ecotel®
all around communication

Annual Report 2007

Key Data

Amounts in € million	2005	2006*	2007
Revenues	34.8	56.3	93.2
Business	32.0	37.5	67.4
Wholesale	2.3	18.4	20.7
Other	0.5	0.4	5.1
Gross profit	11.7	16.0	29.6
Business	11.3	14.6	27.1
Wholesale	0.2	1.2	1.5
Other	0.2	0.2	1.0
EBITDA	2.5	4.5	9.2**
as % of revenues	7.2%	8.0%	9.9%
EBIT	2.1	3.7	6.0**
as % of revenues	6.0%	6.6%	6.5%
Consolidated net income	1.4	2.1	3.3
Earnings per share*** (€)	0.53	0.64	0.90
Excluding deferred taxes	0.50	0.78	1.08
Total assets	8.0	27.7	61.6
Equity	2.3	19.2	28.6
as % to total assets	28.8%	69.3%	46.4%
Number of shares as of 12/31	2,565,000	3,500,000	3,900,000
Net debt	-1.5	-9.4	13.9
as a multiple of EBITDA	n/a	n/a	1.51
Employees as of 12/31	85	148	217

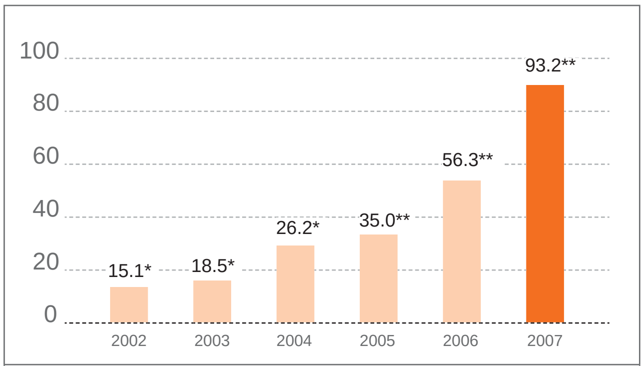
* The figures for 2006 have been adjusted in accordance with IAS 8.42. For more details, see the Notes to the consolidated financial statements.

** Includes earnings in the amount of € 2.2 million from non-recurring projects

*** Basic and diluted

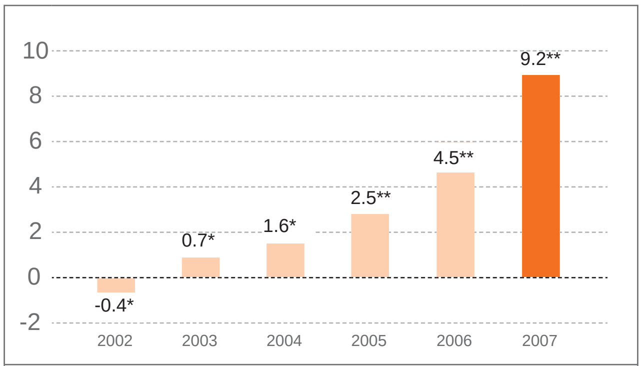
Primary Cash Flow Data Amounts in € million	2005	2006	2007
Financial funds as of 01/01	1.5	1.5	9.4
Cash flow from operating activities	1.5	2.6	6.5
Cash flow from investing activities	-1.2	-9.3	-28.9
Free cash flow	0.3	-6.7	-22.4
Cash flow from financing activities	-0.3	14.6	16.9
Financial funds as of 12/31	1.5	9.4	3.9

Revenues in Mio.€



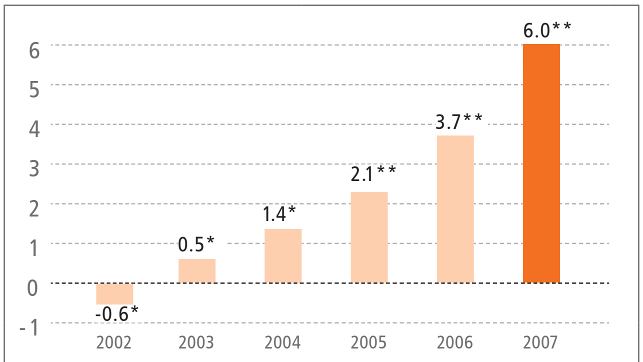
*individual financial statements according to HGB **consolidated financial statements according to IFRS

EBITDA in Mio.€



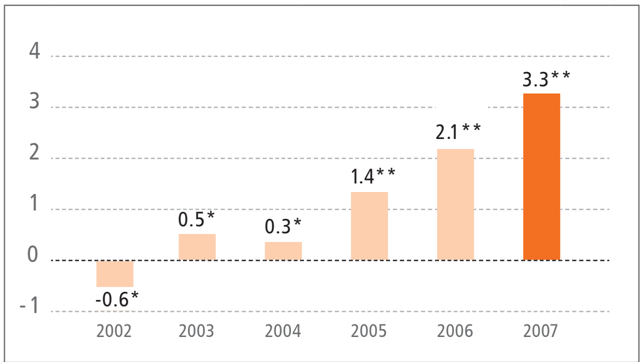
*individual financial statements according to HGB **consolidated financial statements according to IFRS

EBIT in Mio.€



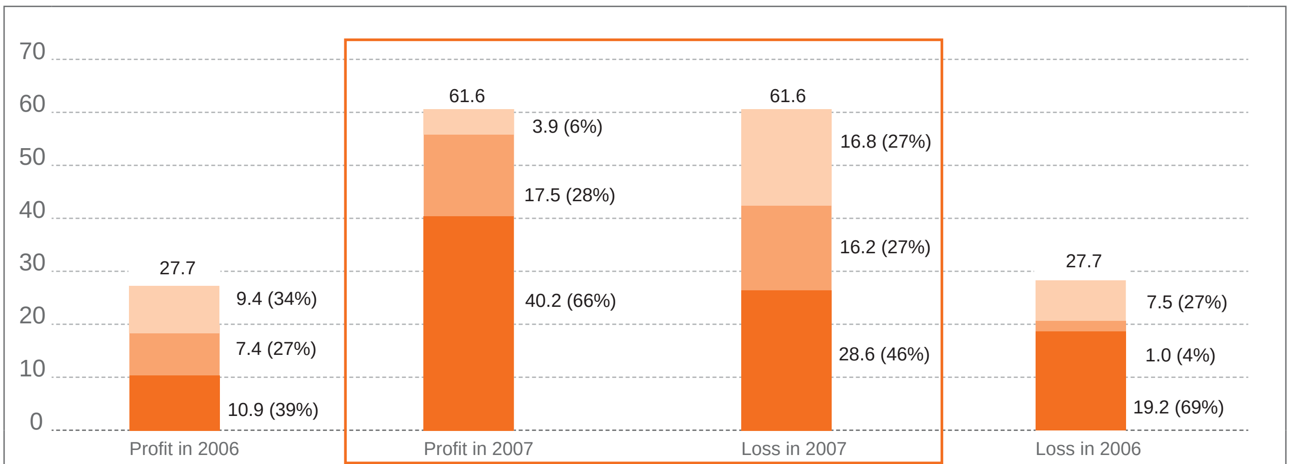
*individual financial statements according to HGB **consolidated financial statements according to IFRS

Earnings in Mio.€



*individual financial statements according to HGB **consolidated financial statements according to IFRS

Assets and liabilities in Mio.€



Assets: non-current asset, current assets*, cash and cash equivalents

Liabilities: equity, non-current provisions and liabilities, current provisions and liabilities

*Operating capital including prepayment and accrued interest less cash and cash equivalents

Key Data ▶

Company profile

ecotel communication ag, a telecommunications company active throughout Germany, has specialized in three business areas.

In its core unit, Business Solutions, ecotel is one of the first companies in this branch to offer an integrated product portfolio of voice, data, and mobile communication solutions as a complete package out of one hand. Throughout Germany, ecotel supplies more than 45,000 business customers with standard and individualized telecommunications solutions and consistently follows a strategy of fixed mobile convergence (FMC), the merging of fixed-line and mobile communications.

In its second business unit, Wholesale Solutions, ecotel markets pre-market products to other telecommunications companies and outside marketers. Using modern enabling and communication platforms, these companies obtain access to the entire ecotel product portfolio, such as unbundled local loop and broadband connections or mobile broadcasting solutions. At the same time, ecotel achieves high economics of scale in this area and thereby an increase in creation of value-added for the core business customers segment.

In the third unit new business, new promising business fields and niches are being pursued by subsidiaries, which operate independently and on partly-owned companies. In addition to PPRO, easybell, ecotel private and toBEmobile, the new media business will also be transferred into the new business unit.

ecotel communication ag is headquartered in Düsseldorf, Germany. Including its subsidiaries, it currently has 220 employees. ecotel is among the fastest growing technology companies in Germany and for three years running, was placed among the 50 best German companies in the Deloitte competition “Technology Fast 50.”

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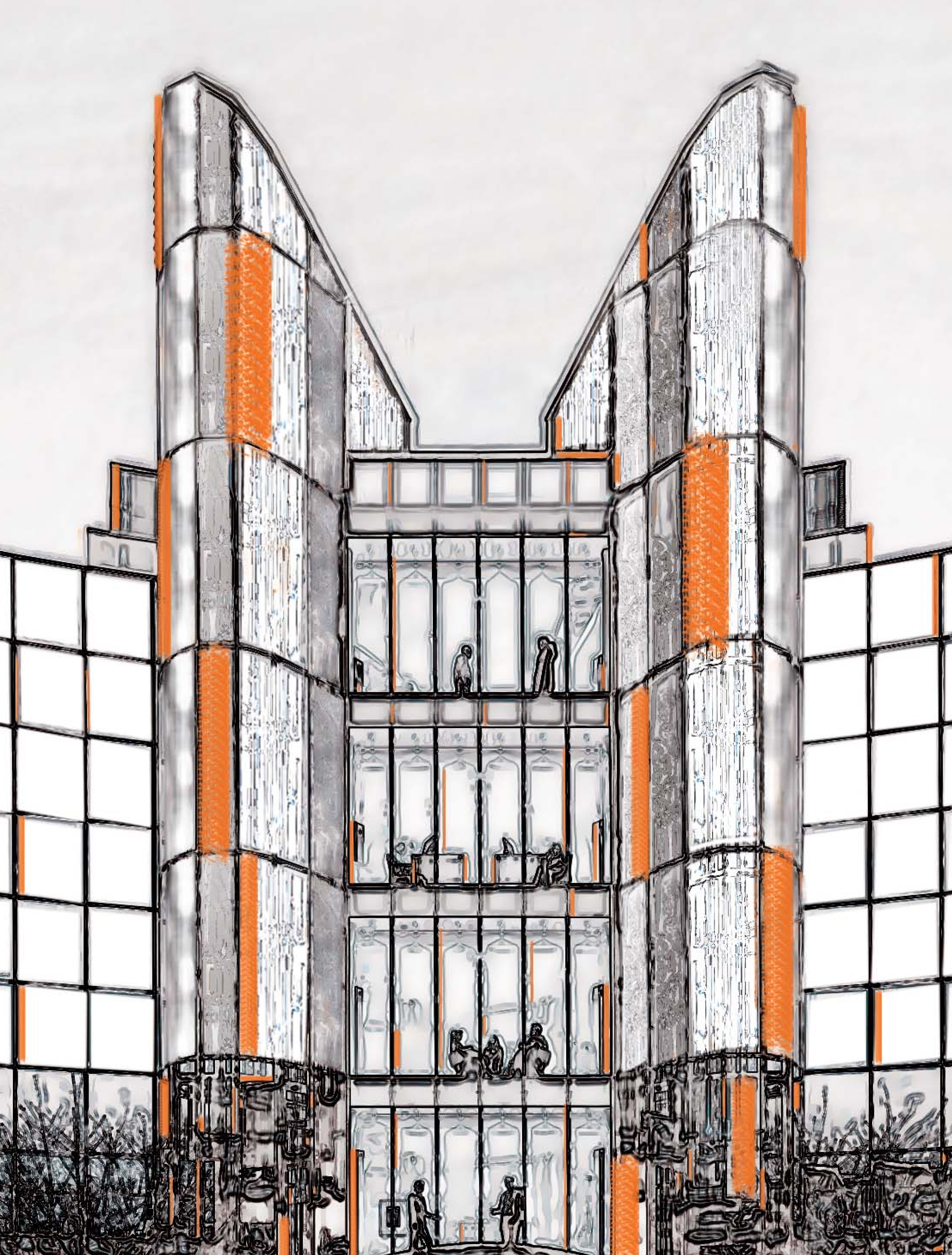


Foreword from the Management Board

Dear ladies and gentlemen, valued shareholders,
In its tenth year of existence, the ecotel Group after a very eventful year in 2007 was able to continue the profitable growth of previous years. Revenues rose by 66% compared to 2006, from € 56.3 million to € 93.2 million. The EBITDA increased over that of last year by 104%, from € 4.5 million to € 9.2 million and EBIT climbed by 62%, from € 3.7 million to € 6.0 million. The net income after minority interests increased by 56% from € 2.1 million to € 3.3 million. This corresponds to earnings per share of € .90, compared to € 0.64 last year. Adjusted for deferred taxes, the earnings per share in 2007 are € 1.08.

The growth of the pure numbers for 2007 clearly documents positive development. However, we cannot be completely satisfied due to the unexpected correction of the profitability of nacamar GmbH. In September in 2007, following the acquisition of Tiscali Business Unit, which is today called nacamar GmbH and which was completed in March, it became apparent that the financial information given to us in 2006, which formed the basis for planning in 2007,was from ecotel´s point of view overestimated. Our reviews have been completed in the meantime regarding to what extent legal steps against the seller can be taken to achieve a purchase price reduction. We will naturally keep you abreast of the situation and of course inform about any possible lawsuit.

Unfortunately, these events affected our share price. At the beginning of the year, the share was valued at € 12 and climbed to over € 17 in the second quarter, but as a result of the profit warning issued in September, the shares finished the year trading at € 7.44. Since the IPO in March 2006, the ecotel share price has at times even dropped to one-third of the initial price, despite revenues and EBIT having tripled in the same period. Thus, the call for us to convince the capital market of our healthy business model through our investor relations activities is all the more clear.

During the fiscal year 2007, there were many positive events that will shape the business development of the ecotel Group on a lasting basis.

By taking over Tiscali Nacamar GmbH in February 2007, ecotel strengthened its know-how in the area of professional data services and new media services. It simultaneously built up its business customer base to 40,000 customers.

In April 2007, mvneco GmbH was founded with a 45% participation on the part of ecotel. The managed services portfolio provided by mvneco enables other carriers to market their own mobile communication services.

At the end of June 2007, ecotel was again able to build up its customer base by taking over ADTG Allgemeine Telefondienstleistungs GmbH. Since then, it has been providing 45,000 business customers all over Germany with telecommunication solutions. At the same time, ecotel entered into a long-term marketing relationship with the former shareholders of ADTG GmbH, who in the marketing business alone have approximately € 30 million in revenues from other network operators.

By taking on a majority of the shares in easybell GmbH and PPRO GmbH, a step completed in July 2007, ecotel has acquired new fields of business that are ripe for growth in the areas of unbundled DLS local loop access and internet-based payment systems.

In August, ecotel completed its segment change on the stock market from Entry Standard to Prime Standard, and in so doing created the basis for access to a broader circle of investors.

In August 2007, the first large customer, a national-wide consumer network provider listed on TecDax, was also able to take its independent mobile communication solution live using the mvneco GmbH platform. In the fourth quarter, ecotel itself was able to begin marketing its own new mobile communication solution as an MVNO on the basis of this managed service platform. Since then, ecotel has been one of the first companies in this economic sector to offer business customers fixed-line services and mobile communication solutions out of one hand, on one invoice (will go live and begin supply of the first SIM cards in February 2008).

Finally, we were able to increase the average revenue per customer (ARPU) via targeted cross-selling measures. The access line contracts already on hand totaling more than 20,000 as of the end of 2007 made a major contribution to this success. Due to processing delays on the part of Deutsche Telekom, half of these will not become activated until 2008.

Through the use of new bundled products with a combination of voice, data, and mobile services we are advancing the development of the fixed mobile convergence (FMC) project and are expecting continuous and sustained growth in revenue per customer as a result.

In addition, we place great hopes on the potential of the CAP service platform currently being built. Starting in May 2008, we hope to also be able to offer other telecommunication companies and outside marketers services along the complete processing chain for the handling of DSL consumer connection lines, including the transfer of telephone numbers and Voice over IP.

Due to the widely varied investment in new processes and systems which will make new products possible for both the business customer and wholesale segments, the success and therefore the earnings for 2008 are only predictable to a limited extent. For this reason, we expect 2008 revenues between €100 and 110 million. The earnings position will be affected by the current legal cases with various one-time effects, on the profit as well as the loss side. We expect that the EBITDA for 2008 (adjusted for any one-time earnings or expenses) will settle in at the previous year's level of € 7 million. In the meantime, as EBIT is contingent on high scheduled amortization of intangible assets, the EBITDA has increasingly replaced EBIT as the gauge for assessing the earning power of the company at ecotel. Consequently, EBITDA will in the future be used by ecotel as the prime indicator for expected earnings.

In order to enjoy the benefits of the synergies from our acquisitions following the stormy growth period of 2007, our goal for 2008 is to achieve the broadest possible consolidation of our subsidiaries. That is why the business of the ecotel Group will in future have three main focal points for the continued strengthening of the competitive position of the company: business customers, wholesale, and new business.

Finally, we would like to thank all the employees of ecotel Group for their performance and their contribution to the success of the firm, and we would like to thank our customers, our business associates, and our shareholders for their good and trusting collaboration. We are convinced that with our strategy and our drive for success, the success story of ecotel will be continued in 2008.

Düsseldorf, Germany, March 28, 2008

Achim Theis
(CSO, Management Board)

Peter Zils
(CEO, Chairman of the Board)

Bernhard Seidl
(CFO, Management Board)

BUSINESS MODEL

Business Model

ALL AROUND COMMUNICATION – SUCCESS FOR YOUR BUSINESS!

In the last ten years, ecotel has chosen a path that distinguishes it from many telecommunications companies. We offer a concept based on ideas and solutions shaped by dedicated people and the latest technology, all focused on one single goal: making communication for our business customers and our business associates as comfortable, as secure, and as economical as possible.

Expansion of business areas

To further strengthen its competitive position, the business of the ecotel Group will in the future rest on three pillars: **business customers**, **wholesale**, and **new business**. The voice, data, and mobile communication business of ecotel, nacamar, and ADTG will be integrated together in the segment business customers. The company also expects the highest earning power as well as organic growth of its set of customers from this business unit. The segment wholesale is to remain as a previously existing pillar, through which ecotel serves other carriers, resellers, and outside marketers, achieving at the same time high volumes and attractive purchasing conditions. In the segment new business, new business fields and niches ripe for growth will be taken up by subsidiaries, which continue to operate independently, and partially-owned companies. In addition to PPRO, easybell, ecotel private, and toBEmobile, the segment new media, hitherto located within nacamar, will be transferred into an independent business unit, thus receiving greater independence and importance within the ecotel Group.

ecotel – on a continuous growth curve

Even in comparison to other technology companies in the telecommunications and IT environment, ecotel can again successfully contend with its above-average growth rates. In the 2007 Deloitte competition for the “Technology Fast 50,” ecotel was placed among the 50 fastest growing technology firms in Germany, for the third time in a row.

Deloitte. 2005 Technology Fast 50 Deutschland

Deloitte. 2006 Technology Fast 50 Deutschland

Deloitte. 2007 Technology Fast 50 Deutschland

The three pillars of the business model

Business report	business customers	wholesale	new business
Mark	ecotel, ADTG, nacamar	ecotel, mvneco	nacamar, toBE mobile, ppro, easybell, ecotel private
Target group	small and medium-sized enterprises corporate clients	other telecommunication provider outside marketers	radio and media companies web 2.0- potal carrier online marketers „No Frills“ customers

The four "success factors" for our core segment, business customers

By entering the mobile communication market, ecotel was able to successfully broaden its prior product portfolio and be among the first companies in its branch to be able to offer business customers comprehensive fixed-line telephone and data services combined with mobile communication solutions from one source, on one invoice. With this broadened product portfolio, the following four points comprise the "cornerstones" of our core business with corporate customers:

- Our **business customers** will have access to individualized, project-specific solutions and access to fixed contact people
- To efficiently gain customers through **effective sales structures** for small, medium, and large customers
- **Low-cost basis** with quasi-variable costs through the use of the ecotel platforms and by taking advantage of the oversupply of network infrastructure services
- **Integrated product portfolios** consisting of customized voice, data, and mobile solutions from one source, on one invoice.

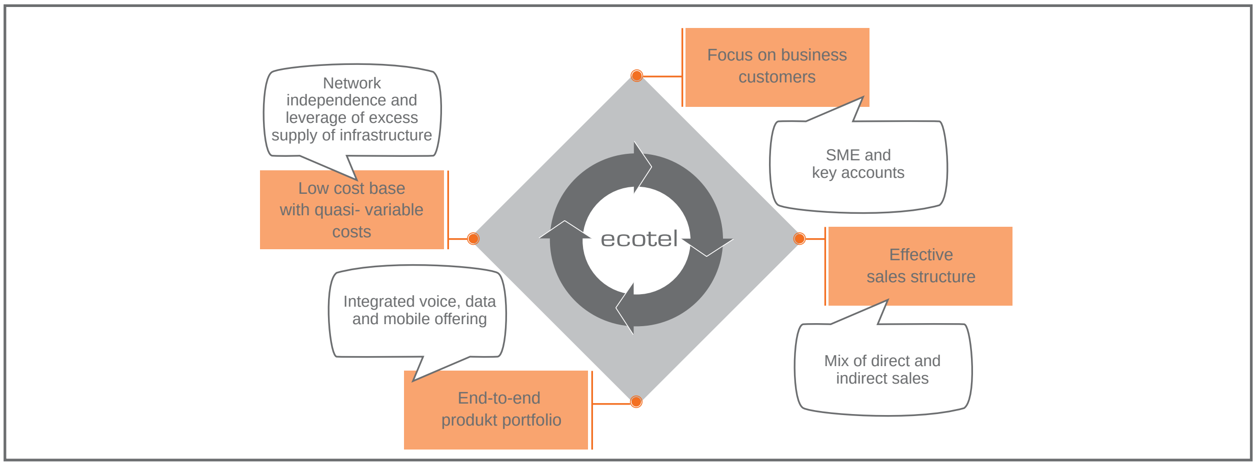
These cornerstones provide the basis for the present success of the ecotel business model and at the same time, the perspectives for an ongoing profitable growth course.

Fixed mobile convergence and Carrier Aggregation Platform as a new driver of growth

After ecotel took the step to become a virtual network operator of fixed-line networks in 2006, another milestone was reached in September 2007 with the expansion of the company as a mobile virtual network operator (MVNO). These strategic measures create the preconditions necessary in order to remain competitive amidst the expected future changes in the telecommunication market.

Due to the consolidation of fixed-line and mobile communications, fixed mobile convergence (FMC) presents new challenges as well as unique growth opportunities. In order to participate in this development, we are bringing our entire innovative strength to bear on the development of new processing and systems areas. These include the CAP (Carrier Aggregation Platform) platform, now being developed, through which we will make the complete allocation and invoicing of DSL, local loop, and mobile communication products possible for other telecommunication companies, service providers, and outside marketers.

Success factors for our core business



ecotel Shares

ecotel increased its capital stock on June 28, 2007 and July 12, 2007 from 3,500,000 shares by 400,000 shares to a total of 3,900,000 shares. The new shares were all issued in exchange for a fixed asset transfer upon the acquisition of ADTG Allgemeine Telefondienstleistungs GmbH and 51% of the shares in PPRO Wertkartenverkauf GmbH.

In the third quarter, ecotel communication ag completed the previously announced change to the Prime Standard segment. On Monday, August 6, 2007, the capital stock of the company with 3,900,000 no-par value shares was admitted to the official market of the Frankfurt Stock Exchange with simultaneous admission to the subsection of the official market which has additional requirements, the Prime Standard. A public offering did not take place in conjunction with the segment change. And in doing so, ecotel was the fourth company since the introduction of the Entry Standard to make the transfer to Prime Standard.

Variations in the share price 2007

While DAX, representing largecap firms, grew by 22% in 2007, and TecDAX even rising by 30%, the performance of the second-line stocks came in much lower. Thus, the MDax fell by 5% and SDax by 7%; Entry Stand Index even showed a decline of 23%.

The development of the ecotel share price in 2007 was disappointing. After the share price progressed very positively in the first and second quarters of 2007, reaching its high in May 2007 at € 17.86, the ecotel share price was put under significant pressure in the third quarter due to news about the difficulties of a former large shareholder and the profit warning. The share price fell from € 12.24 at the beginning of the year to € 7.44 at the end of the year.

Average daily trading in 2007 was 12,000 shares a day, compared to 5,000 in the previous year. At the year’s end, ecotel had a market capitalization of € 29.0 million and a share price of € 7.44.

Investor Relations

In 2007, various investor relations activities were undertaken. Two road shows were conducted in order to raise the level of recognition of the company name and to create contact with new interested investors. Updated research coverage of the ecotel share was carried out by SES Research. A securities prospectus was created for the segment change into Prime Standard, which provided good insight into the firm. In addition, we made presentations at investor fairs, such as at the Close Brother Forum in Frankfurt. On top of that, we completely reworked the Investor Relations section of the ecotel website. Information on the company, such as quarterly reports, press releases, financial calendars, and the individual current company presentations can be viewed from the new Investor Relations internet page by all investors immediately after publication.

Shareholder structure

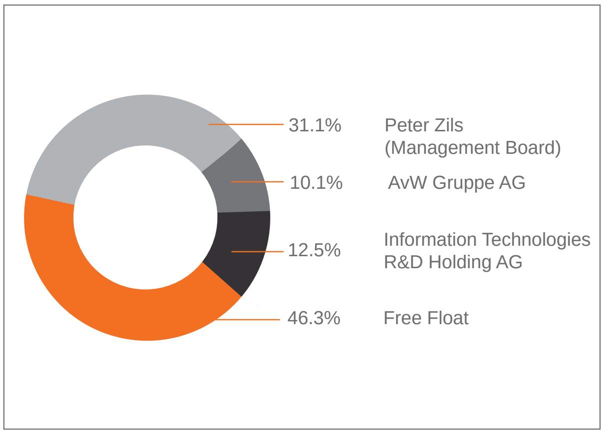
During 2007, there were significant changes in the ownership of ecotel shares. In the second quarter of 2007, a large part of the shares held by older shareholders were replaced; the free float was increased and a new core investor found. As of June 30, 2007, the ecotel capital stock amounted to 3,500,000 shares, of which the Absolute Activist Value Master Fund Ltd. held more than 25%. At the beginning of the third quarter, the company's capital stock was increased by 400,000 shares to 3,900,000 shares. At the end of October, all the shares of Absolute Activist Value Master Funds had been replaced. Large investors in the company on December 31, 2007, are AVW Gruppe AG, with 10.1%, and Information Technologies R&D Holding AG, with 12.5%. Peter Zils (CEO of ecotel), with 31.1% of the voting shares, continues to be the largest shareowner of ecotel. The free float is approximately 46%.

Overview of ecotel shares

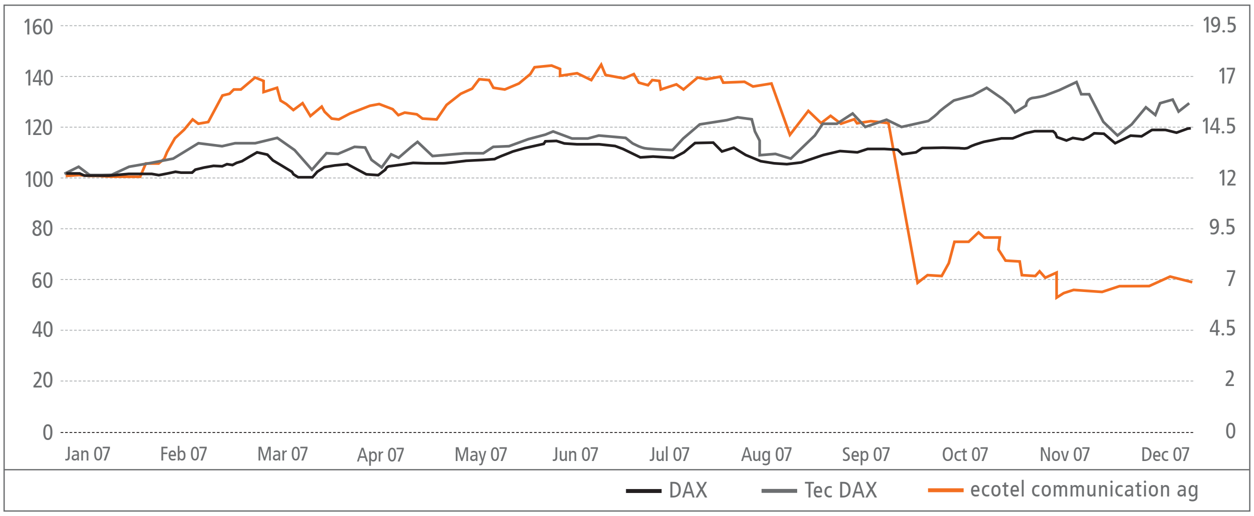
WKN	585434	Initial listing	29.03.2006
ISIN	DE0005854343	Number of shares*	3,900,000
Symbol	E4C	Average daily trading volume in 2007	11,974
Market segment as of 01.07.2007	Prime Standard	Share price high 2007 (€)	17.86
		Share price low 2007 (€)	5.81
Index	CDAX, Prime All Share, Technology All Share	Market capitalization (€ m)*	29.0
Type	no-par value shares	Designated Sponsor	Close Brothers Seydler

* Based on the closing share price on December 28, 2007 of € 7,44 per share.

Shareholding (31.12.2007) in percent



Variations in the ecotel share price in percent and Euro



GROUP MANAGEMENT REPORT

BUSINESS AND GENERAL CONDITIONS

1. OVERVIEW OF ECOTEL

The company is a telecommunications firm active in Germany that was founded in 1998 upon the liberalization of the German telecommunications market. ecotel groups its products and services into two complementary business units: “Business Solutions” and “Wholesale Solutions.”

Business Solutions

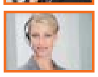
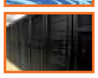
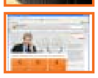
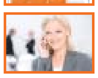
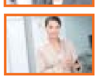
In its core segment, Business Solutions, ecotel provides comprehensive telecommunications solutions nation-wide to small and medium-sized companies as well as to certain large enterprises in the form of voice, data, and value-added services, together with mobile service solutions, all from one source, pre-sented on one invoice.

The company’s voice product portfolio has until recently been dominated by voice telephony via preselection. Starting at the end of 2005, this offering was broadened to include direct connections, a step that allowed ecotel to offer complete solutions for telephone and internet connections, including individualized invoicing. As a result, ecotel was able to provide more services covering the complete spectrum of the telecommunication needs of its business customers and could adjust appropriately to changing demand.

The data product portfolio was built up and professionalized through the acquisition of Tiscali Nacamar GmbH in February 2007. As a result of this acquisition, ecotel was able to expand its service portfolio to include the secure networking of company locations (VPN), housing and hosting services, and new media services.

In the new media services segment, a B2B product portfolio is now offered for recording, coding, and distributing audio and video content on the internet through the use of what is called a streaming module. With this service, data such as videos, music, and other media content is transmitted by way of a corresponding network (media delivery network) via the internet, live or on demand. In this way, for example, programs from local and interregional radio and TV stations can be broadcast worldwide.

product portfolio ecotel

Fixed-line services	Voice	Voice connection		Access lines or VoIP direct connection
		Telephony		Per minute rate, minute packages, or flat rate
		Value-added services		Service numbers (0800, 0180x, 0900)
	Data	Data connection		Via xDSL or leased lines, including flat rate
		VPN/Security		Safe business networking via IP VPN
		Hosting / Housing		Coding and transfer of audio and video content over the internet
		Multimedia streaming		Coding and transfer of audio and video content over the internet
Mobile services	Voice			Attractive convergence products
	Data			Integration with fixed-line network for VPN solutions

In addition, ecotel is now offering its own mobile services for business customers in cooperation with mvneco GmbH (founded in April 2007). The first step toward providing mobile services took place in September 2006 via the acquisition of 51% of the shares of the mobile telephone company toBEmobile GmbH, which markets its own prepaid SIM cards with discount rates and offers low-cost mobilephone calls in foreign countries at reduced roaming rates. Since September 2007, our own mobile service products have also been offered to business customers and have been activated since early 2008.

Due to our new orientation based on the strategy of broadening our product portfolio and the consolidation of our ownership of majority holdings, the composition of revenues at ecotel improved significantly in 2007. While in the previous year approximately 95% of sales from business customers came from voice and value-added services, this segment only comprised 62% of the total picture in 2007. The remaining product segments, voice and data connections (26%), new media (6%), hosting (5%), and mobile services (1%), therefore made up 38% of total revenues from business customers and thus underscored the clear structural change.

Depending on the target group, marketing is carried out both via direct sales and through affiliates, and as a result, ecotel now has broad access to small and medium-sized firms. The approximately 500 active marketing partners include telecommunications brokers, IT consultants, and systems vendors. In addition, by using target-group specific solutions, ecotel has been successful in establishing relationships with more than 100 purchasing associations.

Currently, the company serves more than 45,000 business customers all over Germany in all economic sectors by providing standard and individualized telecommunications solutions.

Wholesale Solutions

ecotel groups its services to other telecommunications companies and to outside marketers of telecommunications services under the business unit Wholesale Solutions. To this end, since August 2005 the company has been active in the area of internetwork trading with telephone minutes (wholesale) for national and international carriers and has thus at the same time achieved an increase in the value-add for its core segment, Business Solutions.

Restrained use of its own infrastructure

The company has a Germany-wide backbone network of 3,000 km for internet and data services at its disposal, in addition to its own computer center in Frankfurt. ecotel also has its own central voice communication technology. The network interconnection with about 100 other carriers puts the company in a position to achieve gross margins similar to those of network admini-strators, though with an almost entirely variable cost basis.

On the IT end, ecotel runs its own order management and billing systems so that it can react flexibly and quickly to new customer requests and can promptly implement new products in its systems. In the new media segment, nacamar has its own streaming and coding platforms. The mobile communications company mvneco has a complete central mobile service platform consisting of signaling, messaging, and application modules.

Locations and employees

The headquarters of ecotel communication ag is located in Düsseldorf, Germany. At the end of 2007, the company employed 102 staff members, including the Management Board and trainees, but excluding subsidiary companies; this was 14 employees fewer than at the end of 2006.

2. LEGAL STRUCTURAL CONDITIONS OF THE COMPANY

Voting shares issued by ecotel communication ag have been admitted to the regulated Frankfurt Stock Exchange market in its Prime Standard segment. The Frankfurt Stock Exchange is an organized market in the sense of § 2 Section 7 of the German Securities Acquisition and Takeover Act (WpÜG).

Management Body

The legal body for management and representation of ecotel communication ag is the Management Board. According to § 5 of the articles of association of the company, the Board consists of at least two members. Aside from this stipulation, the Supervisory Board determines the number of members of the Management Board. The Supervisory Board can name a chairman and a deputy chairman of the Management Board. Deputy members of the Management Board can also be appointed. The members of the Management Board are appointed for a maximum of five years. A repeat appointment or an extension of the duration of the appointment is permissible, in either case for a maximum of five years. The Supervisory Board may revoke the appointment of a Board member or the appointment of the chairman in the event that significant grounds are present. According to the articles of association of the company, the Supervisory Board is to determine the rules of procedure for the Management Board. This was done by the Supervisory Board in its resolution of February 3, 2006.

According to § 6 Section 1 of the articles of association of the company, ecotel is to be legally represented by two members of the Management Board or one member of the Board together with an authorized representative. The Supervisory Board has made use of its authority and has determined that the current members of the Management Board are individually entitled to represent the company. Currently, Messers Peter Zils (CEO), Bernhard Seidl (CFO) and Achim Theis (CSO) make up the Management Board of the company.

Remuneration of the members of the governing body

Remuneration of the members of the ecotel Management Board is determined based on § 87 of the German Stock Corporation Law (AktG) and includes a set basic annual salary plus a variable component for two members of the Board. The variable part is dictated according to the achievement of fixed targets based on EBIT and overall Group revenues. The targets are set annually by the Supervisory Board. ecotel has taken out an appropriate D&O insurance policy for the members of the Management Board.

In addition, two members of the Management Board participate in a stock option plan. In this way, the members of the Management Board are tied into the longterm growth in value of the firm, which also serves the purpose of achieving increased loyalty to the firm as well.

The members of the Supervisory Board receive fixed and variable annual remuneration. ecotel has also taken out an appropriate D&O insurance policy for the members of the Supervisory Board.

Changes in the articles of association

According to § 179 of the AktG, every change in the articles of association must be based on a resolution of the Annual General Meeting. Exceptions to this are changes in the articles of association that involve only the way the way in which they are worded; the Supervisory Board is empowered to make such changes.

If not expressly forbidden by law, resolutions of the Annual General Meeting are passed with a simple majority of the votes cast, and, if the law prescribes a majority of the capital in addition to the majority of votes, with a simple majority of the capital stock represented at the time of the making of the resolution.

Capital Position

Capital stock

At the end of 2007, the capital stock of the company amount to € 3,900,000. The capital is divided into 3,900,000 bearer common stock shares. The shares were issued as no-par value shares corresponding to a proportional amount of the capital stock of € 1.00. The capital stock in the amount of € 3,900,000 has been completely paid in. Every no-par value share gives the bearer one vote at the Annual General Meeting. There are no restricted voting rights. Currently, ecotel does not own any of its own shares. No differential voting rights exist with regard to the shares. Limitations on the voting rights or the transfer of shares, such as may arise from agreements among shareholders, are not known to the Management Board.

Approved capital

The Annual General Meeting of July 27, 2007 passed a resolution authorizing the Management Board, with the approval of the Supervisory Board, to increase the number of new bearer no-par value shares in a one-time sale or through several sales up to a limit of € 1,750,000 for cash or in-kind investments (approved capital 2007). The authorization extends to July 26, 2012. The number of shares must be increased by proportionately the same amount as the capital stock. The Management Board did not make use of this authorization in the fiscal year 2007.

Conditional capital

The Annual General Meeting of July 27, 2007 approved the increase of capital stock by an amount of up to € 1,500,000 through the issue of 1,500,000 bearer no-par value shares (authorized capital I). The conditional increase in capital serves exclusively to give shares to the owners of options and/or convertible bonds, based on the authorization of the Annual General Meeting of the company of July 27, 2007, or to give a direct or indirect ownership of shares in the company in return for cash paid in. The authorization extends to July 26, 2012. The Management Board did not make use of this authorization in the fiscal year 2007.

In addition, the Annual General Meeting of July 27, 2007 voted to authorize the creation of conditional capital to serve the 2007 stock option plan. Under this resolution, the capital stock of the company may be increased by up to € 150,000 through the issuance of up to 150,000 bearer no-par value shares (conditional capital II). The conditional increase in capital serves exclusively the fulfillment of subscription rights that were granted by the authorization of the Annual General Meeting of July 27, 2007 which last until July 26, 2012. On October 1, 2007, 145,000 stock options were granted to the ecotel Management Board and top managers as part of the stock option plan.

Authorization to acquire its own shares

With the resolution of July 27, 2007, the Annual General Meeting authorized the company to acquire its own shares up to a total of 10% of the capital stock existing at the time of the passage of the resolution. The authorization may not be used by the company for trading in its own shares. In combination with the other shares owned by the company or shares that are to be allocated to it according to §§ 71a ff. of the AktG, at no point may the acquired shares amount to more than 10% of the capital stock. During the fiscal year 2007, the company made no use of the authorization to acquire and purchase its own shares.

Capital holdings and control rights

The following table shows the names of the shareholders who owned more than 10% of the capital stock as of the end of fiscal year 2007. No differential voting rights exist with regard to the shares.

Shareholder	Ownership of shares (in %)
Peter Zils	31.05 %
AvW Gruppe AG	10.12 %
Information Technologies R&D Holding AG	12.45 %
Total	53.62 %

There are no owners of stocks with special rights that give controlling authority. There is no voting right control for the case in which employees hold company shares and do not directly exercise their control rights.

Effects of potential takeover offers

There are no material agreements between ecotel and other persons who would be affected by a change of control as a result of a takeover offer. One member of the Management Board has a special termination claim in the case of a change of control to compensation in the amount of € 75,000 for every calendar year between the date of change of control and August 31, 2010. No such agreements exist for the other members of the Management Board that foresee compensation in the event of a takeover offer.

3. STRUCTURE AND HOLDINGS OF THE COMPANY

ecotel private ag

ecotel private ag is a 100% subsidiary of ecotel communication ag. The company was founded in 2003 for the purpose of marketing white label services; it markets primarily voice services through outside marketers to currently over 1,000 private customers. ecotel private has its headquarters in Düsseldorf.

PhaseFive AG

Phasefive AG is an IT firm founded in 2000 with headquarters in Düsseldorf; ecotel took over 100% ownership in May 2006 as part of the DSLCOMP merger. Phasefive holds 99.6% of the shares in Phasefive R&D Ltd., an IT subsidiary located in the Ukraine which develops supply, portal, and billing software for telecommunications suppliers, including for parts of the ecotel IT system. At the end of 2007, Phasefive employed two permanent employees.

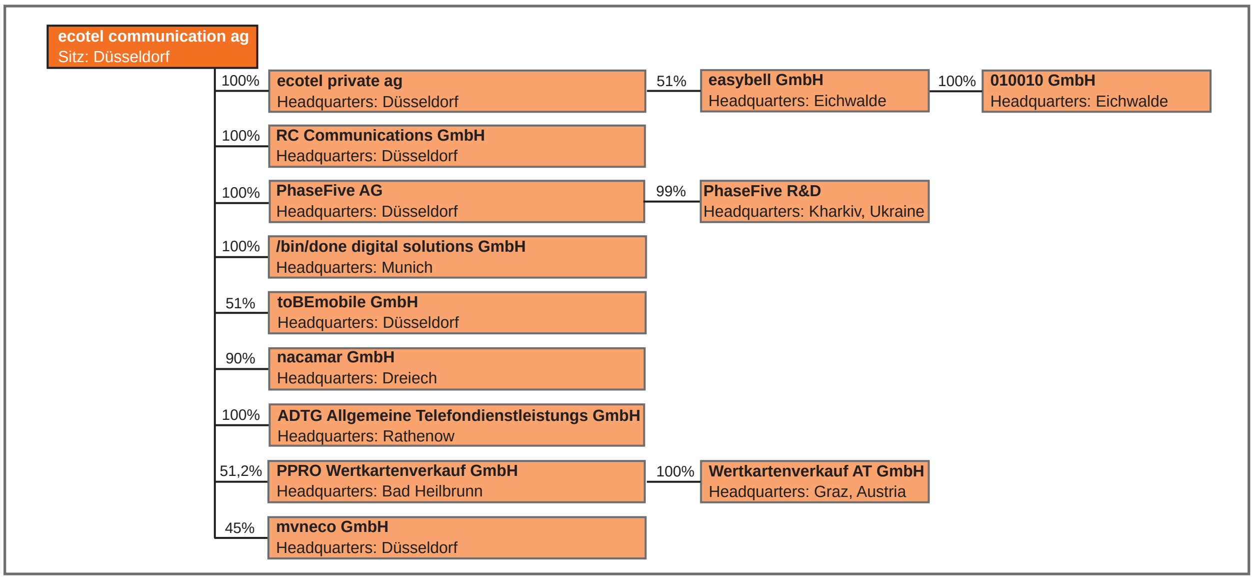
RC Communications GmbH

RC Communications GmbH is a telephone marketing company founded in 2003. It was taken over 100% by ecotel during the DLSCOMP merger in May 2006. RC Communications uses up-selling measures with targeted follow-up activities to maintain the loyalty of current customers and to obtain new customers in groups of companies. RC Communications is headquartered in Düsseldorf. At the end of 2007, all assets of RC Communications and six employees were transferred to ecotel as part of a transfer contract.

/bin/done digital solutions GmbH

/bin/done digital solutions GmbH, headquartered in Munich, was taken over 100% by ecotel in September 2006. This systems vendor, specializing in supply, process automation, and system integration, works primarily on the ecotel supply platform for the activation of customers' connections for voice, data, and mobile services. At the end of 2007, it employed three permanent employees.

Structure and holdings of ecotel



toBEmobile GmbH

Since September 2006, ecotel has held 51% of the shares in toBEmobile GmbH, founded in 2006, following an increase in capital. The company works as a Mobile Virtual Network Operator (MVNO) in the mobile service market, and, like Simyo or blue, markets its own prepaid SIM cards at discount prices. In particular, the company has developed innovative products for low-cost telephone calls on mobile phones while in a foreign country at reduced roaming rates; it markets these through brand-name business partners with broad customer bases. toBEmobile has its headquarters in Düsseldorf and as of the end of 2007 it employed 5 staff members.

nacamar GmbH

In March 2007, ecotel acquired all the current company shares in Tiscali Nacamar GmbH, which over time has been doing business as nacamar GmbH. Following the sale of 10% of the shares to the managing director in May 2007, ecotel now holds 90% of the shares. nacamar has its headquarters in Dreieich and as of the end of 2007 it had a total of 73 employees. Through nacamar, ecotel has access to professional data services, such as the safe networking of company locations (VPN) and managed services. In addition, nacamar has its own backbone network throughout Germany and a computer center. The company serves approximately 6,000 business customers.

ADTG Allgemeine Telefondienstleistungs GmbH

ADTG Allgemeine Telefondienstleistungs GmbH, headquartered in Rathenow, was taken over 100% in June 2007 as part of an increase in real capital. ADTG is a telecommunications provider active in Germany for voice and data services, focusing on small and medium-sized business customers. The company serves around 5,000 business customers. At the end of 2007, it had 15 employees.

PPRO Wertkartenverkauf GmbH

In July 2007, ecotel took over 51.2% of the shares of PPRO Wertkartenverkauf GmbH ("PPRO"), with headquarters in Bad Heilbrunn. PPRO is acompany specializing in internet-based payment. Its main products are a virtual prepaid credit card (paysafecard) and a commercial interface for the online "giropay" payment procedure for dealers operating via the internet. The services of PPRO are marketed externally and can also be used directly in the various business segments of the ecotel Group.

easybell GmbH

ecotel private has held 51% of the shares in easybell GmbH ("easybell") with headquarters in Eichwalde since July 2007. At the end of 2007, easybell employed three permanent staff members. easybell GmbH offers telecommunications products to price-sensitive and technically-oriented private customers. Currently, easybell GmbH operates in the narrow band services and DSL business segments. Operations are carried out mainly via telecommunications price portals. easybell also holds 100% of the shares in 010 010 GmbH, which holds the user rights to the call-by-call number "010 010."

mvneco GmbH

Along with other consortium partners, ecotel founded mvneco GmbH ("mvneco") with headquarters in Düsseldorf in April 2007; it holds 45% of the shares of the company. At the end of 2007, mvneco employed eight staff members. mvneco functions as a technical service provider and allows other telecommunications companies to become Mobile Virtual Network Enablers (MVNE), as in the case of ecotel's own entry into the mobile services market. In this process, the mvneco technical platform is connected to the network of a mobile network provider (e.g., E-Plus) and thereby enables its own mobile services. This includes directing the termination of mobile phone calls in other networks. In the future, convergent solutions which combine fixedline networks and mobile technology are to be developed through this platform.

Altogether, the subsidiary companies of ecotel communication ag, including business directors and trainees, employed 115 employees as of the end of 2007. At the end of 2006, there were a total of 32 employees.

4. CORPORATE MANAGEMENT OF THE GROUP

ecotel manages both business units and the subsidiary companies on the basis of the overall strategic orientation of the firm. Overall planning of the budget includes the annual budgets of the business units and those of the Group companies. Planning takes place on the product level based on the total cost method. In this method, the various types of revenues are allocated to the direct variable costs for each product and a gross margin is calculated for each product. Indirect costs that are not allocable to specific products are accounted for separately. Reporting during the year occurs monthly for revenues, earnings, and costs in each area, with detailed analysis of deviations from the planning and from the previous year. An updated outlook at the end of the fiscal year is carried out regularly. In addition, continuous monitoring of liquidity and working capital management also is performed. Specific key performance indicators for each area (e.g., minute volumes, price per minute, purchase margin) are used for managing development and are then presented via a reporting system.

5. RESEARCH AND DEVELOPMENT

Development expenditures of the ecotel Group essentially involve software solutions developed in-house. At ecotel, these are primarily a new system for the handling of orders and customer care, a voice over IP telephone communication unit, and systems for running mobile service processes. These include a mobile number portability (MNP) platform, a SIM logistics platform, a supply platform, and a customer relationship management system. At nacamar, these are primarily a new customer invoicing system as well as various new projects in the area of new media and a media delivery network. At toBEmobile, development included the installation of a new Web 2.0 platform.

6. MARKET AND COMPETITIVE ENVIRONMENT

The economic growth of 2006 has continued in 2007. According to expert opinions, growth of the gross domestic product in 2007 should again settle in at 2.5%, the same rate as in 2006.

Telecom market volumes sink slightly

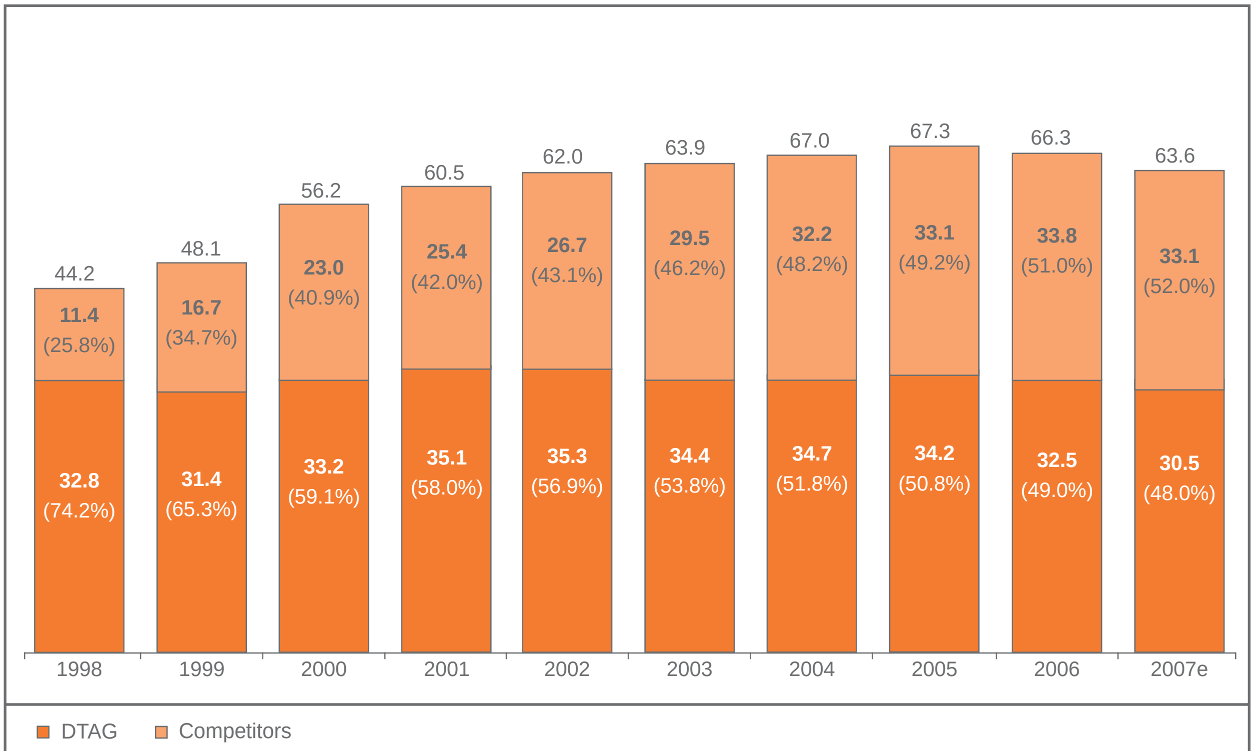
In 2007, the years-long growth of the market for telecommunications services did not continue; instead, the market volume of external sales revenues sank slightly by -2.8% to € 63.4 billion. (Source: BNetzA Yearly Report 2007, p. 3; VATM Yearbook 2007, p. 5). However, the alternative competitors were able to increase their share of the total market from 51% to 52%.

The fixed-line network market, consisting of connections and voice and data services, made up 58% of the total market for telecommunications services with revenues of € 37 billion.

In the meantime, the competitors have activated over 7 million of their telephone connections (including the voice connections of the cable TV networks), and thus, with 38 million telephone connections achieved a market share of 18.6%. The largest portion of the competitors' telephone connections are ISDN connections. Due to the replacement of fixed-line network services with mobile services, the number of telephone connections declined slightly.

The demand for broadband connections continues unabated. At the end of 2007, there were over 19 million broadband connections in Germany, a growth rate of 30% compared to 2006. Around 95% of the broadband connections were based on DSL technology. Of these, 5.9 million connections (31%) came from unbundled local loop (ULL), 3.7 million connections (19%) from DSL resale, 8.6 million connections (45%) from Deutsche Telekom AG, and 0.9 million connections (5%) were of other sorts,

Total market for telecommunications services in Germany in Mrd. €



Source BNetzA Yearly Report 2007, p.3

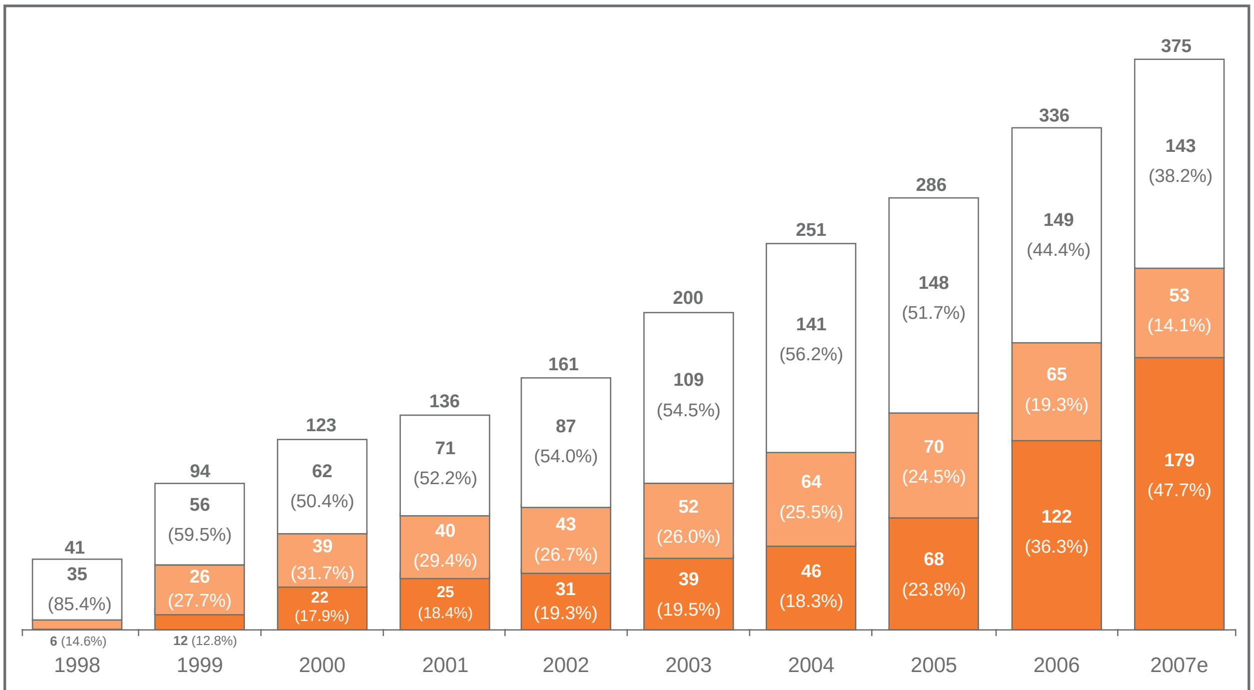
such as cable TV, satellite, or power line. The competitors of DTAG thus came to a market share of 55%.

Traffic volume for competitors of the DTAG only increased in the full access segment. For call-by-call, the volume stagnated at a high level, while in the area of preselection a marked decline was recorded again, with the volume having dropped in the meantime to its 2003 level (see the illustration). An additional factor was the substitution of mobile for fixed-line communication and of VoIP (Voice over IP) for PSTN (public switched telephone network). In this area, particularly providers such as Google, cable operators, and Skype have a disruptive effect on the market since their business model is financed by advertising, films, and/or expensive fixed-line termination (e.g. Skype out). Voice services are offered for free or very cheaply as an additional product.

Sales of mobile services, as measured by the total market volume of telecommunication services, settled in at € 26 billion (42% market share) in 2007. In the meantime, the number of SIM cards at 96 million cards has exceeded the total population of Germany.

The strategy of the mobile operators takes mainly one of two paths - first, to achieve price leadership (E-Plus) with many mobile service brands (Simyo, Base, blue), or second, to implement an integrated fixed-line and mobile service strategy (O2, Vodafone).

Total market for competing voice services providers in Germany based on products*



* (in millions of minutes per day)

Source: DIALOG CONSULT-/VATM Market Analysis, status as of October 2007, Illustration 12

Trends im B2B-Markt

A slight decline in volume of about -2% a year can also be observed in the German B2B telecommunications market, a trend that Gartner Research thinks will continue over the next few years (see illustration). Particular hurdles for sales growth in the PSTN voice segment are the fact that the classical voice services are increasingly being coupled with the connection lines themselves via bundled packages and the increasing pressure on revenues and margins due to VoIP.

Possible growth areas for the future are therefore full access products, the secure connection of company locations (leased lines, IP VPNs, ethernet WAN), broadband access services (xDSL, ethernet), and internet services such as web hosting or streaming.

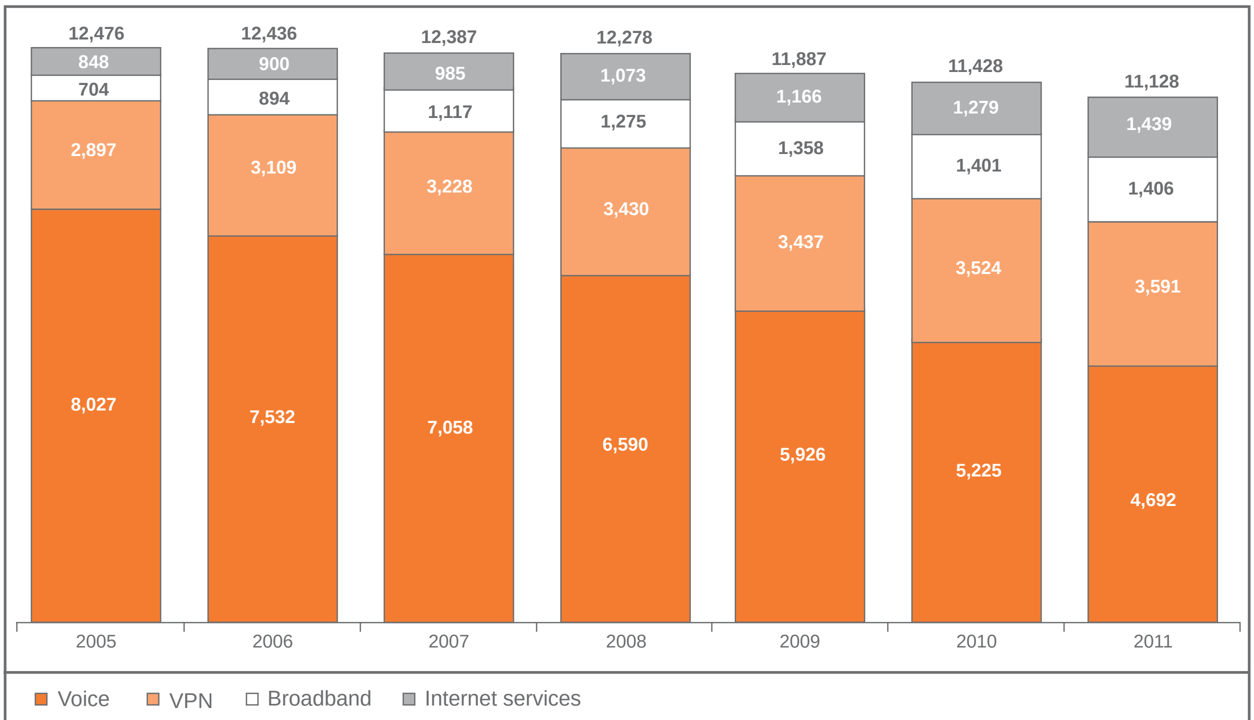
It is also to be assumed that combined fixed-line and mobile service products (fixed-line network/mobile service supplier: one end device, one mailbox, one number, one invoice) will also play a significant role in the B2B market in the future.

Regulatory trends

As a telecommunication firm, ecotel is subject to oversight by the German Federal Network Agency for Electricity, Gas, Telecommunications, Post, and Railway (BNetzA). The BNetzA continues to support the liberalization and the opening of the market in the telecommunications sector. In the area of fixed lines, starting in 2008, Deutsche Telekom will be required to offer the upstream products “IP bitstream access” and “Resale PSTN.” The preparation of these two upstream products constitutes an important basis for the future product portfolio of ecotel.

In the area of mobile broadcasting, regulation of the roaming data fees and a further reduction of termination fees are to be expected in 2008.

Development of the B2B telecommunication market in Germany based on products in Mio. €



Source: Gartner Forecast, Enterprise Network Services, Germany, 2005 - 2011

7. BUSINESS DEVELOPMENT IN 2007

The following will provide a short overview of the most important events for ecotel in fiscal year 2007.

Takeover of Tiscali nacamar GmbH

In February 2007, ecotel took over 100% of the shares of Tiscali nacamar GmbH and now holds 90% of the shares after selling 10% to the managing director in May 2007. ecotel has thus strengthened its competence in the data segment and increased its business customer base by 40,000 customers.

Establishment of the mvneco GmbH

In April 2007, the mvneco GmbH was established with a 45% participation on the part of ecotel. The “Managed Services” product offered by mvneco enables other carriers to market their own mobile communication servic

Takeover of ADTG Allgemeine Telefondienstleistungs GmbH

At the end of June 2007, ecotel took over 100% of the shares of ADTG GmbH, thus increasing the number of its business customers by over 45,000.

Takeover of easybell GmbH

At the end of June 2007, ecotel took over 51% of the shares of easybell GmbH and thus gained access to highly focused private customer markets, plus additional data and competence in the unbundled local loop segment.

Takeover of PPRO Wertkartenverkauf GmbH

In July, ecotel took over 51% of the shares of PPRO in order to be able to further build up its know-how in the area of internet-based payment systems.

Segment change to the Prime Standard

In August 2007, the capital stock of the company was admitted to the official market (now regulated market) of the Frankfurt Stock Exchange with simultaneous access to the Prime Standard subsegment of the official (now regulated) market, which has with additional admission requirements. The aim of this activity was for ecotel shares to tap into a broader circle of investors.

Entry into mobile services

In August 2007, the first well-known telecommunications supplier active throughout Germany went live with its mobile solutions based on the platform of the company, mvneco, which is partly owned by ecotel. At the same time, ecotel started marketing its new mobile broadcasting solution based on this platform on October 1; it became active in February 2008.

Technology Fast 50

For the third time in a row, ecotel captured a spot in 2007 among the 50 fastest growing technology firms in Germany.

New Chairman of the Supervisory Board

At the end of December 2007, Tobias Schreyer resigned his post on the Supervisory Board in order to be able to be more active in the operations of the ecotel Group. Johannes Borgmann was chosen as the new Chairman of the Supervisory Board.

Start of CAP marketing

Since December 2007, ecotel has been marketing the first modules of the newly developed CAP (carrier aggregation platform) standardized service platform, through which the complete preparation and invoicing of DSL products from many suppliers will be offered via a standard interface to other telecommunications firms and resellers.

EARNINGS, FINANCE, AND ASSET SITUATION[1]

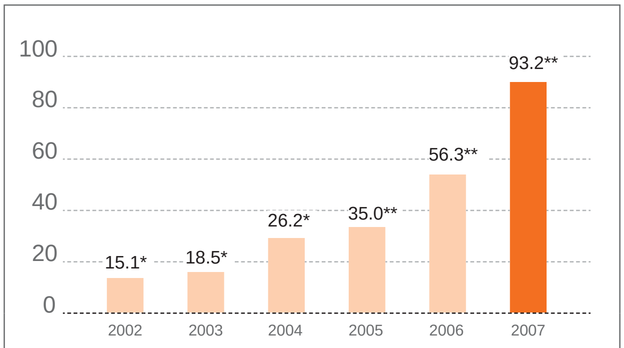
1. EARNINGS SITUATION

In 2007, the firm's consolidated annual revenues reached € 93.2 million, an increase of 66% compared to the previous year's revenues of € 56.3 million. Gross profit (sales revenues minus cost of raw materials and consumables used) in the comparable period of the previous year increased by 85% from € 16.0 million to € 29.6 million. The gross profit margin increased over the previous year from 28% to 32%.

Business customer sector makes stronger contribution to ecotel revenues

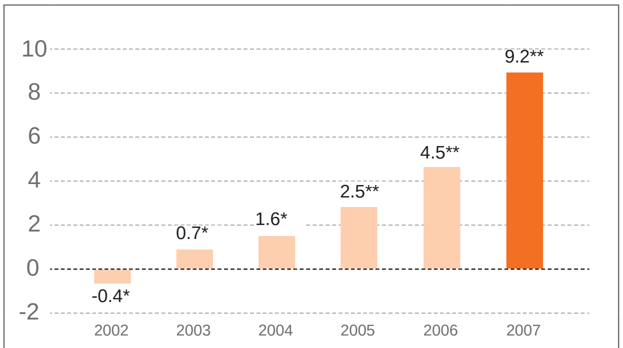
The Business Solutions business unit of the company expanded its central position within the ecotel Group with 72% of the total revenues and 92% of gross profit. Revenues in this sector were increased by 80% in comparison with the previous year, from € 37.5 million to € 67.4 million. The acquisitions of nacamar on February 1, 2007 and of ADTG on July 1, 2007 and their consolidation into ecotel proved a main driver of growth for the business unit. Additionally, existing business grew by over € 1 million in a saturated market environment, driven in particular by the growing number of access lines, a number that reached some 20,000 own connections by the end of 2007. Gross profit in the business unit rose at the same time by 86%, from € 14.6 million to € 27.1 million. The gross margin rose from 39% in 2006 to 40% in 2007. The improvement in the gross margin was achieved both by an increased focus on data and bundled products and by excellent purchasing conditions as the result of economies of scale.

Revenues in Mio.€



*individual financial statements according to HGB **consolidated financial statements according to IFRS

EBITDA in Mio.€



*individual financial statements according to HGB **consolidated financial statements according to IFRS

1) If figures for the previous year 2006 are noted in this section, these are adjusted figures according to IAS 8.42 For further details, see the explanations in the Notes to the consolidated financial statements.

Further growth in the wholesale sector

The Wholesale Solutions business unit contributed 22% of the company revenues and 5% of the total gross profit. Revenues in this sector increased by 12%, from € 18.4 million to € 20.7 million; gross profit amounted to € 1.5 million, in comparison with € 1.2 million in the previous year. In addition, economies of scale in the wholesale business laid the basis for improved purchasing conditions in the business customer sector.

Other revenues rise as well

The other revenues contributed 5% of the total revenues and 4% of the total gross profit. The other revenues rose from € 0.4 million to € 5.1 million, while the gross profit decreased from € 0.2 million to € -1 million. This growth was driven by the takeovers of PPRO GmbH and easybell GmbH, which were consolidated into ecotel as of July 1, 2007.

Higher personnel expenditure

Personnel expenditure increased in 2007 by 110%, from € 5.0 million to € 10.5 million. Due to the takeovers that took place, personnel rose from 116 employees at the end of 2006 to 217 employees at the end of 2007.

Costs for other operating expenses rose by 53%, from € 6.8 million to € 10.4 million. The takeovers completed in 2007 are the main reason for the increase.

Strongly increased results driven by one-time revenues

Earnings before interest, taxes, depreciation, and amortization (EBITDA) increased by 104% from € 4.5 million to € 9.2 million. This corresponds to an increase in the EBITDA margin from 8% to 10%. EBITDA for 2007 includes revenues of € 2.2 million from one-time projects, consisting of one-time charges of services from nacamar, services carried out for other telecommunications companies, and accrued commissions of ecotel. Without these one-time revenues, the normalized EBITDA would have amounted to € 7.0 million.

Depreciation and amortization in 2007 rose to € 3.2 million, compared to € 0.8 million in the previous year. Of this, € 0.8 million came from periodic depreciation and amortization of the existing customers of the companies that were taken over.

Operating results (EBIT) amounted to € 6 million, an increase of 62% over € 3.7 million in 2006. The EBIT margin dropped slightly from 6.7% to 6.5%. After taking the one-time revenues noted above into account, the normalized EBIT in 2007 lay at € 3.8 million.

The financial result in 2007 amounted to € -1.2 million. Of this, € -0.7 million came from interest payments, € -0.3 million from other financial expenditures (fair value assessment of interest rate swap, capital market participation, costs of changing the stock market segment), and € -0.2 million from the results of the subsidiary company mvneco, which was consolidated at equity.

Taxes for 2007 were € -1.4 million, divided into € -0.6 million effective taxes and € -0.8 deferred taxes.

Consolidated results in 2007 after minority interests increased by 56% from € 2.1 million to € 3.3 million. This corresponds to earnings per share of € 0.90 compared to € 0.64 in the previous year. Adjusted for deferred taxes, the earnings per share are € 1.08.

2. FINANCIAL SITUATION

Cash flow from current business activities for 2007 was € 6.5 million, an increase of 171% compared to € 2.4 million in the previous year. Working capital (difference between receivables and liabilities) increased by € 1.5 million due to the fact that trade receivables grew by € 2.2 million more than liabilities. This result should decline in 2008 as a result of new payment methods with pre-suppliers.

Cash flow from investing activities in 2006 was € -28.9 million. This included investments in fixed assets and in intangible assets of € -4.7 million. These consisted of investments of € -3.1 million for modernization of the computer center and the purchase of hardware, € -1.1 million for software development costs, and € -0.5 million in supplemental payment for the purchase of the customer base of Tiscali Business Solutions. Expenditures for the acquisition of subsidiary companies were € -22.5 million and were composed of € 19 million for the acquisition of nacamar, € 0.3 million for 51% of the shares of easybell and its wholly-owned subsidiary 01010 GmbH, € 2.6 million for 100% of the shares of ADTG, and € 0.6 million for 51% of the shares of PPRO. Another € 0.2 million came about through capital investment for 45% of the shares in the newly founded mvneco. Cash and cash equivalents that were assumed with the subsidiaries that were taken over amounted to € 0.6 million. In addition, mvneco was given another loan of € 2.1 million. Interest payments amounted to € 0.3 million.

Cash flow from financing activities amounted to € 16.9 million, resulting from the absorption of outside capital totaling € 18 million minus the costs of raising capital associated with change in the stock market segment of € -0.1 million and interest expense of € -0.9 million.

During 2007, cash and cash equivalents declined from € 9.4 million at the beginning of the year to € 3.9 million at the end of the year, caused primarily by the acquisitions which took place and by the expansion of new business, such as new access lines.

As in previous years, the company was able to meet its payment obligations as required and on time.

Primary Cash Flow Data — Amounts in € million	2005	2006	2007
Financial funds as of 01/01	1.5	1.5	9.4
Cash flow from operating activities	1.5	2.6	6.5
Cash flow from investing activities	-1.2	-9.3	-28.9
Free cash flow	0.3	-6.7	-22.4
Cash flow from financing activities	-0.3	14.6	16.9
Financial funds as of 12/31	1.5	9.4	3.9

3. ASSET SITUATION

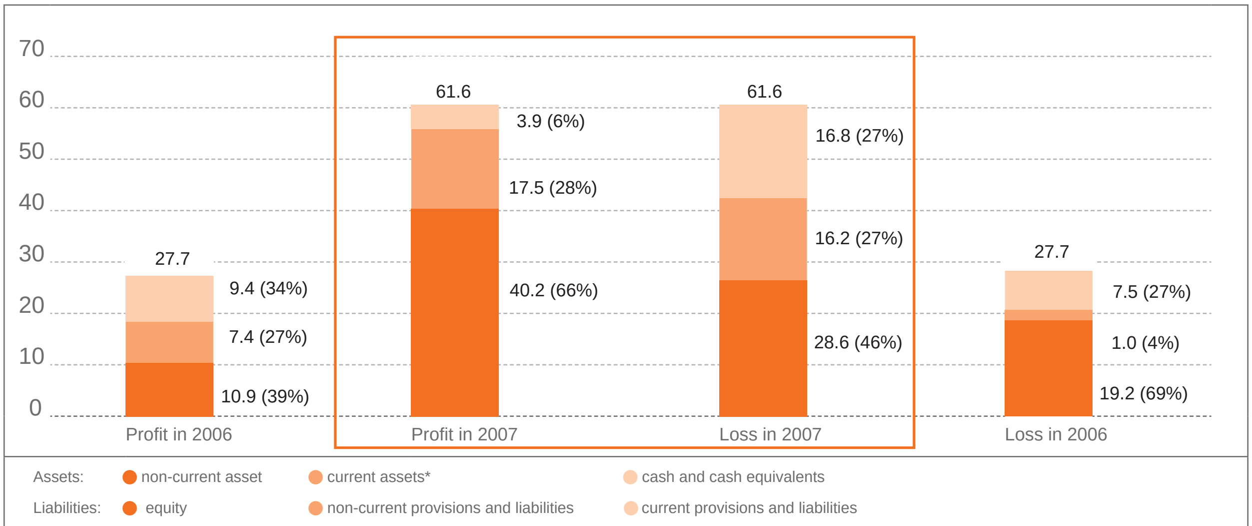
The total assets amounted to € 61.6 million as of December 31, 2007, which corresponds to an increase of 122% compared to € 27.7 million as of December 31, 2006.

On the assets side, the non-current assets rose by 269% from € 10.9 million to € 40.2 million. This includes a rise in goodwill of € 6.0 million at the end of 2006 to € 16.7 million in connection with the takeovers of nacamar, ADTG, PPRO, and easybell. The value of customer relationships based on the acquisition of nacamar, ADTG, and easybell increased from € 2.0 million to € 8.2 million. Current assets (not including cash and cash equivalents) increased by 136% from € 7.4 million to € 17.5 million. Of this increase, € 3 million are accounted for by a loan to subsidiaries such as mvneco and to active prepayments and accrued income.

On the liabilities/equity side, equity increased by 49% from € 19.2 million to € 28.6 million. Subscribed capital increased as a result of taking over ADTG and PPRO from € 3,500,000 to € 3,900,000. The equity ratio of the total assets amounted to 46% at the end of 2007. The non-current provisions and liabilities increased from € 1.0 million to € 16.3 million. Of this, € 14.8 million came from the acquisition loan taken in 2007 for € 18 million, minus the repayment due in 2008; the rest contains to deferred income taxes. Current provisions and liabilities rose by 124% from € 7.5 million to € 16.8 million. Of this, € 3.2 million are accounted for by the payment due in 2008 as the first tranche of the acquisition loan.

The net working capital of the company, which is, the difference between current assets (including cash and cash equivalents) and current provisions and liabilities, is clearly positive.

Assets and liabilities in Mio.€



*Operating capital including prepayment and accrued interest less cash and cash equivalents

SUPPLEMENTARY REPORT

After the close of the fiscal year, no noteworthy changes to general conditions took place. The economic environment did not change to an extent that there would be significant effects on ecotel business activities, and the situation in the economic sector did not appear different from that of December 31, 2007.

RISK REPORT

1. RISK MANAGEMENT

According to the German Control and Transparency in Business Act (KonTraG) of May 1, 1998, the Management Board of ecotel is obliged to maintain an appropriate system for monitoring risks to the ongoing existence of the company. ecotel has adopted an appropriate risk management system for early identification, evaluation, and correct handling of company risks.

The Management Board has the general Group-wide responsibility for the early recognition of risks and for taking counter-measures against them. The Board is supported by the managers of the subsidiaries and the members of ecotel company management in the ongoing identification and evaluation of risks to the company. The assessment of risks is updated in the form of a semi-annual risk report.

2. RISKS TO FUTURE GROWTH

As part of its business activity, ecotel is exposed to operating risks, financing risks, strategic risks, and market environment risks.

Operating risks

Operating risks are short-term in nature and for ecotel are concentrated mainly in the possible malfunctioning of the infrastructure in the areas of the backbone, computer center, communication technology, and the correct execution of company-critical processes in the area of invoicing and customer service. Assuring maximum availability through appropriate system redundancies in this area is one of the most important measures for combating risk; ecotel has been implementing these consistently. Among other things, this included making significant investments in 2007 in the nacamar computer center. Moreover, the in-house Network Operations Center (NOC) continually checks the network for disturbances and tries to avoid network failures via a redundant design of the network and backbone infrastructure. Furthermore, ecotel attempts to communicate know-how on the execution of company-critical processes to an increasing number of employees so as to avoid creating too strong a dependence on individual key persons.

Finance risks

ecotel is exposed to finance risks in the form of credit risks, liquidity risks, and interest rate risks.

IAs part of its acquisition financing, ecotel has agreed on standard market financial covenants with the financing institutions, which refer to the relationship between specific financial markers. With regard to the current key figures, ecotel was and is well within the bounds set by the financial covenants. A violation of the covenants might nevertheless cause notice of cancellation and thus lead to early repayment of the loan. This would cause a significant deterioration of the liquidity situation of ecotel if no agreement could be reached for adjusting the financial covenant or refinancing.

At the end of 2007, ecotel had liquid assets (including securities) of € 4.3 million. The net liabilities at the end of the year were € 13.9 million, an amount which corresponds to 1.5 times the EBITDA of 2007. In order to achieve the desired growth rate in the current, aggressively competitive climate, it may be necessary to refinance a portion of the non-current finance debt. The company, however, assumes that the cash on hand and the expected inflow of capital from current business activity will be sufficient to finance the company strategy. As an additional liquidity reserve, ecotel has a revolving credit facility of € 9 million. At the end of 2007, € 2.9 million of this facility had been used as a line of collateral.

At the present time, ecotel is involved in several lawsuits initiated by the company. In the event of a negative outcome of the lawsuits, larger one-time operating expenditures may be necessary in

2008 or 2009.

Currently, there is an appeals case in the German Federal Constitutional Court regarding the ex-ante regulation of termination fees for mobile services. There is a remaining risk that a negative result of the case may lead to significant repayments on the part of fixed-line network providers in Germany to the mobile service providers. This could entail a significant deterioration of the company's earnings, finance, and asset situation.

Possible losses of receivables in the wholesale and business customers sectors are being minimized through ongoing receivables management.

Possible interest payment fluctuations due to interest rate changes are limited by the fact that ecotel has negotiated interest swaps and interest caps for a large part of its outstanding loans.

Strategic risks

Strategic risks are more medium-term in nature and are influenced by the strategic alignment of the company in terms of purchasing, products, sales, technology, and IT.

Dependence on suppliers is reduced by implementing a two-supplier strategy for all crucial products. However, because of the market dominance of Deutsche Telekom, this is not possible in all product segments.

One strategic risk stems in particular from the great readiness of preselection customers to change to other providers. If ecotel does not succeed in tying in its customers more strongly, such as with bundled offers, and thus succeed in achieving a lower rate of customer attrition, this might have negative effects on the asset, finance, and earnings situation of ecotel.

ecotel has been reducing its reliance on the declining preselection business for the past two years by offering its customers an attractive complete package with bundling of connection, voice, and data services. This has been supplemented since February 2008 by mobile services. For the activation of the access lines for business customers, ecotel continues to be dependent on the cooperation of Deutsche Telekom AG. Difficulties in activating access lines have led to increased delays in service to end customers. ecotel is working very hard on alternative solutions, including unbundled local loop (ULL) via alternative service providers.

On the IT systems side, ecotel relies on the newly developed order management system ecuador to be able to represent new products in its system in a timely manner. Based on the limited resources of ecotel and the strategic focus on mobile services and on the unbundled local loop, there may be delays in IT system development and the development of other new products.

Integration of the companies acquired in 2007 is progressing full steam ahead. Delays in the integration of IT systems and employees are, however, possible and the integration could in some cases even fail, which would negatively influence business activity.

Market environment risks

Other material risks that might cause a notable deterioration of the economic situation of ecotel lie in the market and economic sector environment.

The telecommunications branch, in which ecotel is active, is marked by intense, price-cutting competition. The existing strong competition in the private customer segment that focuses on prices wars and the crowding out of competitors might possibly spread in the future to the business customer segment. A sharp consolidation of the telecommunications industry might have negative effects on the assets, finance, and earnings situation of ecotel since it would thereby become dependent on specific suppliers.

In addition, Deutsche Telekom, in its attempts to tie in customers and to retain them, is trying to migrate as many purely telephony customers as possible to long-term contracts in order to prevent their switch to a competitor. In so doing, it also makes difficult or prevents the sales activities of its competition, including ecotel.

In particular, completely new products and business models are arising as a result of rapid technological change. It is therefore not out of the question that in this way, the ecotel products may become less competitive and thus less sought after. ecotel therefore observes the market environment continually in order to be able to react quickly and effectively to changes in technology.

Existing regulatory conditions might also change to the detriment of ecotel's business and thereby lead to negative changes affecting its business.

In the same way, a weak business cycle has a direct influence on customers' readiness to invest, thus resulting in significant pressure on revenues and margins and potential reductions in receivables.

Total risk is calculable

In summary, ecotel is convinced that the material risks identified above neither individually nor in their totality threaten the ongoing existence of the firm, and that ecotel will in 2008 again quickly recognize any potential risks through its flexible business model and its monitoring system and will be able to react to the risks and introduce countermeasures.

3. RISKS OF FUTURE GROWTH

Despite the risks, there are many opportunities in 2008 and the years ahead which will significantly impact on the business development of the ecotel Group.

Cross selling to existing business customers

In 2007, the first synergies were tapped with regards to the revenues and costs as part of the acquisitions that were completed. ecotel sees another significant potential for synergy in the continuous growth of average revenue per customer through the bundling of voice, data, and mobile services all from one provider. Revenue per business customer was increased in 2007 by 8% through cross selling. ecotel sees great growth potential in the inclusion of mobile services.

Innovative mobile services and convergence products

ecotel's product portfolio was expanded in January 2008 to include mobile services and rounded off with attractive convergent fixed-line and mobile solutions. As a result, ecotel has a head start on the competition and is among the first providers in its sector to be able to offer business customers comprehensive telecommunications services from one source, on one invoice.

Services for other carriers, wholesalers, and outside marketers

Through the use of the newly developed CAP (Carrier Aggregation Platform) standardized service platform, ecotel provides other telecommunications companies, wholesalers, and outsider marketers with the complete allocation and invoicing of DSL, local loop connections, and mobile services from various pre-suppliers without their having to suffer through a complex and expensive IT environment. Here too, significant growth is expected in the coming years.

Development of new fields of business

With its majority ownership of PPRO, ecotel has set off in a new business area ripe for growth - the area of internet-based payment systems and foreign currency administration. PPRO services will be marketed to the outside and possibly also used by ecotel and its subsidiaries internally.

ecotel expects to acquire a profitable niche with easybell in the private customer sector. Further growth is planned here also.

One-time earnings

ecotel is presently involved in several legal disputes, which in 2008 and 2009 may lead to significant other operating earnings.

4. NOTES ON THE FORECASTS

This Management Report includes certain forward-looking statements and information - that is to say, statements about events that lie in the future. Such forward-looking statements are recognizable through formulations such as „expect," „intend," „plan," „estimate," or similar concepts. These forward-looking statements are based on current expectations and specific assumptions. They are therefore subject to a number of risks and uncertainties. A large number of factors, many of them lying outside of the control of the ecotel Group, influence the business activities, the success, the business strategy, and the results of ecotel. As a result of these factors, the actual results, success, and performance of the ecotel Group may deviate significantly from the forward-looking statements expressly or implicitly contained in the information on results, success, and performance.

OUTLOOK

The ecotel Group business strategy continues to be oriented on the comprehensive coverage of the requirements of business customers via a „complete package“ of telecommunication services in the areas of voice, data, and mobile services.

Integration of nacamar and ADTG

For the further strengthening of its competitive position in the future, the business activity of the ecotel Group will be composed of three main focuses: business customers, wholesalers, and new business.

The voice and data business of ecotel, nacamar, and ADTG will be joined in the business segment “business customers” - here the company continues to expect very high earnings power and organic growth from its existing customers.

The “wholesale” business segment will remain as a currently existing focus, through which ecotel will serve other carriers, wholesalers, and outside marketers, and thus attain high volumes and attractive purchasing conditions.

In the area of new business, new, strongly growing business areas and niches will be occupied by the subsidiaries and holdings, which remain operatively independent. In addition to PPRO, easybell, ecotel private, and toBEmobile, the area “new media,” which until now was run within nacamar, will be transferred to an independent business unit.

Mobile services and CAP as new fields of growth

The product portfolio was expanded in January 2008 to include mobile services and rounded off with attractive convergent fixed-line and mobile solutions. ecotel continues to successfully sell voice and data products to existing medium-sized customers. In this combination, ecotel expects continuing growth of revenues per customer through a combination of voice, data, and mobile services.

Since December 2007, ecotel has been marketing the first modules of the newly developed CAP (Carrier Aggregation Platform) standard service platform through which other telecommunications firms and wholesalers will be offered complete preparation and invoicing of DSL and local loop products from many pre-suppliers via a standardized interface. This will allow other carriers to offer their customers attractively priced telephony and internet solutions without having to endure a complex and expensive IT environment.

Possible Reduction of the nacamar purchase price

Currently, ecotel has concluded a review of to what extent legal steps and a move for a purchase price reduction on the part of the seller as a result of the possibly incorrect presentation revenue and earnings figures of nacamar for 2006 can be taken. Further developments in this regard will be published in the 2008 quarterly reports.

Forecast for 2008 shaped by various one-time events

The company expects revenues of € 100-110 million in 2008.

The earnings situation in 2008 will be determined by the results of ongoing legal disputes with differing one-time effects, both profits and expenditures. We assume that the 2008 EBITDA (adjusted for one-time profits and expenditures) will settle in at slightly above the normalized level of the previous year at € 7 million. In the meantime, as EBIT is contingent on high scheduled amortization of intangible assets, EBITDA has increasingly replaced EBIT for ecotel as the gauge for assessing the earnings power of the company. Consequently, in the future, EBITDA will be used by ecotel as the prime indicator for expected earnings.

Declaration of the legal representatives under § 37 German Securities Trading Law (WpHG)

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

Düsseldorf, March 28, 2008

ecotel communication ag

The Management Board

Peter Zils Bernhard Seidl Achim Theis


ecotel

CONSULIDATED FINANCIAL STATEMENTS

ecotel communication ag

Consolidated balance sheet as of December 31, 2007

Assets Amounts in €	Notes	12/31/2006	12/31/2007
A. Non-current assets			
I. Goodwill and other intangible assets	(1)	8,769,146.32	29,611,345.57
II. Fixed assets	(2)	1,585,626.22	6,870,875.21
III. Financial assets	(3)	186,231.42	107,529.19
IV. Non-current receivables	(4)	2,497.10	2,176,941.48
V. Deferred tax assets	(7)	392,421.21	1,410,288.57
Total non-current assets		**10,935,92.27**	**40,176,980.02**
B. Current assets			
I. Inventories	(5)	0.00	23,796.00
II. Trade receivables	(6)	6,542,287.77	12,865,934.51
III. Other receivables and current assets	(6)	860,216.82	4,288,001.22
IV. Current income tax assets	(7)	25,888.00	351,675.21
V. Cash and cash equivalents	(8)	9,364,804.29	3,879,398.62
Total current assets		**16,793,196.88**	**21,408,805.56**
Total assets		**27,729,119.15**	**61,585,785.58**

Equity and liabilities Amounts in €	Notes	12/31/2006	12/31/2007
A. Equity			
I. Share capital	(9)	3,500,000.00	3,900,000.00
II. Reserves	(9)		
1. Capital surplus		14,073,168.09	17,826,159.25
2. Other reserves		1,434,696.00	4,746,959.71
III. Shares held by other shareholders	(9)	225,152.11	2,093,763.87
Total equity		**19,233,016.20**	**28,566,882.83**
B. Non-current provisions and liabilities			
I. Deferred tax liabilities	(10)	981,152.11	1,396,248.73
II. Other provisions	(10)	21,004.93	0.00
III. Non-current liabilities	(11)	0.00	14,750,000.00
IV. Other financial liabilities	(11)	0.00	106,573.97
Total non-current provisions and liabilities		**1,002,157.04**	**16,252,822.70**
C. Current provision and liabilities			
I. Income tax liabilities	(10)	332,669.10	752,082.32
II. Other provisions	(10)	80,775.00	148,760.00
III. Financial liabilities	(11)	16,949.11	3,406,635.47
IV. Trade liabilities	(11)	6,756,846.41	11,187,217.19
V. Other liabilities	(11)	306,706.29	1,271,385.07
Total current provisions und Verbindlichkeiten		**7,493,945.91**	**16,766,080.05**
Total equity and liabilities		**27,729,119.15**	**61,585,785.58**

ecotel communication ag

Consolidated profit and loss statement for fiscal year 2007

Amounts in €		(Notes)	1/1–12/31/ 2006	1/1–12/31/ 2007
1,	Revenues	(14)	56,338,210.48	93,178,080.03
2.	Other operating revenues	(15)	292,071.68	424,793.02
3.	Other own work capitalized		0.00	129,308.40
4.	**Total revenue**		**56,630,282.16**	**93,732,181.45**
5.	Raw materials and consumables used			
	Expenses for purchased services	(16)	-40,321,191.44	-63,571,808.22
6.	Personnel expenses	(17)		
6.1	Salaries and wages		-4,325,023.01	-9,067,244.07
6.2	Fringe benefits and contributions to pension plans		-689,027.83	-1,478,313.13
7.	Scheduled depreciation and amortization	(18)	-842,493.64	-3,152,083.84
8.	Other operating expenses	(19)	-6,772,047.37	-10,451,325.78
9.	**Earnings before interest and tax (EBIT)**		**3,680,498.87**	**6,011,406.41**
10.	Financial income		173,272.62	257,670.45
11.	Financial expenses		-458,545.09	-1,268,489.84
12.	Financial result of companies valued at equity		0.00	-233,980.66
13.	Financial result	(20)	-285,272.47	-1,244,800.05
14.	**Operating result before tax**		**3,395,226.40**	**4,766,606.36**
15.	Taxes on income	(21)	-1,323,804.87	-1,391,372.65
16.	Group net income from ongoing operations		2,071,421.53	3,375,233.71
17.	Net income attributable to minority interests	(22)	49,310.23	-62,970.01
18 .	**Net income attributable to ecotel communication ag shareholders**		**2,120,731.75**	**3,312,263.70**
	Undiluted earnings per share	(23)	0.64	0.90
	Diluted earnings per share		0.64	0.90

ecotel communication ag

Consolidated cash flow statement for fiscal year 2007

Amounts in €	(Notes)	2006	2007
Consolidated net income for the year before taxes and minority interests	(24)	3,395,226.40	4,766,606.36
Net interest income	(24)	-137,829.66	639,061.27
Depreciation (+)/ write-ups (-) on fixed assets	(24)	842,493.65	3,152,083.84
Cash flow	(24)	**4,099,890.39**	**8,557,751.47**
Other non-cash expenses (+) and income (-)	(24)	291.36	413,165.88
Profit (-) / loss (+) on disposals of fixed assets	(24)	41,052.61	0.00
Increase (-) / decrease (+) in trade receivables	(24)	-783,407.59	-5,091,990.49
Increase (+) / decrease (-) in other receivables and assets	(24)	241,541.10	-271,722.47
Increase (+) / decrease (-) in other provisions	(24)	44,770.94	46,980.07
Increase (+) / decrease (-) in trade liabilities	(24)	504,708.50	2,941,600.24
Increase (+) / decrease (-) in liabilities (excl. financial liabilities)	(24)	-935,365.06	842,999.59
Taxes paid	(24)	-780,169.13	-968,286.87
Cash flow from operating activities	(24)	**2,433,313.12**	**6,470,497.51**
Inflow from disposals of tangible and intangible assets	(24)	117,287.40	3,91311
Outflow for investments in tangible and intangible assets	(24)	-1,879,532.02	-4,769,910.23
Outflow for the acquisition of subsidiaries and companies accounted for at equity	(24)	-8,962,567.15	-22,835,025.16
less cash assumed	(24)	1,274,827.32	582,903.29
Outflow for loans granted to companies accounted for at equity	(24)	0.00	-2,151,323.57
Inflow for interest	(24)	171,548.56	257,670.45
Cash flow from investing activities	(24)	**-9,278,435.89**	**-28,911,772.11**
Inflow from capital increase (less related charges)	(24)	14,775,644.56	-97,336.66
Inflow for assumed credit facilities	(24)	16,933.79	17,949,937.31
Outflow for interest	(24)	-33,718.90	-896,731.72
Cash flow from financing activities	(24)	**14,758,859.45**	**16,955,868.93**
Cash-related changes in cash and cash equivalents	(24)	**7,913,736.68**	**-5,485,405.67**
Cash and cash equivalents at beginning of period	(24)	**1,451,067.61**	**9,364,804.29**
Cash and cash equivalents at end of period	(24)	**9,364,804.29**	**3,879,398.62**

Statement of changes in consolidated equity

Amounts in € thou. Notes (9)	Share capital	Capital surplus
As of January 1, 2006	**2,565**	**-327**
Equity acquisition costs	0	-756
Equity changes due to consolidated group	0	0
Equity changes not recognized in income	0	-756
Transfer of prior-year result	0	0
ecotel communication ag capital increase	935	14,960
Consolidated net income 2006	0	0
Equity changes recognized in income	0	0
As of December 31, 2006	**3,500**	**13,877**
Correction of error under IAS 8	0	196
As of January 1, 2007	**3,500**	**14,073**
Equity acquisition costs	0	-97
Equity changes due to consolidated group	0	0
Equity changes not recognized in income	0	-97
Transfer of prior-year result	0	0
ecotel communication ag capital increase	400	3,760
Stock option plan	0	90
Consolidated net income 2007/ Total income 2007	0	0
Equity changes recognized in income	0	90
As of December 31, 2007	**3,900**	**17,826**

Accumulated surplus		Equity atrributable to ecotel communication ag shareholders	Minority interests	Total
Other revenue reserves	Consol. net income			
-1,274	**1,370**	**2,334**	**0**	**2,334**
0	0	-756	0	-756
16	0	16	274	290
16	0	-740	274	-466
1,370	-1,370	0	0	0
0	0	15,895	0	15,895
0	2,395	2,395	-49	2,346
0	2,395	2,395	-49	2,346
112	**2,395**	**19,884**	**225**	**20,109**
-798	-274	-876	0	-876
-686	**2,121**	**19,008**	**225**	**19,233**
0	0	-97	0	-97
0	0	0	1,806	1,806
0	0	-97	1,806	1,709
2,121	-2,121	0	0	0
0	0	4,160	0	4,160
0	0	90	0	90
0	3,312	3,312	63	3,375
0	3,312	3,402	63	3,465
1,435	**3,312**	**26,473**	**2,094**	**28,567**

Notes to the consolidated financial statements

Accounting Principles

GENERAL INFORMATION

ecotel communication ag is a company headquartered in Germany (Prinzenallee 9–11, 40549 Düsseldorf); it is active throughout the country as a telecommunications firm specializing in the needs of medium-sized businesses. Until recently its core unit has been “Business Solutions,” where ecotel offers innovative voice, data, and value-added services, including direct connections, as an cost-effective complete package from one source. Since the takeover of nacamar GmbH in the first quarter of 2007, ecotel has also had access to professional data services, such as the secure networking of company locations (VPN); since then, ecotel has also had a Germany-wide backbone network with a computer center in Frankfurt. Currently the company provides over 45,000 business customers with standard and individualized telecommunications solutions all over Germany.

In its second business unit of “Wholesale Solutions,” ecotel markets products and complete solutions for other telecommunications companies and for marketers outside of the sector. In addition, ecotel maintains a modern wholesale platform for the cross-network trade in telephone minutes with over 100 national and international carriers; in this way it also achieves an increase in value added for its core area, business customers.

All applicable and required standards as of the balance sheet date have been used. In additon, the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) have been observed. Accordingly, in its consolidated financial statements to December 31, 2007, ecotel communication ag has for the first time used the following IFRS/IFRIC interpretations:

- IFRS 7	“Financial Instruments: Disclosures“
- Revised IAS 1	“Presentation of Financial Statements”
- IFRIC 8	“Scope of IFRS 2”
- IFRIC 10	“Interim Financial Reporting and Impairment”

Other than the expansion of the information contained in the Notes, the initial use of IFRS 7 has had no effects on the ecotel consolidated financial statements. The first-time use of the other interpretations has also not resulted in any effects on the presentation of the assets, financial, and earnings situation or the cash flows of the ecotel Group. IFRIC 7, “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies,” and IFRIC 9, “Reassessment of Embedded Derivatives,” both to be applied for the first time in fiscal year 2007, were also irrelevant for the ecotel Group in 2006 and 2007.

The following new and revised standards and interpretations had been adopted as of the compilation of these consolidated financial statements on December 31, 2007. However, these do not come into effect until a later date and were not used in the current consolidated financial statements earlier than required. Their effects on the consolidated financial statements of ecotel communication ag have not yet been fully analyzed, and as a result, the expected effects, as presented at the bottom of the tables, merely represent an initial estimate.

Standard/ Interpretation		FN	To be used starting in fiscal year	Planned first-time use
IFRS 2	Share-based Payment	1.3	January 1, 2009	January 1, 2009
IFRS 3	Business Combinations	1.3	January 1, 2009	January 1, 2009
IFRS 8	Operating Segments	2	January 1, 2009	January 1, 2009
IAS 1	Presentation of Financial Statements	1.3	January 1, 2009	January 1, 2009
IAS 23	Borrowing Costs (revised)	1.3	January 1, 2009	January 1, 2009
IAS 27	Consolidated and Separate Financial Statements according to IFRS	1.2.3	January 1, 2009	January 1, 2009
IAS 32	Finanzinstrumente: Darstellung (überarbeitet)	1.3	January 1, 2009	January 1, 2009
IFRIC 12	Service Concession Rights	1.3	January 1, 2009	January 1, 2008
IFRIC 13	Customer Loyalty Programmes	1.3	July 1, 2008	July 1, 2008
IFRIC 14	The Limit on a defined Benefit Asset	1.3	July 1. 2008	July 1. 2008
IFRIC 11	IFRS2 - Group and Treasury Share Transactions	1	March 1. 2007	January 1. 2008

FN
1 No significant effects on the consolidated financial statements of ecotel communication ag are expected.
2 Primarily additional or modified information in the Notes to the consolidated financial statements of ecotel communication ag is expected.
3 Pronouncement of the IASB/IFRIC has not yet been adopted by the EU.

In addition to the balance sheet and the profit and loss statement, a cash flow statement and a schedule of changes in equity have been produced.

In order to improve the clarity of the presentation, various items have been combined on the consolidated balance sheet and the consolidated profit and loss statement. These entries are correspondingly broken down and explained in the Notes. The profit and loss statement was compiled according to the total cost method.

The fiscal year used by ecotel communication ag and its fully consolidated subsidiaries corresponds to the calendar year. The consolidated financial statements are presented in Euros. All amounts, including figures from the previous year, are listed in thousands of Euros € thou.).

The annual financial statements of ecotel communication ag and those of its subsidaries – with the exception of the subsidiaries PhaseFive Ukraine and 010010 Telecom GmbH, acquired in 2007, which are not consolidated on the grounds of materiality – are included in the consolidated financial statements of ecotel communication ag. The audited consolidated financial statements, as well as the Group Management Report, will be filed with the electronic version of the Federal Official Gazette. The consolidated financial statements are to be approved for publication on March 31, 2008, by the Supervisory Board of ecotel communication ag.

BASIS OF CONSOLIDATION

For subsidiaries included for the first time in the consolidated financial statements, capital consolidation is carried out in accordance with the acquisition method using the purchase method of accounting (IFRS 3). In this method, the acquisition costs of the shares acquired are offset against the newly assessed share of equity in the subsidiaries. Any difference between the acquisition costs and the newly acquired share of equity is allocated to the assets and liabilities of the subsidiary. Subsequently, any positive differences are recognized as goodwill under intangible assets in fixed assets. Negative differences are recognized immediately with an effect on net income. As part of the final consolidation, the remaining carrying amounts of the goodwill and the negative differences are taken into account in the calculation of the final result.

Intra-Group expenses and earnings, receivables and liabilities, and provisions are set off against one another. The results of intra-Group transactions are eliminated if they are not insignificant. Depreciation and write-ups conducted on shares in incorporated companies in the individual financial statements are reversed.

CONSOLIDATED GROUP

In addition to ecotel communication ag, the consolidated financial statements include all but two (previous year: one) of the domestic and foreign subsidiaries in which ecotel communication ag directly or indirectly controls the majority of voting rights. A Ukrainian subsidiary of the fully consolidated PhaseFive AG, Düsseldorf, and the German subsidiary of the fully consolidated easybell GmbH, 010010 Telekom GmbH, were not included in the consolidated financial statements on grounds of materiality. The initial or final consolidation takes place at the time of the acquistion or sale of the shares.

ecotel communication ag had the following direct and indirect holdings during the reporting and comparison periods:

	Share of capital in %	Equity in € thousand	Earnings in € thousand	Earnings in € thousand	Employees* (average)
ecotel private ag (Previous year)	100.0	640 (349)	-9 (16)	130 (296)	0 (0)
easybell GmbH	50.98	471	77	1.471	2
010010 Telecom GmbH	100.0	24	5	0	0
RC communications GmbH (Previous year)	100.0	82 (146)	136 (-53)	536 (232)	11 (14)
PhaseFive AG (Previous year)	100.0	150 (178)	-28 (-106)	162 (61)	2 (2)
PhaseFive Ukraine (Previous year)	99.0	36 (39)	0.1 (0.3)	120 (83)	1 (5)
/bin/done digital solutions GmbH (Previous year)	100.0	43 (30)	14 (2)	226 (56)	1 (0)
to bemobile GmbH (Previous year)	51.03	415 (460)	-45 (-101)	511 (8)	4 (2)
nacamar GmbH	90.0	16.382	781	20.652	70
ADTG Allgemeine Telefon-dienstleistungen GmbH	100.0	1.358	275	2.930	14
PPRO Wertkartenverkauf GmbH	51.2	230	55	2.744	0
Werkartenverkauf AT GmbH/Österreich	100.0	110	50	2.642	0
mvneco GmbH	45.0	-478	-1.229	718	4

*) Excluding Board members/ managing directors and trainees

In this presentation, the earnings and revenues for the companies acquired in 2007 are listed in proportion to the amount of time they have belonged to the Group. The balance sheet cut-off date for the consolidated financial statements is December 31 and is also the cut-off date for the financial statements of the parent company and all fully consolidated subsidiaries.

COMPANY MERGERS AND OTHER ACQUISITIONS

The following company acquisitions were completed in fiscal year 2007.

nacamar GmbH, Dreieich

Effective from February 4, 2007, ecotel communication ag acquired all the shares in Tiscali nacamar GmbH, Dreieich, which then was renamed nacamar GmbH. nacamar GmbH offers professional internet and data services for businesses. Its business activities are based on the secure and reliable networking of company locations. One of its services is straightforward access, but its portfolio also contains managed services, individual security services, and housing/hosting services in its own computer center. The acquisition of nacamar is expected to continue the profitable growth strategy in the target segment of business customers while adding appreciably to the Group's market presence and know-how in the area of professional internet and data services.

The acquisition was financed by means of borrowing and available liquid funds. The purchase price was € 19,173.9 thousand, including supplementary acquisition costs of € 1,060.4 thousand (including adjustments in the second and fourth quarters of 2007). In connection with this purchase, 10% of the shares in nacamar GmbH were sold for € 2,046.0 thousand to third parties, resulting in an increase in minority interests.

The assets, liabilities, and contingent liabilities of nacamar GmbH were posted at the following carrying amounts before the merger or fair values at the time of the merger:

nacamar GmbH Amounts in € thou,	Carrying amount	Adjustment to fair value	Fair value
Goodwill	0.0	4,948.1	4,948.1
Customer relationships	5,500.0	0.0	5,500.0
Other fixed assets	6,221.5	0.0	6,221.5
Other assets	1,000.0	0.0	1,000.0
Cash and cash equivalents	25.0	0.0	25.0
Provisions	0.0	0.0	0.0
Other liabilities	-279.6	0.0	-279.6
Deferred taxes	1,758.9	0.0	1,758.9
Purchase price	**14,225.8**	**4,948.1**	**19,173.9**

As part of a business contribution and transfer agreement, the Tiscali Group transferred its B2B assets and liabilities to the previously inactive Tiscali nacamar GmbH on February 1, 2007. This transfer was conducted at fair value, which is why no further adjustment of these values was necessary at the time of the company merger.

Due to the sale of the 10% minority interest to third parties, the Group had to reduce goodwill by another € 494.8 thousand as of December 31, 2007. After taking account of the minority interests, the acquisition costs exceeded the fair value by € 4,453.3 thousand. This difference is mainly due to the strategic option entailed in the acquisition, which allows the Group to position itself in the internet business in addition to its fixed-line business. A separate fair value of this option cannot be reliably determined.

From the time of acquisition on February 4, 2007, to the balance sheet date of December 31, 2007, the acquired company contributed a profit of € 780.8 thousand to the consolidated net income for the year of ecotel communication ag, before distribution of minority interests. Based on the current contractual relationships and despite the existing minority interests, the entire annual profit for 2007 since the time of acquisition of nacamar is to be attributed to ecotel.

Had the acquisition taken place at the beginning of the reporting period, that is on January 1, 2007, then nacamar would have contributed revenues of € 20,652.4 thousand and an unchanged annual profit of € 780.8 thousand in 2007.

ADTG Allgemeine Telefondienstleistungs GmbH, Rathenow

In an agreement dated June 29, 2007, the company acquired all the shares in ADTG Allgemeine Telefondienstleistungs GmbH (ADTG), with headquarters in Rathenow. ADTG is active in Germany as a telecommunications service provider for voice and data services with a focus on small- and medium-sized businesses. The number of ecotel business customers grew with this acquisition by 5,000 to a total of 45,000 customers. In addition to building up its market position in the business customer segment, the acquisition should lead to synergies in purchasing and increased efficiency through improvements in the organizational structure. At the same time, ecotel gains a long-term sales relationship with the former shareholders of ADTG.

The purchase price for ADTG was € 5,181.9 thousand, including € 121.9 thousand supplementary acquisition costs; it was accomplished with € 2,571.9 thousand in cash and € 2,610.0 thousand in ecotel shares. Based on IFRS adjustments as of the date of acquisition, July 1, 2007, the transaction resulted in goodwill of € 4,098.9 thousand.

The assets, liabilities, and contingent liabilities of ADTG were held at the following carrying amounts before the merger or fair values at the time of the merger:

ADTG Allgemeine Telefondienstleistungs GmbH Amounts in € thou.	Carrying amount	Adjustment to fair value	Fair value
Goodwill	0	4,098.9	4,098.9
Customer relationships	0	1,350.0	1,350.0
Other fixed assets	104.7	0	104.7
Other assets	896.4	0	896.4
Cash and cash equivalents	289.5	0	289.5
Provisions	-180.3	0	-180.3
Other liabilities	-868.7	0	-868.7
Deferred taxes	-4.5	-504.1	-508.6
Purchase price	**237.1**	**4,944.8**	**5,181.9**

The principal advantage of the acquisition of ADTG for ecotel communication ag was seen as the possibility of realizing potential synergies in purchasing and in building up relationships with various distribution companies.

In the period from the acquisition up to December 31, 2007, the acquired company contributed a profit of € 274.9 thousand to ecotel communication ag.

Had the acquisition taken place at the beginning of the reporting period, that is on January 1, 2007, then ADTG would have contributed revenues of € 5,643.3 thousand and an annual profit of € 434.1 thousand in 2007.

PPRO Wertkartenverkauf GmbH, Bad Heilbrunn

In an agreement dated July 13, 2007, ecotel communication ag acquired 51.2% of the shares in PPRO Wertkartenverkauf GmbH, headquartered in Bad Heilbrunn, including the shares in the wholly owned subsidiary Wertkartenverkauf AT GmbH, Graz (Austria). PPRO Wertkartenverkauf GmbH is a company specializing in handling internet-based payments. The main products of the company are a virtual prepaid credit card (paysafecard) and a business interface for the online payment process called “giropay” for dealers operating via the internet. The services of PPRO Wertkartenverkauf GmbH can be used directly in various business areas of the ecotel Group.

The purchase price was € 2,159.0 thousand, including € 59.0 thousand in supplementary acquisition costs. It was accomplished with € 609.0 thousand in cash and € 1,550.0 thousand in ecotel shares. At the time of the initial consolidation on the date of acquisition, July 1, 2007, goodwill based on the percentage of capital held came to € 2,062.3.

On the acquisition date, the following assets and liabilities of the PPRO Group were acquired:

PPRO Wertkartenverkauf GmbH Amounts in € thou.	Carrying amount	Adjustment to fair value	Fair value
Goodwill	0	2,062.3	2,062.3
Intangible assets (internet domain)	0	50.0	50.0
Other fixed assets	5.8	0	5.8
Other assets	346.9	0	346.9
Cash and cash equivalents	243.2	0	243.2
Provisions	-2.4	0	-2.4
Other liabilities	-441.4	0	-441.4
Deferred taxes	0	-13.2	-13.2
Net assets	**152.1**	**2,099.1**	**2,251.2**
Minority interests			-92.2
Purchase price			**2,159.0**

The principal advantage of the acquisition of PPRO for ecotel communication ag was seen as the strategic continuation of the company’s development into a full service provider and in realizing synergetic effects with other companies in the Group.

easybell GmbH, Eichwalde

In an agreement dated July, 2007, ecotel private ag acquired 50.98% of the shares in easybell GmbH, Eichwalde. easybell GmbH offers telecommunication products and concentrates on price-conscious private customers with high technical demands on products and services from the telecommunications area. Currently, easybell GmbH operates in the narrowband services and DSL segment. Sales are carried out via telecommunications price portals on the internet such as “Teltarif.” easybell GmbH also plans to move into new areas soon, such a VoIP and unbundled DSL local loop (ULL). ecotel intends to use easybell GmbH as a pilot customer for preparation of its own internet and voice connections for small internet service providers. The acquisition, including supplementary costs of € 24.9 thousand, ran to € 324.9 thousand. Based on IFRS adjustments as of the acquisition date of July 1, 2007, goodwill amounts to € 136.6 thousand.

The purchase price of the acquisition can be categorized according to the following assumed assets and liabilities:

easybell GmbH Amounts in € thou.	Carrying amount	Adjustment to fair value	Fair value
Goodwill	0	123.8	123.8
Customer relationships	0	35.0	35.0
Other fixed assets	2.7	0	2.7
Other assets	236.0	0	236.0
Cash and cash equivalents	525.2	0	525.2
Provisions	-309.7	0	-309.7
Other liabilities	-67.9	0	-67.9
Deferred taxes	-17.1	-9.8	-26.9
Net assets	**369.2**	**149.0**	**518.2**
Minority interests			-193.3
Purchase price			**324.9**

The advantage of the acquisition of PPRO for ecotel communication ag was principally seen in the strategic continuation of the development of the company into a full service provider and in acquiring the synergistic effects with other companies in the Group.

toBEmobile GmbH, Düsseldorf

toBEmobile GmbH has been fully consolidated since 2006. Since the date of acquisition to the balance sheet date of December 31, 2007, ecotel has held 51.03% of the shares and has a purchase option for the minority interests of 48.97%. The purchase option can by exercised by ecotel at the earliest on December 31, 2008 with the option purchase price being determined at this future time on the basis of the sum of the company's goodwill at this future date and the annual surplus of toBEmobile GmbH in 2008. As of December 31, 2007, the option had no real value due to a lack of any profits.

mvneco GmbH

In terms of the sale of bundled products, the founding of mvneco GmbH in April 2007 created the basis for entry into the mobile communication market for business customers; ecotel holds 45% of the shares. mvneco GmbH, as what is called a Mobile Virtual Network Enabler (MVNE), allows other telecommunications companies like ecotel to enter the mobile services market as a technical service provider. mvneco GmbH connects its technical platform to the communication network of a mobile communications network operator and thus controls the mobile communication services. In this way, the termination of mobile calls can be directed into other networks. In addition, mvneco GmbH operates central application platforms (e.g., messaging). Since September 2007, the company has been providing convergence product packages in the areas of mobile and fixed-line communications, which, however, will probably not lead to significant profits until 2008.

Acquisition costs of the shares were € 234 thousand, including supplementary acquisition costs of € 9 thousand. The company was consolidated into the Group using the equity method.

ACCOUNTING AND VALUATION METHODS

The annual financial statements of the domestic and foreign companies that are consolidated in the Group are presented according to uniform accounting and valuation methods. The values given in the consolidated financial statements are not affected by tax regulations except as determined by IFRS regulations for the presentation of the assets, finance, and earnings situation.

In addition, the supplementary provisions of § 315a of the German Commercial Code (HGB) are observed in the consolidated financial statements.

Assets are recognized when the Group is entitled to all substantial opportunities and risks associated with their use. Assessment occurs on the basis of historical cost of acquisition or manufacture, with the exception of specific financial assets.

Acquisition costs include all considerations completed in order to acquire an asset and to put it into operational condition. Manufacturing costs include all costs that can be directly allocated to the manufacturing process and appropriate parts of the overhead costs associated with production. Financing costs for the acquisition or for the period of manufacture are not recognized, but are recorded in the period of their original applicability.

Acquired **intangible assets** are recognized at cost of acquisition cost; self-provided intangible assets from which the firm will probably get future use and that can be reliably assessed are recognized at the cost of manufacture and amortized using the linear method over the period of their presumed useful lives, unless another amortization method better pertains to the course of their use, as in certain exceptional cases.

Research and development costs are treated as current expenses. **Development costs** are recognized and written down in a linear fashion if a newly developed product or process can be clearly distinguished, is technically realizable, and is planned for own use or sale. Furthermore, the recognition requires that a clear allocation of cost is possible and that the costs will with sufficient probability be covered by future inflows of income.

Forschungs- und Entwicklungskosten werden grundsätzlich als laufender Aufwand behandelt. **Entwicklungskosten** werden dann aktiviert und linear abgeschrieben, wenn ein neu entwickeltes Produkt oder Verfahren eindeutig abgegrenzt werden kann, technisch realisierbar ist und entweder die eigene Nutzung oder die Vermarktung vorgesehen ist. Weiterhin setzt die Aktivierung voraus, dass eine eindeutige Aufwandszuordnung möglich ist und die Kosten mit hinreichender Wahrscheinlichkeit durch künftige Finanzmittelzuflüsse gedeckt werden.

Goodwill resulting from the consolidation is subjected to an annual test for impairment.

The following useful lives are regularly used as the basis for assessment:

Concessions and commercial property rights	3 - 5 years
Development costs	5 years
Software	3 years

If there are grounds for impairment and the market value is less than the historical cost of acquisition or manufacture, the intangible assets are written down in an accelerated fashion. The market value of an asset corresponds to the higher amount of the net sales proceeds and the cash value of future cash flows that can be allocated to the asset (value in use).

Fixed assets are valued at the cost of acquisition or manufacture, depreciated or, if necessary, impaired. Fixed assets are depreciated using the linear line method over their presumed useful lives, unless another depreciation method better corresponds to the useful life, as in exceptional cases. As a rule, fixed assets are depreciated over the following useful lives:

Other equipment, operating and office equipment	3 - 7 years

If specific reasons for impairment are present and the market value is less than the historical cost of acquisition or manufacture, the fixed assets are recognized as impaired. If the reasons for impairment recognized in previous years cease to apply, appropriate write-ups are carried out. For reasons of simplicity and materiality, low-value fixed assets are completely written down in the year of acquisition and recognized as disposals.

Inventories are estimated at acquisition cost or at net sale value.

Receivables and other assets are initially recognized at acquisition cost, taking account of any transaction costs, and correspondingly carried forward. Receivables bearing no or little interest with lifetimes of over one year are discounted. All identifiable individual risks and general default risks based on experience are carried at appropriately impaired values. Receivables valued in a foreign currency are assessed at the exchange rate on the balance sheet date.

Pre-paid rent and insurance premiums are recognized as **prepayment and accrued income** under other assets.

Borrowing costs are recognized in the period in which they occur.

Other **provisions** comprise all identifiable liabilities as of the balance sheet date which are based on past transactions or other past events and for which the amount or date of settlement is unclear. The provisions are recognized with the probable recoverable amount. Offsetting with positive profit contributions does not occur. Provisions are only formed if a legal or actual liability to a third party exists. Non-current provisions are carried at their discounted recoverable amount as of the balance sheet date in so far as the interest effect resulting from discounting is material. The recoverable amount also includes any cost increases to be accounted for in accordance with IAS 37 as of the balance sheet date.

Liabilities are recognized at the time of their being incurred at the amount of the consideration received, taking any transaction costs incurred into account. Subsequently, liabilities are valued at the historical cost of acquisition. Non-current liabilities are discounted. Liabilities denoted in a foreign currency are valued at the exchange rate on the balance sheet date.

Deferred taxes are created for differences between the assessments of the assets and debts in the consolidated balance sheet and in the tax balances of the individual companies if these various assessments may lead in the future to a higher or lower taxable income than would have been the case according to the consolidated balance sheet. The deferred taxes assets also include claims for tax reductions that result from the expected future use of current tax loss carryforwards and whose realization is assured with reasonable security. The deferred taxes are determined on the basis of tax rates that are applicable or are expected in the various countries at the time of recognition. Past deferred taxes were adjusted due to the changes to the individual new corporate income tax rates implemented in 2007 in the German taxation law. Deferred taxes on corporate tax loss carryforwards of domestic companies were calculated at 15% (previous year: 25%) plus 5.5% solidarity surcharge and on trade tax loss carryforwards at 11-17% (previous year: 18-19%). These rates were used for the reporting of deferred taxes on temporary differences if these differences are to be reversed in the future.

Derivatives are used in the ecotel Group in a limited manner and exclusively for hedging interest rate risks from operative business. In accordance with IAS 39, derivatives are valued at fair value; changes in values are recognized as affecting net income in the results of financing activity. Determination of the fair value occurs based on the historical publicly noted market prices on the capital market as sampled at the appropriate lending institutions as of the balance sheet date. Derivatives with a positive fair value are recognized under other financial assets, derivatives with a negative fair value are recognized under other financial liabilities. Initial booking in occurs on the settlement date, which is usually a few days after the date of incurring the debt (date of the transaction). The implemented interest rate swap agreements of ecotel communication ag belong to the category of financial instruments held for sale (IAS 39.9), and are recorded in the balance sheet at their market values as financial assets or financial liabilities until their booking out in the case of expiration or of dissolution.

Securities are held as current assets in cash or cash equivalents and are assigned to the category “held for sale.” They are therefore valued at fair value on the balance sheet date.

Shares in other companies are balanced at cost of acquisition.

The other financial instruments of the ecotel Group relate to the category “credits and receivables.” At the time of their initial recognition in the balance sheet, these are valued at fair value, including directly allocable transaction costs. They are then carried at historical cost of acquisition using the effective interest method.

The recording **revenues and other operating income** occurs when a service has been provided or when the asset has been delivered and the transfer of risk has been completed. Provisions for warranties are made at the time of the realization of the corresponding revenues. If conditions according to IAS 18.20 ff. for the realization of service revenues according the level of completion of the transaction are fulfilled as of balance sheet date, the corresponding revenues are recorded on the basis of the assessment of completed services using this method.

Operating expenses are recorded as affecting net income when a claim to the service is made or at the time the service is called into being.

Interest income and expense are recorded in the period in which they occur. Dividends are collected when the claim legally originates. Costs of the acquisition of capital which cannot be offset against equity, such as the costs of supporting the share price, are posted in the **finance result**. The results of companies assessed using the equity method are shown separately as a part of the finance result.

During the preparation of the consolidated financial statements, **assumptions** are made and **estimates** used that have an effect on the amount and the identification of recorded assets and liabilities, earnings and expenses, and on contingent liabilities. The assumptions and estimates relate primarily to the consolidated Group’s uniform definition of useful lives, the reporting of provisions, and the possible realization of future tax relief. The assumptions underlying the estimates are explained under the individual items of the balance sheet and the profit and loss statement. The actual values may in some cases deviate from the assumptions and estimates made. Such deviations are recorded with affect on net income at such a time as when improved knowledge makes this necessary.

In accordance with IAS 8.42, the reporting of the previous year's financial statements as of December 31, 2006 has been adjusted for the following three cases:

In the previous year, equity acquisition costs of € 756 thousand, less the income taxes on the equity of € 501 thousand for the 2006 increase in capital, were offset against the capital surplus. In order to assure a presentation of this procedure in accordance with IAS 32.38, the offset of the equity acquisitions costs allocable to the existing shareholders of ecotel communication ag was reversed. In this way, the capital surplus was increased retroactively to December 31, 2006 by € 196 thousand. The annual results for 2006 were affected negatively by this adjustment due to a finance expense of € 326 thousand, and in turn, a tax yield of € 130 thousand.

The balance sheet presentation of the acquisition of DSL COMP on June 1, 2006 was corrected retroactively. Whereas in the previous year's financial statements, goodwill of only € 7,414 thousand was recorded, this has now been reduced retroactively by € 2 thousand, as a separate intangible asset for the acquired customer relations was recognized. This intangible asset is now amortized in a linear fashion from the date of acquisition for a scheduled useful life 10 years. Due to this, the previous year's consolidated results were reduced by € 117 thousand, shown accordingly in the profit and loss statement for 2006 by the increased scheduled write-downs. Conversely, € 47 thousand in tax income resulted in 2006 from the dissolution of the deferred taxes liabilities for this process. This is contained in the tax income in the profit and loss statement for 2006. In addition, the deferred tax liabilities of € 798 thousand were carried as liabilities on the date of completion of the acquisition based on retroactive recognition of customer relations; the accumulated revenue reserves at the reporting day of the previous year were reduced appropriately.

For provisions recognized as of December 31, 2006 for the stock option plan of ecotel communication ag, € 8 thousand in deferred tax assets were recorded on the balance sheet; this has now been adjusted since a corresponding temporary difference did not exist. An income tax expense of € 8 thousand results for the previous year retroactively.

Earnings per share for 2006 were adjusted from € 0.72 to € 0.64.

In the three cases noted, the affected figures for the previous year were adjusted in all accounting materials of the consolidated financial statements. There was no necessity to adjust numbers published before January 1, 2006. The adjustment based on IAS 8 is also shown separately in the equity reconciliation statement.

NOTES TO THE CONSOLIDATED BALANCE SHEET

(1) Goodeill and other instanglible assets

The intangible assets developed in fiscal year 2007 in the following manner:

Development 2007 Amounts in € thou,	Goodwill	Concessions, commercially protected rights, and other rights and assets	Development costs	Customer relations	Total
Acquisition and manufacturing costs as of 1/1/2007	5,973	877	363	2,164	9,377
Additions	0	484	1,175	119	1,778
Change in basis of consolidation	10,738	3,041	0	6,885	20,664
Disposals	0	0	0	0	0
Balance as of 12/31/2007	**16,711**	**4,402**	**1,538**	**9,168**	**31,819**
Write-downs as of 1/1/2007	0	489	2	117	608
Additions	0	661	37	890	1,588
Changes in basis of consolidation	0	12	0	0	12
Disposals	0	0	0	0	0
Balance as of 12/31/2007	**0**	**1,162**	**39**	**1,007**	**2,208**
Carrying amount as of 12/31/2006	5,973	388	361	2,047	8,769
Carrying amount as of 12/31/2007	**16,711**	**3,240**	**1,499**	**8,162**	**29,611**

The intangible assets developed in the previous year 2006 as follows:

Development 2006 Amounts in € thou,	Goodwill	Concessions, commercially protected rights, and other rights and assets	Development costs	Customer relations	Total
Acquisition and manufacturing costs as of 1/1/2006	0	475	0	0	475
Additions	0	271	209	228	708
Changes in basis of consolidation	5,973	131	154	2,000	8,257
Disposals	0	0	0	-64	-64
Balance as of 12/31/2006	**7,973**	**877**	**363**	**2,164**	**9,377**
Write-downs as of 1/1/2006	0	172	0	0	172
Additions	0	205	2	117	324
Changes in basis of consolidation	0	112	0	0	112
Disposals	0	0	0	0	0
Balance as of 12/31/2006	**0**	**489**	**2**	**0**	**608**
Carrying amount as of 12/31/2005	0	303	0	0	303
Carrying amount as of 12/31/2006	**5,973**	**388**	**361**	**2,047**	**8,769**

Expenditures for research and development in the fiscal year were € 1,175 thousand (previous year: € 294 thousand). The recognized development costs included software solutions developed in-house for a new order handling and customer service system, a VoIP platform, a DSL services platform, and handling systems for mobile services communications products of ecotel communication ag (€ 950 thousand; previous year: € 209 thousand). These had not yet been completed as of 12/31/2007. During 2008, these items will be put into operation for internal use in order to improve the flow of operating processes. In addition, a software solution developed in-house at the subsidiary toBEmobile GmbH for the more efficient sale of mobile SIM cards was recognized (€ 228 thousand; previous year: € 152 thousand), which was put into operation in December 2006. The scheduled linear amortization is to be carried out over five years. In 2007, development costs of € 321 thousand were also recognized in the nacamar subsidiary. This involves a new customer invoicing system and various projects for the media delivery network. The development of these projects is set for completion in 2008 and they are planned to be put into service during 2008.

Pre-paid commissions to outside agents for the acquisition of new customers were recognized as customer relations (€ 45 thousand; previous year: € 164 thousand); these contracts are made for an average of 12 months. The amortization of these pre-payments occurs in accordance with the length of the contract with each customer.

Furthermore, as part of the new acquisitions of subsidiaries in 2007, the acquired customer bases from nacamar (€ 5,164 thousand) and ADTG (€ 1,238) were recognized. A useful life of 6 years was allocated to the ADTG customer base, and a linear scheduled amortization of € 113 thousand resulted, starting from the acquisition date of July 1, 2007, and a carrying amount of € 1,238 thousand as of December 31, 2007. A useful life of 10 to 18 years was allocated to the nacamar customer base depending on the customer segment. Other customer relations were recognized on the balance sheet for easybell (€ 32,000) and for an internet domain for PPRO (€ 42,000), to be amortized over 6 and 3 years, respectively. Customer relations for DSL COMP, which was acquired in the previous year, were recorded at € 1,683 thousand as of the balance sheet date; these will be amortized in a linear manner over a 10-year period.

Amortization of the intangible asset does not include any impairment.

The reported goodwill comprises the business of DSL COMP acquired in 2006 (€ 5,414 thousand), the other companies acquired in the previous year (€ 559 thousand), and the above-mentioned new acquisitions of subsidiaries in fiscal year 2007 (cash generating units). In this regard, the material goodwill came from nacamar (€ 4,948 thousand), ADTG (€ 4,099 thousand), PPRO (€ 2,062 thousand), and easybell (€ 124 thousand).

In accordance with IAS 36, an impairment test was conducted in the fiscal year ended using the discounted cash flow method to determine the recoverability of the recorded goodwill. For this, the data from the respective company planning was used as a base (8 year forecast period). Provisions for impairment were not necessary as a result of the impairment testing.

The following assumptions were used in the performance of the impairment test: a capitalization rate of interest of 7.5% after taxes or 10.6% before taxes, a beta factor of 1.3, and a debt ratio of 40%. The growth rates for the individual companies were set at between 0% and 5%. The corporate income tax rate used was 31%.

(2) Fixed Assets

The fixed assets developed in fiscal year 2007 in the following manner:

Development 2007 Amounts in € thou,	Land, land rights, and buildings and buildings on third-party land	Other equipment, operating and office equipment	Payments on account and assets under construction	**Total**
Acquisition and manufacturing costs as of 1/1/2007	117	2,850	64	3,031
Additions	15	651	2,326	2,992
Changes in basis of consolidation	2,012	1,861	0	3,873
Disposals	0	-16	0	-16
Balance as of 12/31/2007	**2,144**	**5,346**	**2,390**	**9,880**
Write-downs as of 1/1/2007	87	1,358	0	1,445
Additions	260	1,305	0	1,565
Changes in basis of consolidation	0	11	0	11
Disposals	0	-12	0	-12
Balance as of 12/31/2007	**347**	**2,662**	**0**	**3,009**
Carrying amount as of 12/31/2006	30	1,492	64	1,586
Carrying amount as of 12/31/2007	**1,797**	**2,684**	**2,390**	**6,871**

The fixed assets of the Group for the fiscal year 2006 developed as follows:

Development 2006 Amounts in € thou,	Land, land rights, and buildings and buildings on third-party land	Other equipment, operating and office equipment	Payments on account and assets under construction	**Total**
Acquisition and manufacturing costs as of 1/1/2006	98	1,831	0	1,929
Additions	0	1,003	64	1,067
Changes in the basis of consolidation	20	184	0	204
Disposals	-1	-168	0	-169
Balance as of 12/31/2006	**117**	**2,850**	**64**	**3,031**
Write-downs as of 1/1/2006	69	785	0	854
Additions	12	506	0	518
Changes in the basis of consolidation	7	140	0	147
Disposals	-1	-73	0	-74
Balance as of 12/31/2006	**87**	**1,358**	**0**	**1,445**
Carrying amount as of 12/31/2005	29	1,046	0	1,075
Carrying amount as of 12/31/2006	**30**	**1,492**	**64**	**1,586**

No impairments were necessary in either the reporting period or in the comparison period.

Future operating lease payments

As of December 31, 2007, the outstanding lease obligations from operating lease contracts consisted of the following:

Amounts in € thou,	up to 1 year	from 1 to 5 years	over 5 years	Total 12/31/2007
Operating and office equipment (Leasing)	908	373	0	1,281
Other lease contracts	1,692	3,240	1,901	6,833
	2,600	**3,613**	**1,901**	**8,114**

Lease obligations mainly resulted from operating lease contracts on technical equipment and software, company vehicles, and lease obligations on leased office equipment. The other lease contracts include the rent for office space and the computer center and the maintenance contract for the data backbone.

As of December 31, 2006, the following financial obligations existed as a result of operating lease contracts:

Amounts in € thou,	up to 1 year	from 1 to 5 years	over 5 years	Total 12/31/2006
Operating and office equipment (Leasing)	33	8	0	41
Other lease contracts	1,061	583	102	1,746
	1,094	**591**	**102**	**1,787**

(3) Financial assets

The financial assets of € 107 thousand (previous year: € 186 thousand) recognized as of the balance sheet date include € 51 thousand for the cost of the acquisition of the shares of PhaseFive AG in its Ukrainian subsidiary, which has not been consolidated, and € 56 thousand for the shares of easybell GmbH acquired in fiscal year 2007 in 010010 Telecom GmbH, also not consolidated on grounds of materiality.

In the previous year, € 135 thousand was recognized for payments in fiscal year 2006 for supplementary acquisition costs for the acquisition of the German business of the Tiscali-Nacamar group, which was not completed until 2007.

The carrying amount of shares in mvneco GmbH, assessed using the equity method, as of December 31, 2007, ran to € 0, since the original acquisition costs of these shares of € 234 thousand at the time of acquisition in 2007 had to be completely written down due to the high initial costs incurred in fiscal year 2007 which led to an annual pro-rata loss in the amount of € -404 thousand. The carrying amount included a pro-rata goodwill of € 45 thousand. The negative equity value of the stake in mvneco GmbH, not shown on the balance sheet, came to € -170 thousand as

(4) Non-current receivables

Non-current receivables of € 2,151 thousand comprise primarily a loan by ecotel communication ag to mvneco GmbH, a company assessed using the equity method. It has a period of maturity until September 2010 and bears 5.0% annual interest.

(5) Inventories

Inventories include the SIM mobile phone cards of ecotel communication ag stored in a warehouse, valued at € 18 thousand, and easybell GmbH routers, valued at € 6 thousand.

(6) Trade receivables and other receivables and assets

Amounts in € thou,	Remaining period of over 1 year	Total 12/31/2006	Remaining period of over 1 year	Total 12/31/2007
Trade receivables				
From third parties	0	6,542	0	12,784
Other receivables and assets				
Securities	0	111	0	403
Active prepayment and accrued income	0	43	0	54
All other receivables and assets	3	709	3	3,831
	3	**863**	**3**	**4,288**

Securities comprise short-term investments of three (previous year: one) subsidiaries. The effect on results of the increase of the provision for losses on trade receivables is recognized in other operating expenses, that of the dissolution of adjustments in other operating earnings. The receivables bear no interest and thus are exposed to no interest rate risk. The carrying amounts correspond to the fair value.

(7) Current and deferred taxes on earnings

Amounts in € thou.	12/31/2006	12/31/2007
Deferred income tax claims	392	1,410
Current income tax claims	26	352
	418	**1,762**

Deferred income tax claims comprise deferred tax claims of € 364 thousand (previous year: € 392 thousand) due to existing corporate and business tax loss carryforwards of four subsidiaries; this includes € 1,046 thousand in deferred tax assets due to temporary differences among the subsidiaries. The current income tax claims comprise claims for reimbursement of taxes on earnings originating in credits for trade taxes, corporate taxes, and interest discount taxes.

(8) Cash and cash equivalents

Amounts in € thou,	12/31/2006	12/31/2007
Deposits in banks	9,354	3,878
Cash on hand and checks	11	1
	9,365	**3,879**

(9) Equity

The changes in equity of the Group are presented in the statement of changes in equity.

On June 28, 2007, the company Management Board made use of the authority granted in a resolution of the Annual General Meeting of January 23, 2006, which was recorded in the commercial register on January 27, 2006, and with the approval of the Supervisory Board of June 28, 2007, to increase the capital stock by € 300,000.00 from € 3,500,000.00 to € 3,800,000.00. The capital increase occurred through the issuance of 300,000 new bearer no-par value shares with a calculated share of the capital stock of € 1.00 per share in exchange for an in-kind investment of all the shares in ADTG Allgemeine Telefondienstleistungs GmbH (ADTG) with the nominal amount of

€ 25,050.00. The issue price per share was € 8.70. Shareholders received no purchase rights. The completion of the capital increase was made effective by recording in the commercial register on July 11, 2007.

On July 12, 2007, the company Management Board made use of the authority granted in a resolution of the Annual General Meeting of January 23, 2006, which was recorded in the commercial register on January 27, 2006, and with the approval of the Supervisory Board of July 12, 2007, to increase the capital stock by € 100,000.00 from € 3,800,000.00 to € 3,900,000.00. The capital increase occurred through the issuance of 100,000 new bearer no-par value shares with a calculated share of capital stock of € 1.00 per share in exchange for an in-kind investment of 51.2% of the shares in PPRO Wertkartenverkauf GmbH with the nominal amount of € 12,800.00. The issue price per share was € 15.50. Shareholders received no purchase rights. The completion of the capital increase was made effective by recording in the commercial register on July 20, 2007.

Consequently, the number of shares in free float of ecotel communication ag as of December 31, 2007 was 3,900,000 shares. The shares were issued as no-par value shares with a pro-rata amount of capital stock of € 1.00.

The capital surplus amounts to € 17,826 thousand (previous year: € 14,073 thousand). As a result of the above-mentioned capital increase, the issuance of new shares led to an increase of the capital surplus of € 3,760 thousand due to the premiums received. In accordance with IAS 32.35, as of December 31, 2007, the costs of acquisition of equity, after deduction of income taxes in the amount of € 97 thousand (previous year: € 887 thousand), were set off against the capital surplus.

The shares of other shareholders comprise the minority interests in the equity of toBEmobile (€ 203 thousand; previous year: € 225 thousand), nacamar (€ 1,520 thousand), PPRO (€ 139 thousand), and easybell (€ 231 thousand).

With regard to capital management, the sum of equity and non-current outside capital should exceed non-current assets. In this connection, the debts covenant associated with the outside capital should not be violated. These terms are as follows: (1) equity of at least 25% of the sum of the total assets; (2) ratio of debt to EBITDA should not exceed 2.5; (3) EBITDA at least 5% of revenues.

The following substantial shareholdings of over 10% of the company are held:

	%
Peter Zils	31.5%
AvW Gruppe AG	10.12%
Information Technologies R&D Holding AG	12.45%

During fiscal year 2007, the following reports were made which in connection with § 20 Section 1 or Section 4 of the German Stock Corporation Law (AktG) or in connection with § 21 Section 1 or Section 1a of the German Securities Trading Law (WpHG) and have led to the following information conform to §160 Section 1 No. 8 of the AktG:

8/8/2007
Notification from Absolute Capital Management Holdings Limited, George Town, Cayman Islands that its share of voting rights in ecotel communication ag on 8/6/2007 amounts to 22.424% (number of shares: 874,554; capital stock of 3,900,000 shares). The voting rights are held by the following companies, which have more than 3% of the voting rights: (1) Absolute Activist Value Master Fund Limited, and (2) Absolute Activist Value Fund Limited.

Notification from Mr. Peter Zils, Germany that his voting rights share in ecotel communication ag has exceeded the threshold of 30% of the voting rights and currently is 31.05% (equivalent to 1,210,896 votes).

8/9/2007
Notification from the AvW group AG, Krumpendorf, Austria that as of 8/6/2006 it holds 5.743% of the voting-right capital of ecotel communication ag. This corresponds to 223,995 votes of a total of 3,900,000 shares.

9/27/2008
Notification from the AvW group AG (FN 206508 p), Krumpendorf, Austria that on 9/20/07 its share of voting rights of ecotel communication ag exceeded the threshold of 10%, and on this day amounted to 10.12% (394,712 votes). The AvW group AG made its report in its own name and as a representative of the following persons or holders of voting rights: (1) AvW Beteiligungsverwaltung GmbH (FN 204069 b), Vienna, Austria, (2) Auer von Welsbach Privatstiftung (FN 171457 v), Vienna, Austria, and (3) Dr. Wolfgang Auer von Welsbach, Austria.

9/28/2007
Notification from Absolute Capital Management Holdings Limited, George Town, Cayman Islands that its share of votes in ecotel communication ag on September 24, 2007 has dropped below the voting threshold of 20% and 15%; it now equals 14.452% (number of shares: 563,368; capital stock in shares: 3,900,000). The voting rights are held by the following companies, which have more than 3% of the votes: (1) Absolute Activist Value Fund Limited, and (2) Absolute Activist Value Master Fund Limited.

10/5/2007
Notification from Information Technologies R&D Holding AG, Zug, Switzerland that on 10/1/07 its share in the voting rights of ecotel communication ag exceeded the threshold of 10%, and on this day amounted to 12.45% (485,770 votes; capital stock in shares: 3,900,000). The thresholds of 3% and 5% have been exceeded.

10/9/2007
Notification from Absolute Capital Management Holdings Limited, George Town, Cayman Islands that its share of votes in ecotel communication ag on October 1, 2007 had dropped below the voting threshold of 10%, 5%, and 3% and amounts to 0%. The Absolute Activist Value Fund

Limited, George Town, Cayman Islands, and the Absolute Activist Value Master Fund Limited, George Town, Cayman Islands, also no longer hold any voting rights.

(10) Current and deferred income taxes, other provisions, and stock option plan

Amounts in € thou,	Amount at beginning of period 1/1/2007	Utilization	Dissolution	Allocations	Transfers	**Amount at end of period 12/31/2007**
Current income taxes	333	332	1	752	0	752
Deferred income taxes	981	221	13	649	0	1,396
Provisions for income taxes	**1,314**	**553**	**14**	**1,401**	**0**	**2,148**
Of which with duration of up to one year	333	332	1	752	0	752
Of which for initial consolidations	0	0	0	310	0	310
Personnel provisions	46	25	0	77	-21	77
Audit expense	42	33	9	58	0	58
Remuneration to Supervisory Board	14	14	0	14	0	14
Other provisions	**102**	**72**	**9**	**149**	**-21**	**149**
Of which with a duration of up to one year	81	72	9	149	0	149
Of which for initial consolidations	0	0	0	0	0	0

The transfer of € -68 thousand under personnel provisions relates to the value of the non-current provisions for the fair value earned proportionate to the period from the pledging of share-based remuneration carried over from the previous year. In 2006, an option plan was set up for ecotel for the first time. Since the stock option plan could come into effect only after approval by the Annual General Meeting on July 27, 2007, this concerns only the virtual stock options of a member of the Management Board as of the previous year's balance sheet date. These 45,000 virtual options could be exchanged for actual stock options or could be turned in for the equivalent in cash.

This old stock option plan was replaced in 2007 by a new stock option plan, pursuant to the resolution of the Annual General Meeting of ecotel communication ag of July 27, 2007. Since this new plan fulfills the criteria of a share-based compensation transaction that is equity-settled, in accordance with IFRS 2.28 (c), in order to retain the former reported value, a market value proportionate to the period in the amount of € 68 thousand was transferred in the third quarter of 2007 from the other provisions to the capital surplus.

In this old option plan (45,000 shares) that was replaced, the exercise price corresponds to receiving a share of the company at the 30-day average market price of the share before the distribution day (€ 13.45). The duration of this option plan is 5 years. The share options may be exercised for the first time after a waiting period of 2 years after the day of issuance. After the end of the waiting period, options may be exercised only if the average market price of the share has risen at least 5% a year relative to the exercise price, and it has developed at least 2 percentage points better than the HDAX (includes the values of all 110 companies in the DAX, MDAX, and TecDAX indices).

The fair value of the obligation from the share-based compensation agreement was assessed on the basis of a binomial model. The following parameters were used:

Dividend yield	0.00 %
Risk-free interest rate	3.90 %
Volatility of ecotel shares	35.97 %
Volatility of HDAX indices	15.96 %

The exercise price to receive a share of company stock also corresponds to the 100,000 shares of stock options on the distribution day of October 1, 2007 that were issued on that day, based on the 30-day average market price of a share before the issuing day (€ 12.27). In accordance with IFRS 2, the valuation of the old 45,000 share options was based on an exercise price of € 13.45. The assumed volatilities are based on all options of historically annualized volatilities tracked by Bloomberg for a 260-day period. The expected exercise period is 3 to 5 years.

The 145,000 options existing at the end of 2007 were given to two members of the Management Board (120,000 options, market value as of December 31, 2007 totaling € 282,000) and another top manager of ecotel communication ag, for whom the addition to the capital surplus was € 3 thousand (25,000 options, market value as of December 31, 2007: € 36 thousand). Listing of the market values by person is included in Note 29. The properties of the newly granted options equal those in the previously granted options described above. Based on the values at the date of distribution, October 1, 2007, the report of the fair value of these newly granted options was also based on the use of a binomial model with the following parameters:

Dividend yield	0.00 %
Risk-free interest rate	4.15 %
Volatility of ecotel shares	36.00 %
Volatility of HDAX indices	15.13 %

The assumed volatilities are based on historically annualized volatilities tracked by Bloomberg for a 260-day period. The expected exercise period is 3 to 5 years.

The addition to provisions, or, starting from the third quarter 2007, addition to capital surplus (€ 69 thousand; previous year: € 21 thousand) is proportionate to the period and recorded in personnel expenses. As of December 31, 2007, the capital surplus contains an amount of € 90 thousand for the existing stock options.

(11) Other current financial liabilitier, trade payables, and other short-term liabilities

Amounts in € thou,	Remaining period of up to 1 year	Total 12/31/2006	Remaining period of up to 1 year	Total 12/31/2007
Borrowings	11	11	3,407	18,157
Other	6	6	0	106
Financial liabilities	**17**	**17**	**3,407**	**18,263**
Trade payables	6,757	6,757	11,187	11,187
Other taxes	106	106	822	822
Social security	26	26	37	37
Salary and wages outstanding	22	22	0	0
Accrued vacation	88	88	199	199
Credit on receivables	34	34	0	0
Other	31	31	213	213
Other liabilities	**307**	**307**	**1,271**	**1,271**

All financial liabilities are to banks. Financial liabilities of € 52 thousand (previous year: € 6 thousand) resulted from an interest swap at fair value. The change in the fair value is included in the financial results.

Short-term liabilities to banks comprise the falling due in 2008 of the first tranche of the two acquisitions loans taken out in 2007. The non-current borrowings comprise the rest of the amount of the two loans taken out in 2007 by ecotel communication ag of €14,000 thousand and € 4,000 thousand. These have a maturity period of five years; the interest rate is determined by a reference rate plus a margin.

Trade payables include debts for outstanding invoices for € 1,422 thousand (previous year: € 105 thousand).

(12) Disclosure of financial instruments

In the normal course of business, the Group is exposed to risks associated with currency, interest rate change, and changes in the cost of credit, all of which may have an effect on the assets, finance, and earnings situation.

Foreign currency risk: Foreign currency risks arise from receivables, liabilities, liquid means, and planned transactions that occur or will occur in a currency that is not the functional currency for the company. The company is testing the use of derivative financial instruments to hedge against foreign currency risks. Since the currency risk was low in the past business years, no derivative financial instruments were used to hedge currency rate risks.

Interest rate risk: In the previous year, exposure to changes in the interest rate was low since the current business activity was financed overwhelmingly with equity, and financial investments were held only in cash or cash equivalents. That is why in the previous year an interest rate swap to hedge against interest rate risks for ecotel communication ag was concluded only to a moderate extent. In 2007, the interest rate risks increased due to the borrowing of € 18 million in outside funds. Interest rates risks in the ecotel Group grew principally due to the financial liabilities and the interest-bearing investments of the Group. Hedging against negative changes due to unexpected interest rate fluctuations was carried out through primary and derivative financial transactions. Thus, at the end of 2007 there were two interest rate derivatives in the form of a swap and cap contract. All derivative financial instruments have been recognized as financial assets or financial liabilities at fair value as of the balance sheet date. One should note that in interpreting the positive or negative fair values of derivative financial instruments, underlying transactions as a rule balance them out via compensating risks. The duration of the concluded interest rate derivatives is oriented on the duration of the underlying transactions and is thus overwhelmingly short to medium term.

Credit risk: A credit risk exists for the Group if transaction partners do not meet their obligations in the standard payment periods. The maximum default risk is presented on the balance sheet by the carrying amount of the particular financial asset. The development of the amount of receivables is monitored constantly in order to be able to identify default risks as soon as possible and to undertake corresponding countermeasures.

Accordingly, value adjustments for Group receivables under the following balance sheet items have developed as follows:

Receivables adjustments 2007 Amounts in € thou.	Trade receivables	Other receivables and other assets	**Total 12/31/2007**
As of 1/1/2007	125	0	125
Additions/disposals due to changes in basis of consolidation	65	10	75
Adjustments in the reporting year	46	0	46
Disposals	-34	0	-34
As of 12/31/2007	**202**	**10**	**212**

Receivables adjustments 2006 Amounts in € thou.	Trade receivables	Other receivables and other assets	**Total 12/31/2006**
As of 1/1/2006	66	0	66
Additions/disposals due to changes in basis of consolidation	33	0	33
Adjustments in the reporting year	28	0	28
Disposals	-2	0	-2
As of 12/31/2006	**125**	**0**	**125**

As of December 31, 2007, past-due unadjusted receivables existed in the following amounts:

Past-due unadjusted receivables Amounts in € thou,	Gross value 12/31/2007	Past-due adjusted receivables	Unadjusted past-due receivables due in the following time periods				
			0-30 days	31-60 days	61-90 days	91-120 days	over 120 days
Financial receivables	2,177	0	0	0	0	0	0
Trade receivables	13,068	202	359	444	98	237	1,688
Other receivables and other assets	4,298	10	10	0	0	0	0
	19,172	**212**	**369**	**444**	**98**	**237**	**1,688**

Individual adjustments have been made on past-due financial assets threatened by default if the fair value of these receivables lies under the stated carrying value due to unrecoverability or impairment.

Of the unadjusted trade receivables with a past due of over 120 days, € 1,136 comprise services provided by ecotel communication ag as of the balance sheet date which have not yet been billed. These involve undisputed but not yet invoiced revenues for the product “access lines” (€ 232 thousand) and accrued commissions (€ 904 thousand). The accrued commissions were calculated on the basis of a valid contract, but the debtor has not made any payment yet. ecotel communication ag has therefore filed a legal complaint about this matter. Another € 250 thousand involve the barter transaction of nacamar, as a part of which provisions were created in the amount corresponding to outstanding invoices from missing counterclaims.

As of December 31, 2006, the situation was as follows:

Past-due unadjusted receivables Amounts in € thou,	Gross value 12/31/2006	Past-due adjusted receivables
Financial receivables	2	0
Trade receivables	6,667	125
Other receivables and other assets	860	0
	7,529	**125**

For technical reasons, reporting and allocation of the past-due unadjusted receivables to the various time periods could not be performed to the previous year’s balance sheet date.

The financial assets and liabilities can be subdivided into valuation categories with the following carrying amounts:

Financial assets as of 12/31/2007 Amounts in € thou,	Fair Value	Carrying amounts				
		Cash and cash equiva-lents	Credits and receivables	Financial instruments reported at fair value with effect on net in-come	Financial assets available for sale	**Total carrying amounts**
Cash and cash equivalents	3,879	3,879	0	0	0	3,879
Securities	403	0	0	403	0	403
Trade receivables	12,866	0	12,866	0	0	12,866
Other current receivables and assets	3,885	0	3,885	0	0	3,885
Financial investments	108	0	0	0	108	108
Non-current financial assets	2,177	0	2,177	0	0	2,177
TOTAL	**23,318**	**3,879**	**18,928**	**403**	**108**	**23,318**

Financial liabilities as of 12/31/2007 Amounts in € thou,	Fair value	Carrying amounts		
		Other debts	Financial instruments reported at fair value with effect on net income	**Total carrying amounts**
Current financial debts	3,407	3,355	52	3,407
Trade liabilities	11,187	11,187	0	11,187
Other current liabilities	1,271	1,271	0	1,271
Non-current loans	14,750	14,750	0	14,750
Other non-current financial liabilities	107	107	0	107
TOTAL	**30,722**	**30,670**	**52**	**30,722**

Financial assets as of 12/31/2006 Amounts in € thou,	Fair Value	Carrying amounts				
		Cash and cash equivalents	Credits and receivables	Financial instruments reported at fair value with effect on net income	Financial assets available for sale	**Total carrying amounts**
Cash and cash equivalents	9,365	9,365	0	0	0	9,365
Securities	111	0	0	111	0	111
Trade receivables	6,542	0	6,542	0	0	6,542
Other current receivables and assets	749	0	749	0	0	749
Financial investments	186	0	0	0	186	186
Non-current financial assets	2	0	2	0	0	2
TOTAL	**16,955**	**9,365**	**7,293**	**111**	**186**	**16,955**

Financial liabilities as of 12/31/2006 Amounts in € thou,	Fair Value	Carrying amounts		
		Other debts	Financial instruments reported at fair value with effect on net income	**Total carrying amounts**
Current financial debts	17	11	6	17
Trade liabilities	6,757	6,757	0	6,757
Other current liabilities	307	307	0	307
Non-current loans	0	0	0	0
Other non-current financial liabilities	0	0	0	0
TOTAL	**7,081**	**7,075**	**6**	**7,081**

The financial instruments categorized as “held for sale” were recorded in the statement of profit and loss at € -52 thousand (previous year: € -6 thousand) based on the assessment of fair value as of the balance sheet date.

Liquidity risk: The refinancing of the ecotel Group companies is as a rule carried out centrally by ecotel communication ag. Risk of the liquidity reserves not being sufficient to fulfill the financial obligations on time exists. Bank debts with a nominal amount of € 3.25 million are due in 2008. To cover the liquidity need, cash and cash equivalents of € 3.9 million are available. In addition, ecotel communication ag has a contractually agreed upon credit line that has not been utilized; as of December 31, 2007, this came to € 6.0 million after deduction of the credit fees. So-called financial covenants exist with reference to the bank loans of € 18 million taken by ecotel communication and the available credit line. Violation of the financial covenants could possibly lead to notice of cancellation and premature repayment, if no agreement can be reached on an adjustment of the financial covenant or on refinancing. In total, the liquidity risk is judged to be small.

The following (undiscounted) payments are expected to come due in the next few years for the financial liabilities:

Redemption and interest payments for financial liabilities Amounts in € thou,	Buchwerte Carrying amounts 12/31/2007	Redemption payments			Interest payments		
		2008	**2009 to 2012**	starting 2013	**2008**	2009 to 2012	**starting 2013**
Liabilities to banks	18,000	3,250	14,750	0	691	1,252	0
Liabilities from finance leasing	97	97	0	0	16	0	0
Derivative financial liabilities	52	0	0	0	277	472	0
Other financial liabilities	114	114	0	0	0	0	0

Redemption and interest payments for financial liabilities Amounts in € thou.	Buchwerte Carrying amounts 12/31/2006	Redemption payments			Interest payments		
		2007	**2008 to 2011**	starting 2012	**2007**	2008 to 2011	**starting 2012**
Liabilities to banks	0	0	0	0	0	0	0
Liabilities from finance leasing	0	0	0	0	0	0	0
Derivative financial liabilities	6	0	0	0	0	0	0
Other financial liabilities	11	11	0	0	0	0	0

(13) Contingent liablities and other finanvial obligations

Contingencies due to possible liabilities not shown on the balance sheet as of December 31, 2007 were € 3,387 thousand for credit fees. To secure the acquisition credit of over € 18 million, the company shares of nacamar GmbH were pledged to the lending bank. As of the previous year's balance sheet date, no contingencies for possible liabilities not shown on the balance sheet existed. Other financial liabilities resulted exclusively from the liabilities shown above from operating leasing agreements.

NOTES TO THE CONSOLIDATED PROFIT AND LOSS STATEMENT

(14) Revenues

Amounts in € thou,	2006	2007
Domestic	50,812	81,343
Foreign	5,526	11,835
	56,338	**93,178**

Distribution of revenues to the business units of “Business Solutions” and “Wholesale” can be taken from the segment reporting. The earnings are obtained exclusively through the performance of services.

(15) Other operating earnings and other own work capita lized

Amounts in € thou.	2006	2007
Vehicle use	70	110
Recalculation of fees and expenses	11	110
Earnings from dissolution of adjustments on receivables	7	34
Earnings from disposal of intangible assets, fixed assets,		
and financial assets	36	120
Earnings from dissolution of provisions	2	13
Earnings from insurance policy payments for damages	27	0
Earnings from dissolution of negative differential from initial consolidation of PhaseFive AG	84	0
Other	55	38
	292	**425**

The own funds capitalized recorded in 2007 comprise programming projects that were developed inside the Group.

(16) Raw materials and consumables used

The expense for raw materials and consumables used comprises exclusively outside services utilized.

(17) Personal expenses

Amounts in € thou,	2006	2007
Wages and salaries	4,325	9,067
Social insurance contributions	689	1,478
Including expenses for old age care and for support	24	0
	5,014	**10,545**

During the fiscal year, the average number of those employed in the consolidated companies was:

Staff	2006	2007
Employees	88	195
	88	**195**

In addition, the number of members of the Management Board or managers in the Group companies was 8 (previous year: 7) and of trainees was 22 (previous year: 23). In the unconsolidated associated companies, in total in 2007 there was one employee and one managing director; in mvneco GmbH, assessed using the equity method, there were 3 employees and two managing directors.

(18) Depreciation, amortization, and impairment of assets

A listing of depreciation and amortization of intangible assets and of fixed and financial assets may be found in the Notes to the particular item.

In both fiscal year 2007 and the comparison year 2006, no impairments were found necessary as a result of impairment testing.

(19) Other operating expenses

Amounts in € thou,	2006	2007
Cost of delivering goods	3,673	4,026
EDP costs	247	1,799
Rents, leases, space costs	563	1,052
Legal and accounting expenses	851	834
Sales costs	561	760
Other administrative costs	539	442
Leasing	0	300
Vehicle costs	0	279
Insurance premiums	53	186
Change in provisions for losses on receivables	215	159
Repairs and maintenance	14	28
Loss on disposal of intangible and fixed assets	11	5
Other taxes	35	3
Other	10	578
	6,772	**10,451**

(20) Finance result

Amounts in € thou.	2006	2007
Interest income		
Other interest income and similar earnings	173	258
	173	**258**
Interest expense		
Interest expense on credit liabilities	0	-779
Other interest and similar expenses	-20	-118
	-20	**-897**
Net interest income	153	-639
Other financial expenses and income		
Results of companies assessed using the equity method	0	-234
Results from derivative financial instruments	-21	-46
Costs for maintaining stock price and admission to Prime Standard	-417	-326
	-438	**-606**
Finance result	**-285**	**-1,245**

(21) Taxes on income and earnings

Amounts in € thou.	2006	2007
Current income taxes	-845	-724
Deferred income taxes	-107	-606
Income taxes from the offsetting of equity acquisition costs (IAS 32.35)	-372	-61
Income tax expense	**-1,324**	**-1,391**

The following is a reconciliation of the expected with the actual tax expense. To obtain the expected tax expense, the final results before income taxes were multiplied by 40%, a standard set tax rate for the Group. This consists of a 25% tax rate for corporate tax, 5.5% solidarity surcharge, and 18% for trade tax. The expected tax expense is compared with the actual tax expense.

The reconciliation of the expected to actual income tax expense for the reporting year and the previous year are presented below:

Amounts in € thou,	2006	2007
Results before taxes	3,395	4,767
Group tax rate	40.0%	40.0%
Expected tax expense	**-1,358**	**-1,907**
Differences due to tax rates differing from Group tax rate	-3	55
Differences due to legal change in tax rate	0	36
Tax reductions due to tax-exempt earnings	46	367
Tax increased due to non-tax deductible expenditures	-1	-71
Previous year's taxes	1	0
Earnings from equity holdings in other companies	0	-93
Other taxes	9	223
Tax expense according to the profit and loss statement (Expense - / Earnings +)	**-1,324**	**-1,391**
Actual tax rate in %	**39.0%**	**29.2%**

The determination of deferred taxes uses the liability method of the financial statements. According to this method, tax reliefs or burdens that are likely to come to bear in the future are balanced to account for temporary differences between the carrying amounts listed in the consolidated financial statements and the taxable amounts of assets and debts that are stated. If the temporary differences relate to items that directly increase or reduce equity, the deferred taxes associated with these are directly set off against equity. Set-offs with no effect did not arise as of 12/31/2007 or 12/31/2006.

The deferred taxes are to be applied to the following items:

Amounts in € thou,	2006 asset	2006 liability	2007 asset	2007 liability
Tax loss carryforwards	392		364	
Fixed assets/intangible assets	0	969	1,144	1,374
Trade receivables	0	22	0	132
Other provisions/liabilities	8	0	0	0
Financial liabilities	2	0	10	0
Other items	0	0	4	2
Balance of assets and liabilities	-10	-10	-112	-112
Valuation adjustment	0		0	
	392	**981**	**1,410**	**1,396**

Deferred tax claims in a single tax jurisdiction are offset with deferred tax liabilities in the same jurisdiction, according to the term of their falling due.

All tax loss carryforwards that are taxable as of balance sheet date were taken into account in the recognition of deferred income tax claims, since in the subsequent years there will presumably be enough taxable earnings available for their use. No deferred taxes are created for the taxable temporary differences in connection with shares in subsidiaries and holding assessed using the equity method, in accordance with IAS 12.39.

(22) Net income attributable to other shareholders

The earnings of other shareholders (€ 63 thousand) comprise the pro-rata annual surpluses of PPRO (€ 47 thousand), easybell (€ 38 thousand), and the pro-rata loss of toBEmobile GmbH (€ -22 thousand).

In the previous year, this comprised only the pro-rata loss of toBEmobile of € -49 thousand.

(23) Earnings per share

In line with IAS 33, the basic earnings per share are determined as the quotient of the consolidated annual earnings due to the shareholders of ecotel communication ag and the weighted average number of bearer no-par value shares in circulation during the fiscal year. The average number of shares increased during the fiscal year due to the 400,000 newly issued bearer no-par value shares on June 28 and July 12, 2007.

Dilution of earning per share occurs when the average number of shares is increased through the recalculation of the issue of potential shares from options and convertible financial instruments. In the previous year, the company issued no diluting equity instruments since no potentially diluting shares of the granted virtual share options as of December 31, 2006 were issued, and therefore, the diluted earnings per share were the same as the basic earnings per share. Due to the altered classification of share options since October 1, 2007, the existing 145,000 share options are to be considered as diluted equity instruments as of December 31, 2007. Based on the values as of December 31, 2007, the exercise price for these options lay well above the recorded average stock market price of the ecotel shares for the corresponding period. In accordance with IAS 33.47, these options would therefore have no diluting effect as of December 31, 2007, and as a result, the basic and the diluted earnings are the same.

	2006	2007
Actual consolidated annual result (in EUR)	2,120,731.75	3,312,263.70
Weighted average number of shares	3,313,000.00	3,698,904.11
Basic earnings per share (in EUR)	**0.64**	**0.90**
Diluted earnings per share (in EUR)	**0.64**	**0.90**

Adjusted for deferred taxes, earning per share for the fiscal year 2007 were € 1.08 (previous year: € 0.78).

NOTES TO THE CASH FLOW STATEMENT

(24) Cash flow calculation

The cash flow statement is presented and classified according to the regulations of IAS 7 by cash flows from current business, investment, and finance activities. The effects on the financial resources of the changes in the basis of consolidation and changes in the exchange rate are shown separately.

The financial resources of the cash flow statement match the item "financial resources" shown in the consolidated financial statements.

In the reporting period, purchase prices for the acquisition of subsidiaries totaled € 22,545 thousand (previous year: € 8,828 thousand). Acquisitions in 2007 were accomplished through cash or cash equivalents in the amount of € 16,370 thousand (previous year: € 8,828 thousand) and through the issuance of ecotel shares in the amount of € 4,160 thousand. Cash or cash equivalents of € 583 thousand were assumed with the acquisitions. Reference is made to the Notes on the company acquisitions for information on the other assumed assets and assumed debts.

OTHER NOTES

(25) Events after the balance sheet date

According to § 58 Section 2 of the German Stock Corporation Law (AktG), the balance sheet result shown on the legal annual financial statements of ecotel communication ag is determinative for dividends to the shareholders of ecotel communication ag; this amounts to € -5,229 thousand.

There are no reportable events after the balance sheet date and final preparation of the consolidated financial statements.

(26) Information on dealing with associated companies and related parties

The volume of services supplied to or from associated companies is as follows:

	Amount of services rendered		Amount of services claimed	
Amounts in € thou.	2006	2007	2006	2007
PhaseFive AG				
or goods and services	0	0	52	125
PhaseFive Ukraine				
or goods and services	52	125	0	0
ecotel communication ag				
or goods and services	0	216	0	134
mvneco gmbh				
or goods and services	0	134	0	216

Transactions with the unconsolidated subsidiary 010010 Telecom GmbH did not take place in 2007; receivables or liabilities in relation to this subsidiary did not exist as of the balance sheet date.

As of December 31, 2007, there were, as in the previous year, no receivables or debts of the Group against PhaseFive Ukraine (unconsolidated subsidiary of PhaseFive AG, Düsseldorf).

Receivables from the mvneco, which is assessed using the equity method, are included in the consolidated financial statements with € 2,151 thousand.

The ecotel Group maintained service relationships with the following associated persons or companies in 2007:

Agreements with QITS GmbH

QITS GmbH, Quality Information Technology Services ("QITS"), whose managing director is the Deputy Chairman of the Supervisory Board, **Mr. Johannes Borgmann**, has since 1999 supplied various services to ecotel communcation ag. In addition to services under the blanket contract for software, in particular for the company billing system, there were printing, IT services, and data protection services, as well as financial bookkeeping services provided. In fiscal year 2007, approximately € 758 thousand (previous year: € 1,029 thousand) was paid to QITS.

Agreements with Vassol GmbH

Vassol GmbH (“Vassol”), whose only indirect shareholder was the Chairman of the Supervisory Board **Tobias Schreyer**, has since 2001 provided consulting services and other services to ecotel communication ag, in particular in the IT security area. This included Vassol’s making internet security infrastructure available. In fiscal year 2007, around € 215 thousand (previous year: € 106 thousand) was paid to Vassol.

Agreements mit Nörr Stiefenhofer Lutz

Nörr Stiefenhofer Lutz, a partnership of attorneys, accountants, and auditors, has supplied consulting services to the company since November 2005. **Dr. Thorsten Reinhard**, a member of the Supervisory Board, is an attorney and partner in Nörr Stiefenhofer Lutz. In fiscal year 2007, € 536 thousand (previous year: € 306 thousand) was paid to Nörr Stiefenhofer Lutz.

Agreements mit der MPC Service GmbH

A business representation agreement has existed since August 2002 between MPC Service GmbH and ecotel communication ag and its subsidiary ADTG GmbH. Under this contract, MPC Service GmbH receives a closing commission for monthly order acquisition and a commission for the monthly revenues from all customers supplied by MPC which varies by product. The agreement is comparable to the agreements with the other sales partners of the company. The Supervisory Board member **Mirko Mach** is managing director and shareholder of MPC Service GmbH and was the previous shareholder of ADTG GmbH. In fiscal year 2007, € 303 thousand was paid to MPC as sales commissions.

Loan agreement with the directors of nacamar GmbH

Under a management incentive contract, the company sold 10% of the shares of **nacamar to its managing directors**. The acquisition of 9% of the shares was financed by a loan made by the company (so-called Sweet Equity Loan), by which the company granted a loan of € 612 thousand to the managing directors of nacamar. The loan pays 5% annual interest and runs until the end of 2012.

Consulting contract between easybell GmbH and Consultist GmbH

A consulting contract existed until October 2007 between easybell GmbH and Consultist GmbH. **Dr. Andreas Bahr** is a shareholder of both easybell GmbH and Consultist GmbH. In total, Consultist received € 43 thousand in consulting fees through October 2007. Since October 2007, Dr. Bahr has been managing director of easybell GmbH.

Consulting contract between toBEmobile GmbH and Etzel Consulting and Borutta Consulting GmbH

A consulting contract has existed since 2006 between toBEmobile GmbH and Etzel Consulting GmbH and Borutta Consulting GmbH. **Alexander Etzel** and **André Borutta** are managing directors and shareholders of both toBEmobile GmbH and of Etzel Consulting GmbH or Borutta Consulting GmbH, respectively. In fiscal year 2007, a total of € 120 thousand each was paid to Etzel Consulting GmbH and Borutta Consulting GmbH as consulting fees.

(27) Segment reporting

The internal organization and management structure and the internal report to the Management Board and the Supervisory Board form the basis for defining the segment criteria of ecotel communication ag.

The **primary segmenting** occurs in accordance with internal reporting by product segments, defined as follows:

- In the **Business Solutions** segment (operative core area), ecotel offers "complete packages" of voice, data, and value-added services as well as direct connections for voice and data traffic from one source to small- and medium-sized companies. Currently, ecotel supplies over 45,000 business customers with standard and individualized telecommunications solutions.
- In the **Wholesale** segment, ecotel sells products and complete solutions for other telecommunications companies (including resellers and call shops) and for outside marketers.
- The area **Consolidated/Other** includes all the activities not allocated to the other segments.

For segment results, the annual results before interest and income taxes are used. The segment assets correspond to the sum of all segment-related reported assets not including income tax claims. The segment debts include the segment-related provisions, liabilities, and finance debts, but no liabilities for income taxes.

	Business Solutions		Wholesale		Consolidated/ Other		Group	
Amounts in € thou,	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
External revenues	37,510	67,391	18,428	20,719	400	5,068	56,338	93,178
Intersegment revenues	0	0	182	458	-182	-458	0	0
Annual results	4,599	5,921	-885	-2	-1,593	-2,607	2,121	3,312
Gross profit	14,611	27,102	1,242	1,457	164	1,047	16,017	29,606
Write-downs	-553	-2,510	-278	-343	-12	-299	-843	-3,152
Segment assets	23,831	44,363	4,163	4,124	-266	13,099	27,729	61,586
Segment liabilities	4,938	26,465	2,574	2,635	984	3,919	8,496	33,019
Investments in intangible assets and fixed assets	9,117	27,277	841	140	215	2,045	10,137	29,462

In the Business Solutions segment, contained in both the assets as of December 31, 2006 and investments for 2006 are € 5,414 thousand for the goodwill resulting from the acquisition of DSL COMP. This also applies for assets as of December 31, 2007.

In the Wholesale segment, assets as of December 31, 2007 also include goodwill from the acquisition of businesses in 2007 in the amount of € 9,018 thousand, which is also part of the 2007 investments of this segment.

With regard to the classification of the revenues according to sales regions **(secondary segmentation)**, reference is made to the Notes on revenues. The segment assets and the segment investments of the secondary segments are allocated entirely to Germany.

(28) Declaration of compliance with § 161 of the german stock corporation law (AktG) on the german corporate governance codex

The Management Board and the Supervisory Board of ecotel communication have given the declaration prescribed by § 161 of the AktG and have made it available to shareholders of ecotel communication ag on the internet site.

(29) Remuneration of governing bodies

In 2007, the **Management Board** of ecotel communication ag was composed of the following:

- Peter Zils, engineer, Düsseldorf (Chairman)
- Bernhard Seidl, engineer, Munich
- Achim Theis, businessman, Düsseldorf

In 2007, the following were appointed to the Supervisory Board:

- Tobias Schreyer, businessman, Gibraltar (Chairman) (to December 31, 2007)
- Johannes Borgmann, businessman, Düsseldorf (Chairman since December 18, 2007, previously Deputy Chairman)
- Mirko Mach, businessman, Heidelberg (since July 27, 2008; Deputy Chairman starting December 18, 2007)
- Brigitte Holzer, businesswoman, Murnau
- Stephan Brühl, businessman, Düsseldorf (since July 27, 2007)
- Dr. Thorsten Reinhard, attorney, Berlin
- Enrico Karolczak, businessman, Recklinghausen (to July 27, 2007)
- Baldur Lücke, businessman, Gelsenkirchen (to July 27, 2007)

Remuneration to the Management Board and the Supervisory Board in 2007 consisted of the following:

Amounts in € thou.	Set remuneration	Incentive-based remuneration	Stock option plan	Total	Stock options - quantity	Stock options - Fair value at issue
Bernhard Seidl	206.8	0	62.1	268.9	90,000	239
Achim Theis	199.0	0	3.9	202.9	30,000	43
Peter Zils	313.6	0	0	313.6	0	0
Tobias Schreyer *)	0	0	0	0	0	0
Johannes Borgmann	3.8	0	0	3.8	0	0
Brigitte Holzer	2.5	0	0	2.5	0	0
Dr. Thorsten Reinhard	2.5	0	0	2.5	0	0
Baldur Lücke	1.3	0	0	1.3	0	0
Enrico Karolczak	1.3	0	0	1.3	0	0
Mirko Mach	1.2	0	0	1.2	0	0
Stephan Brühl	1.2	0	0	1.2	0	0

*) Mr. Schreyer did not take his remuneration in 2007.

In the previous year, the fees due over the short-term to the Management Board were € 580 thousand. In addition, in 2006, the share-based remuneration of € 21 thousand is included in personnel expenses. The fees due over the short-term to the Supervisory Board amounted to € 14 thousand in 2006.

(30) Audit expense

The fee for the expense of the auditors of the consolidated financial statements of ecotel communication ag for the audits of the consolidated financial statements and the individual financial statements of the parent company and consolidated subsidiaries was € 50 thousand (previous year: € 47 thousand). No other expenses for the Group auditors were recorded for other confirmation or evaluation services, for accounting services, or for other consulting services.

Düsseldorf, Germany, March 28, 2008

The Management Board

Auditor’s Report

We have audited the consolidated financial statements prepared by ecotel communication ag, Düsseldorf, comprising the balance sheet, the profit and loss statement, statement of changes in equity, the cash flow statement, and the segment reporting and Notes, together with the consolidated Management Report for the fiscal year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and Group Management Report in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of the German Commercial Code (HGB) § 315a Section 1 are the responsibility of the company’s Management Board. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report on the basis of our audit.

We have conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the German generally accepted standards for the proper audit of financial statements. Those standards require that the audit is planned and performed such that misstatements and errors materially affecting the presentation of the assets, financial, and earnings situation in the consolidated financial statements in accordance with the applicable financial reporting principles and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal accounting control system as well as the audit evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on the basis of random sampling. The audit includes assessing the annual financial statements of those entities included in the consolidations, the defining of the basis of consolidation, the accounting and consolidation principles used, and any significant estimate made by the company’s Management Board, as well as evaluation of the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

Based on the knowledge gained in the audit, in our judgment, the consolidated financial statements of ecotel communication ag, Düsseldorf, in accordance with the IFRS, as adopted by the EU, and the additional requirements of HGB § 315a Section 1, convey under observance of these regulations a true and fair view of the asset, finance, and earnings position of the Group. The Group Management Report is consistent with the consolidated financial statements, provides an overall accurate picture of the position of the Group, and presents accurately the opportunities and risks of future development.

Düsseldorf, March 28, 2008

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Frank M. Hülsberg	Christian Frank
Auditor	Auditor

Corporate Governance

ecotel communication ag has organized itself according to international and national standards for value-oriented and responsible company management. Using public information and transparent decisionmaking structures, we attempt to foster trust among our investors, customers, employees, and the interested public. In this matter, ecotel understands corporate governance as an on-going process.

In the following, the Management Board and Supervisory Board of ecotel report on corporate governance in accordance with Section 3.10 of the German Corporate Governance Codex in the version of June 14, 2007 (the Codex), and the deviations from those recommendations are also discussed. The following report also incorporates the remuneration report required by Section 4.2.5 of the Codex.

The Management Board and the Supervisory Board work closely together for the good of the company with the common goal of a continual increase in the value of the company. The Management Board reports to the Supervisory Board regularly in written and verbal form, promptly and completely on the situation of the company, the development of business, company planning, and the risk situation.

The Supervisory Board meets regularly in order to fulfill its monitoring and advising functions. It has created a three-member Audit Committee, intended to handle accounting, risk management, and compliance more efficiently. The Supervisory Board also has set up a three-member Nomination Committee, which prepares voting selections for the Annual General Meeting.

The central informational gathering for shareholders is the Annual General Meeting. The Management Board presents the annual consolidated financial statements, as approved by the Supervisory Board, to the Annual General Meeting. The annual financial statements are approved by the Supervisory Board unless the Management Board and the Supervisory Board decide to give that determination to the Annual General Meeting. The Annual General Meeting decides on the use of any profit, releases the Management and Supervisory Boards from their duties, and gives formal approval to the choices made by the Management Board and the Supervisory Board regarding members of the Supervisory Board and the auditor. It also decides on the articles of association as well as in other instances as provided for by law. With appropriate notice before the opening of the Annual General Meeting, the shareholders may comprehensively inform themselves about pending decisions on the basis of the annual report and the agenda of the Annual General Meeting. All documents and information are also available on the ecotel website.

Company communication sets itself the standard of providing being true, complete, regular, and prompt information. The shareholders are informed about important deadlines regularly via the quarterly reports and on an ongoing basis via the internet and the company website. Presentations made at road shows or at other informational events are published immediately and completely on the ecotel homepage under the section Investor Relations. All annual and quarterly reports, press releases, and ad-hoc announcements can also be found on the ecotel homepage.

Remuneration for members of the Supervisory Board is appropriate to their tasks and their responsibilities. It consists of fixed and variable components, the details of which are given the company articles of association. For fiscal year 2007, the members of the Supervisory Board have a claim only to the fixed remuneration component.

Remuneration for members of the Management Board is also appropriate to their tasks and their responsibilities. Two of the three members of the Management Board receive compensation consisting of fixed and variable components; the compensation of the third member is fixed. The variable part refers to the achieving of specific goals regarding EBIT and consolidated revenues of the Group. The three members of the Management Board have company cars. In addition, a stock option plan for members of the Management Board and for top executives of ecotel was implemented on the basis of a resolution of the Annual General Meeting on July 27, 2007. This plan replaces a pre-existing virtual stock option plan for one member of the Management Board. More information on the stock option plan can be found on the homepage www.ecotel.de under the heading Investor Relations/Corporate Governance and in the Notes to the annual consolidated financial statements.

Information on individual remuneration for members of the Management and Supervisory Boards is also contained in the Notes to the consolidated financial statements.

The following table shows holdings of the Management and Supervisory Boards in the capital stock of the company as of the end of 2007:

Body	Shares of stock (in %)
Management Board	31.2 %
Supervisory Board	0.5 %
Total	**31.7 %**

Information on transactions with ecotel shares on the part of member of the Management Board, Supervisory Board, and other members of management, or with closely associated third parties (Directors' Dealings) can also be found on the homepage www.ecotel.de under the section Investor Relations/ Corporate Governance.

In addition, ecotel has taken out appropriate D&O insurance for the Management Board and for the members of the Supervisory Board.

ecotel has followed the recommendations of the Codex since January 1, 2007 with the following exceptions and at this time does not intend to change this practice:

Section 3.8 Paragraph 2
The D&O insurance policy plans no deductible for members of the governing bodies. ecotel is not of the opinion that a deductible would improve the motivation and responsible action of the members of the Management and Supervisory Boards.

Section 4.2.1
The rules of procedure for the Management Board are soon to be supplemented by a resolution of the Supervisory Board regarding regulation of departmental responsibilities. At this time, the rules of procedure for the Management Board are in accordance with the version of the Codex applicable as of June 14, 2007.

Section 4.2.3
Two of the three members of the Management Board receive remuneration consisting of fixed and variable components; the remuneration for the third member is fixed. The Supervisory Board intends to include variable compensation components in all contracts of the Management Board that are completed in the future or that are extended.

Section 5.1.2
The Management Board and the Supervisory Board regularly conduct discussions on the development of ecotel management. Questions of long-term successor planning were, however, not discussed in 2007.

Section 5.4.3.
The Supervisory Board considers it neither practical nor purposeful to inform the shareholders of suggestions for candidates for the post of chairman of the Supervisory Board.

The statement of ecotel communication ag in compliance with § 161 of the German Stock Corporation Law (AktG) can be reviewed on the company homepage at www.ecotel.de. The complete Codex can found on the internet at www.corporate-governance-code.de.

ecotel communication ag
The Management Board — The Supervisory Board

Report of the Supervisory Board

The Supervisory Board of ecotel communication ag (ecotel) has regularly monitored and advised the work of the Management Board in the fiscal year 2007. The extensive written and oral reports made by the Management Board provided the basis for this work. In addition, the Chairman of the Supervisory Board regularly exchanged information and ideas with the Chairman of the Management Board.

The Supervisory Board of ecotel ag had a total of 13 meetings during the reporting year, of which 9 were held in the form of telephone conferences. In addition, one resolution was made via the circulation procedure. No member of the Supervisory Board participated in fewer than half the meetings.

During the meetings, the Management Board, in accordance with legal requirements, advised the Supervisory Board on basic questions of company planning, the economic viability of the company, the course of business, and the position of the company and deliberated on these questions in conjunction with the Supervisory Board. The Supervisory Board was also involved in major decisions, and reviewed and approved in particular those measures of the Management Board, which require such approval as stated by the rules of procedure of the Management Board. In addition, the Supervisory Board regularly discussed with the Management Board risks identified by the Management Board, their assessment, and the measures planned to minimize those risks; it also made suggestions for risk management.

1. Focus of advising from the Supervisory Board
The following topics were of major influence for the work of the Supervisory Board during the reporting year:

- Acquisition of companies:
  At its meeting of April 19, 2007, the Supervisory Board approved the founding and financing of mvneco GmbH, Düsseldorf, in which ecotel holds 45% of the shares. mvneco GmbH functions as a technical service provider or a so-called Mobile Virtual Network Enabler (MVNE) and enables other telecommunications firms' entry into the mobile communications market.

  At its meeting of January 29, 2007, the Supervisory Board reviewed and approved the acquisition suggested by the Management Board of all the shares in Tiscali Nacamar GmbH, Dreieich, which in the meantime is operating under the name nacamar GmbH. nacamar GmbH is a supplier of professional internet and data services for business customers. The purchase price was € 18.5 million.

  At its meeting of June 28, 2007, the Supervisory Board reviewed and approved the acquisition suggested by the Management Board of all the shares in ADTG Allgemeine Telefondienstleistungs GmbH, headquartered in Rathenow, one of the largest resellers of telecommunication solutions for business customers in Germany, as part of a mixed increase in real capital with cash paid-in and utilization of ecotel's approved capital. As measured by International Financial Reporting Standards, the purchase price (not including supplementary costs to the acquisition) was around € 5 million (see consolidated financial statements).

At its meeting of June 28, 2007, the Supervisory Board reviewed and approved two transactions through which ecotel acquired a majority holding of around 51% of the shares in PPRO Wertkartenverkauf GmbH, Bad Heilbrunn, and in easybell GmbH, Eichwalde. PPRO Wertkartenverkauf GmbH is specialized in internet-based payment. The purchase price for the majority ownership was € 550,000 plus 100,000 shares of the real capital increase from ecotel's approved capital. easybell GmbH is a supplier of telecommunication products with concentration on price-sensitive private customers with high technical demands; the outlay for these shares was € 300,000.

- Integration of nacamar GmbH:
  The Supervisory Board has supported the integration of nacamar GmbH into the ecotel Group since its acquisition. After it was informed by the Management Board at its meeting of September 22, 2007 that the key financial figures of nacamar GmbH in 2006, which had formed the basis of prior planning for 2007, were to be corrected extensively, the Board devoted special attention to nacamar GmbH. Thus, the financial and earnings situation of nacamar GmbH was the subject of an additional Supervisory Board meeting on November 28, 2007. Together with the Management Board, the Supervisory Board analyzed the information that had been submitted upon acquisition of nacamar GmbH by its seller, Tiscali Business GmbH, Dreieich, a part of the Italian Tiscali group. The Board reviewed the claims for compensation against the seller and approved the naming of a well-known legal firm to pursue the claims. At the same time, the Management Board informed the council about the financial consequences to the ecotel Group brought on by the erroneous planning of nacamar GmbH. Measures to improve results were discussed from a strategic and operative point of view.

At its meeting of August 24, 2007, the Supervisory Board decided, on the basis of the stock option plan passed by the ecotel Annual General Meeting on July 27, 2007, to grant 90,000 stock options to Bernhard Seidl, a member of the Management Board, and 30,000 stock options to Achim Theis, a member of the Management Board. At that time, it also approved the issued of 25,000 stock options to a top manager of ecotel. Further details on the stock options that were issued are included in the ecotel Corporate Governance Report for the reporting year. In addition, on April 12, 2007, the Supervisory Board extended the contract of Achim Theis as a member of the Management Board until May 31, 2010.

The meetings of the Supervisory Board on March 20, 2008 and March 31, 2008 focused on the annual financial statements for 2007. As a precaution, the Supervisory Board also approved various contracts between ecotel and companies in which some members of the Supervisory Board hold shares.

2. Annual consolidated financial statements

The Management Board has drawn up the ecotel annual financial statements and the Management Report based on the rules of the German Commercial Code (HGB) and the consolidated financial statements and the Group Management Report based on IFRS principles. The ecotel auditors, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, have reviewed the annual financial statements, the consolidated financial statements, the Management Report, and the Group Management Report. It has given the annual financial statements and the consolidated financial statements its unconditional approval.

The financial statements and the reports of the auditor were available to all members of the Supervisory Board for review. Representatives of Deloitte participated in the discussions of the Supervisory Board on these documents and reported on the basic findings of the audit.

The Supervisory Board thoroughly reviewed the annual financials statements, the consolidated financial statements, the Management Report, and the Group Management Report as presented by the Management Board and discussed these with the auditor. The Supervisory Board endorses the results of the audit of the annual financial statements and the consolidated financial statements by the auditor.

After the final result of the audit, the Supervisory Board raised no objections to the annual financial statements or the consolidated financial statements as presented by the Management Board for fiscal year 2007; it approved the annual financial statements and the consolidated financial statements with a resolution on March 31, 2008. The ecotel annual financial statements for the fiscal year 2007 are thereby completed.

3. Changes in the Supervisory Board during the reporting year

Mr. Baldur Lücke and Mr. Enrico Karolzcak resigned their positions as members of the Supervisory Board effective as of the Annual General Meeting of July 27, 2007. In their place, the Annual General Meeting elected Mr. Stephan Brühl and Mr. Mirko Mach as members of the Supervisory Board. Toward the end of fiscal year 2007, Mr. Tobias Schreyer, Chairman of the Supervisory Board resigned effective as of the end of the fiscal year. Thereupon, at its meeting of December 18, 2007, the Supervisory Board elected Mr. Johannes Borgmann as Chairman of the Supervisory Board. Mr. Mirko Mach rose to the position of Deputy Chairman of the Supervisory Board, a post previously occupied by Mr. Borgmann.

Messers Lücke, Karolzcak, and Schreyer have greatly supported ecotel in its entry onto the stock market through their contributions on the Supervisory Board; they have lastingly aided the profitable growth of the Group. ecotel owes them a statement of gratitude.

4. Committees

In mid-December 2007, the Supervisory Board set up several committees. A three-person Audit Committee will deal in particular with questions of accounting, risk management, and compliance, and a three-person Nomination Committee will prepare electoral slates for the Annual General Meeting. These committees did not meeting during fiscal year 2007.

The Supervisory Board thanks the members of the ecotel Management Board and all the employees of the companies of the ecotel Group for their great devotion to the company and for their work during the reporting year 2007.

Düsseldorf, March 31, 2008

For the Supervisory Board:

Johannes Borgmann
Chairman of the Supervisory Board

Glossary

ARPU
Average revenue per user

Backbone network
A backbone is a high-performance or central network for the connection of local sub-networks, geographically distributed end devices, or centrally managed networks. As a rule, the backbone has a higher transfer capacity than the devices and networks connected to it and connected to each other.

Broadband access
The broadband network connection (broadband access) on the customer’s end. The connection is by wire, possible via the existing biaxial cable using DSL or ISDN, via the electrical network with power line transfer (PLC), or via the broadband cable network. If the connection is made wirelessly, this occurs via a point-to-point radio system or a radio point-to-many-points connection.

Carrier
A carrier/network operator is a company which operates telecommunications networks. A carrier/network operator has its own network, or essential transmission devices or network management systems for the transmission of important components. Network operators are distinguished from each other by what territory they cover, as a global, national, regional, or city network carriers (so-called city carriers). Global carriers are active worldwide or internationally, national carriers offer their services and their network infrastructure in a geographically specified area within a country, and city carriers act within city borders or within a metropolitan area.

Customer Relationship Management (CRM)
Customer relationship management aims to address customer needs individually in order to increase customer satisfaction and to keep them loyal to the company long-term. It is to this end that the customer-oriented departments of a company, such as sales, marketing, and customer support, are systematically directed.

DSL
Digital subscriber line, a digital technology which uses broadband transmission technique and reaches transfer speeds of up to several megabits per second via standard telephone networks (copper cable).

Entry Standard
The market segment of the Frankfurt Stock Exchange which is based on the open market.

HGB
German Commercial Code

Housing / Hosting
Allocation of a storage space in a computer center by internet service suppliers.

IFRS
International Financial Reporting Standards – standards of international accounting.

IP Bitstream Access
The “IP Bitstream Access” product from Deutsche Telekom AG enables suppliers lacking their own access infrastructure to do their own sales of DSL connections without the telephone connection previously required.

Media-Streaming
Audio and video data received and sent from a computer network simultaneously.

MVNO
The Mobile Virtual Network Operator (MVNO) is a new business form in the mobile communications area between the actual network operator and the service provider or reseller. In contrast to the network provider, the MVNO does not operate its own access network with its own broadcasting stations. The MVNO, however, has the possibility of operating by itself or leasing core network services from the network operator – e.g., transmission, IN platform, customer administration, home location register (HLR), billing. In this way, the MVNO has the same abilities to create services as does the mobile network operator itself. The design possibilities of the service provider are limited to the use of price models which can be calculated on the basis of the call data supplied by the carrier.

MVNE
While the Mobile Virtual Network Operator (MVNO) develops, operates, and sells its own services as a virtual network operator, the Mobile Virtual Network Enabler (MVNE) is a partner of the MVNO. It operates the necessary infrastructure to connect the services of the MVNO to the communication infrastructure of a mobile network.

Network Operation Center (NOC)
The Network Operation Center (NOC) is the technical operating site for a network and responsible for the monitoring of the network.

Prepaid card
This concept revolves around pre-paid credit accounts for the usage of services and is widespread in the telecommunications area.

Preselection
Long-term preselection of a network operator for the processing of calls for a particular connection of a subscriber network provider. The preselection as a rule requires a contractual agreement with the desired network operator. The implementation of the preselection for the connection is done by the network provider.

Prime Standard
The Prime Standard is the segment for companies on the Frankfurt Stock Exchange who wish to position themselves internationally. Joint stock companies in Prime Standard must fulfill more extensive international transparency requirements than is the case with General Standard.

PSTN
The public switched telephone network (PSTN) is a telephone network constructed for the processing of telephone calls.

Reseller
Resale of telecommunication services of other telecommunication companies under one's own name and one's own billing. So-called switch-based resellers have their own connection technology; resellers without their own transmission computer are called rebillers or switchless resellers.

Roaming
Enables telephone conversations over networks of various network providers, such as international roaming in the pan-European GMS system.

Virtual Network Operator (VNO)
Virtual network operators do not have their own network infrastructures. Instead, they put together a network from the infrastructures of other suppliers and connect them with their own components into a virtual network, e.g. with their own switch technology.

VoIP
Voice over IP – Voice services (VoIP services) based on the internet protocol which are comparable in quality and product form to traditional telephone services. VoIP services are characterized by the fact that their users can telephone on the basis of a packet transmitted data network. This can be either the internet or managed IP networks.

VPN
Virtual private network – company networks that are used for closed networking of company sites.

White Label Service
Products called “white label” are those that are marketed to customers not under their own brand name, but as brands of other companies.

Wholesale service
Network overarching trade (sale and purchase) of telephone minutes in large volumes.

Financial calendar

May 2008	Publication of Q1 quarterly report
July 2008	Annual General Meeting
August 2008	Publication of Q2 quarterly report
November 2008	Publication of Q3 quarterly report

Credits

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Notes

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