infrastructure. The service is provided redundantly at ecotel's ISO-certified data centre in line with the highest security standards.



The centrex solution is rounded off with a comprehensive range of services. In this context, ecotel not only takes on the initial setup of the virtual telephone system, but also ensures high flexibility and convenience in ongoing operations with customer-specific adjustments. centrex Premium is a solution developed specifically for companies that optimally covers the typical functions used by business customers, such as availability on a single phone number via different devices (desk phone, smartphone and PC).

Fashion first: MPLS VPN data network for leading textile discounter

Smooth migration to all-IP technology

NKD is the value retailer and local supplier among textile discounters, offering its customers a wide range of seasonally updated fashion for the whole family as well as home textiles and home accessories. With around 8,000 employees, the textile discounter is one of the leading companies in the textile retail sector in central Europe.

The NKD branches focus on the company's own brands, rapidly changing seasonal collections and promotions with star brands. The central location of the branches and the attractive full range set NKD apart from the competition and support the profitable development of the company.

Centrally managed branch network

The objective was to modernise the existing telephony and data connection of 1,300 NKD branches in Germany while also implementing the necessary transition from ISDN to all-IP technology. In addition, a homogeneous solution that also included WLAN use at the point of sale (POS) was to be set up from scratch to enable secure communication between the branches and the central NKD data centre in Bindlach and the IT systems there. The comprehensive package should be offered by a central provider as a managed service solution.

NKD headquarters in Bindlach

Sustainable growth requires systematic examination and updating of available resources and systems. One important element for a sustainable growth strategy – including in the context of increasing digitalisation – is efficient ICT infrastructure based on state-of-the-art technology. In order to meet these requirements, NKD commissioned the business consultancy MPC to find the right provider in a tender procedure.

In an intensive bid analysis that also incorporated cost-effectiveness aspects, ecotel won out as a business provider with many years of experience in the implementation of rollouts in major projects with branch structures.

To replace the previous ISDN connections at the branches, a new multiprotocol label switching (MPLS) VPN with ADSL 16,000 access was set up. This provides a maximum-security connection between the branches and the headquarters for cross-site communication. A central internet breakout with a Gbit/s bandwidth that is provided in ecotel's own data centre in Frankfurt am Main and protected by a managed high-availability firewall rounds off the service package.

Future-proof voice and data communication

At some locations where the current DSL supply is not yet sufficiently developed, the branches were integrated in the ecotel VPN with mobile LTE/UMTS technology. The new comprehensive solution also covers telephony for the branches via a virtualised voice over IP (VoIP) enabled telecoms system with ecotel SIP trunks in ecotel's ISO-27001-certified data centre.

NKD branch

In commissioning the new ecotel connections, the project management team at ecotel collaborated closely with Rowius GmbH, NKD's field service and maintenance partner, and helped manage its installations.

Rüdiger Hartmann, managing director and CFO of NKD Services GmbH, sums up: "ecotel and Rowius changed over the data connection for 1,300 branches from ISDN to VoIP telephony in just under six months and thus within our ambitious timeframe. This not only optimises the data supply at our branches. With ecotel, we have also moved a big step closer to our goal of digitalisation in bricks-and-mortar retail."

Knut Halder, managing director of Rowius GmbH, explains: "In addition to imaging the new POS systems, our main task in this project was to implement the connection of the new merchandise management and POS systems, including the router provided by ecotel (CPE), in the individual branches and to ensure the successful continuation of day-to-day operating business. In both the planning and the implementation of the project, the collaboration with ecotel was always constructive and professional, so we are looking forward to further joint projects."

"Working together with NKD Services GmbH to implement the transition of the branches from ISDN to all-IP-based voice services in Germany was an exciting challenge," adds Achim Theis, Management Board member and Chief Commercial Officer of ecotel communication ag.

"Close coordination and good collaboration between our departments and the customer and its service providers played an important role in the project's success. We are delighted that with NKD Services GmbH we have gained a well-known value retailer among textile discounters as a new reference customer for ecotel."

In the lead with knowledge

Innovative fibre optic network strengthens growth of leading seminar provider

Integrata AG, a Cegos Group company, is the leading European full-service provider of training projects, processes, logistics and seminars. Founded in 1964, the company operates at national and international level in the areas of HR development, organisational development and information technology for its customers. Guided by its motto »inspire qualify change«, it provides training in digital and traditional subject matter, learning methods and media at 15 locations in Germany.

Fibre optics as the standard for the future

In order to ensure a consistently high quality of services at the Integrata Cegos Group, the networked corporate communication between the individual sites and the headquarters in Stuttgart was examined in 2017. The objective was to set up corporate communications for ten sites in Germany in the form of a virtual private network (VPN) and change over to efficient fibre optic technology in order to significantly increase the existing transmission capacity.

Integrata training centre in Berlin

Continuous development and optimisation of learning content and formats is part of how the Integrata Cegos Group sees itself and has a strong impact on its day-to-day operations. One important element for the company's sustainable growth strategy is future-proof ICT infrastructure that is designed to process constantly growing quantities of data. In particular, rapid exchange of data in real-time is absolutely essential for modern knowledge transfer.

To the end, the specialist ICT systems company mobex was commissioned by the Integrata Cegos Group to look for an experienced provider. Frank Dreher, managing partner of mobex communication GmbH, is familiar with the complex requirements for the establishment of data-intensive company networks. He explains the recommendation of ecotel as follows: "In the extensive bidding process, ecotel won out convincingly as an established partner in the field of MPLS site networking with in-depth technological expertise. Its high degree of individualisation and close collaborative partnership also offer long-term benefits that cannot always be taken for granted in the industry."

The Integrata Cegos Group's new corporate network was set up in the form of an Ethernet-based MPLS VPN. In this networking solution, data within the VPN are routed via private routing rather than via the public internet.

ecotel's special multi-carrier concept, which is based on network interconnections with various different leading infrastructure companies, ensured that the Ethernet connections could be implemented with future-proof fibre optic technology at all sites. With the Ethernet technology used, the data are transmitted via fibre optic cables in the form of light signals with bandwidths of up to 10 Gbit/s and guaranteed service availability of at least 99.3%. This increases the transmission speeds several times over in comparison to conventional copper cables. For the Integrata headquarters in Stuttgart, a 100 M 90 Ethernet line was installed.

Integrata training centre in Berlin

Double data security

As part of the redundant security concept, all sites were equipped with additional back-up lines in the form of fibre-optic-based Ethernet or copper-based xDSL connections. Another advantage of the multi-carrier concept was that the back-up lines at selected sites were implemented by a different supplier than the main line, which further increased redundancy and therefore security.

Andreas Ernst, head of IT at the Integrata Cegos Group, explains: "In setting up our new corporate network, the connection of all sites with future-proof fibre optic priority was a top priority. It was also imperative to meet the stipulated setup deadline of just four months.

integrata
Cegos Group
inspire
qualify
change

ecotel managed to implement an extremely high-quality technological solution for us within a very short time. As a result, we not only have significantly higher system stability but also the essential flexibility for scalability of our data lines. With ecotel, we have established our network of the future."

Secure data networks and innovative communication solutions for cooperative banks

Sector-specific product range with high value added

With many years of experience and in-depth expertise as ICT service providers in the business customer segment, ecotel and the partner company DeTeWe Communications GmbH joined forces to develop an individually designed product range that meets the specific requirements of cooperative banks.

One big advantage of the new solution is its scalability. Individual components can be added flexibly in a modular design, thus meeting the requirements of both larger and smaller banks. The sector-specific banking solution is already being used productively and successfully at a number of cooperative banks distributed throughout Germany.

Source: DeTeWe Communications GmbH

For the joint product bundle, ecotel provides secure MPLS VPN data networks available throughout Germany and certified SIP trunk voice services for the Mitel UCC/IP PBX telephony system managed by DeTeWe. DeTeWe, one of Germany's leading ICT system integrators, contributes to the package of solutions with UCC and omni-channel contact centre solutions as a platform for IP telephony. These are hosted with high availability in ecotel's ISO-27001-certified data centre.

ecotel and DeTeWe participated in several extensive tender procedures by the renowned business consultancy Assist Consult Management GmbH, which not only has detailed knowledge of the banks' requirements for functionality and service, but also demands contractual commitments from service providers with regard to the essential regulatory and supervisory requirements at banks (MaRisk, BAIT, etc.).

Christian Leier, managing director of Assist Consult Management GmbH, explains: “For financial service providers, the regulatory requirements are now often more important than secure data networks and technologically pioneering UCC solutions. As such, we recommended ecotel and DeTeWe to our consulting clients – two highly capable partners to banks that combine both of these aspects. The commercially attractive offers also helped win us over in these specific cases.”

DeTeWe
A Mitel Company

Data security made in Germany for banks
Gunter Ewert, sales director at DeTeWe Communications GmbH, is convinced of the benefits of the partnership: “Our partnership with ecotel forms a solid foundation for further development of the newly established product line in the banking sector. Central storage of data in ecotel’s certified German data centre and private routing within the VPN represent the strong pillars of ecotel’s redundant security concept. Additional encryption within the VPN network provides extra security. This forms an optimal basis for our UCC and omni-channel contact centre solutions.”

ecotel’s special multi-carrier concept, which is based on network interconnections with various renowned infrastructure companies, ensured that the data connections could be implemented with future-proof fibre optic technology at the larger bank locations.

nacamar on the rise with AddRadio

Digitalisation of the radio market brings about positive business development

The subsidiary nacamar achieved a successful financial year in 2017 with its add-on strategy. This positive development was primarily driven by the product AddRadio.

With AddRadio, nacamar has developed a new, modern distribution platform for audio data streams based on the established Icecast server technology that offers high system stability, performance and scalability. This is rounded off by additional product features for self-service, monitoring and aggregator services.

AddRadio is operated in the internal data centre of the Group parent company ecotel communication ag both in Frankfurt and – with redundant technology – in Düsseldorf. Starting here, the audio streams are distributed using ecotel's high-availability core network and reach the listeners via an exclusive IP transit network with a current bandwidth of more than 100 Gbit/s.

Public radio counts on AddRadio

A major success was achieved right at the start of the year, when nacamar was awarded the contract for the third batch of "Distribution of audio content on the internet" in a competitive tendering process by WDR. The conclusion of this important framework agreement underscores that nacamar is on the right track with AddRadio.

After a wide range of intensive tests, the new AddRadio platform was launched around the middle of the year. Since then, nine of ARD's eleven public radio stations (Bayerischer Rundfunk, Deutschlandradio, Hessischer Rundfunk, Mitteldeutscher Rundfunk, Norddeutscher Rundfunk, Rundfunk Berlin Brandenburg, Radio Bremen, Südwestrundfunk and Westdeutscher Rundfunk) have been successfully delivering their radio content via AddRadio. Additional customers are gradually being connected on the platform

The third distribution channel – infrastructure providers

For many years, audio streaming was regarded as a peripheral phenomenon or a gimmick. However, recent developments have shown that the digital transition does not stop even for the venerable medium of radio. The distribution channel of IP has already become established as an integral part of the broadcasting strategy in the radio world. Many people are therefore calling IP audio the third distribution channel.

Compared to traditional forms of broadcasting, it opens up huge opportunities for radio stations to analyse usage patterns and create completely new dynamic formats. This benefits listeners and radio broadcasters alike. As a supplier of digital service components, nacamar has risen to become the leading partner for the digital transformation of the radio market with AddRadio.

The key figures of the AddRadio platform also send a clear signal, with the called-up bandwidths displaying steady growth rates. This is to a large extent attributable to voice interfaces such as Amazon's Alexa and attractive streaming devices from Sonos, Bose and others. For listeners, the primary focus is on the attractive device, regardless of the transmission technology it uses. The requirements for providers have therefore also changed significantly. Digital distribution via IP has become a firm part of the broadcasting infrastructure and is thus systemically relevant. This plays into nacamar's hands as an established content delivery network (CDN) and emphasises the product's strategic relevance for the company.

Scoring with new services

With Addradio.Aggregate, nacamar is adding another important component of digital playout. The new service focuses on continuous maintenance and updating of connected aggregators. Aggregators are large link databases with which users can call up their stations without having to visit the station's apps or websites.

The share of call-ups via these link databases is substantial and is therefore also relevant for the station. This is where nacamar's new service comes in. Participating stations benefit from synergies that arise from bundled management. The data pools are regularly reviewed to check they are complete and correct, and corrections are initiated where necessary. In addition, it is possible to analyse reach by aggregator using individual call-up links.

Outlook for 2018 – further tapping of potential

By gaining ARD as well as other important radio customers, nacamar has become the market leader in Germany. The success of AddRadio created a solid foundation for the company in 2017.

In 2018, it will now be a question of further tapping this potential. The focus here will firstly be on gaining new customers, including in foreign EU countries, and secondly on expanding the product portfolio to open up additional parts of the value chain in the radio market for nacamar.

Successful online sales for private customers and SMEs

easybell GmbH markets high-quality, affordable internet and telephone connections for private and business customers and is ecotel communication AG's successful brand in online sales.

To this end, the Berlin-based subsidiary activates DSL connections throughout Germany and operates its own voice infrastructure. The company is among the ten most important DSL providers in Germany and one of the best-known brands for VoIP telephony for private customers. easybell has also quickly become one of the biggest providers in the field of SIP trunking for small and medium-sized companies. In this context, easybell can benefit greatly from the disconnection of ISDN by Deutsche Telekom AG and the resulting market dynamics by specifically targeting the companies affected. One important argument for customers is that easybell has certified SIP trunks for the main telephone systems, thereby ensuring compatibility.

Launch of easybell cloud telephone system

In 2017, easybell launched its own cloud telephone system, which has been very well received thanks to its revolutionary simple user interface and attractive price structure and further strengthens easybell's position in the business customer segment.

The cloud telephone system is a fully-fledged, attractively priced telephone system for small and medium-sized companies. It is much more flexible than a local solution, as it can be used and administered from any internet connection. This means that field staff or employees working from home can be integrated seamlessly.

The system is always automatically updated to the latest software status. New functions are available as soon as they are introduced, without requiring the customers to deal with updates.

Security was given high priority when developing the system: calls can be encrypted and all servers are located in Germany.

In contrast to competing IP centrex solutions, the cloud telephone system is a hosted solution, with each telephone system located on a dedicated server (VM). This gives the customers a high degree of data security and system stability.

The user interface is revolutionary in its simplicity and can be operated intuitively via the customer portal without any prior knowledge.

Due to the highly automated processes and efficient development, easybell can offer all of this at a price that is really disruptively cheap compared to other market players.

Investments in service and security

easybell has systematically expanded its self-care services to make it as simple and intuitive as possible for customers to clarify contractual matters in the customer portal. The positive feedback from customers and the reduced workload for support staff speak for themselves.

easybell also impresses its customers with innovative ideas such as the "fraud protection guarantee" that was launched in 2017. If a customer's telephone system or router is hacked, easybell limits the loss for the customer from fraudulent abuse of the system to call expensive foreign destinations to a maximum of € 20 for private customers and € 10 per booked line for business customers. For this purpose, easybell uses algorithms that automatically detect fraudulent use and block the connections before the losses arise. easybell's fraud protection is included free of charge in all easybell contracts.

These investments in security and software, combined with the highly trained, multiple award-winning easybell in-house support and the fair and affordable offers, lead to satisfied customers.

As a result, these customers stay with easybell on a long-term basis and recommend its products online and in personal contact. easybell thus took the top spot once again in the DSL customer satisfaction survey by Computer Bild in 2017.

Higher availability and further growth

In the area of private DSL customers, easybell significantly expanded nationwide availability and now offers ADSL and VDSL products with up to 100 Mbit/s via the upstream service providers QSC AG, Deutsche Telekom and innogy Highspeed.

In the promising SIP trunking market, the number of customers and sales were increased significantly again. easybell is winning over customers here with attractive offers.

Addition to the product range for business customers

In 2018, easybell will launch comprehensive DSL offers for business customers. What sets these apart is that fast VDSL connections with up to 100 Mbit/s are bundled with fully-fledged business customer telephony via SIP trunking and cloud telephone systems. In addition, easybell is developing an API for software providers that can be used to integrate the easybell telephony easily in other services.

With these and other new products and services, easybell GmbH will thus remain a dynamic growth driver for ecotel AG in the years ahead.

The ecotel share

The ecotel communication ag share (ecotel share) has been listed on the Frankfurt Stock Exchange since 2006 and in the Prime Standard since 2007. As at 31 December 2017, the share capital still amounted to 3,510,000 shares. The company does not hold any treasury shares.

Since 2015, ecotel has distributed a cash dividend each year. Last year's cash dividend amounted to € 0.23 per share.

Share price performance in 2017

The DAX remained on an unrelenting growth track with an increase of 12.5%. In an environment shaped by a robust economy and persistently low interest rates in Germany, the stock index barometer marked a substantial increase for the sixth consecutive year.

The TecDAX initially developed in line with the DAX over the course of 2017. Starting from the second quarter of 2017, the TecDAX then recorded a considerably stronger development than the DAX. This trend continued until the end of the year.

The ecotel share can look back at a very satisfactory stock market year in 2017. It started the year at € 7.98. In the first half of the year, the ecotel share developed below the two benchmark indices. It began its growth trajectory at the end of the first half of the year. Following a decline in September, the ecotel share then reached its high for the year of € 12.11 in November. The share ultimately ended the year at a price of € 10.73, corresponding to an increase of more than 30%. With 3,510,000 shares outstanding, ecotel had market capitalisation of € 37.7 million as at 31 December 2017 (previous year: € 28.0 million). The average daily trading volume of the share in 2017 came to 3,913 shares per day compared to 2,450 shares per day in the previous year.

Investor Relations

There was an intensive dialogue with investors, analysts and journalists again in 2017 in order to increase the ecotel share's trading volume and raise the company's profile. As well as holding regular interviews with the specialist press and answering questions from interested investors, an investor conference was held by telephone in December 2017. Further IR measures are planned for 2018 in order to maintain contact with interested investors.

Current information on the company, such as quarterly reports, press releases, the financial calendar and analyst presentations, is made available to all investors in the »Investor Relations« section of the company's website as soon as it is published.

Shareholder structure

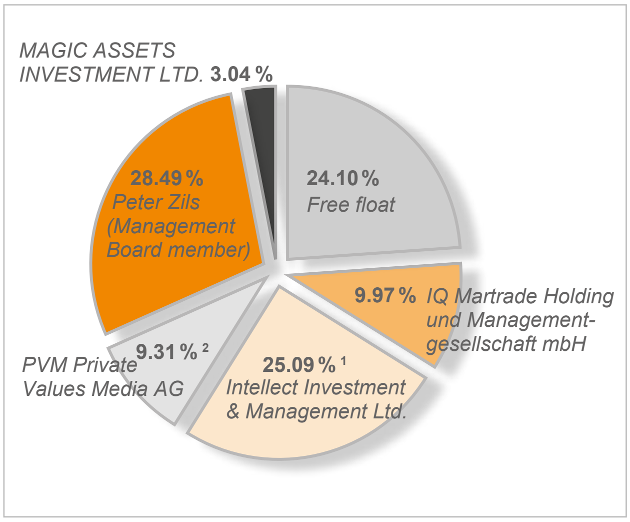
There were no significant changes in ecotel's shareholder structure in 2017. A total of 28.5% of the company's shares are held by Peter Zils (CEO of ecotel), 25.1% by Intellect Investment & Management Ltd., 9.97% by IQ Martrade Holding und Managementgesellschaft mbH and 9.3% by PVM Private Value Media AG. In a voting rights notification dated 15 November 2017, Magic Assets Investment Ltd. reported a 3.04% shareholding.

Key figures 2016 average

Securities Identification Number (WKN)	585434	Date of first listing	29 March 2006
ISIN	DE0005854343	Number of shares as at 31 December 2017	3,510,000
Symbol	E4C	Average daily volume in 2017	3,913
Market segment since 8 August 2007	Prime Standard	Highest price in 2017 (€) Lowest price in 2017 (€)	12.11 7.72
Index membership	CDAX, Prime All Share Technology All Share	Market capitalisation as at 31 December 2017 (million €)*	37.7
Category	No-par-value shares	Designated Sponsor	Lang & Schwarz Broker GmbH

** Based on the closing price on 31 December 2017 of € 10.73 per share with 3,510,000 shares outstanding*

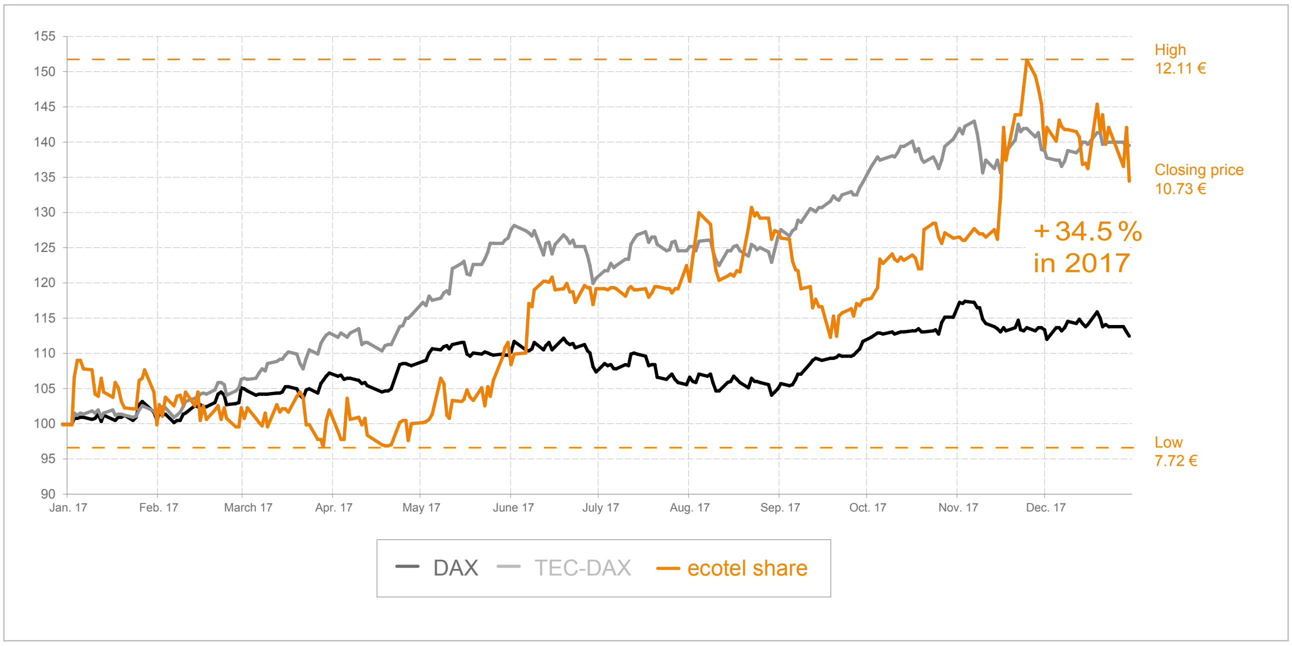
Share ownership (31/12/2017) in percent



1 According to last notification, dated 9 July 2009, before withdrawal of treasury shares in 2014 (basis: 3,9000,000 shares)

2 According to last notification, dated 7 April 2011, before withdrawal of treasury shares in 2014 (basis: 3,9000,000 shares)

Price performance of the ecotel share in 2017 in percent



Group management report

Successful together

I. Basic information on the Group

1. ecotel at a glance

The ecotel Group (referred to as hereinafter as »ecotel«) has been operating throughout Germany since 1998 and specialises in marketing information and telecommunication solutions for the respective target group. Its parent company is ecotel communication ag, headquartered in Düsseldorf (referred to hereinafter as »ecotel ag«).

On 30 January 2018, ecotel celebrated its 20th anniversary and can thus look back on a sustainably successful corporate development.

As at the end of 2017, ecotel supports more than 50,000 customers throughout Germany with around 10,000 data lines and over 80,000 voice lines.

ecotel markets its products and services in the following segments:
»ecotel Business Customers«, »ecotel Wholesale«, »easybell« and **»nacamar«.** The segments were changed as at the end of 2017. Further information can be found in the notes to the consolidated financial statements.

Segments	ecotel Business Customers	ecotel Wholesale	easybell	nacamar
Brands	ecotel all around communication	ecotel all around communication	easybell	nacamar

The four segments are described in more detail below:

»ecotel Business Customers« segment
The »ecotel Business Customers« segment represents ecotel's core area. Here, ecotel offers business customers throughout Germany an integrated product portfolio of voice and data services (ICT solutions) from a single source. The focus in this segment is on business customers with more than 50 employees. These may be customers with just one location or with several locations or large chains from the retail, insurance or banking sectors. ecotel has suitable telecoms solutions for all of these customer groups. In this segment, ecotel also provides products as a supplier for other ICT companies (e.g. resellers).

In the area of voice services, this segment has a comprehensive portfolio ranging from telephony connection (ISDN/VoIP) to value-added services. The extensive portfolio of data services encompasses everything from ADSL, SHDSL and VDSL connections to ethernet access and fibre optic cables to secure VPN networks for businesses and managed services.

Depending on the target group, sales activities in this segment are performed either via direct sales (for major customers) or via partner sales with more than 300 sales partners. With this network, ecotel has broad access to the target group of mid-market customers.

In addition, ecotel has established itself as a successful partner in its collaboration with more than 100 purchasing cooperatives and associations.

mvneco GmbH acts as a technical service provider and advisor for mobile communication solutions and related managed services. This affiliated company is included in the consolidated financial statements using the equity method.

»ecotel Wholesale« segment

The »ecotel Wholesale« segment comprises cross-network trading in telephone minutes (wholesale) for national and international carriers. For this purpose, ecotel maintains network interconnections with more than 100 international carriers. ecotel also processes some of its business customers' national and international telephone calls via the wholesale platform and uses this platform for its growing local exchange carrier operations.

»easybell« segment

The »easybell« segment comprises all business of the easybell Group, consisting of four companies. Here, easybell markets broadband internet connections and VoIP telephony for private customers and SIP trunking offers for smaller companies. Sales activities primarily take place online via its own website or via telecommunications price portals. In addition, the easybell Group operates a router rental model (www.routermiete.de) and offers affordable call-by-call for domestic and international phone calls.

»nacamar« segment

In the »nacamar« segment, nacamar GmbH offers streaming services for media companies on the basis of its own content delivery network (CDN), which is hosted in the ecotel data centre. Specially developed add-ons for audio and video, and also for data in future, close the gap between raw materials and application, completely in line with a »software as a service« concept. nacamar has the entire portfolio of tools needed to produce and operate such components. nacamar is the market leader in Germany with its AddRadio product.

Infrastructure

ecotel does not operate its own access network, but instead procures telecom supply services from various upstream suppliers and can therefore choose the operator offering the best value for money in each case. Typical upstream suppliers include Deutsche Telekom, Vodafone, Verizon, Versatel, Unity Media, EWE, QSC, Mnet Telefonica and Colt. However, the number of upstream suppliers is currently rising significantly, as demand among our business customers for broadband fibre optic cables is constantly growing and a wide range of infrastructure providers and cable network operators are increasingly opening up their state-of-the-art networks for this target group. Due to the customer-related purchasing of supply lines, a large part of ecotel's cost base is variable. Based on state-of-the-art NGN technology, ecotel's own local exchange carrier (LEC) operations enable it to offer its own voice transmission services, administer phone number blocks and port phone numbers into its own network. Procurement of telecom supply services is therefore increasingly limited just to access to the customer.

Certified ISO 27001
Made in Germany.
Computer centre+VPN

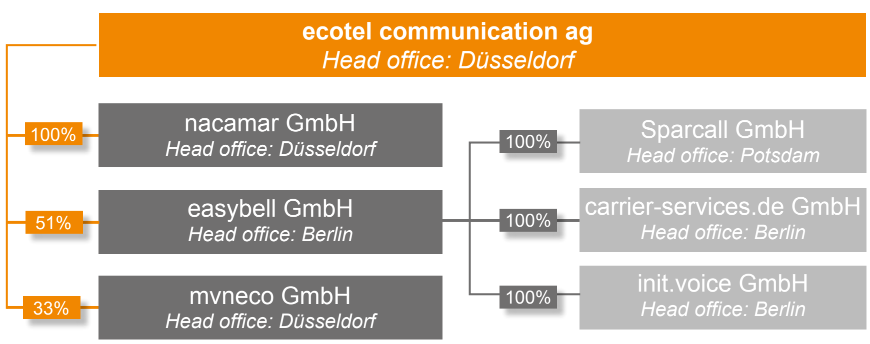
ecotel operates its own ISO-27001-certified data centre on the campus of Europe's biggest internet hub in Frankfurt am Main, as well as additional data centre space in Düsseldorf. The two points of presence (PoP) are connected via the company's own central voice and data backbone and linked with many regional and global carriers by means of network interconnections.

The Group maintains its own content delivery network (CDN) for its nacamar business. mvneco GmbH also operates a central mobile communications platform. With regard to IT, ecotel develops and operates its own systems for order and router management, network monitoring and billing.

2. Structure of the Group

ecotel communication ag

ecotel ag is the largest operating unit and also the parent company of the Group.



3. Management of the Group

Group management

The statutory executive and representative body of ecotel ag is the Management Board. In accordance with Article 5 of ecotel ag's articles of association, the Management Board must consist of at least two people. Other than this, the number of Management Board members is determined by the Supervisory Board. The Supervisory Board may appoint a Chairman and a Deputy Chairman of the Management Board. Deputy members of the Management Board may also be appointed. The Supervisory Board appoints Management Board members for a term of no more than five years. A renewed appointment or an extension of their term of office is permitted for a maximum of five years in each case. The Supervisory Board may revoke the appointment of a Management Board member or the designation as Chairman of the Management Board if there is a good reason for doing so. In accordance with ecotel ag's articles of association, the Supervisory Board issues rules of procedure for the Management Board. Pursuant to Article 6 (1) of the articles of association, ecotel ag is legally represented by two Management Board members or by one Management Board member together with an authorised signatory. The Management Board of ecotel ag consists of Mr Peter Zils (Chairman/CEO), responsible for the areas of strategy, technology, wholesale, finance, investor relations and human resources, and Mr Achim Theis (CCO), who is in charge of marketing, sales, product development and operations. Together, the Management Board and the authorised signatories Mr Holger Hommes as Chief Financial Officer (CFO) and Mr Wilfried Kallenberg as Chief Technical Officer (CTO) form the Governing Board of ecotel.

In addition, Mr Andreas Stamm was designated as an authorised signatory for sales with major customers and distributions at ecotel ag in August 2017 and Mr Oliver Jansen was appointed as Chief Operating Officer (COO) in February 2018. These two individuals thus belong to the extended management of ecotel ag.

Sustainable company management

The Governing Board of ecotel has the aim of managing the Group sustainably and therefore focusing on the medium and long-term effects when making decisions. The interests of all stakeholder groups are taken into account in business decisions. This firstly includes the interests of the **shareholders** and **capital backers** and secondly those of the **employees, customers, sales partners** and of ecotel itself.

The **shareholders** expect transparent reporting, reliable forecasts and predictable and attractive shareholder remuneration. The **capital backers** expect a sound balance sheet structure, compliance with the agreed covenants and on-schedule debt servicing (interest and principal). For **employees, customers and sales partners,** the focus is on securing jobs, developing innovative and attractive products, and enhancing services and processes in order to improve customer and partner satisfaction. **ecotel** as a legal entity requires sustainability and investments in new growth areas (all-IP transformation, fibre optic strategy), investments in efficient customer routers, further expansion of its own LEC operations and provision of the necessary funds to finance further major projects. ecotel thereby ensures a balance between the different expectations of these stakeholder groups.

At the end of 2016, ecotel therefore published a sustainable financial strategy based on this sustainable company management. This strategy was also followed in 2017 and remains valid:

Sustainable financial strategy

Sustainable financial strategy

- The available funds are used to serve all stakeholder groups.
- This must be done without posing a risk to financial stability.

ecotel	Employees/customers/ sales partners	Capital backers	Shareholders
▸ Growth-dependent investments in 2017/18	▸ Investments in partner/customer portals and in process optimisations and IT systems	▸ Stable balance sheet ratios	▸ Transparent capital market reporting
▸ Efficient customer routers and project finance At least € 3 million	▸ Growth-driven increase in staff resources	▸ Net financial assets	▸ Realistic forecasts
▸ Infrastructure and security technology At least € 2 million	▸ Attractive remuneration for sales partners and employees	▸ EBITDA/sales > 5%	▸ Ability to pay dividends
▸ All-IP transformation At least € 2 million		▸ Equity ratio > 45%	▸ FCF* target from 2019 on > € 1 per share
▸ Liquidity reserve including credit line At least € 5 million		▸ Debt servicing (interest and principal) in 2017/18 € 3.0 million – € 3.5 million	▸ Dividend policy 40–60% of EPS
			▸ Sustainable profitable growth in the B2B area

ecotel manages the segments in line with the Group's overall strategic alignment. There is an overall budget plan that incorporates the annual budgets of the business divisions and of the other Group companies. At Group level, the focus is placed on the parameters of consolidated sales and consolidated EBITDA. In addition, the gross profit margin is regarded as a key profitability ratio in the ecotel Business Customers segment. In this segment, direct variable costs are allocated to sales in line with the partial cost method and gross margins are calculated at the level of product types/categories in the planning. Indirect cross-product costs (overheads) and staff costs are mostly planned and monitored in cost centres. Intra-year reporting for the ecotel Business Customers and ecotel Wholesale segments takes place on a monthly basis at segment sales and EBITDA level with a detailed analysis of deviations from the planning and the previous year and a regularly updated outlook for the end of the financial year. For detailed management of the core segment – the ecotel Business Customers segment – specific key ratios relating to the business areas (e.g. minutes volume, price per minute, gross profit margin, quantity structures) are also monitored and are mapped in a reporting system. The easybell segment is regularly monitored on the basis of defined reporting. Here, too, the analyses focus on the key figures of sales and EBITDA. Since 2017, nacamar has been monitored by the Governing Board on the basis of regular reporting. Liquidity, investments and working capital are monitored centrally at ecotel ag, which also provides the main financing for the Group, for example by providing credit lines or borrowing long-term annuity loans.

4. Research and development

ecotel itself does not conduct any fundamental research, but instead focuses on the compatibility of existing types of lines, tariff combinations and device configurations. The focus here is always on the greatest possible cost/benefit effect for customers. For this reason, development expenses in recent years have mainly been limited to technical developments to establish the company's own local exchange carrier operations and development work for a sales partner portal, as well as system developments and improvements for processing orders for the new product range. The new products and the new processes and systems required for them make it necessary to significantly increase investments in these areas on a temporary basis. Capitalised development expenses therefore amounted to € 0.9 million in 2017 (previous year: € 0.7 million).

II. Economic report

1. Market and competitive environment

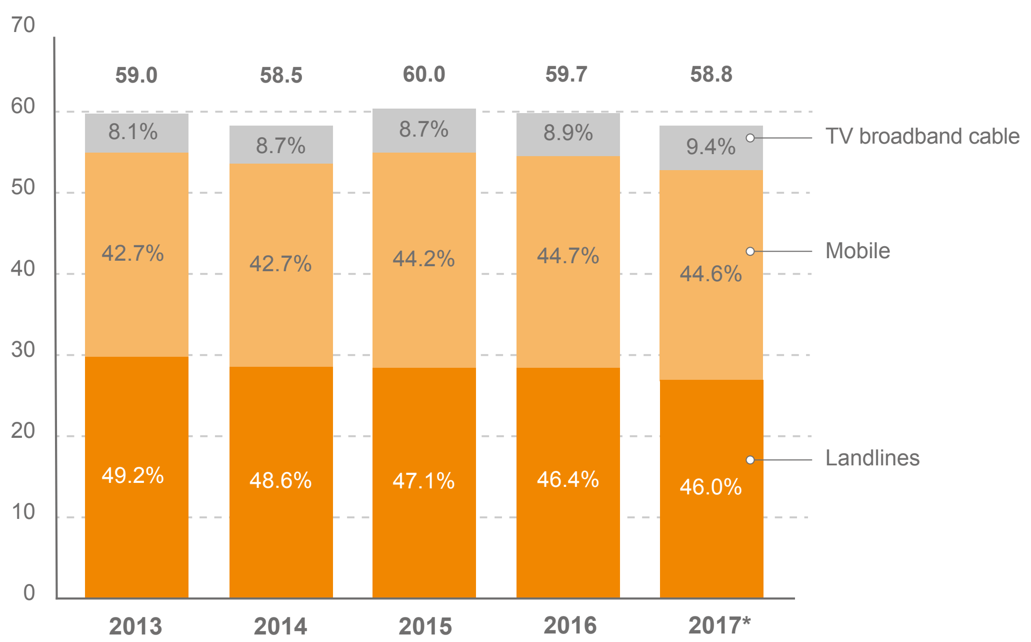
The economic situation in Germany was characterised by strong economic growth in 2017. According to initial calculations by the German Federal Statistical Office (Destatis), inflation-adjusted gross domestic product (GDP) in 2017 was 2.2% higher than in the previous year. The German economy thus grew for the eighth year in a row. Compared to the previous years, the pace of growth once again increased. GDP had already risen significantly by 1.9% in 2016 and by 1.7% in 2015. A longer-term analysis shows that German economic growth in 2017 was almost one percentage point above the average figure for the past ten years of +1.3%. (Source: German Federal Statistical Office)

Telecommunications market volume contracts by 1.5%

Overall market is declining

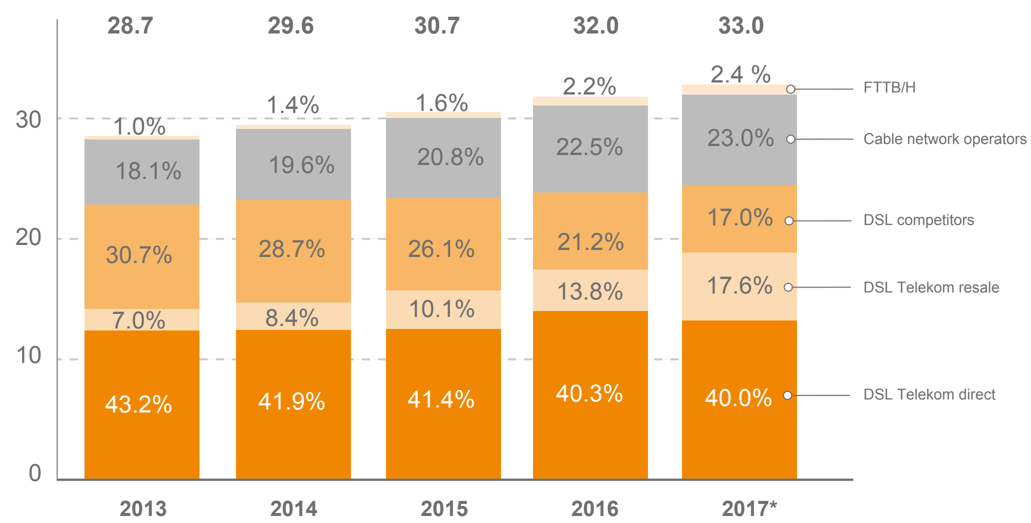
The telecommunications market volume contracted by 1.5% year-on-year to around € 58.8 billion in 2017 (previous year: € 59.7 billion). The landline market, consisting of connections, voice services and data services including TV broadband cable, accounts for 55.4% of the overall telecommunication service market with external sales of € 32.6 billion. As in 2016, mobile communication sales declined again from € 26.7 billion to € 26.2 billion. The number of activated SIM cards grew from 129.8 million in 2016 to an expected 135 million in 2017. The average monthly data volume per SIM card also rose significantly in 2017 from around 591 MB in 2016 to around 850 MB.

Overall market for telecommunications in Germany in billion € and in %



Source: DIALOG CONSULT/VATM 19th Telecoms Market Analysis Germany 2017 ** Provisional figures*

Broadband connections in millions and in %



Source: DIALOG CONSULT/VATM 19th Telecoms Market Analysis Germany 2017 ** Provisional figures*

Fibre optic expansion still at low level

The number of broadband landline connections increased to 33 million in 2017. Around 5.6 million of these connections related to unbundled subscriber access, 5.8 million to Telekom resale (resale DSL/wholesale DSL/IP bitstream), 13.2 million to Deutsche Telekom in direct sales to end customers and 7.6 million to cable network operators. A total of 0.8 million households are now connected with broadband fibre optic access. There has been a noticeable shift from unbundled subscriber access (previous year: 6.8 million connections) to DSL Telekom resale (previous year: 4.4 million connections).

Competitors of Deutsche Telekom have a market share of 46.4% in direct relation to end customers.

Trends on the B2B market

The business customer segment (B2B) in Germany is characterised by continued intense competition. Sales on the business customer market declined to around € 21.4 billion in 2017 (previous year: € 22.5 billion) and accounted for 36.4% of the total market. The change in technology from ISDN to all-IP is driving the convergence of voice and data communication. In addition, there is undiminished demand for higher bandwidths.

Change from ISDN to all-IP results in convergence of voice and data communication

One important driver in the business customer sector is the continuous expansion of broadband internet access both via landlines (fibre optic, vectoring) and mobile (LTE). The relocation of telephone systems to the network (hosted PBX/centrex) and the increased convergence of telecommunications and IT also point the way into the future.

Business customers need broadband internet access

One continuing IT trend is »cloud computing« in forms such as »infrastructure as a service« (IaaS), »platform as a service« (PaaS) and »software as a service« (SaaS). This chiefly involves the transfer of local computing power (hardware), application programs (software) and data repositories (content) to an ICT service provider's central, highly secure data centres, to which users have access via secure broadband connections. Key aspects in this context also include data protection and the security of centrally stored data.

Other important ICT trends include:

- Industry 4.0
- Big data analytics
- Machine to machine (M2M)/Internet of Things (IoT)/Computing Everywhere
- Over-the-top (OTT) services such as Skype, WhatsApp, Netflix
- Smart devices/wearable, bendable, 3D printing, eHealth/telemedicine
- Mobile payment/contactless payment
- Smart energy/intelligent power grids
- Regulatory trends

In order to compete in the B2B segment, companies must be able to offer all relevant products for business customers from a single source and throughout Germany. Telecommunication services for business customers in particular are very important to the overall economy as a production factor. A corresponding regulatory framework must therefore ensure that competitors can access all necessary and physically available upstream services throughout Germany.

As a telecommunications company, ecotel is subject to supervision by the German Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railways (BNetzA).

In the field of telecommunications and post, the Federal Network Agency is responsible for:

- ensuring fair and functional competition, including in rural areas
- ensuring nationwide basic provision of telecommunication and postal services (universal services) at competitive prices
- supporting telecommunication services at public institutions
- ensuring efficient, undisrupted use of frequencies, including taking account of radio matters
- protecting the interests of public security

In addition to regulation, the Federal Network Agency has a wide range of other tasks on the telecommunications and postal market. It:

- issues licences for postal services
- helps reach solutions for issues relating to standardisation
- administers frequencies and phone numbers
- resolves radio interferences
- combats misuse of phone numbers
- monitors the market
- advises citizens on new regulations and their effects

ecotel reacts to key trends at an early stage

Based on its knowledge and observation of the market, ecotel aims to identify key trends at an early stage and derive risks and potential from them. In 2017, ecotel dealt with the following topical issues or was involved in them by way of active participation in the working groups and executive committee of the VATM (German Association of Telecommunications and Value-Added Service Providers):

- improving the political and regulatory conditions for the expansion of broadband in Germany
- ensuring similar basic provision of telecommunication services (universal services) including broadband connections at affordable prices in urban and rural areas nationwide
- reconciling the European telecommunications policy (EU single market) with the specific requirements of the German telecommunications market
- net neutrality (i.e. equal and unchanged transmission of data packages by carriers, regardless of where they come from and what applications generated them)

- modernising the existing data protection regulations and consumer protection
- supporting initiatives in the regulatory and political field and influencing these with the aim of being able to purchase sufficient upstream products on a long-term basis and highlighting national specificities with regard to EU decisions so that these are taken into account
- trading platform for providers and consumers of broadband connections

2. Result of operations, financial position and net asset position

Result of operations

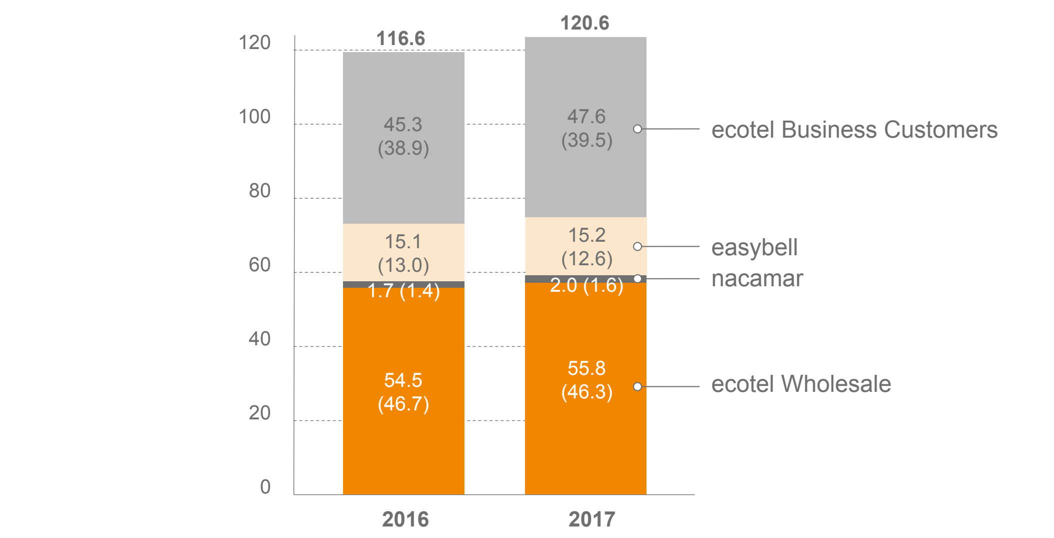
Consolidated sales post further growth

ecotel increased its total sales again to € 120.6 million in 2017 (previous year: € 116.6 million). The high-margin core segment, ecotel Business Customers, once again recorded growth in sales of around 5%. Sales in this segment climbed by € 2.3 million to € 47.6 million. In the difficult-to-predict ecotel Wholesale segment, sales increased slightly by € 1.3 million to € 55.8 million. The easybell segment generated a slight rise in sales to € 15.2 million. After a decline in sales in 2016, the nacamar segment increased its sales by 16% to € 2.0 million.

Growth in all segments

The chart below shows the development of the sales breakdown by segment. The general breakdown has not changed as against the previous year, as sales increased in all segments, albeit not always at the same rate.

Sales breakdown by segment (in million € and in %)



ecotel Business Customers segment: further increase in sales and gross income
In the core ecotel Business Customers segment, sales rose from € 45.3 million to € 47.6 million. This sales growth is particularly pleasing in the context of the growing transformation from traditional ISDN-based connections to ecotel's own all-IP-based voice connections and the associated change in the sales mix.

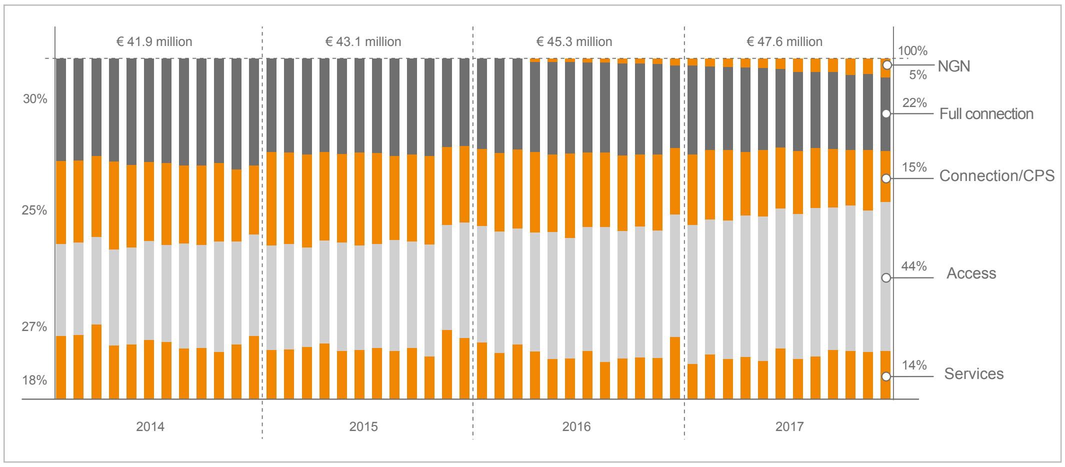
The Access area, where sales from data lines (xDSL, ethernet and fibre optic) are bundled, now accounts for 44% of total sales (2014: 27%). As expected, sales from ISDN connection/CPS marketing (carrier preselection) and traditional full connection only accounted for 37% of sales as at the end of the year (2014: 55%).

Sales with the Group's own NGN products for IP-based voice services, which have only been marketed since mid-2016, already accounted for 5% of total sales as at the end of the year. Since the end of 2017, ecotel has been able to offer almost all products and forms of this new product generation that are required by business customers. This product area will significantly increase in importance and grow profitably in the coming years.

The chart below shows the sales development of the main product groups in the ecotel Business Customers segment over the past four financial years.

The sales mix is changing significantly as a result of the all-IP transformation

Development of B2B sales from 2014 to 2017



In its core ecotel Business Customers segment, ecotel increased not only sales but also gross income, which climbed from € 21.7 million to € 22.7 million. However, the gross profit margin in this segment was down slightly year-on-year at 47.7% (previous year: 47.9%). The large number of new orders and the associated non-recurring expenses for providing lines and commissioning customer equipment caused the gross profit margin to fall slightly this financial year.

easybell segment: sales and gross profit margin increase

The easybell segment increased its sales slightly to € 15.2 million in 2017. Business with NGN voice services for small business customers (SIP trunk) is developing very positively here. In connection business, easybell has almost entirely completed the supplier migration from Telefonica Deutschland to other suppliers (mainly QSC) over the past two years. This migration was necessary because Telefonica Deutschland is withdrawing from connection business and therefore no longer offers these services. Business with call-by-call minutes continued to decline as planned. Overall, however, easybell more than compensated for this development by means of new product launches.

Gross income in this segment rose by € 0.3 million to € 5.9 million in 2017. The gross profit margin was increased from 36.4% to 38.4%. This likewise reflects the success with new high-margin products.

nacamar segment: new strategy showing success

Sales in the nacamar segment increased again for the first time in 2017. The new strategy and the focus on digital media business for broadcasting customers is starting to show success. For example, the company won a bid for public radio in the 2017 financial year. nacamar has thus been the service provider for radio streaming for the public-sector ARD stations (including BR, NDR, SWR and WDR) on an all-IP basis (»internet radio«) since mid-2017

ecotel Wholesale segment: sales remain at high level

Sales in the ecotel Wholesale segment are still difficult to predict. With a low gross profit margin, sales remained at a high level (€ 55.8 million) in the 2017 financial year. The necessary business and the technical requirements are increasingly also being used for the termination of ecotel's own minutes from its local exchange carrier operations. The strategic importance of this segment for the future is therefore increasing.

EBITDA development

EBITDA remains stable at € 7.0 million

Earnings before interest, taxes, depreciation and amortisation (EBITDA) and before non-recurring effects climbed from € 6.6 million to € 6.9 million in the 2017 financial year. Whereas in the previous year EBITDA was negatively impacted by € 0.4 million by expenses for management reorganisation, in 2017 ecotel had to absorb expenses of € 0.1 million from the pro-rata settlement of damages from manipulated contracts to the detriment of ecotel and other carriers. Not including these non-recurring effects, EBITDA was on a par with the previous year at € 7.0 million in 2017.

Temporary negative impact on profitability

EBITDA in the core ecotel Business Customers segment declined slightly by € 0.1 million to € 3.7 million. The market potential currently resulting from the change in technology from traditional ISDN connections to all-IP connections also applies to ecotel, although this is temporarily having a negative impact on the segment's profitability. To enable the resulting increase in the order volume to be handled satisfactorily and efficiently for the customers, the workforce was already expanded in the previous year. In addition, expenses for process adjustments, system developments and customer service were required in the 2017 financial year. These expenses have a temporary negative impact on earnings in this segment.

EBITDA in the easybell segment was unchanged year-on-year at € 3.0 million. With new high-margin products, the segment is compensating for the planned changes in the sales mix as described above.

In the nacamar segment, EBITDA increased by € 0.3 million to € 0.2 million and thus returned to positive territory. This encouraging development was due to the above-mentioned strategic changes and the implementation of the planned reorganisation.

EBIT and net profit for the year

EBIT was down slightly at € 2.2 million in 2017 (previous year: € 2.3 million). This was due to a € 0.3 million increase in depreciation and amortisation to € 4.6 million (previous year: € 4.3 million).

Net finance costs were at the previous year's level at € -0.1 million. Financial expenses remained stable at € 0.3 million. In addition, a sum of € 0.2 million (previous year: € 0.2 million) was reported as net income from investments accounted for using the equity method.

The rise in the tax rate and the increased income tax expense of € 0.8 million (previous year: € 0.5 million) are firstly attributable to the tax audits completed in 2017 and secondly to the non-recurring income from the reversal of deferred tax assets (€ 0.2 million) in the previous year.

EPS: € 0.13 per share

Ultimately, the net profit (consolidated comprehensive income) declined by € 0.3 million to € 1.4 million. After deducting minority interests of € 0.9 million, ecotel's consolidated net profit amounted to € 0.5 million (previous year: € 0.8 million). This corresponds to earnings per share of € 0.13 (previous year: € 0.24).

Comparison of forecasts with the actual business development

In 2017, ecotel achieved or exceeded all forecasted target ranges.

All forecasts achieved or exceeded

Forecasted figure	Target range			
	2017 ACTUAL (million €)	Consolidated financial statements 2016 (million €)	Specification in November 2017 (million €)	
Consolidated sales	**120.6**	**95 to 115**	**120 to 130**	**achieved**
Thereof ecotel Business Customers	47.6	45 to 48	47.0 to 47.5	achieved
Thereof gross profit margin of ecotel Business Customers	47.7 %	stable	**stable**	achieved
Thereof ecotel Wholesale (formerly Resellers)	55.8	35 to 50	35 to 50	exceeded
Thereof New Business (now divided into easybell and nacamar)	17.2	15 to 17	16.5 to 17.5	achieved
EBITDA	**6.9**	**6.5 to 7.5**	**around 7.0**	**achieved**
EBITDA before non-recurring expenses for settlement of damages	7.0			

Financial position

Expected high investments impact free cash flow

The Group's financial position is still very satisfactory and sound. As expected, the free **cash flow** of minus € 0.8 million (previous year: € 2.4 million) was negatively impacted by high investments. Cash and cash equivalents are at a high level of € 6.4 million (previous year: € 7.5 million). They are countered by liabilities from financial loans of € 5.2 million (previous year: € 4.0 million). The Group's **net financial assets** therefore declined to € 1.2 million as expected (previous year: € 3.5 million). In addition to the reported cash and cash equivalents, credit lines totalling € 8.0 million are available to ecotel as at 31 December 2017, up to € 1.0 million of which may be used for guarantee liabilities.

Financing growth with net financial assets

Cash flow from operating activities fell by € 1.8 million to € 4.2 million (previous year: € 6.0 million). Compared to the previous year, this development was chiefly driven by the development of working capital. While trade payables decreased year-on-year, trade receivables were virtually unchanged as against the previous year. The previous year's significant decline in trade receivables and trade payables resulted from a substantial increase in the sales volume of the ecotel Wholesale segment at the end of 2015.

As expected, **net cash used in investing activities** increased significantly by € 1.4 million to € 5.0 million in the financial year. This increase reflects the predicted growth investments in efficient, customer-specific hardware components. Investments are necessary both for the implementation of major projects and for the ISDN transformation in order to provide the services that customers want.

Net cash used in financing activities fell by € 2.4 million to € 0.3 million (previous year: € 2.6 million). At the beginning of the year, ecotel took out a long-term, fixed-interest loan of € 3.0 million to finance the growth investments described above. Cash outflow from financing activities was attributable to scheduled repayments of € 1.8 million (previous year: € 1.2 million) as well as interest payments (€ 0,2 million), dividend payments (€ 0.8 million) and payments to minority shareholders (€ 0.5 million).

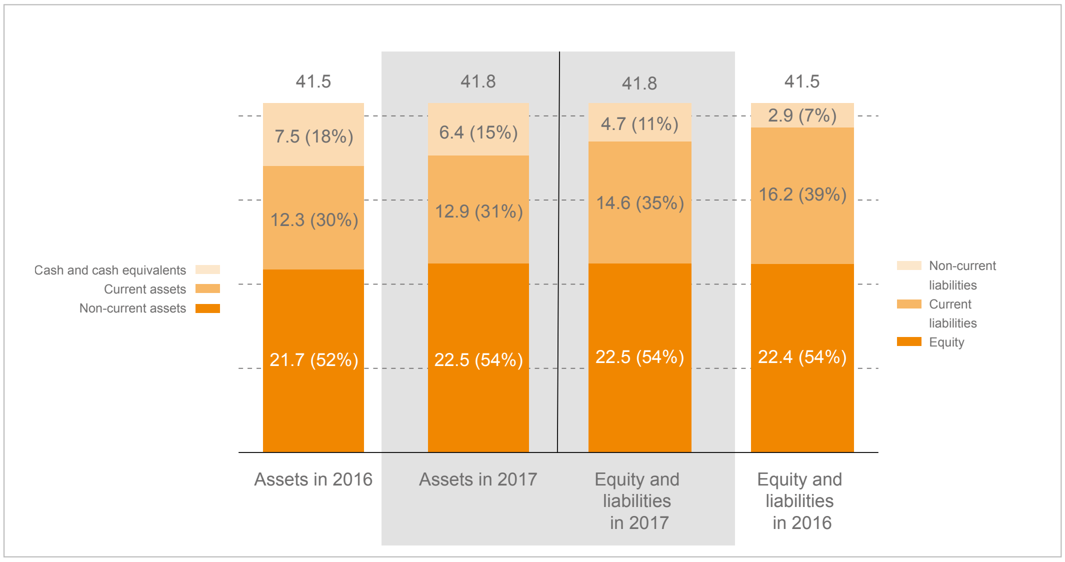
As in the previous year, ecotel was able to meet all payment obligations in full and on schedule. Important goals of financial management also include complying with the financial covenants agreed with the banks and minimising any credit risks and interest rate risks that could have a significant impact on the financial position.

Sound balance sheet structures and ratios

Net asset situation

The Group's **total assets** amounted to € 41.8 million as at 31 December 2017 (previous year: € 41.5 million).

Assets and equity/liabilities in million €



On the **assets side** of the statement of financial position, **non-current assets** climbed by € 0.7 million to € 22.5 million. The growth investments of € 5.1 million were higher than depreciation and amortisation, which totalled € 4.6 million. In addition, the reported non-current assets in connection with the recognition of investments accounted for using the equity method increased by € 0.1 million to € 0.7 million, while deferred income tax assets rose by € 0.2 million to € 0.3 million.

Current assets decreased slightly by € 0.5 million to € 19.3 million. While cash and cash equivalents fell by € 1.1 million, other non-financial assets increased by € 0.3 million as a result of multi-year maintenance agreements concluded and paid for in 2017 and deferred initial expenses for the implementation of major projects.

Equity ratio unchanged at 54%

On the **equity and liabilities side** of the statement of financial position, **equity** increased slightly by € 0.1 million to € 22.5 million. Based on the slightly higher total assets of € 41.8 million, this resulted in an unchanged equity ratio of 54%. The Group's equity covers its non-current assets. The development of equity is described in more detail in the notes to the consolidated financial statements.

Non-current liabilities rose by € 1.8 million to € 4.7 million, mainly due to the net balance from taking out a new € 3.0 million loan at the beginning of 2017 and making repayments on the long-term financial loans.

The decline in **current liabilities** chiefly results from lower trade payables as at the reporting date.

Articles of association / capital structure

In accordance with section 179 of the German Stock Corporation Act (AktG), any amendment to the articles of association generally requires a resolution by the Annual General Meeting. Amendments that only affect the wording are an exception to this rule; the Supervisory Board is authorised to make such amendments. Unless stipulated otherwise in the articles of association in the individual case or prevented by mandatory statutory provisions, resolutions of the Annual General Meeting are adopted with a simple majority of the votes cast and, if the law stipulates a capital majority as well as a majority of votes, with a simple majority of the share capital represented when the resolution is adopted.

Share capital unchanged at € 3,510,000

The share capital of ecotel ag amounts to € 3,510,000 and is divided into 3,510,000 bearer shares. The shares are issued as no-par-value shares with a pro-rata amount of the share capital of € 1.00. The share capital is fully paid up in the amount of € 3,510,000.00. Each no-par-value share grants the bearer one vote at the Annual General Meeting. There are no restrictions on voting rights. There are no different voting rights in relation to the shares.

The Management Board of ecotel ag is not aware of any restrictions relating to voting rights or share transfers of the kind that could arise from agreements between shareholders, for example. For information on the development of equity, please refer to the presentation of changes in the Group's equity in the consolidated financial statements.

Authorised Capital

By way of a resolution adopted by the Annual General Meeting on 28 July 2017, the Management Board of ecotel ag was authorised to increase the share capital of ecotel ag with the approval of the Supervisory Board one or more times by a total of up to € 1,755,000.00 in exchange for cash and/or non-cash contributions by 27 July 2022 by issuing new, no-par-value bearer shares (Authorised Capital). The Management Board did not make use of this authorisation in the year under review.

Contingent capital increase

At the Annual General Meeting on 28 July 2017, a contingent increase in the share capital of up to € 1,755,000 by issuing up to 1,755,000 no-par-value bearer shares was resolved (Contingent Capital I). In line with the conditions for the convertible bonds, the contingent capital increase is to be used solely to grant shares to the holders of warrant-linked and/or convertible bonds that can be issued by ecotel ag from 28 July 2017 to 27 July 2022 in accordance with the authorisation of the Annual General Meeting. The contingent capital increase will be implemented only to the extent that holders of convertible and/or warrant-linked bonds exercise their conversion/option rights or that holders of convertible bonds for whom conversion is mandatory fulfil their conversion obligation, and subject to the condition that no other forms of fulfilment are provided to satisfy these rights. The Management Board did not make use of this authorisation in the year under review.

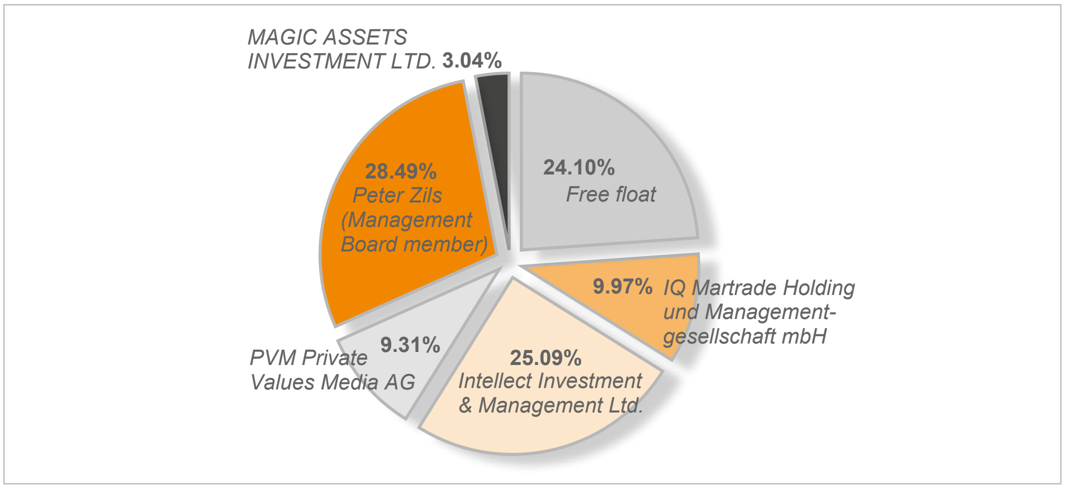
Authorisation to acquire treasury shares

By way of a resolution adopted on 25 July 2014, the Annual General Meeting authorised the Management Board of ecotel ag to acquire treasury shares up to a total of 10% of the share capital in existence at the time of the resolution (authorisation to acquire treasury shares). This authorisation must not be used by ecotel ag for the purpose of trading in treasury shares. The acquired shares, together with other treasury shares held by ecotel ag or attributable to it in accordance with section 71a et seq. of the German Stock Corporation Act (AktG), must not account for more than 10% of the share capital at any time. The authorisation to acquire treasury shares will last until 24 July 2019. The Management Board did not make use of this authorisation in the year under review.

The chart below shows the names of shareholders that held an interest of more than 3% in the share capital of ecotel ag at the end of 2017. It is based on the share ownership information announced by ecotel ag. There are no different voting rights in relation to the shares.

New shareholder structure

Share ownership (31/12/2017) in percent



There are no holders of shares with special rights that confer powers of control. There is no voting rights control for the event that employees hold interests in the share capital and do not exercise their rights of control directly.

3. Overall statement on the Group's economic situation

The Group is still in a very stable economic situation. Key balance sheet ratios (total assets, equity and net financial assets) developed as expected in the financial year. Future financing is secured with annuity loans and credit lines. The result of operations is characterised by recurring sales that are largely contractually secured. For information on the planned growth strategy and the overall opportunity and risk situation, please refer to the statements in the forecast and the report on opportunities and risks.

III. Supplementary report

No significant changes occurred between the end of the financial year and the preparation of the consolidated financial statements on 16 March 2018. The economic environment did not change to the extent that it would have had a significant impact on ecotel's operations and the sector situation was no different from how it was as at 31 December 2018.

IV. Forecast and report on opportunities and risks

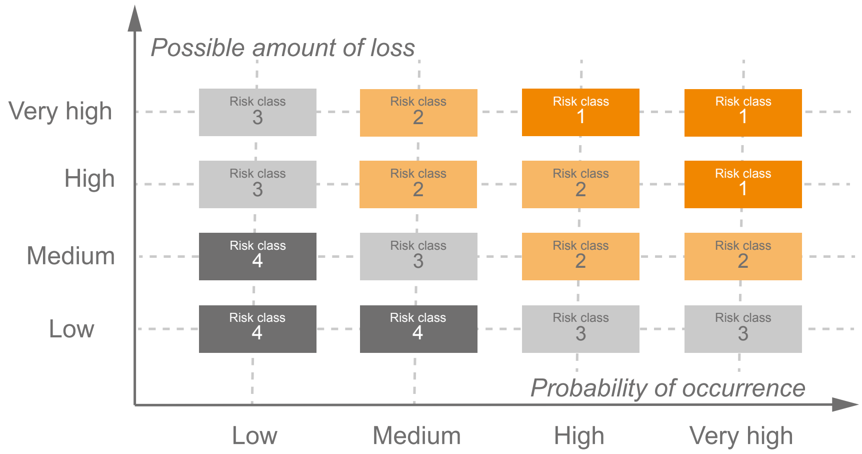
1. Control and risk management system

Early detection of risks by means of a risk management system

In order to identify and assess business risks and risks to the continued existence of the Group at an early stage and to handle these risks properly, ecotel uses a suitable risk management system. Group-wide responsibility for the early detection and countering of risks lies with the Management Board. It is supported by the authorised signatories and the managing directors of the subsidiaries with regard to the continuous identification and assessment of risks within the Group. Using quarterly risk reports, the Management Board and the Supervisory Board track the identified risks throughout the year with regard to their planned development. The focus here is on the identification of areas requiring action and the status of the measures initiated for systematic management of the risks identified. All significant risks that could jeopardise the Group's results and its continued existence are listed in the form of a risk matrix. All potential risks are assessed based on the probability of occurrence and the potential losses. The probability of occurrence is classified as low, medium, high or very high. The potential amount of loss (net present value) is likewise categorised in four loss classes as shown in the table below.

Loss class	Possible amount of loss
Very high	> € 1,000,000
High	€ 300,000–1,000,000
Medium	€ 100,000-300,000
Low	< € 100,000

The probabilities and loss classes allocated to the identified risk positions are categorised in risk classes in line with the table below. The risk class also shows the gross risk for each risk position (1 to 4). The Management Board derives measures to be initiated to counter each risk position and assesses the net risk (1 to 4) on this basis. Gross and net risk may therefore differ from one another due to the countermeasures.



Internal control system minimises potential for errors in financial reporting

In order to ensure the effectiveness and efficiency of its business operations, the correctness and reliability of its internal and external accounting and compliance with the relevant legal provisions for the company, ecotel still maintains an internal control system (ICS) that is revised at regular intervals.

At the end of the 2017 financial year, an internal audit was implemented at ecotel ag in the context of full outsourcing. This audit has the aim of examining processes and systems in accordance with the IT requirements of the »Minimum Requirements for Risk Management« (MaRisk) and the »Banking Regulation Requirements for IT« (BAIT). These measures were necessary because ecotel provides both insurance companies and banks with various ICT solutions.

Financial reporting risk relates to the risk of the consolidated and interim financial statements containing misstatements that could have a significant influence on their users' decisions. The accounting-related internal control system aims to identify possible sources of error and limit the resulting risks. In order to ensure proper and reliable accounting, the internal control system is designed such that the dual control principle is applied for all significant transactions and there is a separation of duties in accounting. Regularly recurring processes are largely supported by IT (interfaces between operational and accounting systems for invoices, incoming and outgoing payments and credit processes). Account assignment guidelines are used to help ensure correct accounting. External service providers are brought in when necessary to assess more complex accounting matters. The same applies to the preparation of tax returns. These preparation and advisory services are monitored and processed by means of internal plausibility checks and coordination. In addition, key financial ratios are monitored by means of regular target/actual comparison with variance analysis. Interest rate derivatives concluded are monitored on a regular basis.

2. Risks of future development

In the course of its business activities, ecotel faces operational risks, financial risks, strategic risks and risks relating to the market environment. The main risks are described below along with their gross and net risk (after any measures initiated). The risk situation has not changed significantly in relation to the previous year.

Operational risks

Operational risks mainly consist of infrastructure risks

Operational risks are generally of a short-term nature. At ecotel, they primarily focus on potential failures, errors and capacity bottlenecks in the infrastructure (e.g. backbone, data centre, transmission technology, server farms) and on correct and timely handling of business-critical processes in the areas of billing, provisioning for sales partners, receivables management and customer, supplier and partner support.

Ensuring maximum availability of the infrastructure by means of appropriate system redundancies in relation to both transmission technology and cables is one of the most important measures to prevent risks and is systematically implemented by ecotel. With regard to the availability of server farms, e.g. for the nacamar CDN, the server farms are fully duplicated in separate premises (gross risk 3/net risk 3).

With regard to the data centre infrastructure, potential risks relate to failure of the air conditioning and emergency power supply or loss of the connection. The emergency power supply is designed redundantly, while n+1 redundancy has been implemented for the air conditioning system. However, there are external capacity bottlenecks in the power supply for the data centre in Frankfurt am Main, which could possibly cause impediments to future customer growth. The necessary expansion and renovation work is closely monitored by the Management Board and the management and examined for potential risks to ecotel (gross risk 3/net risk 3).

In order to implement geo-redundancy in the data centre infrastructure, additional data centre space has been leased in Düsseldorf. The data centres in Düsseldorf and Frankfurt are interconnected redundantly with n x 10 Gbps. In addition, supply lines from the main carrier suppliers are connected to the two data centres redundantly. The internet connection is also set up geo-redundantly with various different carriers to both PoPs. If purchasing agreements are not renewed or if the purchasing conditions deteriorate, this may result in deterioration of the result of operations. ecotel aims to minimise this dependency on upstream suppliers by having an alternative supplier available for each key product. This is possible at least in areas where several upstream suppliers operate parallel infrastructure. The commissioning of ecotel's own LEC infrastructure has reduced the risk in the area of previously purchased voice transmission services, as these can now be provided by ecotel itself (gross risk 2/net risk 2).

When implementing orders, ecotel is dependent on the performance of upstream suppliers, the stability of systems and processes and the available staff capacity. In the event of a possible backlog, there is a risk of damaging the company's reputation among sales partners and customers and even losing orders. In order to identify emerging problems and delays and to have solutions, the management maintains contact with the different levels of upstream suppliers (gross risk 4/net risk 4).

In addition to technical challenges, the company's own local exchange carrier operations also entail additional requirements for data security and data protection (hacking, fraud, etc.). ecotel has accordingly invested heavily in technical and procedural fraud management systems already in order to minimise the risk and ensure the best possible security for customers (gross risk 3/net risk 4).

The current change from traditional ISDN connection products to new NGN all-IP connection products and the associated technical, organisational and procedural expenditure for customer migration over the next few years entails a risk of customer losses and therefore sales declines as well as high levels of capacity utilisation in the operational and technical areas (gross risk 1/net risk 1).

Financial risks

At ecotel, financial risks include credit risks, liquidity risks, foreign currency risks and interest rate risks.

A credit risk arises if transaction partners do not meet their payment obligations. The development of the receivables portfolio is continuously monitored so that potential default risks can be identified at an early stage and appropriate measures can be initiated (gross risk 4/net risk 4).

Covenants in the loan agreements were comfortably achieved

ecotel has agreed customary creditor protection clauses relating to certain key ratios (known as financial covenants) with the financing banks. These ratios are calculated based on the consolidated financial statements prepared by ecotel in accordance with IFRS. Failure to comply with the covenants could possibly result in termination and early repayment of the investment loans and working capital facilities and therefore a significant deterioration in ecotel's liquidity position if no agreement can be reached on an adjustment of the financial covenants or on refinancing. For all of the financial covenants agreed (equity ratio, EBITDA/sales and net debt/EBITDA), ecotel is currently well within the stipulated ranges. The company also expects to be able to comply with all covenant thresholds comfortably in 2018 (gross risk 4/net risk 4).

Foreign currency risks arise from receivables, liabilities, cash and cash equivalents and planned transactions that are not in the Group's functional currency. As the currency risk after the expiry of the concluded hedges in previous years was low, no derivative financial instruments were used for currency hedging in the previous year or in the past financial year.

As at the end of 2017, ecotel had cash and cash equivalents of € 6.4 million. Net financial assets amounted to € 1.2 million as at the end of the year. ecotel also holds working capital facilities totalling € 8.0 million as an additional liquidity reserve. € 1.0 million of this can be used as a guarantee facility. There are no interest rate risks at ecotel at present, as the outstanding loans have fixed interest rates. In order to counteract any future rises in market interest rates to some extent, ecotel has entered into an interest rate hedge.

Legal risks

ecotel is exposed to a variety of legal risks, including risks in relation to warranties, breach of contract, competition and patent law and tax law. The effects of pending or future legal proceedings often cannot be predicted with certainty. The Group continuously identifies and analyses possible risks for the emergence legal disputes and assess the potential legal and financial effects both quantitatively and qualitatively. On this basis, appropriate measures are taken in good time to avoid potential losses for the Group. As at the end of the 2017 financial year, the Group is not exposed to any significant legal disputes.

Tax risks

Risks for the Group occur if tax laws and other regulations are not fully observed. They may also arise as a result of matters requiring interpretation if the fiscal authorities believe that the appropriate tax consequences have not been drawn. Tax audits can therefore lead to tax arrears, interest and penalties. With the involvement of external tax advisors, the Group continuously monitors tax risks that could arise, for example, from tax legislation, changes in authorities' interpretations or tax jurisdiction. In 2017, a tax audit of the entire Group for the years 2012 to 2014 was completed. The resulting effects were fully taken into account in the annual financial statements.

Strategic risks

Strategic risks are generally of a medium-term nature and are based on the company's strategic orientation for the areas of purchasing, products, sales, technology and IT. Delays in the changeover to innovative NGN voice products could result in ecotel being unable to achieve its earnings targets for new products in the coming years or achieving them only with a delay (gross risk 3/net risk 3).

ecotel procures a large portion of its line purchases from a small number of upstream suppliers. Particularly in the context of the change in technology from ISDN to all-IP that is currently being advanced by Deutsche Telekom in particular, access to fast and comprehensive cable networks is becoming more important for ecotel. The purchase contracts with the main suppliers all have terms that go beyond 2018. ecotel is currently in talks with alternative suppliers to enable it to keep offering competitive all-IP services in the future without having to give up the multi-supplier strategy it has pursued so far (gross risk 2/net risk 2).

Risks relating to the market environment
Other significant risks that could bring about a considerable deterioration in ecotel's economic situation relate to the market and the sector. There is already intense price and predatory competition in the private customer segment, which could spread to the business customer segment to a greater extent in the future. If the significant consolidation of the telecommunications industry continues, this could have negative effects on the net assets, financial position and result of operations of ecotel, as it would increase its dependency on individual suppliers (gross risk 2/net risk 2).

Furthermore, rapid technological change is giving rise to new products and business models. It cannot be ruled out that ecotel's products could consequently become less competitive and therefore see less demand. For this reason, ecotel continuously monitors the market environment so that it can react quickly and effectively to technological changes (gross risk 2/net risk 2).

Access to comprehensive broadband connections is a basic prerequisite for future NGN products

The existing regulatory conditions, which are significantly influenced by decisions by the German Federal Network Agency and other consumer protection measures, could also change to the detriment of ecotel's operations, resulting in negative business developments. It also remains to be seen what regulatory effects will arise from a specification of the European single market for telecommunications (gross risk 2/net risk 2).

Overall risk is calculable
In summary, ecotel is convinced that the key risks identified neither individual nor collectively pose a tangible risk to ecotel's continued existence and that ecotel's flexible business model and monitoring system will enable it to detect risks quickly, react to them and initiate countermeasures in 2018, too.

3. Opportunities of future development

In addition to risks, there are a wide range of opportunities that can affect ecotel's business performance on a long-term basis. The opportunity situation has not changed significantly in relation to the previous year.

Sales increase from the marketing of new products in the area of voice over IP and hosted PBX
Two key trends in telecommunications are the replacement of ISDN technology with voice over IP (VoIP) and the relocation of telephone systems to the network (hosted PBX/centrex). This change was only made possible by the comprehensive availability of broadband internet access. Deutsche Telekom is keeping to its communicated plan of replacing ISDN technology with VoIP technology by the end of 2018.

For many business customers, this could necessitate investments in existing telephone/communication systems. ecotel has launched innovative new products with which customers can avoid these investments. These firstly include SIP connections for business customers to link IP-capable telephone systems. Secondly, ecotel also offers a solution using gateways that facilitates continued operation of the existing telephone system.

Sustainable sales activities for data

Data sales including hosting already account for more than 50% of sales with business customers. The past financial year showed that this ratio could see stronger growth than is incorporated in the current planning, partly due to the expansion of fibre optic technology and the development of an open-access platform.

Sales growth and improvement in gross profit margin in ecotel Business Customers segment due to its own local exchange carrier (LEC) operations

ecotel has complete product range to satisfy customers' wishes

As a local exchange carrier, ecotel additionally benefits from collecting termination fees from incoming connections to ecotel's customer connections. In addition to this income item, there is a particular opportunity for ecotel now to develop a product and tariff portfolio that is largely independent from the upstream suppliers. As well as higher value added, this ideally also allows for a more targeted customer focus. For example, special bundled offers for cooperations and particular sectors would be conceivable. ecotel has so far primarily processed upstream products, but now it is able to incorporate the experience gathered directly in its fundamental product design – resulting in lower production costs and greater attractiveness for marketing partners and customers. As a result of the currently increasing transformation process from ISDN to all-IP products in the business customer sector, the business volume will increase significantly on this basis and thus increase earnings.

Additional major customers gained

The successful implementation of major projects, especially in 2017, creates additional opportunities for ecotel to implement similar projects for other major customers with decentralised structures. These particularly include the customisable remote router management service, connectivity solutions within an MPLS VPN, and central firewall services in ecotel's data centre. ecotel achieved very good success in this area in the 2017 financial year and sees further growth potential here.

Strategic cooperations to exploit market opportunities resulting from stronger interconnection of telecommunications and IT

The current sales and growth rates in the overall market relating to cloud services, i.e. the transfer of local computing power to secure data centres, are substantial. This positive development corresponds ideally with ecotel's product range in the area of infrastructure and data services – for example, with the xDSL and ethernet bandwidths available throughout Germany and with MPLS VPN solutions and housing/colocation services in ecotel's data centre.

Unlike many multinational cloud providers with their heterogeneous structures, ecotel – as a German provider with data centres in Frankfurt am Main und Düsseldorf – has the right conditions for full and credible compliance with German data protection laws. With regard to the current data security discussion, this is a key advantage in terms of location and competition.

Further increase in sales and earnings at easybell

In connection business, easybell has almost entirely completed the supplier migration from Telefonica Deutschland to other suppliers (mainly QSC) over the past two years. This migration was necessary because Telefonica Deutschland is withdrawing from connection business and therefore no longer offers these services. Business with call-by-call minutes continued to decline as planned. However, easyball successfully launched business with NGN voice services for small business customers (SIP trunk) and a new router rental model (www.routermiete.de) on the market. These new products and other product ideas may have a positive influence on easybell's sales and earnings performance in the future.

New products at nacamar

Following the management reorganisation in 2016 and the strategic realignment to digital media services for broadcasting customers, nacamar has positioned itself very well and is currently working on innovative new solutions in the all-IP radio segment. This focus and these new solutions may have a positive impact on nacamar's sales and earnings performance.

Profitable growth of mvneco GmbH

mvneco is increasingly evolving into an IT system vendor for telecommunications providers and associated business models. This may give rise to opportunities that are not entirely foreseeable at the moment.

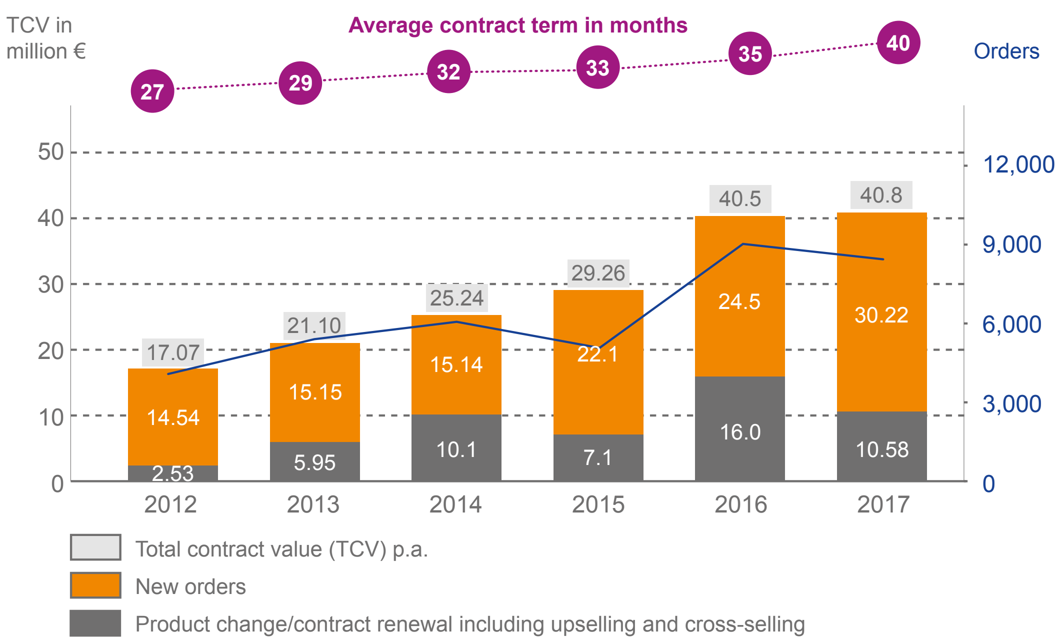
4. Forecast

Note on forecasts

This Group management report contains forward-looking statements that reflect the current views of ecotel's management with regard to future events. Such statements are generally characterised by the words »expect«, »anticipate«, »assume«, »intend«, »estimate«, »aim for«, »target«, »plan«, »will«, »endeavour«, »outlook« and comparable expressions, and they generally contain information relating to the expectations or targets for sales, EBITDA, the gross profit margin or other performance indicators. Forward-looking statements are based on currently applicable plans, assessments and expectations. They should therefore be treated with caution. Such statements are subject to risks and uncertainties that tend to be difficult to estimate and are generally beyond ecotel's control. Other possible factors that could significantly impact the cost and sales development include changes in interest rates, regulatory requirements and supervisory law developments. If these or other risks and uncertainties materialise, or if the assumptions on which the statements are based prove to be incorrect, then ecotel's actual results could differ significantly from those expressed or implied in these statements. ecotel cannot provide any guarantee that the expectations or targets will be achieved and – notwithstanding existing obligations under capital market law – does not accept any responsibility for updating forward-looking statements to take account of new information, future events or other things.

Development of incoming orders in total contract value (TCV)

High incoming orders as basis for further B2B growth



Forecast

In Germany, a positive growth rate is expected for the overall economy, driven by the continuing positive development of private consumer spending and by increasing investments. The general economic conditions of the market situation and the assessment of the risk and opportunity situation as presented in this Group management report prompt the Management Board to formulate the following expectations for the coming financial years:

Forecast for 2018

Expectations for 2018: consolidated sales of € 90 million to € 120 million; EBITDA of € 7.0 million to € 8.0 million

With its new product range in the ecotel Business Customers segment based on its own local exchange carrier operations, ecotel has everything customers need to handle the current change from ISDN to all-IP successfully and efficiently. This product range is selected and managed by ecotel on a customer-specific basis as part of the multi-carrier strategy. Confirmation that this is the right path is provided not least by the incoming orders in the new ecotel Business Customers segment, which increased significantly again in terms of new orders in 2017.

The Management Board is issuing the following forecast:

For 2018, the Management Board anticipates consolidated sales of between € 90 million and € 120 million and EBITDA in a range of € 7.0 million to € 8.0 million.

The Management Board expects sales in the core ecotel Business Customers segment to be within a range of € 48 million to € 50 million, with a slight increase in the gross profit margin and an associated rise in gross income. Sales of between € 14 million and € 16 million are anticipated in the easybell segment, and sales of € 2 million to € 3 million in the nacamar segment. For the low-margin ecotel Wholesale segment, sales planning is possible only to a limited extent, as past experience shows that this business is subject to major fluctuations. ecotel is forecasting sales of between € 25 million and € 50 million here. The actual occurrence of the forecasted developments is subject to there being no adverse changes in the identified risks – such as higher probabilities of occurrence or higher losses – and no new risks that could arise within the forecast period. Identified opportunities must also still exist and be achievable. Please refer to the information in the »Note on forecasts«.

Medium-term planning

The management pursues the goal of operating ecotel's business sustainably while also increasing its income and profitability figures without damaging the Group's financial substance. This includes targeted investments in the expansion of business areas, new products, technology, IT and security, as well as investments in staff and optimisation of organisational structures. Subsequently remaining free cash flow is to be used to repay debt and remunerate the shareholders (e.g. with dividend payments). Please also refer to the comments in the section on Group management.

As a result of the successful launch of new products and the currently very good level of incoming orders, ecotel is well positioned to deal with the very rapidly changing challenges on the telecommunications market at present. Based on the particular developments described above – especially the need for migration of customer contracts, the timing and success of which is difficult to estimate at present but will have a significant impact on the Group's sales and earnings performance – the Management Board is refraining from issuing a quantitative statement on the medium-term planning.

V. Remuneration for members of executive bodies and the Supervisory Board

1. Remuneration system for members of executive bodies

Remuneration for members of executive bodies (the Management Board)
The remuneration of the Management Board members of ecotel ag is based on section 87 of the German Stock Corporation Act (AktG) and the German Management Board Remuneration Act (VorstAG) as well as the provisions of the German Corporate Governance Code (GCGC) and comprises fixed annual basic remuneration and a variable component. The targets (e.g. incoming orders, sales, EBITDA) for the variable component are determined by the Supervisory Board on an annual basis. The payment of the variable portion is tied to a sustainable business development over a three-year period and is made only in the amount of the portion already securely earned as at that date. ecotel has taken out directors' and officers' liability insurance (D&O insurance) for the members of the Management Board and all other executive bodies of the Group, with an appropriate deductible for the Management Board members. In addition, the Management Board members are each entitled to a company car. There are no stock option programmes for members of executive bodies, nor have any loans been granted to members of executive bodies. There are also no regulations for the early departure of members of executive bodies.

2. Remuneration system for the Supervisory Board

The members of the Supervisory Board receive fixed remuneration for each full financial year of their membership of the Supervisory Board. In addition, each member of the Supervisory Board receives an attendance fee for each Supervisory Board meeting that they attend in person (but not for meetings of a Supervisory Board committee). ecotel ag reimburses each Supervisory Board member for the expenses incurred in performing their duties. Supervisory Board members who were on the Supervisory Board only for part of the financial year receive pro rata remuneration for each month of Supervisory Board work commenced. ecotel ag provides the members of the Supervisory Board with insurance cover for the exercise of their Supervisory Board duties.

The following individuals were appointed as members of the Supervisory Board in the 2017 financial year:

- Dr Norbert Bensel, independent business consultant, Berlin (Chairman)
- Mirko Mach, businessman, Heidelberg (Deputy Chairman)
- Tim Schulte Havermann, businessman, Recklinghausen
- Brigitte Holzer, businesswoman, Berg
- Sascha Magsamen, businessman, Oestrich-Winkel
- Dr Thorsten Reinhard, lawyer, Kronberg im Taunus

The table below shows the remuneration of the Supervisory Board:

Supervisory Board	Remuneration in € in 2017	Remuneration in € in 2016
Dr Norbert Bensel	24,000	25,000
Mirko Mach	19,000	20,000
Dr Thorsten Reinhard	14,000	14,000
Brigitte Holzer	14,000	13,000
Sascha Magsamen	14,000	14,000
Tim Schulte Havermann	14,000	7,000
Dr Barbara Bludau	-	8,833
Total	**99,000**	**101,833**

3. Disclosures in accordance with the German Corporate Governance Code

The table below shows the amounts granted, including fringe benefits, for each Management Board member for the 2017 financial year. In the case of variable remuneration components, it also shows the maximum and minimum achievable remuneration (in accordance with sample table 1 on item 4.25 paragraph 3 (first bullet point) of the German Corporate Governance Code).

Amounts granted in thousand €	Peter Zils *CEO*			
	2017 (target)	2016 (target)	2017 (min.)	2017 (max.)
Fixed remuneration	330	330	330	330
Fringe benefits	23	23	23	23
Total	**353**	**353**	**353**	**353**
One-year var. remuneration	13	33	0	66
Multi-year var. remuneration	13	18	0	34
Thereof Sustainability 2017	0	9	0	0
Thereof Sustainability 2018	7	9	0	17
Thereof Sustainability 2019	6	0	0	17
Total	**379**	**404**	**353**	**453**
Pension expenses	0	0	0	0
Total remuneration	**379**	**404**	**353**	**453**

Amounts granted in thousand €	Achim Theis *CCO*			
	2017 (target)	2016 (target)	2017 (min.)	2017 (max.)
Fixed remuneration	220	220	220	220
Fringe benefits	17	17	17	17
Total	**237**	**237**	**237**	**237**
One-year var. remuneration	59	33	0	66
Multi-year var. remuneration	26	18	0	34
Thereof Sustainability 2017	0	9	0	0
Thereof Sustainability 2018	13	9	0	17
Thereof Sustainability 2019	13	0	0	17
Total	**322**	**288**	**237**	**337**
Pension expenses	0	0	0	0
Total remuneration	**322**	**288**	**237**	**337**

Amounts granted in thousand €	Johannes Borgmann *(until 31 August 2016)*			
	2017 (target)	2016 (target)	2017 (min.)	2017 (max.)
Fixed remuneration	-	147	-	-
Fringe benefits	-	18	-	-
Total	**-**	**165**	**-**	**-**
One-year var. remuneration	-	22	-	-
Multi-year var. remuneration	-	12	-	-
Thereof Sustainability 2016	-	6	-	-
Total	**-**	**199**	**-**	**-**
Pension expenses	-	0	-	-
Total remuneration	**-**	**199**	**-**	**-**

Mr Borgmann left on 31 August 2016.

The table below shows the amounts received by each Management Board member in/for the 2017 financial year, consisting of fixed remuneration, short-term variable remuneration, long-term remuneration and other remuneration, differentiated based on the respective base years (in accordance with sample table 2 on item 4.2.5 paragraph 3 {second bullet point} of the German Corporate Governance Code).

Amounts received in thousand €	Peter Zils *CEO*		Achim Theis *CCO*		Johannes Borgmann *CFO*	
	2017	2016	2017	2016	2017	2016
Fixed remuneration	330	330	220	220	-	147
Fringe benefits	23	23	17	17	-	13
Total	353	353	237	237	-	160
One-year var. remuneration	13	33	59	33	-	0
Multi-year var. remuneration	0	0	0	0	-	0
Thereof Sustainability 2014	0	0	0	0	-	0
Total remuneration	**366**	**386**	**296**	**270**	**-**	**160**

No pension expenses were paid for Management Board members in 2017 or in 2016.

The members of the Supervisory Board were also members of the following committees and worked in the following principal occupations in the 2017 financial year:

Supervisory Board member	Role	Company
Dr Norbert Bensel	Managing director	NB Consulting- und Beteiligungs GmbH, Berlin
	Supervisory Board member	Praktiker AG (in liquidation), Kirkel
	Supervisory Board member	Praktiker Deutschland GmbH, Kirkel
	Supervisory Board member	IAS Institut für Arbeits- und Sozialhygiene AG, Berlin
	Advisory Board member	IQ Martrade Holding- und Management-gesellschaft mbH, Düsseldorf
	Management Board member	EL-Net Consulting AG, Munich
Brigitte Holzer	Owner, managing director	Holzer Holding GmbH, Berg
	CFO/managing director	PPRO Financial Ltd, London (UK)
	Managing director	WKV prepaid GmbH, Maria Enzersdorf (Austria)
	Managing director	Pay Plus Services GmbH, Munich
	Managing director	PPRO Holding GmbH, Munich
	CFO/managing director	PPRO INC., Atlanta (Georgia, USA)
Mirko Mach	Managing partner	MPC Service GmbH, Heidelberg

Supervisory Board member	Role	Company
Sascha Magsamen	Chairman of the Supervisory Board	MediNavi AG, Munich
	Chairman of the Supervisory Board	Tyros AG, Hamburg
	Deputy Chairman of the Supervisory Board	Ecolutions GmbH & Co. KGaA, Frankfurt am Main
	Supervisory Board member	ICM Media Ag, Frankfurt am Main
	Supervisory Board member	Hallgartener Weinkeller EG, Oestrich-Winkel
	Supervisory Board member	Weberhof AG, Heiligenhaus
	Management Board member	PVM Private Values Media AG, Frankfurt am Main
	Management Board member	Impera Total Return AG, Frankfurt am Main
	Management Board member	Inspire AG, Salzkotten
	Management Board member	Mood and Motion AG (in liquidation), Frankfurt am Main
	Management Board member	Novetum AG, Frankfurt am Main
	Liquidator	GBS Asset Management AG (in liquidation), Frankfurt am Main
	Liquidator	ENNF UG (in liquidation)
	Managing director	Mattiak Immobilienverwaltungs-gesellschaft mbh, Frankfurt am Main
Dr Thorsten Reinhard	Partner (member)	Noerr LLP, London (UK)
	Chairman of the Supervisory Board	ISS Facility Service Holding GmbH, Düsseldorf
	Supervisory Board member	ISS VSG GmbH, Lübbenau
	Supervisory Board member	Wackler Holding SE, Munich
Tim Schulte Havermann	Managing director	LaBrea Vermögensverwaltung GmbH, Berlin
	Managing director	conCapital VV GmbH, Berlin
	Managing director	TMT Gruppe GmbH, Berlin
	Chairman of the Supervisory Board	ecoblue AG, Munich
	Chairman of the Supervisory Board	PIAG ProInvest Real Estate AG, Dresden
	Supervisory Board member	GVA Real Estate AG, Berlin

VI. Disclosures under takeover law

With the exception of a special bonus totalling € 0.3 million, there are no agreements for compensation in the event of a takeover for Management Board members or for any other executive body members in the Group. There are no further agreements between ecotel and individuals that take effect in the event of a change of control resulting from a takeover bid.

Up until 31 August 2018, there are no agreements between ecotel and legal entities that are linked to a change of control.

From 1 September 2018 onwards, the joint shareholder of easybell GmbH, Consultist GmbH, has the right in the event of a change of control at ecotel ag to acquire a partial interest in easybell GmbH from ecotel ag that brings its equity investment in easybell GmbH up to at least 51%. The purchase price must correspond to the market value of the partial interest.

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VII. Declaration on corporate governance and corporate governance report

The Management Board and Supervisory Board of ecotel communication ag have issued the declaration on corporate governance required in accordance with section 289f and section 315d of the German Commercial Code (HGB) and the corporate governance report including the declaration stipulated in section 161 of the German Stock Corporation Act (AktG) and have made them permanently available to the public online (http://ir.ecotel.de/websites/ecotel/English/6500/statement-of-compliance-for-the-financial-year-2018.html).

Düsseldorf, 16 March 2018

ecotel communication ag
The Management Board

Peter Zils *Achim Theis*

Statement by the legal representatives

To the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and result of operations and the Group management report includes a fair review of the business development including the business results and the position of the Group and describes the main risks and opportunities of the Group's expected development.

Düsseldorf, 16 March 2018

ecotel communication ag
The Management Board

Peter Zils *Achim Theis*

Consolidated financial statements

Forward-looking figures

Consolidated statement of financial position as at 31 December 2017

€	Note	31/12/2016	31/12/2017
Assets			
A. Non-current assets			
I. Intangible assets	(1)	12,515,062.59	12,692,591.72
II. Property, plant and equipment	(2)	8,471,686.18	8,751,550.31
III. Investments accounted for using the equity method	(3)	589,255.97	704,062.70
IV. Deferred income tax assets	(5)	168,079.33	333,732.79
Total non-current assets		**21,744,084.07**	**22,481,937.52**
B. Current assets			
I. Trade receivables	(4)	9,295,198.15	9,294,375.00
II. Other financial assets	(4)	1,750,714.19	1,845,388.63
III. Other non-financial assets	(4)	674,474.72	996,286.89
IV. Current income tax assets	(5)	601,529.51	783,621.13
V. Cash and cash equivalents	(6)	7,453,782.80	6,393,218.27
Total current assets		**19,775,699.37**	**19,312,889.92**
Total assets		**41,519,783.44**	**41,794,827.44**

€	Note	31/12/2016	31/12/2017
Equity and liabilities			
A. Equity	(7)		
I. Share capital		3,510,000.00	3,510,000.00
II. Capital reserves		1,833,254.38	1,833,254.38
III. Other reserves		14,275,530.10	13,934,160.76
Interests attributable to owners of the parent		**19,618,784.48**	**19,277,415.14**
IV. Minority interests		2,829,118.52	3,235,118.67
Total equity		**22,447,903.00**	**22,512,533.81**
B. Non-current liabilities			
I. Deferred income taxes	(8)	718,362.53	842,999.57
II. Non-current loans	(9)	2,167,705.00	3,859,369.00
Total non-current liabilities		**2,886,067.53**	**4,702,368.57**
C. Current liabilities			
I. Current income taxes	(8)	411,291.13	759,628.75
II. Current loans	(9)	1,795,836.00	1,308,336.00
III. Trade payables	(9)	11,673,700.31	10,408,124.87
IV. Provisions	(9)	28,500.00	54,176.00
V. Other financial liabilities	(9)	1,328,049.77	1,330,004.48
VI. Other non-financial liabilities	(9)	948,435.70	719,654.96
Total current liabilities		**16,185,812.91**	**14,579,925.06**
Total equity and liabilities		**41,519,783.44**	**41,794,827.44**

Consolidated statement of comprehensive income for the 2017 financial year

€		Note	1/1–31/12/2016	1/1–31/12/2017
1.	Sales	(12)	116,619,515.28	120,623,516.48
2.	Other operating income	(13)	693,784.51	553,388.72
3.	Other own work capitalised		503,431.57	528,566.16
4.	**Total operating performance**		**17,816,731.36**	**121,705,471.36**
5.	Cost of materials			
	Cost of purchased services	(14)	-88,174,704.69	-90,747,349.94
6.	Staff costs	(15)		
6.1	Wages and salaries		-11,373,772.56	-11,791,344.72
6.2	Social security and expenses for pensions and other benefits		-1,744,607.94	-1,888,239.85
7.	Depreciation and amortisation	(16)	-4,281,418.29	-4,648,691.10
8.	Other operating expenses	(17)	-9,894,537.22	-10,420,794.83
9.	**Operating result (EBIT)**		**2,347,690.66**	**2,209,050.92**
10.	Finance income		11,565.05	21.46
11.	Finance expenses		-299,045.55	-308,663.56
12.	Net income from investments accounted for using the equity method		206,277.59	214,806.73
13.	**Net finance costs**	(18)	**-81,202.91**	**-93,835.37**
14.	**Profit from ordinary activities before income taxes**		**2,266,487.75**	**2,115,215.55**
15.	Income tax expense	(19)	-538,500.41	-753,284.74
16.	**Net profit (= consolidated comprehensive income)**		**1,727,987.34**	**1,361,930.81**
17.	Allocation of net profit to			
17.1	**owners of the parent (consolidated net profit)**		**833,816.06**	**465,730.66**
17.2	Minority interests	(20)	894,171.28	896,200.15

€	Note	1/1–31/12/2016	1/1–31/12/2017
Basic earnings per share	(21)	0.24	0.13
Diluted earnings per share	(21)	0.24	0.13

Due to a lack of relevant circumstances, no »other comprehensive income« item is presented.

Consolidated statement of cash flows for the 2017 financial year (see note 22)

thousand €	2016	2017
Profit from ordinary activities before income taxes	2,266	2,115
Net interest income	169	191
Depreciation and amortisation of current and non-current assets	4,281	4,649
Net income from investments accounted for using the equity method	-206	-215
Gains (-) / losses (+) on the disposal of intangible assets and property, plant and equipment	0	2
Increase (-)/decrease (+) in trade receivables	8,421	1
Increase (-)/decrease (+) in receivables and other assets	-37	-582
Increase (+)/decrease (-) in trade payables	-7,773	-1,260
Increase (+)/decrease (-) in liabilities (not including financial liabilities)	-112	-82
Income taxes paid (-)/received (+)	-1,017	-587
Net cash from operating activities	**5,993**	**4,232**
Payments for investments in intangible assets and property, plant and equipment	-4,036	-5,108
Cash receipts from repayments of equity by investments measured using the equity method	388	100
Interest payments received	12	0
Net cash used in investing activities	**-3,636**	**-5,008**
Cash receipts from taking out financial loans	0	3,000
Repayments of financial loans	-1,171	-1,796
Interest payments	-180	-191
Dividends paid	-807	-807
Payments to non-controlling shareholders	-490	-490
Net cash used in financing activities	**-2,648**	**-284**
Cash-effective change in cash and cash equivalents	**-291**	**-1,061**
Cash and cash equivalents at beginning of period	7,745	7,454
Cash and cash equivalents at end of period	**7,454**	**6,393**

Statement of changes in Group equity

thousand € Note (7)	Share capital	Capital reserves
As at 1 January 2016	**3,510**	**1,833**
Distributions	0	0
Reclassification of prior-year result	0	0
Changes in equity not recognised in income	**0**	**0**
Consolidated net income for 2016	0	0
Changes in equity recognised in income	**0**	**0**
As at 31 December 2016	**3,510**	**1,833**

As at 1 January 2017	**3,510**	**1,833**
Distributions	0	0
Reclassification of prior-year result	0	0
Changes in equity not recognised in income	**0**	**0**
Consolidated net income for 2017	0	0
Changes in equity recognised in income	**0**	**0**
As at 31 December 2017	**3,510**	**1,833**

As a result of commercial rounding, there may be differences in the totals.

Earnings reserves				
Other earnings reserves	Consolidated net income	Interests attributable to owners of the parent	Minority interests	Total
12,626	**1,623**	**19,592**	**2,425**	**22,017**
-807	0	-807	-490	-1,297
1,623	-1,623	0	0	0
815	**-1,623**	**-807**	**-490**	**-1,297**
0	834	834	894	1,728
0	**834**	**834**	**894**	**1,728**
13,442	**834**	**19,619**	**2,829**	**22,448**
13,442	**834**	**19,619**	**2,829**	**22,448**
-807	0	-807	-490	-1,297
834	-834	0	0	0
27	**-834**	**-807**	**-490**	**-1,297**
0	466	466	896	1,362
0	**466**	**466**	**896**	**1,362**
13,468	**466**	**19,277**	**3,235**	**22,513**

Notes to the consolidated financial statements of ecotel communication ag Accounting principles

General information

The ecotel Group (referred to hereinafter as »ecotel«) is a telecommunications company that has been operating throughout Germany since 1998 and specialises in customers' information and telecommunication requirements (ICT). Its parent company is ecotel communication ag (referred to hereinafter as »ecotel ag«). ecotel reports on the following segments:

The ecotel Business Customers segment is the core area of ecotel ag. It includes all business relating to the marketing of integrated product portfolios of voice and data services (ICT solutions) and the business activities of the minority investment mvneco GmbH. The ecotel Wholesale segment comprises cross-network trading in telephone minutes (wholesale) for national and international carriers. The easybell segment comprises all business of the easybell Group. The easybell Group primarily markets broadband internet connections and VoIP telephony for private customers and SIP trunking offers for smaller companies. In addition, the easybell Group operates a router rental model (www.routermiete.de) and offers affordable call-by-call for domestic and international phone calls. The nacamar segment comprises the business activities of the subsidiary nacamar and offers content delivery network (CDN) streaming services for media companies. Segment reporting was changed as at the end of 2017. Further information can be found in the notes to the consolidated financial statements (note 25).

ecotel communication ag is headquartered in Düsseldorf, Germany. The address is: ecotel communication ag, Prinzenallee 11, 40549 Düsseldorf. The company was entered in the commercial register at the District Court of Düsseldorf (HRB 39453) on 1 September 2000.

In addition to Frankfurt am Main, ecotel communication ag's shares are also traded at other German stock exchanges.

The audited consolidated financial statements including the Group management report will be filed in the German Federal Gazette. The consolidated financial statements will be released for publication on 20 March 2018 with their handover from the Management Board to the Supervisory Board of ecotel communication ag.

Accounting principles

The consolidated financial statements of ecotel were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union (EU) and the additional provisions of German commercial law to be observed in accordance with section 315e (1) of the German Commercial Code (HGB).

The financial year corresponds to the calendar year. The consolidated financial statements are prepared in euros. The consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity each include comparative figures for the previous year.

In order to improve clarity of presentation, various items of the consolidated statement of financial position and the consolidated statement of comprehensive income are combined. These items are broken down and explained accordingly in the notes.

The consolidated statement of comprehensive income is structured in line with the nature of expense method, under which expenses are aggregated within profit or loss according to their nature and are not reallocated among functions within the entity.

Because there were no corresponding circumstances at ecotel in the previous year or in the 2017 financial year, no presentation of other comprehensive income is shown after the income statement.

The financial statements of the subsidiaries are included in the consolidated financial statements in line with the uniform recognition and measurement methods applicable to the Group.

All standards that are applicable on the reporting date and endorsed by the EU are applied. In addition, the interpretations of the IFRS Interpretations Committee (IFRS IC) are also observed.

New standards or amendments to pronouncements of the IASB applicable for the first time in the consolidated financial statements as at 31 December 2017

By the date the consolidated financial statements as at 31 December 2017 were prepared, the following new and amended standards and interpretations had been adopted and endorsed by the EU in European law. Only the new or amended pronouncements of the IASB that could theoretically have an impact based on ecotel's current business operations are shown.

New standards or amendments to pronouncements of the IASB applicable for the first time as at 31 December 2017

Standard / interpretation	First-time mandatory application according to IASB	First-time mandatory application in the EU
Amendments to IAS 7 »Statement of Cash Flows«: Disclosure Initiative	1 January 2017	1 January 2017
Amendments to IAS 12 »Income Taxes«: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	1 January 2017
Annual improvements project 2014–2016 cycle (1 of 3 amendments) Amendment to IFRS 1 »First-time Adoption of International Financial Reporting Standards«	1 January 2017	1 January 2017

The first-time adoption of these standards did not have any significant impact on the net assets, financial position and result of operations of ecotel.

New or amended pronouncements of the IASB not yet applicable in the consolidated financial statements as at 31 December 2017

By the date the consolidated financial statements as at 31 December 2017 were prepared, the following new interpretations had been adopted and endorsed by the EU in European law. However, these do not take effect until later and have not been applied early in these consolidated financial statements (see table on following page).

Standard/interpretation	First-time mandatory application according to IASB	First-time mandatory application in the EU
IFRS 9 »Financial Instruments«	1 January 2018	1 January 2018
IFRS 15 »Revenue from Contracts with Customers«	1 January 2018	1 January 2018
Amendments to IFRS 15 »Revenue from Contracts with Customers«: Clarifications	1 January 2018	1 January 2018
Amendments to IFRS 15 »Revenue from Contracts with Customers«: Date of first-time adoption	1 January 2018	1 January 2018
Amendments to IFRS 4 »Insurance Contracts«: Applying IFRS 9 »Financial Instruments« with IFRS 4 »Insurance Contracts«	1 January 2018	1 January 2018
IFRS 16 »Leases«	1 January 2019	1 January 2019
Annual improvements project 2014–2016 cycle (2 of 3 amendments) Amendment to IFRS 12 »Disclosure of Interests in Other Entities«	1 January 2018	1 January 2018

The new and amended pronouncements required to be applied in the future are not applied early and there is no intention to do so. The anticipated effects on the net assets, financial position and result of operations of ecotel are described below:

IFRS 9 »Financial Instruments« contains provisions for the recognition, accounting treatment and derecognition of financial assets and liabilities and for hedge accounting. The IASB published the final version of the standard on 24 July 2014 after completing the various phases of its comprehensive project on financial instruments. As a result, accounting for financial instruments that was previously performed in accordance with IAS 39 »Financial Instruments: Recognition and Measurement« can now be fully replaced by accounting in accordance with IFRS 9. The version of IFRS 9 that has now been issued supersedes all previous versions. In summary, the main requirements of the final version of IFRS 9 are the following:

- Compared to the preceding standard IAS 39, the requirements of IFRS 9 are largely unchanged with regard to the scope of application and to recognition and derecognition.
- However, the regulations of IFRS 9 stipulate a new classification model for financial assets as compared to IAS 39.
- In future, subsequent measurement of financial assets will be based on three categories with different measures of value and different recognition of changes in value. Categorisation will depend on both the contractual cash flows of the instrument and the business model in which the instrument is held. These are generally mandatory categories. However, the company also has options available in some isolated cases.
- By contrast, the existing provisions for financial liabilities have largely been maintained in IFRS 9. The only significant change relates to financial liabilities in the fair value option, for which fluctuations in fair value due to changes in the company's own default risks are to be recognised in other comprehensive income.
- IFRS 9 stipulates three levels that will in future determine the amount of losses to be recognised and the collection of interest. Under this system, anticipated losses in the amount of the present value of an expected 12-month loss are already recognised on initial recognition of the instrument (level 1). If there is a significant increase in the default risk, the risk provision is raised to the level of the anticipated losses over the entire remaining term (level 2).

If objective evidence of impairment emerges, interest income is recognised based on the net carrying amount (carrying amount less risk provision) (level 3). For certain financial assets (e.g. trade receivables without significant financing components), a simplified model is to be used.

- In addition to extensive transitional provisions, IFRS 9 is also associated with extensive disclosure requirements both on transition and in its ongoing application. Changes in comparison to IFRS 7 »Financial Instruments: Disclosures« mainly relate to the regulations on impairment.

The final ***IFRS 9*** is to be applied for financial years beginning on or after 1 January 2018; earlier application is permitted. ecotel will apply the new standard retrospectively as at 1 January 2018, with the practical exemption permitted under the standard. Comparative figures for 2017 will not be adjusted. ecotel mainly has trade receivables without significant financing components. The business model currently provides for the receivables to be held, meaning that no effects are to be expected from a different classification. ecotel does not use the fair value option when classifying financial liabilities, so no effects are expected here either. However, the new provisions will generally lead to earlier recognition of impairment losses and default risks. An effect on the statement of financial position of € 0.1 million is anticipated.

In May 2014, the IASB issued the new standard ***IFRS 15*** »Revenue from Contracts with Customers«. This new standard on revenue recognition aims to combine the large number of regulations previously contained in various different standards and interpretations. At the same time, it defines uniform basic principles that apply to all sectors and all types of revenue transactions. A five-level model is used to determine in what amount revenues are to be recognised and at what time or over what period. In addition, the standard contains a number of other regulations on detailed issues and adds to the disclosures required in the notes. The new standard is to be applied for annual reporting periods beginning on or after 1 January 2018. Its initial application is generally required to be retrospective, but various simplification options are granted; earlier application is permitted.

The Group is affected by the amendments to IFRS 15 with regard to its business model. The Group's business model – particularly in the ecotel Business Customers segment – sometimes provides for multi-component agreements with separate performance obligations over a defined contractual period. In addition to the provision of a customer-specific data line (including necessary hardware components), various services including provision services are bundled in a customer contract. As a result of the allocation of the transaction price in relation to the individual selling prices of the performance obligations that is required under IFRS 15, income that does not belong to any performance obligation and income for which the performance obligation is not mainly fulfilled at the beginning will in future be recognised as revenue over the term of the contract. Costs to fulfil a contract, such as payments for connection services provided by suppliers, will also be distributed over the term of the contract in future. This consequently leads to the recognition of contractual assets and liabilities. ecotel will exercise the option for simplified initial application, i.e. comparative figures from prior-year periods will not be adjusted. The cumulative effect from the transition will be reported directly in equity against other reserves as at 1 January 2018.

Based on the management's current assessment and the results of the impact analysis, ecotel expects the transition to result in a reduced cumulative effect before deferred taxes of € 0.2 million, to be recognised in the earnings reserves. This effect is primarily attributable to the initial recognition of assets from the capitalisation of customer acquisition costs and to costs to fulfil contracts, which would have resulted in later recognition in expense under IFRS 15. This effect is reduced by the initial recognition of contractual liabilities from revenue allocation in line with the allocation of performance obligations in relation to the individual selling prices, which would have resulted in later recognition as revenues under IFRS 15.

As described above, IFRS 15 results in later recognition of expenses and revenues for contracts not yet concluded by the time the financial statements are prepared. However, because these effects from the transition to the new accounting treatment are recognised directly in equity, effects on income in the 2018 financial year can only result from changes in the recognition of income and expenses. Assuming a stable business development, the management expects that the effects on future income and expenses will not be significant. Significant effects on earnings compared to the current assumptions could result from a changed business development or from changes in the business models and the products offered.

IFRS 16 »Leases« primarily affects accounting for ecotel's operating leases. Firstly as a lessee: As at the reporting date, there are obligations from operating leases amounting to € 5.4 million (see note 2). These primarily relate to the properties rented on a long-term basis to operate the data centre and for administration. After applying the standard, the resulting rights of use will be recognised as an asset. The recognition will therefore affect ecotel's statement of comprehensive income and its earnings. Secondly as a lessor: An initial impact analysis of ecotel as a lessor showed that the application of IFRS 16 will not have any significant effects on ecotel. Although ecotel provides customers with hardware components, these generally do not meet the recognition criteria for a lease as defined in IFRS 16. In the housing and hosting business model, server capacity and space for storage of own servers are leased. However, it is also currently assumed that the contracts generally do not meet the criteria for recognition as a lease and that only an insignificant portion will be affected by IFRS 16. A more precise analysis will be performed in the coming year.

By the date the consolidated financial statements as at 31 December 2017 were prepared, the following new and amended standards and interpretations had been adopted but not yet endorsed by the EU in European law. Only the new or amended pronouncements of the IASB that could theoretically have an impact based on ecotel's current business operations are shown. However, these do not take effect until later and will not be applied early:

Standard/interpretation	First-time mandatory application according to IASB	First-time mandatory application in the EU
IFRIC 22 »Foreign Currency Transactions and Advance Consideration«	1 January 2018	Not yet known
IFRIC 23 »Uncertainty over Income Tax Treatments«	1 January 2019	Not yet known
Annual improvements project 2014–2016 cycle (3 of 3 amendments) Amendment to IFRS 28 »Disclosure of Interests in Other Entities«	1 January 2019	Not yet known

Principles of consolidation

In accordance with IFRS, all business combinations are to be accounted for using the purchase method. The purchase price of an acquired subsidiary is allocated to the acquired assets, liabilities and contingent liabilities. The relevant factor here is the value ratios at the date when control over the subsidiary was obtained. Control means that the Group has power of disposition over the subsidiary in that it has substantial rights to govern the subsidiary's main business activities. The recognisable assets and the liabilities and contingent liabilities assumed are measured in full – irrespective of the equity interest – at their fair values. Any remaining positive difference is recognised as goodwill. Any remaining negative difference is recognised in profit or loss. The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date on. The income and expenses of a subsidiary continue to be included in the consolidated financial statements until the date when the parent ceases to control the subsidiary. On deconsolidation, the residual carrying amounts of goodwill are taken into account when calculating the gain or loss on disposal.

Income and expenses between the consolidated companies are offset against each other, as are receivables and liabilities/provisions. Intercompany results are eliminated unless they are of only minor importance. Impairment and reversals of impairment losses recognised on shares in consolidated subsidiaries in the separate financial statements are generally reversed. Investments in associated companies are accounted for using the equity method, under which they are recognised in the statement of financial position at cost plus the changes in the Group's share in the company's net assets that occurred after the acquisition. The goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of comprehensive income includes the Group's share in the associated company's profit. The associated companies' financial statements are prepared as at the same reporting date as the parent company's financial statements. If necessary, adjustments are made in line with the Group's uniform accounting policies. If there are indications of possible impairment, the total net investment (value at equity including financial assets from these companies for which there is no adequate collateral) is tested for impairment in accordance with IAS 28 in conjunction with IAS 36.

Scope of consolidated financial statements

In addition to ecotel communication ag, the consolidated financial statements include all (previous year: all) subsidiaries in which ecotel communication ag directly or indirectly holds the majority of the voting rights and has substantial rights to govern the subsidiary's main business activities. Initial consolidation/deconsolidation generally takes place at the time the investment is acquired/sold. In the year under review and in the previous year, ecotel communication ag directly and indirectly held the following equity investments (list of shareholdings, based on the financial statements as at 31 December 2017):

Disclosures made on IFRS basis	Share of capital in % [2]	Equity in thousand € [2]	Earnings in thousand € [2]	Sales in thousand € [2]	Employees [1] (average) [2]
easybell GmbH, Berlin (consolidated)	50.98	3,716	1,913	13,184	28
	(50.98)	(2,803)	(1,766)	(12,427)	(25)
carrier-services.de GmbH [3], Berlin (consolidated)	100.00	2,027	216	1,018	4
	(100.00)	(1,811)	(271)	(1,251)	(4)
sparcall GmbH [3], Bad Belzig (consolidated)	100.00	667	379	1,187	0
	(100.00)	(1,038)	(507)	(1,551)	(0)
init.voice GmbH [3], Berlin (consolidated)	100.00	244	71	199	0
	(100.00)	(173)	(30)	(290)	(0)
nacamar GmbH, Düsseldorf (consolidated)	100.00	850	44	1,991	7
	(100.00)	(807)	(78)	(1,718)	(12)
mvneco GmbH, Düsseldorf (associate)	33.33	2,112	632	5,242	25
	(33.33)	(1,780)	(734)	(5,499)	(26)

1 Not including Management Board members/managing directors or trainees
2 Previous year's figures in brackets
3 Indirect investment via easybell GmbH

The reporting date for the preparation of the consolidated financial statements is 31 December, which is also the reporting date for the separate financial statements of the parent company and of all consolidated subsidiaries.

Accounting policies

The main accounting policies for the consolidated financial statements are described below.

Assets are capitalised when all material risks and rewards associated with their use accrue to the Group. They are measured at their amortised acquisition or production cost.

Acquisition cost includes all consideration paid to acquire an asset and make it ready for use. Production cost includes all costs directly attributable to the production process and appropriate portions of the production-related overheads.

Acquired intangible assets are recognised at their acquisition cost and amortised on a straight-line basis over their estimated useful life, unless another amortisation method better corresponds to their usage pattern in exceptional cases.

Internally generated intangible assets from which the Group is likely to derive a future benefit and that can be measured reliably are measured at their production cost. Capitalisation is subject to their completion being technically ensured, which in turn is subject to there being an intention to complete the intangible asset. Internally generated intangible assets at ecotel communication ag generally relate to internally generated software and applications that are used by the company itself rather than being sold. At nacamar GmbH, internally generated intangible assets also include software developed to provide services to customers.

Their measurement is regularly based on the following useful lives:

Concessions and industrial property rights	Development costs	Software	Customer base
3 – 5 years	5 – 7 years	3 – 7 years	6 – 18 years

If there are indications of impairment and the recoverable amount is lower than amortised cost, the intangible assets are written down. The recoverable amount from an asset corresponds to the higher of the net sales proceeds and the present value of the future cash flows attributable to the asset (value in use).

Research costs are treated as current expense. ***Development costs*** are capitalised and amortised on a straight-line basis when a newly developed product or process can be clearly defined, is technically feasible and is intended either for internal use or for marketing. Capitalisation is also subject to the condition that a clear allocation of expenses is possible, it is sufficiently likely that the costs can be covered by future cash funds and it is possible to use or sell the intangible asset.

Goodwill from consolidation is tested for impairment at the level of the relevant cash-generating unit when there are signs of impairment, or at least once a year. In accordance with IAS 36, the carrying amount must be compared with the recoverable amount. The recoverable amount is defined as the higher of the fair value less costs to sell and the value in use.

Property, plant and equipment is measured at cost less use-based depreciation and less any impairment losses. Property, plant and equipment is generally depreciated on a straight-line basis over its estimated useful life, unless another depreciation method better corresponds to its usage pattern in exceptional cases. Property, plant and equipment (other equipment, operating and office equipment) is regularly depreciated over 3 to 7 years.

If there are indications of impairment and the recoverable amount is lower than amortised cost, property, plant and equipment is written down. If the reasons for impairment losses recognised in previous years no longer apply, the corresponding impairment losses are reversed. For simplification and materiality reasons, low-value assets are written off in full and reported as disposals in the year they are added.

Receivables and other assets are accounted for at fair value on initial recognition, taking account of any transaction costs incurred, and are amortised accordingly. Non-interest-bearing or low-interest receivables with terms of more than one year are discounted based on market interest rates. All identifiable individual risks are taken into account by recognising appropriate impairment losses if there are specific indications. Receivables denominated in a foreign currency are measured using the selling rate on the reporting date.

Prepaid rents and insurance premiums and prepayments to suppliers for future services relating to a defined date or period are accrued as ***other non-financial assets.***

Other provisions include all identifiable obligations on the reporting date that are based on past transactions or events and whose amount or settlement date is uncertain. Provisions are recognised at their probable settlement amount. They are not offset against positive profit contributions. Provisions are recognised only if they are based on a legal or constructive obligation to a third party. If the interest effect resulting from discounting is significant, long-term provisions are accounted for at their settlement amount discounted to the reporting date. The settlement amount also includes the cost increases to be taken into account on the reporting date in accordance with IAS 37.

Liabilities are generally recognised in the amount of the consideration received when they arise, including any transaction costs incurred in the case of financial liabilities that are not measured at fair value through profit or loss. They are subsequently measured at amortised cost. Liabilities denominated in a foreign currency are measured using the buying rate on the reporting date.

Deferred taxes are recognised on different valuations of assets and liabilities in the consolidated statement of financial position and in the individual companies' statements of financial position for tax purposes if these different valuations will in future result in higher or lower taxable income than there would be according to the consolidated statement of financial position. In addition, deferred taxes are recognised on tax loss carryfowards of the individual companies. Deferred taxes are calculated based on the tax rates that are applicable or expected in the individual countries as at the effective date. There are currently no foreign Group companies.

Other financial instruments at ecotel are attributable to the "loans and receivables" category. On initial recognition, these are measured at their fair value including directly attributable transaction costs. They are subsequently accounted for at amortised cost using the effective interest rate method.

Sales and ***other operating income*** are generally recognised when the service has been performed or the assets have been delivered and the transfer of risk has thus taken place.

In the **ecotel Business Customers segment,** sales are mainly recognised as follows:

Sales from voice connections are recognised when the contractually agreed services are provided. Any portions calculated and billed to the customer in advance as contractually agreed (e.g. monthly fees calculated in advance) that have not yet been performed or provided are recognised with corresponding deferred sales on an accrual basis under sales.

Sales from data business are recognised when the service is provided. For contracts based on fixed prices (flat rates), sales are recognised pro rata over the term of the service agreement, while for all other service agreements they are recognised based on the service performed or on usage. Sales from contracts for services billed according to time expenditure and material costs are recognised at the contractually stipulated hourly rate when the work hours are worked and the direct costs are incurred.

Depending on the contractual arrangement, ***sales from the provision of hardware and data centre services*** are recognised either when these services are provided or in the form of monthly fees. ecotel generally supplies customers with preconfigured hardware (e.g. routers) that is still owned by ecotel and is activated at ecotel as a network component (end point at the customer).

In the **ecotel Wholesale segment,** sales are recognised when the contractual services have been performed. These primarily relate to trading in voice minutes for various national and international telecommunication providers. The services are recorded in a statistics portal. They are regularly compared with the suppliers/customers and billed on a monthly basis.

In the **easybell segment**, sales are recognised when the service is provided. Contracts are generally concluded on the basis of fixed prices (flat rates), which are recognised pro rata over the term of the service agreement, while for all other service agreements sales are recognised based on the service performed or on usage. The customer is generally supplied with preconfigured hardware (e.g. routers) that is still owned by ecotel and is invoiced on a monthly basis in the form of a usage fee.

In the **nacamar segment,** sales are generally recognised when the contractually agreed services have been performed. Any portions calculated and billed to the customer in advance as contractually agreed (e.g. monthly fees calculated in advance) that have not yet been performed or provided are recognised with corresponding deferred sales on an accrual basis under sales. Sales from contracts for services billed according to time expenditure and material costs are recognised at the contractually stipulated hourly rate when the work hours are worked and the direct costs are incurred.

Operating expenses are recognised in profit or loss when the service is utilised or when they are incurred.

Interest income and expenses are recognised on an accrual basis. Dividends are generally recognised as income when the claim to them becomes legally effective. Net finance costs also include capital procurement costs that are not offset against equity, such as costs to maintain the share price. Net income from companies accounted for using the equity method is reported separately within net finance costs.

Judgement and estimation uncertainties

When preparing the consolidated financial statements, judgements and assumptions were made and estimates were used that had an impact on the amount and presentation of the recognised assets, liabilities, income, expenses and contingent liabilities. ***Judgements*** primarily relate to the uniform definition of useful economic lives within the Group, the viability of future tax relief and the parameters on which impairment tests for cash-generating units are based. The assumptions on which the respective ***estimates*** are based and the corresponding carrying amounts are explained in the individual items of the statement of financial position and the statement of comprehensive income. In individual cases, the actual values may deviate from the assumptions and estimates made. Such deviations are taken into account in profit or loss when better knowledge becomes available. No significant risks as defined in IAS 1.125 that could be inherent in assumptions and estimates were identified at the time the consolidated financial statements were prepared.

Notes to the consolidated statement of financial position

(1) Intangible assets

Intangible assets developed as follows in the 2017 financial year:

thousand €	Goodwill	Concessions, industrial property rights and similar rights and asset	Internally generated intangible assets	Customer base	Advance payments/ developments	Total
Cost as at 1/1/2017	**14,427**	**5,170**	**3,747**	**9,769**	**125**	**33,238**
Additions	-	436	576	-	341	1,353
Reclassifications	-	-	277	-	-277	0
Disposals	-	111	-	-	-	111
As at 31/12/2017	**14,427**	**5,495**	**4,600**	**9,769**	**189**	**34,480**
Amortisation as at 1/1/2017	**5,553**	**4,254**	**2,308**	**8,608**	**0**	**20,723**
Scheduled additions	-	531	496	149	-	1,176
Disposals	-	111	-	-	-	111
As at 31/12/2017	**5,553**	**4,674**	**2,804**	**8,757**	**0**	**21,787**
Carrying amounts as at 31/12/2017	**8,874**	**821**	**1,796**	**1,013**	**189**	**12,693**

In the previous year, intangible assets developed as follows:

thousand €	Goodwill	Concessions, industrial property rights and similar rights and asset	Internally generated intangible assets	Customer base	Advance payments/ developments	Total
Cost as at 1/1/2016	**14,427**	**5,035**	**3,076**	**9,769**	**80**	**32,387**
Additions	-	311	387	-	329	1,027
Reclassifications	-	-	284	-	-284	0
Disposals	-	176	-	-	-	176
As at 31/12/2016	**14,427**	**5,170**	**3,747**	**9,769**	**125**	**33,238**
Amortisation as at 1/1/2016	**5,553**	**3,886**	**1,914**	**8,312**	**0**	**19,665**
Scheduled additions	-	543	394	296	-	1,233
Disposals	-	176	-	-	-	176
As at 31/12/2016	**5,553**	**4,254**	**2,308**	**8,608**	**0**	**20,723**
Carrying amounts as at 31/12/2016	**8,874**	**916**	**1,439**	**1,161**	**125**	**12,515**

The term of internally generated intangible assets has been adjusted from 5 years originally to between 5 and 7 years. This adjustment was necessary because the term of 5 years is no longer appropriate for all of ecotel's internally generated intangible assets. Internally generated intangible assets include systems that are essential to ecotel for marketing new products or facilitating modern, up-to-date communication with partners and customers. The adjustment resulted in a positive effect on amortisation of € 69 thousand.

The reported goodwill breaks down as follows:

Cash-Generating Unit (CGU) thousand €	Carrying amount 31/12/2016	Carrying amount 31/12/2017
Business Customers	8,732	8,732
easybell	124	124
carrier-services	17	17
Init-voice	1	1
	8,874	**8,874**

In accordance with IAS 36, impairment tests were performed in line with the discounted cash flow method in the past financial year to test for impairment of the reported goodwill. This was done based on the data from the respective corporate planning (forecast period: 5 years) and calculating the value in use. As in the previous year, there were no impairment requirements in the 2017 financial year.

The following assumptions were applied when performing the impairment test for the Business Customers CGU:

- Capitalisation rate (WACC) after taxes: 5.5% (previous year: 4.7%), before taxes: 7.6% (previous year: 6.5%)
- Growth rate (perpetuity): 0.5% (previous year: 0.5%)

When preparing the impairment test for the Business Customers CGU, the following key assumptions were made based on the management's experience supported by external information on anticipated market developments and were incorporated accordingly in the five-year cash flow forecast:

- Increasing gross income development of the CGU of between 50% and 53% (previous year: 49.0% and 50.0%)
- Annual sales growth of the CGU of between 4% and 5% (previous year: 3% and 5%)
- The future annual investment volume covers the annual depreciation and amortisation.

(2) Property, plant and equipment

Property, plant and equipment developed as follows in the 2017 financial year:

thousand €	Land, land rights and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and assets under development	Total
Cost as at 1/1/2017	**6,394**	**216**	**18,616**	**419**	**25,646**
Additions	21	39	3,673	22	3,754
Reclassifications	-	-	-	-	-
Disposals	501	73	381	-	955
As at 31/12/2017	**5,913**	**183**	**21,908**	**441**	**28,445**
Amortisation as at 1/1/2017	**4,946**	**125**	**11,886**	**217**	**17,174**
Scheduled additions	436	29	3,004	3	3,473
Non-scheduled additions	-	-	-	-	-
Disposals	501	73	380	-	954
As at 31/12/2017	**4,880**	**82**	**14,510**	**220**	**19,693**
Carrying amounts as at 31/12/2017	**1,033**	**101**	**7,398**	**220**	**8,752**

In the 2016 financial year, property, plant and equipment developed as follows:

thousand €	Land, land rights and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and assets under development	Total
Cost as at 1/1/2016	**6,304**	**169**	**16,894**	**392**	**23,759**
Additions	117	47	2,820	27	3,011
Reclassifications	-	-	-	-	-
Disposals	27	-	1,098	-	1,125
As at 31/12/2016	**6,394**	**216**	**18,616**	**419**	**25,646**
Depreciation as at 1/1/2016	**4,337**	**103**	**10,593**	**216**	**15,249**
Scheduled additions	636	22	2,389	1	3,048
Non-scheduled additions	-	-	-	-	-
Disposals	27	-	1,096	-	1,124
As at 31/12/2016	**4,946**	**125**	**11,886**	**217**	**17,174**
Carrying amounts as at 31/12/2016	**1,448**	**91**	**6,731**	**202**	**8,472**

Lease payments in subsequent years

As at the reporting date, there were the following obligations from operating leases:

thousand €	Up to 1 year	1 to 5 years	5 years or more	Total as at 31/12/2017
Operating and office equipment (leasing)	260	465	0	725
Other rental agreements	1,060	2,383	1,246	4,689
	1,320	**2,848**	**1,246**	**5,414**

The lease obligations from operating and office equipment mainly result from leases for company vehicles. Other rental agreements chiefly comprise rent for office space and the data centre.

As at 31 December 2016, there were the following financial obligations from operating leases:

thousand €	Up to 1 year	1 to 5 years	5 years or more	Total as at 31/12/2016
Operating and office equipment (leasing)	216	230	0	446
Other rental agreements	1,054	2,365	1,246	4,665
	1,270	**2,595**	**1,246**	**5,111**

The lease payments recognised as expense in the reporting period are shown in note 17.

(3) Investments accounted for using the equity method

Investments accounted for using the equity method break down as follows:

thousand €	Carrying amount (previous year)	Share of capital (previous year)
mvneco GmbH	704 (589)	33.3% (33.3%)

mvneco GmbH

mvneco GmbH acts as a technical service provider and advisor for mobile communication solutions and related managed services.

The table below presents the key data on mvneco GmbH (associated company):

thousand €	31/12/2016	31/12/2017
Current assets	2,483	2,612
Non-current assets	74	61
Current liabilities	776	560
Net assets (equity)	1,781	2,112
Pro-rata net assets	589	704
At-equity carrying amount	589	704

	2016	2017
Sales	5,499	5,242
Earnings	734	632

In the previous year, the total amount recognised for mvneco at the end of the year was € 589 thousand after the allocation of an outstanding loan receivable of € 679 thousand to mvneco's capital reserves on a pro rata basis for ecotel and the subsequent repayment of € 348 thousand to ecotel from the capital reserves and taking account of positive earnings of € 206 thousand. Taking account of pro rata positive earnings of € 215 thousand in 2017 and a repayment from the capital reserves in a pro rata amount of € 100 thousand, there was a value at equity of € 704 thousand.

SynergyPlus GmbH

The liquidation of SynergyPlus GmbH was completed in 2017 and the company thus ceased to exist as at 3 November 2017.

(4) Trade receivables and other financial and non-financial assets

thousand €	Remaining maturity of more than 1 year	Total as at 31/12/2016	Remaining maturity of more than 1 year	Total as at 31/12/2017
Trade receivables	0	9,295	0	9,294
Miscellaneous other receivables and assets	0	1,751	0	1,845
Other non-financial assets	0	674	285	996

The effect on earnings from the increase in specific valuation allowances on trade receivables is included in other operating expenses, while the effect from the reversal of specific valuation allowances is included in other operating income. The receivables do not bear interest and therefore are not subject to interest rate risk. Due to the very short-term payment dates, the carrying amounts correspond to the fair values.

As at 31 December 2017, there are receivables and liabilities with settlement balances agreements with customers and suppliers. The business activities in the ecotel Wholesale segment consist of trading in telephone minutes (wholesale) with national and international carriers. Netting is contractually agreed as a "reduced" payment in line with usual industry practice. The conditions (IAS 32.42) for net reporting in the statement of financial position were not fully met. At the time the statement of financial position was drawn up, these receivables and liabilities were settled in full.

thousand €	Gross (reported)	Netting	Net (cash flow)
Trade receivables	3,780	3,425	355
Trade payables	3,535	3,425	110

As at 31 December 2016, receivables and liabilities from settlement balances agreements broke down as follows:

thousand €	Gross (reported)	Netting	Net (cash flow)
Trade receivables	3,582	2,278	1,304
Trade payables	3,195	2,278	917

(5) Current and deferred income tax assets

thousand €	31/12/2016	31/12/2017
Deferred income tax assets	168	334
Current income tax assets	602	784
	770	**1,118**
Deferred income tax assets with a remaining term of more than one year	168	334

As in the previous year, the current income tax assets relate to income tax reimbursements from trade tax, corporation tax and capital gains tax.

(6) Cash

thousand €	31/12/2016	31/12/2017
Bank balances	7,450	6,385
Cash in hand and cheques	4	8
	7,454	**6,393**

(7) Equity

The development of the Group's equity is presented in the statement of changes in equity.

The number of **ecotel communication ag shares** outstanding as at 31 December 2017 was 3,510,000 (previous year: 3,510,000). The shares are issued as no-par-value shares with a pro-rata amount of the share capital of € 1.00.

Interests of non-controlling shareholders relate to direct minority interests in the equity (unchanged at 49.02%) of the easybell Group. This consists of easybell GmbH (€ 1,821 thousand, previous year: € 1,374 thousand) and the indirect minority interests in the equity of sparcall GmbH (€ 315 thousand, previous year: € 497 thousand), carrier-services.de GmbH (€ 990 thousand, previous year: € 884 thousand) and invoice GmbH (€ 109 thousand, previous year: € 74 thousand).

Aggregated key data of the easybell Group:

million €	31/12/2016	31/12/2017
Total assets	**8.4**	**8.9**
Cash and cash equivalents	5.6	5.9
Other current assets	1.6	1.5
Non-current assets	1.2	1.5
Total liabilities	**2.6**	**2.4**
Current liabilities	2.6	2.4
Non-current liabilities	0.0	0.0
Equity	5.8	6.5

million €	2016	2017
Sales	15.0	15.3
Profit	1.8	1.8
Cash flow	0.2	0.3

Share ownership

The table below shows the names of shareholders that held an interest of more than 3% in the share capital of ecotel communication ag at the end of 2017.

	2017
Peter Zils	28.49%
Intellect Investment & Management Ltd.	25.09%
IQ Martrade Holding und Managementgesellschaft mbH	9.97%
PVM Private Values Media AG	9.31%
Magic Assets Investment Ltd.	3.04%
Subtotal:	75.90%
Free float	24.10%

The notifications taken into account were those that resulted in disclosures in accordance with section 160 (1) no. 8 of the German Stock Corporation Act (AktG) in conjunction with section 20 (1) or (4) AktG or in conjunction with section 21 (1) or (1a) of the German Securities Trading Act (WpHG). The underlying notifications are described in detail in the annual financial statements of ecotel ag.

Authorised capital

By way of a resolution adopted by the Annual General Meeting on 28 July 2017, the Management Board of ecotel ag was authorised to increase the share capital of ecotel ag with the approval of the Supervisory Board one or more times by a total of up to € 1,755,000.00 in exchange for cash and/or non-cash contributions by 27 July 2022 by issuing new, no-par-value bearer shares (Authorised Capital). The Management Board did not make use of this authorisation in the year under review.

Capital management

The ecotel Group manages its capital with the primary objective of supporting its business activities and ensuring the long-term continuation of the company as a going concern. Capital management covers both the total reported equity and debt. Summarised quantitative disclosures on the capital managed can be found in the statement of financial position and in the corresponding disclosures in the notes. One important objective is to comply with the financial covenants agreed with the banks. These financial covenants relate to compliance with certain specifications for the equity ratio, the ratio of net financial liabilities to EBITDA and the ratio of EBITDA to sales. The financial covenants are reviewed as part of intra-year reporting. This also involves analysing future developments with regard to their impact on the financial covenants so that measures can be taken in good time where necessary.

For all current covenants, ecotel was well within the specified limits in the 2017 financial year and as at the reporting date.

(8) Liabilities from current and deferred income taxes

thousand €	Opening balance as at 1/1/2017	Utilisation	Reversal	Additions	Closing balance as at 31/12/2017
Current income taxes	411	411	-	760	760
Deferred income taxes	718	138	-	263	843
	1,129				**1,603**
Deferred income taxes with a term of more than one year	570				703

thousand €	Opening balance as at 1/1/2016	Utilisation	Reversal	Additions	Closing balance as at 31/12/2016
Current income taxes	508	508	-	411	411
Deferred income taxes	876	45	168	55	718
	1,384				**1,129**
Deferred income taxes with a term of more than one year	730				570

Other financial and non-financial liabilities

(9) Other financial liabilities, trade payables, provisions and other financial and non-financial liabilities

thousand €	Remaining maturity of up to 1 year	Total as at 31/12/2016	Remaining maturity of up to 1 year	Total as at 31/12/2017
Loans	**1,796**	**3,964**	**1,308**	**5,168**
Trade payables	**11,674**	**11,674**	**10,408**	**10,408**
Thereof liabilities to associated companies	21	21	16	16
Provisions	**29**	**29**	**54**	**54**
Other financial liabilities	**1,328**	**1,328**	**1,330**	**1,330**
Thereof social security liabilities	14	14	19	19
Thereof liabilities from wages and salaries	512	512	487	487
Thereof other personnel-related liabilities	170	170	334	334
Thereof liabilities for auditing/Supervisory Board	207	207	211	211
Other non-financial liabilities	**682**	**948**	**720**	**720**

As in the previous year, there were no derivative financial liabilities as at 31 December 2017. The loan liabilities relate to long-term loans with fixed interest rates and contractually agreed repayments. The short-term loan liabilities relate to the loan repayments due in 2018.

The provisions chiefly comprise possible obligations from warranties.

(10) Reporting on financial instruments

In the course of its ordinary business operations, the Group faces currency, interest rate and credit rating risks that could have an impact on its net assets, financial position and result of operations.

Foreign currency risk: Foreign currency risks arise from receivables, liabilities, cash and cash equivalents and planned transactions that are not in the Group's functional currency. As the currency risk after the expiry of the concluded hedges in previous years was low, no derivative financial instruments were used for currency hedging in the previous year or in the past financial year.

Interest rate risk: In the ecotel Group, interest rate risks can mainly arise from the Group's financial liabilities. Significant risks from negative changes in value that could result from unexpected interest rate changes are generally hedged against using financial derivatives. Due to the fixed interest on the reported loans, there were no interest rate risks (in this respect) as at the reporting date, so no hedges have been concluded for this. In order to counteract any future rises in market interest rates to some extent, ecotel has entered into an interest rate hedge.

Credit risk: A credit risk for the Group arises if transaction partners do not or cannot meet their payment obligations. The maximum default risk is presented in the accounts with the carrying amount of the respective financial asset. The development of the receivables portfolio is continuously monitored so that potential default risks can be identified at an early stage and appropriate measures can be initiated.

Accordingly, the valuation allowances for the receivables reported under the following items of the statement of financial position developed as follows in the Group:

Valuation allowances for receivables in 2017 (thousand €)	Trade receivables
As at 1/1/2017	156
Valuation allowances for the year under review	38
Disposals	19
	176

Valuation allowances for receivables in 2016 (thousand €)	Trade receivables
As at 1/1/2016	191
Valuation allowances for the year under review	2
Disposals	37
	156

The valuation allowances are fully attributable to the “loans and receivables” measurement category and relate solely to current assets.

As at 31 December 2017, there were receivables past due but not impaired in the following amounts:

Receivables past due but not impaired (thousand €)	Gross value as at 31/12/2017	Impaired receivables	Receivables not impaired but past due in the following time ranges				
			Up to 30 days	31–60 days	61–90 days	91–120 days	More than 120 days
Trade receivables	9,470	176	585	4,804	77	137	91
Other financial assets	1,845						
	11,315	**176**	**585**	**4,804**	**77**	**137**	**91**

If there are indications of impairment, specific valuation allowances are recognised on receivables past due that are at risk of default if the present value of these receivables’ future cash flows is lower than their reported carrying amount due to non-recoverability or impairment. Receivables that are not due and not impaired are expected to be recoverable in their full amount.

The non-impaired trade receivables past due by more than 120 days in the amount of € 91 thousand (previous year: € 87 thousand) relate to receivables that are still expected to be recoverable.

As at 31 December 2016, the situation was as follows:

Receivables past due but not impaired (thousand €)	Gross value as at 31/12/2016	Impaired receivables	Receivables not impaired but past due in the following time ranges				
			Up to 30 days	31 – 60 days	61 – 90 days	91 – 120 days	More than 120 days
Trade receivables	9,451	156	762	4.739	39	4	87
Other financial assets	1,751						
	11,202	156	762	4.739	39	4	87

Financial instruments measured at fair value can be classified according to the following measurement hierarchy, which reflects the extent to which the fair value is observable:

Level 1: Fair value measurements based on quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Fair value measurements based on inputs for the asset or liability that are observable either directly (as prices) or indirectly (derived from prices) and do not constitute quoted prices as defined in level 1.

Level 3: Fair value measurements based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

With the exception of non-current financial assets and long-term loans from banks, the carrying amounts reported in the following tables for financial assets and liabilities that are not accounted for at fair value represent a good approximation of their fair value, chiefly due to their short-term nature. The fair values shown in the following tables were measured using inputs for the asset or liability that are not based on observable market data (level 3). The market value of long-term loans is calculated over their term using current market interest rates and yield curves and taking account of the company's own credit risk.

The financial assets and liabilities can be broken down into measurement categories with the following carrying amounts:

Financial assets (thousand €)	31/12/2017			
	Fair value	Carrying amount		
		Cash and equivalents	Loans and receivables	Total
Cash and cash equivalents	n/a	6,393	-	6,393
Trade receivables	n/a	-	9,294	9,294
Other current financial assets	n/a	-	1,845	1,845
		6,393	**11,139**	**17,532**

The financial assets also include an interest rate cap that is allocated to the »At fair value through profit or loss« category. As at the reporting date, its fair value was € 59 thousand (previous year: € 0 thousand) and was calculated based on observable market data (level 2) using recognised measurement methods. Hedge accounting was not designated. Changes in value are recognised as other operating expense/income.

Financial assets (thousand €)	31/12/2017		
	Fair value	Carrying amount	
		Other liabilities	Total
Current loans	n/a	1,308	1,308
Trade payables	n/a	10,408	10,408
Other financial liabilities	n/a	1,330	1,330
Non-current loans	4,086	3,859	3,859
		16,905	**16,905**

As at 31 December 2016, the breakdown was as follows:

Financial assets (thousand €)	31/12/2016			
	Fair value	Carrying amount		
		Cash and equivalents	Loans and receivables	Total
Cash and cash equivalents	n/a	7,454	-	7,454
Trade receivables	n/a	-	9,295	9,295
Other current financial assets	n/a	-	1,751	1,751
		7,454	**11,046**	**18,500**

Financial assets (thousand €)	31/12/2016		
	Fair value	Carrying amount	
		Other liabilities	Total
Short-term loans	n/a	1,796	1,796
Trade payables	n/a	11,674	11,674
Other financial liabilities	n/a	1,328	1,328
Long-term loans	2,059	2,168	2,168
	2,059	**16,966**	**16,966**

Liquidity risk: The ecotel Group companies are generally refinanced centrally by ecotel communication ag. There is a risk here that the liquidity reserves may not be sufficient to meet the financial obligations on schedule. In 2018, principal payments with a nominal volume of € 1.3 million (previous year: € 1.8 million) are due. Cash and cash equivalents of € 6.4 million (previous year: € 7.4 million) are available to cover the liquidity requirements. In addition to the reported cash and cash equivalents, credit lines amounting to € 8.0 million (previous year: € 5.0 million) are available to ecotel as at 31 December 2017, up to € 1.0 million (previous year: € 1.0 million) of which may be used for guarantee liabilities. To secure financing for the planned growth of ecotel, an additional loan agreement for € 3.0 million was concluded on 29 December 2016 and paid out in January 2017. Financial covenants have been agreed in relation to the bank loans borrowed by ecotel communication ag (residual value: € 5.2 million; previous year: € 4.0 million) and the available credit lines. Failure to comply with the financial covenants could possibly result in termination and early repayment of the investment loans and the credit facility if no agreement can be reached on an adjustment of the financial covenants or on refinancing. Overall, the liquidity risk is considered to be low. The financial liabilities are expected to result in the following (undiscounted) payments in the coming years. All other financial liabilities are due within one year.

Principal/interest payments for financial liabilities (thousand €)	Carrying amounts as at 31/12/2017	Principal payments			Interest payments		
		2018	2019 to 2022	2023 onward	2018	2019 to 2022	2023 onward
Deposits by banks	5.168	1.308	3.859	0	133	128	0

As at the previous year's reporting date, the presentation was as follows:

Principal/interest payments for financial liabilities (thousand €)	Carrying amounts as at 31/12/2016	Principal payments			Interest payments		
		2017	2018 to 2021	2022 onward	2017	2018 to 2021	2023 onward
Deposits by banks	3,964	1,796	2,168	0	123	84	0

In accordance with IFRS 7, interest rate risks are generally presented using sensitivity analyses if the Group is exposed to such risks as at the reporting date. Primary floating-rate financial instruments whose interest payments are not designated as hedged items in cash flow hedges against interest rate risks, together with interest rate derivatives (interest rate swaps) that are not part of a hedging relationship in accordance with IAS 39, amounted to € 59 thousand as at the reporting date (previous year: € 0 thousand). On 31 December 2017, as at the previous year's reporting date, there were no primary financial instruments with fixed interest rates (financial liabilities) that were accounted for at fair value, as all financial instruments were accounted for at amortised cost. ecotel therefore was not exposed to any significant interest rate risks as defined in IFRS 7 on 31 December 2017. For this reason, no sensitivity analysis was performed for the risk from interest rate changes.

In accordance with IFRS 7, exchange rate risks are also presented using sensitivity analyses if the Group is exposed to risk variables as at the reporting date from the use of non-functional currencies in which Group companies enter into financial instruments. This likewise was not the case either in the previous year or as at 31 December 2017, so no sensitivity analysis was performed for the risk from exchange rate changes.

(11) Contingent assets and liabilities and other financial obligations

As at 31 December 2017, there were unrecognised liabilities from contingencies in the amount of € 601 thousand (previous year: € 588 thousand) for guarantee liabilities.

The carrying amount of the financial assets furnished as collateral totalled € 14 thousand as at 31 December 2017 (previous year: € 14 thousand).

Other financial obligations were entirely attributable to the obligations from operating leases described above.

Notes to the consolidated statement of comprehensive income

(12) Sales

thousand €	2016	2017
Breakdown of sales by segment		
ecotel Business Customers 45,325	45,325	47,620
ecotel Wholesale	54,437	55,778
easybell	15,140	15,234
nacamar	1,718	1,992
	116,620	**120,624**
Germany	72,436	69,667
International	44,184	50,957
	116,620	**120,624**

Sales are generated exclusively with the performance of services. Sales are broken down into German and international sales based on the customer location.

(13) Other operating income

Other operating income breaks down as follows:

thousand €	2016	2017
Non-cash benefits – use of vehicle	241	274
Income from dunning fees	75	58
Income from reversal of liabilities	123	41
Income from written-off receivables	3	14
Passing on fees and expenses	22	5
Reversal of specific valuation allowances on receivables	9	1
Other	221	160
	694	**553**

(14) Cost of materials

The cost of materials relates entirely to third-party services utilised.

(15) Staff costs

thousand €	2016	2017
Wages and salaries	11,374	11,791
Social security contributions	1,745	1,888
Thereof expenses for pensions and other benefits	822	898
	13,119	**13,679**

For all employees of Group companies in Germany, there is a defined contribution pension plan within the framework of German pension insurance, in which the employer must make contributions at a currently applicable rate of 9.35% (employer portion). There are no other pension plans.

The average number of employees at the consolidated companies in the financial year was as follows:

Employees	2016	2017
Salaried employees	218	231

(16) Depreciation, amortisation and impairment losses

A breakdown of depreciation and amortisation of intangible assets, property, plant and equipment and financial assets can be found in the notes on the respective item.

As in the previous year, the impairment tests performed did not result in any impairment losses on the goodwill of the cash-generating units in the 2017 financial year.

(17) Other operating expenses

thousand €	2016	2017
Partner and dealer commissions, selling expenses and advertising costs	4,459	4,380
Costs for technical maintenance and services	1,235	1,752
Other administrative costs	1,325	1,039
Legal, audit and consulting expenses	629	729
Rents, leases and occupancy costs	706	675
External logistics and field service	342	513
Lease instalments for vehicles	214	233
Change in specific valuation allowances on receivables/losses on receivables	369	226
Vehicle costs (not including lease instalments)	131	157
Other	485	718
	9,895	**10,421**

(18) Net finance costs

thousand €	2016	2017
Interest income		
Other interest and similar income	1	0
Interest income from long-term financial assets	10	-
	11	**0**
Interest expense		
Interest expense from loan liabilities	-173	-175
Other interest and similar expenses	-7	-16
	-180	**-191**
Net interest income	**-169**	**-191**
Other financial expenses and income		
Capital market management costs	-118	-117
Income from reversals of impairment losses on non-current financial assets	0	0
Net income from companies accounted for using the equity method	206	215
	88	**97**
Net finance costs	**-81**	**-94**

(19) Income tax expense

thousand €	2016	2017
Current income taxes	-837	-794
Deferred income taxes	298	41
	-539	-753

A reconciliation of the anticipated tax expense to the tax expense actually reported is presented below. To calculate the anticipated tax expense, earnings before income taxes are multiplied by a flat income tax rate of 31% (previous year: 31%) specified by the Group. This is made up of a tax rate of 15% (previous year: 15%) for corporation tax plus 5.5% (previous year: 5.5%) for the solidarity surcharge and 15% (previous year: 15%) for trade tax. The expected tax expense is compared with the actual tax expense.

The reconciliation of anticipated and actual income tax expense for the year under review and the previous year is as follows:

thousand €	2016	2017
Earnings before taxes	2,266	2,115
Group tax rate	**31.0%**	**31.0%**
Expected tax expense	-703	-656
Differences from tax rates deviating from the Group tax rate	52	47
Tax effect from changes in permanent differences	168	-
Tax effect due to tax-exempt income/expenses on profit distributions	-27	-27
Tax increases due to expenses that are not deductible for tax purposes	-16	-48
Taxes for previous years	-14	-146
Net income from equity investments	60	67
Other tax effects	-59	11
Tax expense according to income statement (expense - / income +)	-539	-753
Effective tax rate in %	**23.8%**	**35.6%**

Deferred taxes are calculated using the asset and liability method, under which tax relief and tax burdens that are likely to arise in the future are recognised for temporary differences between the carrying amounts recognised in the consolidated financial statements and the tax bases of assets and liabilities. If the temporary differences relate to items that directly increase or reduce equity, the associated deferred taxes are also directly offset against equity.

The deferred taxes are attributable to the following items:

thousand €	2016, assets	2016, liabilities	2017, assets	2017, liabilities
Property, plant and equipment/intangible assets/ non-financial assets	403	1,097	326	1,145
Trade receivables	0	24	0	24
Deferred taxes on loss carryforwards	168	0	334	0
Netting, assets/liabilities	-403	-403	-326	-326
	168	**718**	**334**	**843**

Deferred tax assets in a tax jurisdiction are offset against deferred tax liabilities in the same jurisdiction to the extent that the maturities match.

(20) Allocation of net profit to minority interests

The share of net profit attributable to non-controlling shareholders amounts to € 896 thousand (previous year: € 894 thousand) and relates to the pro rata annual results of easybell GmbH (€ 570 thousand; previous year: € 498 thousand), sparcall GmbH (€ 185 thousand; previous year: € 248 thousand), carrier-services.de GmbH (€ 106 thousand; previous year: € 133 thousand) and init.voice GmbH (€ 35 thousand; previous year: € 15 thousand).

(21) Earnings per share

In accordance with IAS 33, basic earnings per share are calculated as the ratio of the consolidated net income for the year attributable to the shareholders of ecotel communication ag and the weighted average number of bearer shares outstanding during the financial year.

Dilution of the earnings per share may occur if the average number of shares is increased by including the issue of potential shares from options and convertible financial instruments. As in the previous year, there were no such dilutive financial instruments as at 31 December 2017, meaning that basic and diluted earnings are identical.

	2016	2017
Attributable consolidated net income for the year (in €)	833,816.06	465,730.66
Weighted average number of shares	3,510,000	3,510,000
Basic earnings per share (in €)	0.24	0.13
Diluted earnings per share (in €)	0.24	0.13

Notes to the statement of cash flows

(22) Statement of cash flows

The statement of cash flows is prepared in accordance with IAS 7 and is broken down into cash flows from operating, investing and financing activities.

The cash and cash equivalents in the statement of cash flows correspond to the »Cash and cash equivalents« item reported in the consolidated statement of financial position.

Effective cash flows are allocated to ecotel's long-term and short-term loans. There are no ineffective cash flows.

	1/1/2017	Cash impact	31/12/2017
Long-term loans	2,168	1,692	3,859
Short-term loan	1,796	-488	1,308
Total loans from financing activities	3,964	1,204	5,168

Other notes

(23) Appropriation of net profit

In accordance with section 58 (2) of the German Stock Corporation Act (AktG), the relevant basis for ecotel's appropriation of net profit is the annual financial statements of ecotel communication ag, which are prepared in line with the provisions of German commercial law. The annual financial statements of ecotel communication ag show an unappropriated surplus of € 1,334 thousand (previous year: € 1,099 thousand). In the 2017 financial year, ecotel communication ag distributed a dividend of € 0.23 per eligible share for the 2016 financial year. A total of € 807 thousand was distributed to the shareholders.

(24) Related party disclosures

The volume of services performed or utilised by related parties is as follows:

	Volume of services performed by ecotel		Volume of services utilised by ecotel	
thousand €	2016	2017	2016	2017
mvneco GmbH				
– Trade receivables/payables	19	32	53	120

As at 31 December 2017, there were receivables from mvneco GmbH in the amount of € 4 thousand (previous year: € 2 thousand) and trade payables to mvneco GmbH in the amount of € 16 thousand (previous year: € 21 thousand).

The ecotel Group had service relationships with the following related persons (or their companies) in 2017:

	Volume of services performed by ecotel		Volume of services utilised by ecotel	
thousand €	2016	2017	2016	2017
MPC Serivces GmbH				
– Trade receivables/payables	3	3	346	351

Agreement with MPC Services GmbH

A commercial agency agreement is in place between MPC Services GmbH and ecotel. Under this agreement, MPC Services GmbH receives an acquisition commission and a product-based commission for monthly incoming orders based on the monthly sales of all customers acquired through MPC Services GmbH. The Supervisory Board member Mirko Mach is a managing director and partner of MPC Services GmbH. As at the reporting date, there were receivables from MPC Services GmbH in the amount of € 0 thousand (previous year: € 0 thousand) and liabilities of € 35 thousand (previous year: € 33 thousand).

In 2017, Ms Frau Sandra Zils, the wife of the Chairman of the Management Board, received remuneration as an employee of ecotel communication ag totalling € 10 thousand (previous year: € 9 thousand) for her work in the ecotel Group.

(25) Segment reporting

ecotel ag changed its segment reporting as at 31 December 2017. As a result of business changes during 2017, particularly in the ecotel Wholesale segment and in private customer solutions (B2C) in the New Business segment, we have adjusted our internal business management in line with these developments. This accordingly results in a change in segmentation. This adjustment was made retrospectively in the consolidated financial statements in accordance with IFRS 8.29.

The internal organisational and management structure and the internal reporting to the Management Board and the Supervisory Board form the basis for defining ecotel's segments.

Segmentation is based on the internal reporting by business areas, which can be differentiated as follows:

- In the ecotel Business Customers segment (the core operating segment), ecotel offers business customers throughout Germany an integrated product portfolio of voice and data services (ICT solutions) from a single source. In this segment, ecotel also provides products as a supplier for other ICT companies (e.g. resellers).
- In the ecotel Wholesale segment, ecotel offers cross-network trading in telephone minutes (wholesale) for national and international carriers.
- In the easybell segment, broadband internet connections and VoIP telephony for private customers and SIP trunking offers for smaller companies are marketed.
- In the nacamar segment, the company offers its own content delivery network (CDN) streaming services for media companies.

Segment earnings, a figure that is used by the Management Board for corporate management and monitoring, refer to annual earnings before interest, taxes, depreciation and amortisation (EBITDA). The segments presented here are prepared in line with the Group's accounting policies. There are consequently no valuation adjustments.

In the 2017 financial year, there were three international carriers with which the Wholesale segment generated a sales volume of more than 10% of consolidated sales (€ 13.5 million, € 13.1 million and € 22.9 million). In 2016, more than 10% of consolidated sales were generated with two international carriers (previous year: € 19.4 million and € 20.7 million).

thousand €	ecotel Business Customers 2016	ecotel Business Customers 2017	ecotel Wholesale 2016	ecotel Wholesale 2017	easybell 2016	easybell 2017	nacamar 2016	nacamar 2017	Cross-segment consolidation 2016	Cross-segment consolidation 2017	Group 2016	Group 2017
External sales	45,325	47,620	54,437	55,778	15,140	15,234	1,718	1,992	-	-	116,620	120,624
Intersegment sales	-	-	829	1,031	379	354	-	-	-1,207	-1,385	0	0
Gross income	21,732	22,693	360	382	5,514	5.857	839	945	-	-	28,445	29,876
EBITDA	3,853	3,688	-130	-81	2,995	3,045	-88	205	-	-	6,629	6,858
Depreciation and amortisation	-3,770	-4,099	-	-	-398	-444	-113	-106	-	-	-4,281	-4,649
Unscheduled impairment	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	82	-410	-130	-81	2,597	2,602	-202	98	-	-	2,348	2,209

Intersegment transactions were performed at market prices. The Group's sales were mostly generated in Germany. Sales were broken down into German and international sales based on the customer location. For further information, please refer to the disclosures on sales. All assets and investments are attributable to Germany.

(26) Declaration on corporate governance in accordance with section 289f and section 315d of the German Commercial Code (HGB) including the declaration in accordance with section 161 of the German Stock Corporation Act (AktG)

The Management Board and Supervisory Board of ecotel communication ag have issued the declaration on corporate governance required in accordance with section 289f and section 315d of the German Commercial Code (HGB) and the corporate governance report including the declaration stipulated in section 161 of the German Stock Corporation Act (AktG) and have made them permanently available to the public online (www.ecotel.de under Investor Relations/Corporate Governance).

(27) Remuneration of key management personnel (disclosures in accordance with section 314 HGB and IAS 24)

Total remuneration in thousand €	Peter Zils 2016	Peter Zils 2017	Achim Theis 2016	Achim Theis 2017	Johannes Borgmann 2016	Johannes Borgmann 2017
Fixed remuneration	330	330	220	220	147	-
Fringe benefits	23	23	17	17	13	-
One-year var. remuneration	33	13	33	59	-	-
Multi-year var. remuneration	-	-	-	-	-	-
Total remuneration	**386**	**366**	**270**	**296**	**160**	**-**

Mr Johannes Borgmann left the Management Board of ecotel communication ag with effect from 31 August 2016. In addition to his contractually agreed monthly salary components, Mr Borgmann was also paid € 227 thousand as severance pay in the 2016 financial year. The payment is reported in the disclosures on termination benefits and in the disclosures on total remuneration for former members of the Management Board.

The performance-based variable remuneration is tied to a sustainable business development over a three-year period. In addition to fixed remuneration and fringe benefits, the Management Board is entitled to securely earned variable remuneration of € 72 thousand for the 2017 financial year (previous year: € 66 thousand). After deducting the remuneration components already paid, corresponding liabilities were recognised. The remuneration consists entirely of short-term benefits. Remuneration for the 2017 financial year thus amounted to € 662 thousand (previous year: € 816 thousand).

The table below shows the remuneration of the Supervisory Board:

Supervisory Board remuneration in thousand €	2016	2017
Dr Norbert Bensel (Chairman of the Supervisory Board)	25	24
Mirko Mach (Deputy Chairman of the Supervisory Board)	20	19
Dr Thorsten Reinhard	14	14
Brigitte Holzer	13	14
Sascha Magsamen	14	14
Tim Schulte Havermann (from 22 July 2016)	7	14
Dr Barbara Bludau (until 22 July 2016)	9	-
Total	**102**	**99**

Since September 2016, ecotel has also included the two authorised signatories among its key management personnel in accordance with IAS 24 in addition to the Management Board and Supervisory Board members. The total remuneration for all key management personnel thus amounts to € 1,160 thousand (previous year: € 1,279 thousand including severance payment of € 227 thousand) and is all short-term. For further information on the remuneration of the Management Board and the Supervisory Board, please refer to the statements in the Group management report.

(28) Auditor’s fees

In the 2017 financial year, the expensed fee for the auditor of the consolidated financial statements of ecotel ag for auditing services in relation to the consolidated financial statements and the separate financial statements of the parent company and consolidated subsidiaries amounted to € 90 thousand (previous year: € 97 thousand). As in the previous year, no expenses were recognised for the auditor for other assurance services, tax consulting services or other services.

(29) Events after the reporting period

No significant changes occurred between the end of the financial year and the preparation of the consolidated financial statements on 16 March 2018.

(30) Exemption from disclosure

The option of exemption from disclosure of the separate financial statements in accordance with section 264 (3) of the German Commercial Code (HGB) was exercised for the subsidiary nacamar GmbH.

Düsseldorf, 16 March 2018
The Management Board

Peter Zils *Achim Theis*

Independent Auditor’s Report

To ecotel communication ag, Düsseldorf

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of ecotel communication ag, Düsseldorf, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of ecotel communication ag for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the »Other Information« section of our auditor’s report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the “Other Information” section of our auditor’s report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and

German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

1. Allocation of revenue to the correct periods

   Our presentation of this key audit matter has been structured as follows:

   1. Matter and issue
   2. Audit approach and findings
   3. Reference to further information

Hereinafter we present the key audit matter:

1. Allocation of revenue to the correct periods
   1. IRevenue amounting to EUR 121 million is reported in the income statement in ecotel communication ag's consolidated financial statements. Revenue is generally recognized as of the date on which the service has been rendered or the asset has been delivered. In order to allocate revenue to the correct periods, revenue from monthly base fees for voice connections and data services from already invoiced but not yet rendered services is deferred to the relevant periods. The Company determines these relevant revenue groups on the basis of systems analyses. As of December 31, 2017, EUR 2.7 million in revenue was already invoiced but not recognized until financial year 2018. Taking into account the fact that a material share of monthly revenue is deferred by the Company, there is an increased risk that revenue will be recognized in the wrong period as at the end of the financial year. Against this background, this matter was of particular significance for our audit.
   2. As part of our audit, we began by assessing the appropriateness and effectiveness of the processes and controls established by the Company for revenue recognition. On the basis of that, we carried out substantial audit procedures to assess the allocation of revenue to the proper periods. Among other things, we conducted analytical assessments of the amounts deferred in each month over the course of the year. In addition, we assessed customer invoices on a test basis to ascertain whether the revenue was recognized in the financial year in which the agreed services were rendered and the assets were delivered.

      We were able to satisfy ourselves that the revenue deferral was sufficiently documented and substantiated in order to ensure that revenue was properly allocated to the correct periods.

   3. The Company's disclosures relating to the peculiarities of revenue allocation to proper periods in the consolidated financial statements of ecotel communication ag are contained in the notes to the consolidated financial statements in the section »Accounting policies«.

Other Information
The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section »VII. Statement on Corporate Governance and Corporate Governance Report« of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- therwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report
The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

– Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

– Conclude on the appropriateness of the executive directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

– Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group’s position it provides.

– Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on July 28, 2017. We were engaged by the supervisory board on September 14, 2017. We have been the group auditor of the ecotel communication ag, Düsseldorf, without interruption since the financial year 2015.

We declare that the audit opinions expressed in this auditor’s report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Verena Heineke.

Düsseldorf, March 16, 2018
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

sgd. Verena Heineke	sgd. Jörg Klein
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Supervisory Board report

The Supervisory Board of ecotel communication ag (ecotel) regularly monitored the Management Board's work and supported it with advice in the 2017 financial year. This was based on detailed written and verbal reports by the Management Board. In addition, the Chairman of the Supervisory Board regularly exchanged information and ideas with the Chairman of the Management Board.

The Supervisory Board and the Management Board of ecotel met four times in total in the year under review, on 22 March 2017, on 1 June 2017, on 28 July 2017 and on 6 December 2017. The Supervisory Board also held one meeting by telephone. In addition, three resolutions were adopted by way of circulation. At the meetings, the Management Board of ecotel regularly informed the Supervisory Board about fundamental issues relating to corporate planning, the company's profitability, the course of business and the company's position and discussed these issues together with the Supervisory Board. The Supervisory Board was also involved in important decisions and particularly examined and approved measures by the Management Board that required its approval in accordance with the rules of procedure for the Management Board.

(1) Focus of Supervisory Board discussions

At all of its meetings in 2017, the Supervisory Board was informed in detail about the course of business and the company's position. Focus areas included the development of the Business Customers segment, major supplier agreements and customer projects and the development of the market situation and its regulatory conditions.

The Supervisory Board was also continuously informed about the subsidiaries easybell GmbH and nacamar GmbH and the equity investment in mvneco GmbH and discussed their strategic development with the Management Board. With regard to nacamar GmbH, the discussions focussed on the realignment of the company and a major customer project.

The Supervisory Board also dealt with various personnel matters. For example, at its meeting on 6 December 2017 it extended Mr Peter Zils' appointment as Chairman of the Management Board by three years. With regard to internal structural issues, the Supervisory Board discussed matters including the reorganisation of customer support, the replacement of a central software platform and the establishment of an internal audit focussing on transactions relating to customers that are subject to the "Minimum Requirements for Risk Management" formulated by the German Federal Financial Supervisory Authority. The Supervisory Board also dealt with two cases in which ecotel Group companies were damaged by criminal activities, although not to a substantial extent.

As in the past, the Supervisory Board paid particular attention to risk management issues again in the year under review. The Supervisory Board discussed the Management Board's regular risk reports and made its own suggestions with regard to risk management. The Supervisory Board satisfied itself that the Management Board gives the necessary attention to risk monitoring, comprehensibly prioritises the risks it identifies and endeavours to reduce them using appropriate measures.

Other significant resolutions adopted by the Supervisory Board in the year under review related to the proposal for the appropriation of net profit to be made to the Annual General Meeting to distribute a dividend of € 0.23 per share.

At the Supervisory Board meeting on 22 March 2017, the focus was on the review and approval of the annual and consolidated financial statements for 2016. In addition, various contracts between ecotel and companies in which members of the Supervisory Board hold interests were approved by the Supervisory Board at the meeting on 22 March 2017.

(2) Handling of conflicts of interest in the Supervisory Board

All members of the Supervisory Board are committed to the principle of basing their decisions solely on the business interests of ecotel. Any conflicts of interest or concerns regarding conflicts of interest that arose in Supervisory Board discussions or resolutions were handled in the Supervisory Board. In each case, the Supervisory Board member in question did not take part in the discussion and abstained from voting on the resolution. By questioning the Management Board, the other Supervisory Board members also ascertained with sufficient certainty that its actions were not influenced by the (potential) conflict of interest of the Supervisory Board member in question. During the financial year, the above principles took effect only in relation to the Supervisory Board resolution on the approval of contracts between ecotel and companies in which members of the Supervisory Board are involved. This related to Mr Mirko Mach.

(3) Annual and consolidated financial statements

The Management Board prepared the annual financial statements and management report of ecotel in accordance with the German Commercial Code and prepared the consolidated financial statements and Group management report in accordance with IFRS principles. The auditor for ecotel as elected by the Annual General Meeting of ecotel on 28 July 2017, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the annual financial statements, the consolidated financial statements, the management report and the Group management report. It issued an unqualified audit opinion for the annual financial statements and the consolidated financial statements.

The auditor carried out a review in accordance with section 317 (4) of the German Commercial Code (HGB) and concluded that the Management Board has set up a monitoring system that is capable of detecting developments that pose a risk to the company’s continued existence at an early stage.

The auditor submitted the statement of independence required by the German Corporate Governance Code to the Supervisory Board and disclosed the auditing and consulting fees incurred in the respective financial year to the Supervisory Board.

The financial statement documents and the auditor’s reports were available to all members of the Supervisory Board for review. Representatives of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft took part in the Supervisory Board’s deliberations on these documents and reported on the main findings of their audit. The Supervisory Board thoroughly examined the annual financial statements, consolidated financial statements, management report, Group management report and the proposal for the appropriation of net profit submitted by the Management Board and discussed these with the auditor. The Supervisory Board acknowledged and approved the auditor’s report on the findings of its audit. Based on the final results of its review, the Supervisory Board did not raise any objections to the annual financial statements or the consolidated financial statements prepared by the Management Board for the 2017 financial year, but instead approved the annual financial statements and the consolidated financial statements by way of a resolution adopted on 20 March 2018. The annual financial statements of ecotel for the 2017 financial year were thus approved.

(4) Corporate governance

No member of the Supervisory Board attended less than half of the Supervisory Board meetings.

In the year under review, the Management Board and the Supervisory Board issued a joint declaration of compliance with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG) on 13 March 2017. The most recent joint declaration of compliance by the Management Board and the Supervisory Board was made on 8 March 2018. The declarations were each made permanently available to the public on the company's website.

(5) Changes in the Supervisory Board in the year under review

There were no changes in the Supervisory Board in the year under review.

(6) Changes in the Management Board in the year under review

There were no changes in the Management Board in the year under review.

Mr Peter Zils was reappointed as Chairman of the Management Board of ecotel for another three years with effect from 1 March 2018. Accordingly, his employment contract now ends as at 28 February 2021. Mr Zils is responsible for the Strategy & Business Development, Wholesale and Technology, Finance, Investor Relations and Human Resources departments.

(7) Committees

The Supervisory Board has formed a three-person Audit Committee that particularly deals with accounting, risk management and compliance issues. In the year under review, the Audit Committee held four meetings at which it particularly discussed the intra-year financial reports and the annual and consolidated financial statements for 2017. The Audit Committee also discussed the internal control system. As before, the Audit Committee consists of Ms Brigitte Holzer (Chairwoman), Mr Mirko Mach and Mr Sascha Magsamen.

The Supervisory Board has also formed a three-person Nomination Committee that prepares nominations for the Annual General Meeting and also takes on the tasks of a Personnel Committee. As before, the Nomination and Personnel Committee consists of Dr Thorsten Reinhard (Chairman), Dr Bensel and Mr Tim Schulte Havermann. This committee held two meetings in the 2017 financial year.

The Supervisory Board would like to thank the members of the Management Board of ecotel and all employees of the ecotel Group companies for their great commitment to the company and the work they performed in 2017.

Düsseldorf, 20 March 2018
For the Supervisory Board:

Dr Norbert Bensel
Chairman of the Supervisory Board

Glossary

All-IP
The term all-IP refers to the unifying changeover of previous transmission technologies in telecommunications networks to an internet protocol (IP) basis. As a consequence, services such as telephony, television and mobile communications are no longer provided using traditional circuit switching, but instead using the network protocol with packet switching that is common in computer networks.

CDN
A content delivery network (CDN), also known as a content distribution network, is a network of locally distributed servers connected via the internet that is used to deliver content (particularly large media files).

Centrex
Centrex refers to the application of the centrex principle in IP telephony and means the provision of a telephone system's functions by a provider in the public network.

Cloud computing
Cloud computing describes the approach of providing abstract IT infrastructure (e.g. computing capacity, data storage, network capacity or completed software) dynamically based on the requirements via a network.

Fibre-optic cables
Fibre-optic cables are cables and lines for the transmission of light that are made of optical fibre and are sometimes fitted with plug connectors. The light is transmitted in fibres of fused quartz or plastic (polymer optical fibre). The cables typically bundle several optical fibres that are also mechanically reinforced to protect and stabilise the individual fibres.

Fraud
Fraud is a collective term for different types of economic crime in general and corporate crime in particular.

FTTH
FTTH (fibre to the home or fibre all the way to the home) refers to the routing of fibre-optic cables from data centres directly to the home of the subscriber.

IP
The internet protocol (IP) is a common network protocol in computer networks and forms the basis for the internet. It represents the implementation of the internet layer of the TCP/IP model and the network layer of the OSI model. IP is a connectionless protocol, i.e. no status is established at the communication partners.

IPsec
Extension of the internet protocol (IP) to establish a virtual private network (VPN).

LEC
A local exchange carrier (LEC) is an operator of local networks for telephony that connects subscribers to its networks and thereby provides network connections.

LTE
Long-Term Evolution (LTE) is a fourth-generation mobile communications standard (3.9G standard) that can achieve considerably higher download rates of up to 300 megabits per second. The basic structure of UMTS is retained in LTE. This enables UMTS technology infrastructures (3G standard) to be upgraded to LTE Advanced (4G standard) rapidly and cost-effectively.

M2M
Machine-to-machine stands for the automated exchange of information between devices such as machines, vehicles and containers with one another or with a central control centre, increasingly using the internet and different access networks such as the mobile network. One application is the remote monitoring, control and maintenance of machines, equipment and systems, which is traditionally referred to as telemetry. M2M technology combines information and communication technology.

MPLS
Multiprotocol label switching (MPLS) allows for the connection-based transmission of data packets in a connectionless network along a previously established (»signalled«) path.

MVNE
While a mobile virtual network operator (MVNO) develops, operates and markets its own services as a virtual network operator, a mobile virtual network enabler (MVNE) acts as a partner to the MVNO. It operates the necessary infrastructure to connect the MVNO's services to the communications infrastructure of a mobile network (including for the transmission of large quantities of data).

NGN
In telecommunications, next generation network (NGN) or next generation access network (NGA network) refers to the network technology that replaces traditional circuit-switched telecommunications networks, such as phone networks, cable TV networks and mobile networks, with a uniform packet-switched network infrastructure and architecture and is compatible with the older telecommunications networks.

PBX hosting
This term refers to a dedicated telephone system for a customer, including customers with several locations, that is provided centrally in a data centre. The locations are connected via IP data networks and external calls are transmitted using a central SIP trunk set up in the telephone system.

PoP
A point of presence (PoP) refers to a physical node for a connection to a (private) data network.

QoS
Quality of service (QoS) serves to give priority to voice traffic when other types of data, such as computer data, are also being transmitted on the same data line at the same time.

Server farm
A server farm is a group of networked server hosts of the same type that are connected to a logical system (also referred to as a data centre). It optimises internal processes by distributing capacity utilisation between the individual servers and speeds up computer processes by using the computing power of several servers.

Session border controller
A session border controller (SBC) is a network component for secure linking of different computer networks or computer networks with different security requirements. SBCs are chiefly used in IP telephony networks (VoIP) to link external (non-secure) data networks with internal (secure) IT structures and to implement so-called sessions.

SIP trunk
SIP is the abbreviation for session initiation protocol. SIP trunk refers to a technology with which IP-based telephone systems can administer several phone numbers via a single account. The traditional SIP process is characterised by the fact that each device needs a separate account for each phone number. By contrast, SIP trunking makes it possible to administer several extension numbers with one account. This option is particularly popular with companies, which generally require several devices with their own phone numbers.

Vectoring
VDSL2 vectoring is an enhancement of VDSL2 that aims to reduce unwanted crosstalk between adjacent connecting lines for subscribers. This can sometimes significantly increase the transmission rate, particularly in unshielded cable bundles of standard telephone networks and with many VDSL subscribers. The method is described by the ITU-T in the standard G.993.5.

VoIP
Voice over IP refers to voice services based on the internet protocol (VoIP services) that are comparable to traditional telephone services in terms of quality and product design. The distinguishing feature of VoIP services is that their users can make phone calls on the basis of a packet-switched data network. This may be the internet or a managed IP network.

Financial calendar

15 May 2018	Publication of quarterly financial report (Q1)
20 July 2018	Annual General Meeting
14 August 2018	Publication of half-year financial report
13 November 2018	Publication of quarterly report (Q3)

Credits

Photography Thorsten Schmidtkord

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ecotel communication ag
Prinzenallee 11
40549 Düsseldorf, Germany
Phone: +49 (0) 211 55 007-0
Fax: +49 (0) 211 55 007-222
info@ecotel.de
www.ecotel.de