ecotel
all around communication

Annual Report 2011

ecotel communication ag Geschäftsbericht 2011

ecotel communication ag
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Key figures ►►

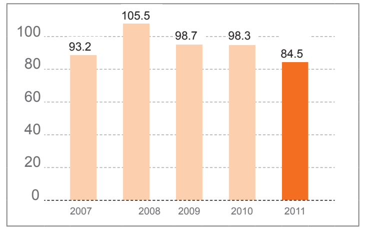
Key performance indicators

Figures stated in mill. EUR	2009	2010	2011
Revenue	98.7	98.3	84.5
Business Solutions	48.2	44.8	41.6
Wholesale	34.4	38.7	30.6
New Business	16.1	14.8	12.3
Gross profit	22.7	22.9	24.6
Business Solutions	17.9	17.5	18.7
Wholesale	1.2	1.3	1.4
New Business	3.6	4.1	4.5
EBITDA	4.9	4.9	7.1
In % of revenue	5.0 %	5.0 %	8.4 %
EBIT	-2.2	1.5	3.1
In % of revenue	-2.2 %	1.5 %	3.7 %
Consolidated profit	-2.2	0.1	1.1
Earnings per share [1] (in EUR)	-0.57	0.02	0.29
Balance sheet total	52.7	48.8	45.4
Equity	19.6	20.0	21.4
In % of the balance sheet total	37.2 %	41.0 %	47.1 %
Number of shares as of 12/31 (Outstanding shares)	3,752,500	3,752,500	3,752,500
Net financial liabilities	9.9	7.1	3.0
As a multiple of EBITDA	2.0	1.5	0.4
Employees as of 12/31	193	184 [2]	189 [2]

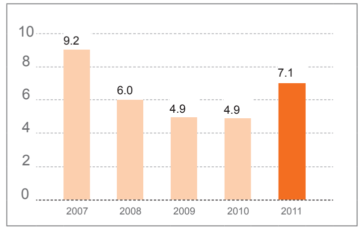
Essential cash flow data — Figures stated in mill. EUR	2009	2010	2011
Cash and cash equivalents as of January 1	3,5	7,1	6,1
Cash flow from current operating activities	6,1	5,3	6,3
Cash flow from investment activity	-3,6	-1,8	-1,6
Cash flow from financing activities	1,1	-4,5	-4,5
Cash and cash equivalents as of 12/31	7,1	6,1	6,2
Free Cashflow [3]	3,0	4,0	4,9

1) both undiluted and diluted
2) without minority companies (synergyPLUS GmbH, mvneco GmbH)
3) with consideration of the interest payment after tax shield

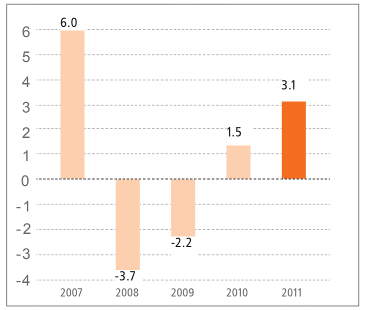
Revenue in mill. EUR



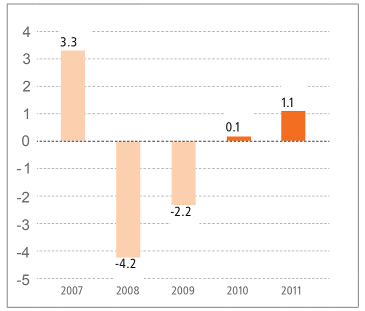
EBITDA in mill. EUR



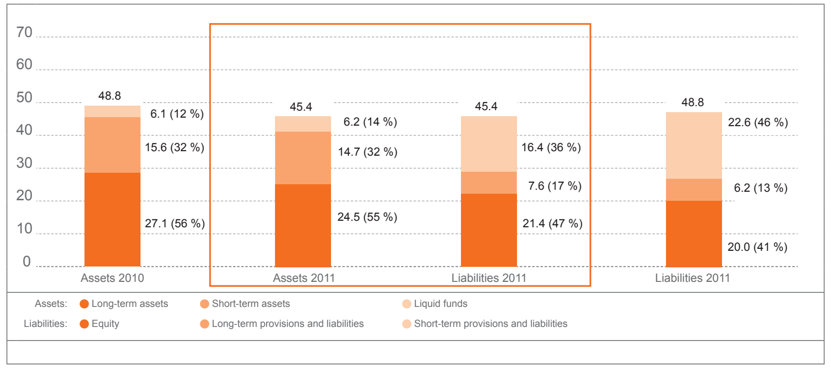
EBIT in mill. EUR



Earnings in mill. EUR



Assets and liabilities in mill. EUR



Corporate profile

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

In the core segment of Business Solutions ecotel provides approximately 20,000 business customers with an integrated product portfolio consisting of voice, data and mobile communications solutions. These solutions include convergent bundled projects, broadband data connections based on DSL and Ethernet connections that are available throughout Germany, the scalable networking of enterprise locations (VPNs) and housing and hosting services.

In the second business area, Wholesale Solutions, the ecotel Group markets preliminary products to other telecommunications enterprises. Simultaneously, in this area the Company achieves high traffic volumes and thus a deepening of the value creation for the core unit, Business Solutions. In addition to the international wholesale voice business of ecotel, mvneco GmbH is also included in this segment.

New high-growth business sectors and niches of the operatively autonomous subsidiaries and holdings are handled in the New Business area. In addition to the easybell GmbH, which is aligned to the private customer business, nacamar GmbH, is focussed on the new media business and is also part of this autonomous business unit.

The corporate group, with its main office in Düsseldorf, currently has about 210 employees, including subsidiaries and holdings.

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Forward of the management board

Dear Shareholders,

The financial year 2011 was an extremely successful year for ecotel – with new historic best marks in free cash flow, as well as a virtually debt-free balance sheet based on net financial liabilities. In addition, for the most part ecotel was able to achieve its operative goals for 2011. In spite of the expected decline in revenues, to EUR 84.5 million, the Group was able to increase gross profits relative to the comparable period of the previous year by 7 %, from EUR 22.9 million to EUR 24.6 million. Compared with the previous year the gross profit margin increased from 23 % to 29 %.

EBITDA increased in 2011 by 45 %, from EUR 4.9 million to EUR 7.1 million as compared to the previous year. This corresponds to an EBITDA margin of 8.3 % (previous year: 5.0 %). EBIT was EUR 3.1 million, after EUR 1.5 million in the previous year. This represents an increase of 106 %. The 2011 consolidated net income after minority interests was EUR 1.1 million, after EUR 0.1 million in the previous year. This corresponds to earnings per share of EUR 0.29 (previous year: EUR 0.02). Without deferred taxes, due to the utilisation of taxable losses carried forward, the result would have been EUR 0.43.

The Group was able to further reduce net financial liabilities as scheduled, which at the end of 2011, were only EUR 3.0 million (previous year: EUR 7.1 million). Taking into account the equity capital character of the KfW subordinate tranche (EUR 2.5 million), the net financial obligations totalled EUR 0.5 million, this represents a decrease of EUR 4.1 million in comparison with the previous year. The equity ratio improved from 41 % to 47 %.

An overview of the most important events in 2011 is provided below.

On February 24, 2011 the German Federal Network Agency (BNezA) announced its final rate approvals for mobile termination fees, which will remain in effect until November 30, 2012. The resulting halving of mobile termination fees for 2011 was one essential driver for the increase of ecotel's gross profit last year.

Continuation of the IT system consolidation, as well as commissioning of the automated provisioning interface with Vodafone will result in more efficient order processing. Moreover, currently more and more processes are being executed paperless. The increased efficiency on the system side went hand-in-hand with a new order management system to improve customer satisfaction. The complete activation process (order check, order confirmation, schedule confirmation, quality call, first invoice check) for new products and the associated communication between ecotel and the end customer occurs via fixed contact persons (Contract Ownership).

In 2011 easybell GmbH successfully established additional business areas. Among other things, easybell started to market an additional call-by-call number (01041). The unbundled voice and DSL products met with strong demand. New products, such as the VDSL package offered since the end of 2011 complete the offering. In addition, the German Institute for Service Quality (Deutsche Institut für Service-Qualität) recognised easybell, along with Kabel Deutschland and Netcologne, as Germany's best Internet service providers in 2011.

Moreover the company made continued progress with the planned consolidation of the subsidiaries. In October 2011, ecotel sold the 51 percent stake in toBEmobile GmbH. In December 2011 the remaining shares (11 %) were sold two PPRO GmbH. In November 2011 ecotel also sold the i-cube business activities, subsequently purchased the outstanding shares of i-cube GmbH, and the merged the company with ecotel.

ecotel was also able to successfully progress with the marketing of full access lines in the business customer segment in 2011. At the end of 2011 more than 13,000 full access orders were already active and relevant to sales.

Left to right Bernhard Seidl, Peter Zils, Achim Theis

In 2011 ecotel was able to report significant successes in the marketing of VPN and data products. Among other things, 135 new broadband Ethernet lines and 250 SHDSL lines were marketed. In addition, ecotel was able to win a large order from ING DiBa for connecting more than 1,200 ATMs.

For the current financial year the Company continues to pursue the goal of reducing net financial liabilities to zero EUR. Possible special effects, such as buybacks of shares, payment of dividends, or additional investments that depart from the current budget are not included in this planning.

On the basis of the improved general conditions, for example the new products and rates or the consistently introduced Contract Ownership process, the declared objective of the management board is to achieve increasing B2B sales again from 2013, and by 2015 to again generate three-figure Group revenues.
For 2012 we expect revenues of approx. EUR 80 – 90 million, as well as EBITDA of EUR 6 – 7 million. In addition we are pursuing the goal of increasing the EDITDA margin from the current 8 % to 10 % by 2013.

Finally we would like to thank all employees of the ecotel Group for their accomplishments and their contribution to the success of the Company, and our customers, business partners and shareholders for the good and dependable collaboration. We are firmly convinced that ecotel will also set innovative accents in the German telecommunications market in 2012.

B. Seidl | Peter Zils | Achim Theis

Bernhard Seidl
Management board – finance

Peter Zils
Chief Executive Officer

Achim Theis
Management board – sales

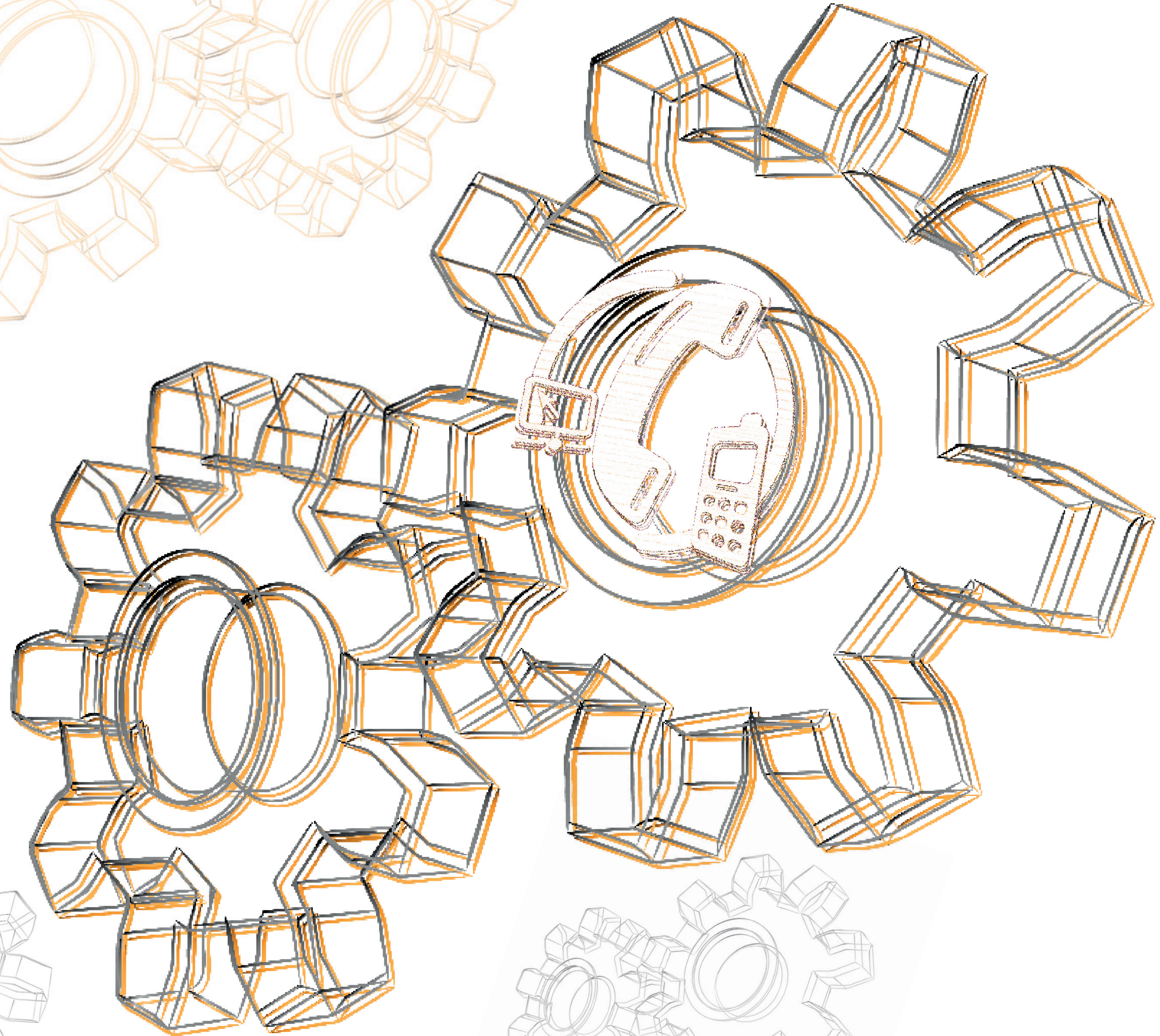
ecotel introduces itself:

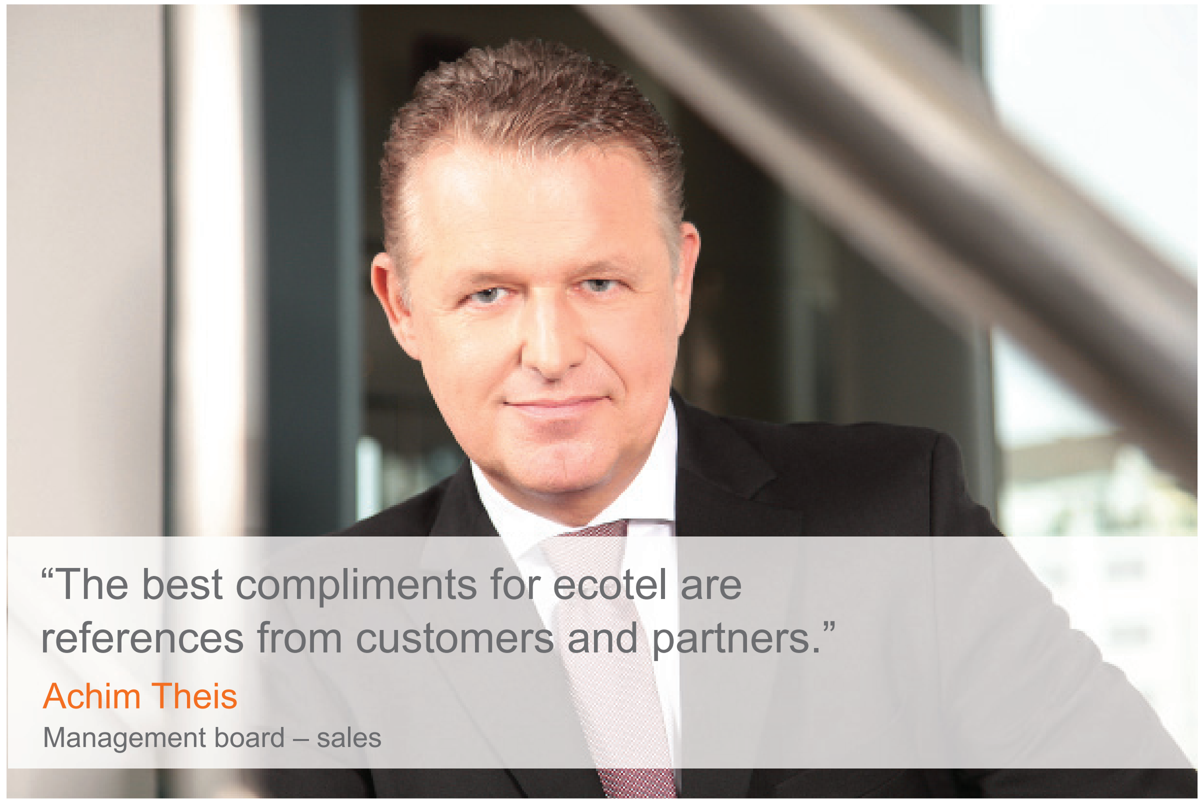
ALL AROUND COMMUNICATION – SUCCESS FOR YOUR BUSINESS!

“Build on the strengthened foundation!”

Peter Zils
Chief Executive Officer

In the 15th year since ecotel was founded in January 1998, we, the management boards, executives and employees of ecotel, are also driven by the concept of continuously further developing ourselves, and in the process always becoming a little better. At the beginning of the liberalisation of the TC market in 1998, initially only simple preliminary products, such as preselection of DSL connections with limited bandwidths were available to us. Today, in addition to our standard products in the areas of voice, data, and wireless, we develop and market increasingly complex solutions for the broadband networking of enterprises and cloud services. We would like to thank our customers and partners who have placed their trust in us and at the same time declare that we will continue to do everything to satisfy their rigorous requirements. We are particularly pleased that we are also able to base the future development of ecotel on a foundation that is becoming increasingly stronger.





In past years we set ourselves the task of making the topic of telecommunications even more transparent and "handy" with our "all-round worry free packages".

To achieve this goal ecotel continuously develops new solutions and product innovations, e.g. the full-access product that is available throughout Europe, or the networking of enterprise locations (VPN) via Ethernet technology.

Naturally this only functions with a team of highly motivated and committed employees who make the requirements of our customers the centre of their activities.

Due to the many years of positive experience collaborating with ecotel in the area of Managed Services and computer centre services, IND-DiBa placed a large order with us in the last financial years for the country-wide networking of 1,200 ING-DiBa ATMs in Germany.

In 2011 ecotel also successfully further extended the collaboration with Allianz Deutschland AG. In this case the objective was to smoothly connect more than 600 workstations of insurance consultants in bank branch offices to the headquarters location, with professional DSL connections.

The leading distribution company AVNET, with subsidiaries in 30 countries continues to rely on the collaborative partnership with ecotel. Currently ecotel is managing more than 120 data lines worldwide for AVNET.

Learn more about these interesting customer projects on the following pages, in keeping with the statement from Henry Ford: "Coming together is a beginning. Keeping together is progress. Working together is success!"

ecotel delivers high-capacity overall concept

Since ecotel has been successfully active for several years with managed services for ING-DiBa in the ecotel computer centre, the bank placed a new large order for the country-wide networking of all ING-DiBa ATMs in Germany. Currently the network includes more than 1,200 ATMs.

To meet the special performance and security requirements of Germany's largest direct bank, ecotel relies on high-performance DSL connections for the locations in the form of a virtual private network (VPN) based on high-capacity MPLS technology. Thus the transaction data of the ATMs is processed with particular speed and security. The IP-Sec data encryption procedure ensures additional protection. As part of the VPN, the bank's central computer centre was integrated with ecotel Ethernet lines including line and carrier redundancy, to particularly safeguard this central interface. The large project was rounded out with special monitoring round-the-clock, 365 days a year, and implementation of custom firewall and VPN components that optimally support the processes and that are hosted by ecotel.

Otto Höhne, the person responsible for the ING-DiBa AG ATMs, explained the decision for ecotel: "The crucial factor for awarding the contract to ecotel was not only the high-capacity overall concept, it was also the evaluation of TÜV Rheinland, which explicitly tested the operating concept of ecotel and assessed it as 'secure'".

ING-DiBa – Hannover location

A stable connection: ecotel and Allianz

When the telecommunications is involved, Allianz Deutschland AG has been using the products and services of the business solutions provider, ecotel, since 2005. In concrete numbers, currently ecotel supplies over 17,000 individual products from the preselection, ISDN, DSL and complete connection areas, as well as VPN accounts to inside sales and field sales of the respected insurance group.

ecotel was commissioned by Allianz with a special project for connecting the insurance consultants working in bank locations. For this the Allianz employees who provide consultation and are responsible for sales of the Allianz products from the facilities of bank locations, required a new, secure connection to Allianz headquarters in the form of stable DSL connections.

A challenging task, as the bank locations have special security requirements with highly restricted access rights to the technology during office hours. In addition, compliance with special fire safety and cable routing requirements was necessary, e.g. for installation of the necessary connections and DSL routers.

With a special project team and special coordination, incl. technical service organised with Allianz, ecotel ensured that over 600 workstations in bank locations were appropriately equipped with the necessary DSL connections, in a Germany-wide roll-out project. The joint planning of ecotel and Allianz calls for additional successive connections of a total of 1,200 workstations.

Allianz

In addition to technical set up of the DSL connections that is as smooth as possible, the aspect of the connection and project costs was another crucial factor for the insurance group in awarding the contract. In this area ecotel was convincing with an attractive price performance package.

Erwin Osen, head of the IT department at Allianz Deutschland AG, draws a positive balance: "Our DSL connections in the facilities of the bank locations are now running stable since the roll-out via ecotel. The close collaboration of the Allianz and ecotel project teams was particularly worthy of note. We have come to esteem ecotel's solution competence and flexibility."

Erwin Osen
Department Head AZD-IT
Customers and distribution

A partnership with genuine quality-of-service

The leading distribution company, Avnet, with subsidiaries in more than 30 countries markets, and sells electronic components, IT products and solutions from leading manufacturers. A worldwide technology enterprise, Avnet, has specialised sales and marketing organisations that concentrate on specific customer segments and thus can address the needs of its customers and suppliers in special measure.

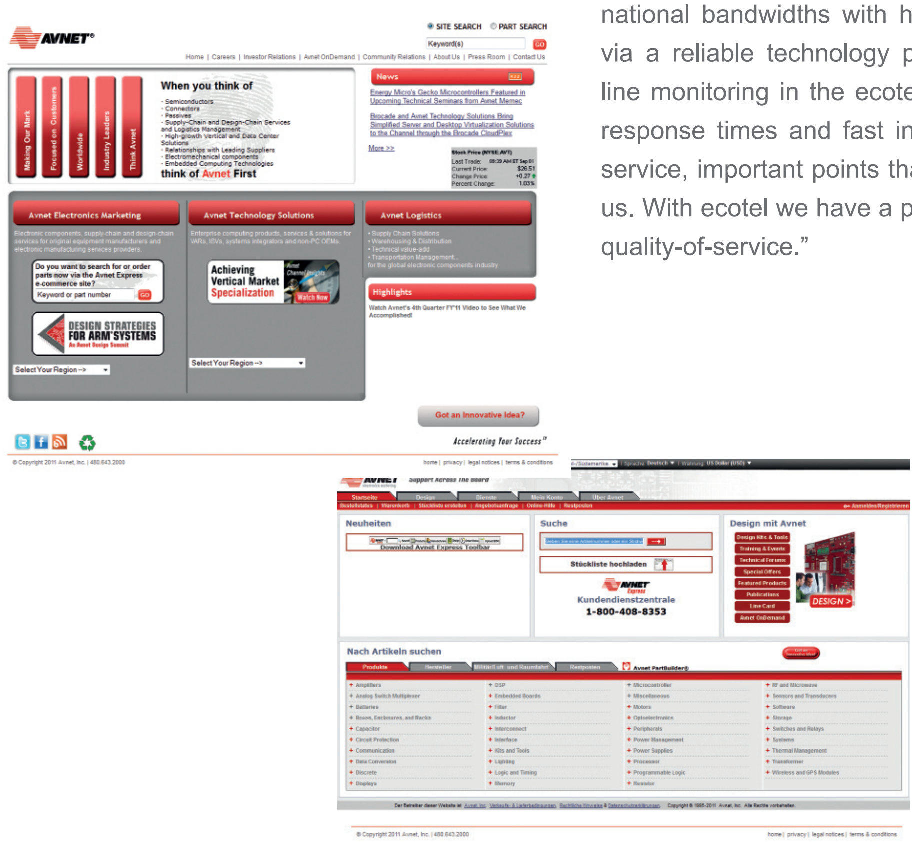
Avnet, Inc. (NYSE:AVT), a Fortune 500 company is one of the world's largest distributors of electronic components, computer products and embedded systems.

Avnet acts globally as the connecting link between leading technology suppliers and a broad base of more than 100,000 customers. With an extensive range of value-added services and IT solutions, Avnet helps its partners to successfully develop new business segments.

In the 2011 financial year, which ended on July 2, 2011, Avnet Inc. had worldwide sales of USD 26.5 billion. Additional information at www.avnet.com

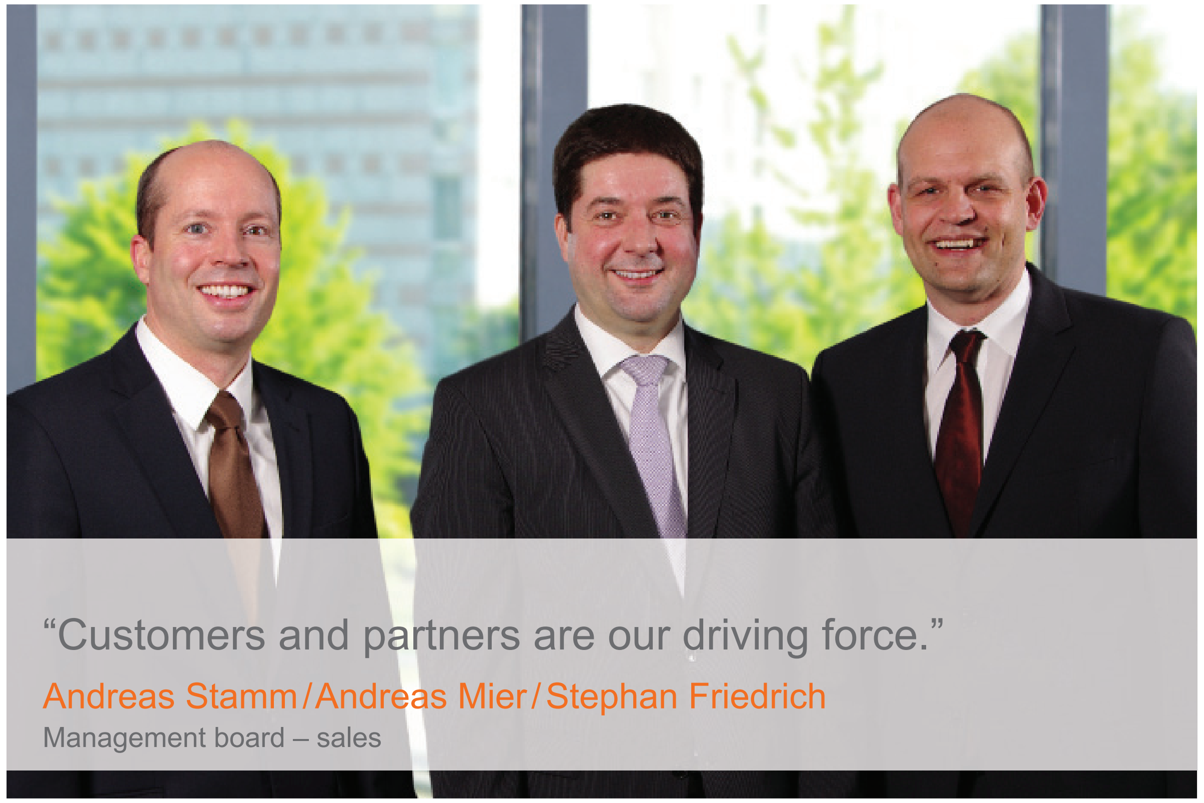
Avnet – Poing location

For an international company of this order of magnitude, fast and stable data flow in daily business operations is an absolute prerequisite. In selecting the provider for the subsidiaries in Germany and Europe, the special requirement imposed on the technology company was obtaining high-performance and reliable connections for national and international transmission of data as a managed service from a single source. In concrete terms, the office and logistics locations of the distributor were to be connected to the Avnet computer centre, and equipped with the bandwidths and access technologies suitable for the requirements of the respective location. With a tailored complete managed service package, ecotel was able to convincingly establish its capabilities as an exclusive business solutions provider.



Now the numerous locations in the European countries are connected with the appropriate access technologies via ecotel. Depending on the location requirement, access technologies, ADSL, SHDSL, as well as dedicated standard point-to-point connections and high-speed Ethernet bandwidths from 10 to 100 Mbit/s are used. Overall, ecotel already provides 120 lines for 110 locations.

Gerhard Peschke, Director of IT, Infrastructure, Systems & Operations Avnet EM EMEA, explains: "As in the past, we are very happy with our decision for ecotel. An important point in our long-standing partnership is the central management of the international bandwidths with high-capacity availability via a reliable technology partner. The permanent line monitoring in the ecotel NOC guarantees fast response times and fast interference suppression service, important points that are indispensable for us. With ecotel we have a partnership with genuine quality-of-service."



"Customers and partners are our driving force."

Andreas Stamm / Andreas Mier / Stephan Friedrich

Management board – sales

The ecotel concept speaks for itself – high-level telecommunication services at attractive prices. A quality provider, a single source for fixed line, data services and wireless – exclusively for business customers and their rigorous requirements.

We are large enough to obtain the best conditions for our customers, and we are flexible enough to deal with their desires individually and as a partner. This applies both for extensive voice and data services in complex roll-out projects, and for services tailored for small and medium-sized business customers for optimising their telecommunication services.

In this regard we place a lot of value on a partnership with regional proximity and support. We support more than 500 sales partners pro-actively in customer projects – from individual product training to preparation of quotations, to personal support in meeting jointly with customers. Through an experienced, competent sales team and qualified technical consultants – as needed.

In addition, we also shape current market trends through technology partnerships and cooperation with the market leaders in the ITC industry. For example, in the data services area we are building the "race track for cloud services" with our Internet access and VPN services.
We stay on top market developments for our customers and partners.

Another focus area in sales is the business with so-called buying and marketing groups. More than 100 buying and marketing groups and numerous buying and marketing group members profit from the products and services of ecotel via special framework agreements.

Selected ecotel references

Reference customers

Best Western
eventim
K+P Logistik
progros
Schülerhilfe!
TOI TOI & DIXI Sanitärsysteme GmbH
Yves Rocher

Reference partners

@k Telefonie. Internet. Navigation.
comTeam Systemhaus-Verbund
ElectronicPartner
itelligence
Komsa Kommunikation Sachsen AG
SH business communications
Synaxon AG
Der Mittelstandsverbund ZGV

“Quo vadis, ecotel?”

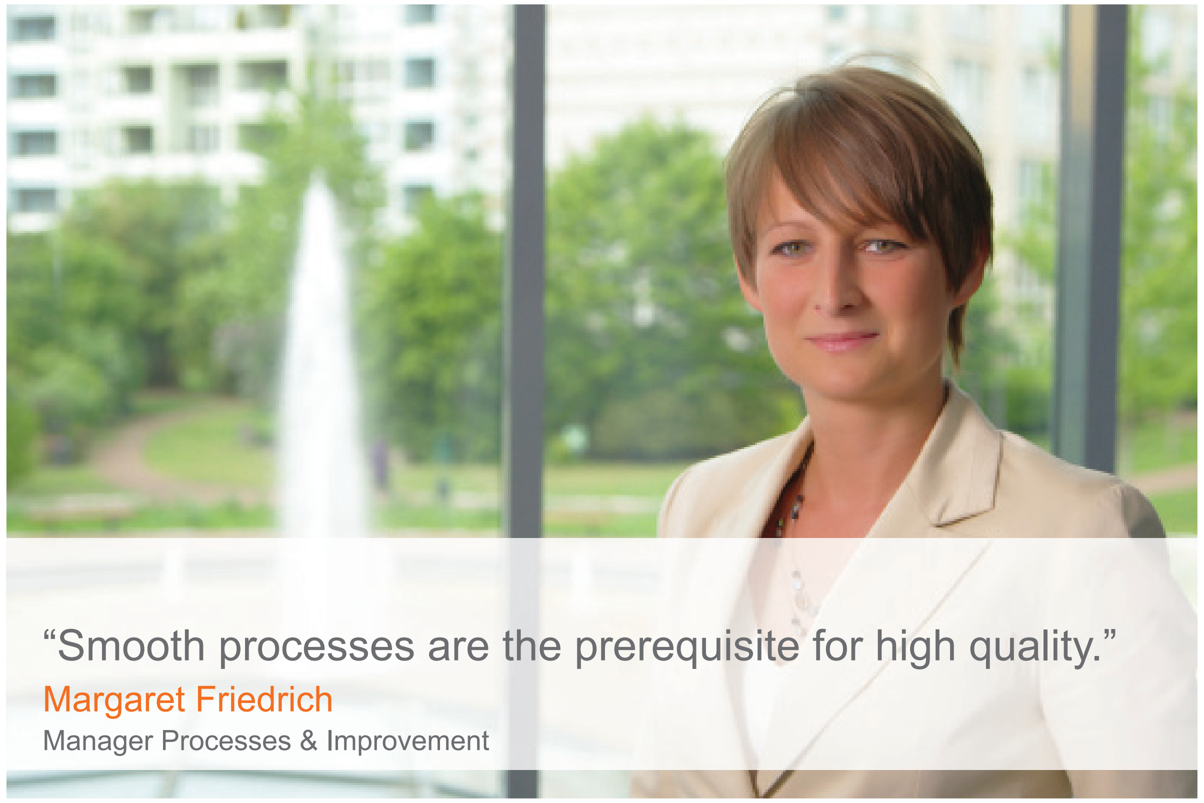
Wilfried Kallenberg

CTO / COO

The question “where are you going” is posed millions of times every day, moves virtually every individual and also every organisation.

Naturally a company such as ecotel must also be able to answer questions about its future. In the highly technical telecommunications environment, we rely on technically new and innovative products. We also want to strengthen our market position in the highly competitive business customer environment. But what is our goal, to differentiate ourselves from the “others”?

First, certainly it is a fact that we are capable of approaching customer desires with flexibility and responding to individual problems with a solution orientation. “It won’t work” does not exist at ecotel. It is precisely when a challenge does not fit into the “standardised pigeon holes” that we view the work on a possible solution as a special challenge and convert this challenge into a realisable and customer-oriented service. Secondly, we have imposed a program for the future on ourselves in which the quality of our achievements and services will come to the fore, even more so than has been the case in the past. We examine every business process for gaps and deficiencies. We record every complaint in an internal audit in order to draw conclusions for optimisations in processes and services. We ask partners and customers about the level of satisfaction with our products and services. All of these measures have one goal only: The sustainable assurance and optimisation of our delivered product and service quality. To achieve this goal, in recent months we introduced focussed measures, such as certification of the computer centre through the eco Verband or implementation of the Contract Ownership process. Also to ensure the continued capability to set standards, we have established an autonomous department that focuses exclusively on quality assurance and process optimisation.



“Smooth processes are the prerequisite for high quality.”

Margaret Friedrich

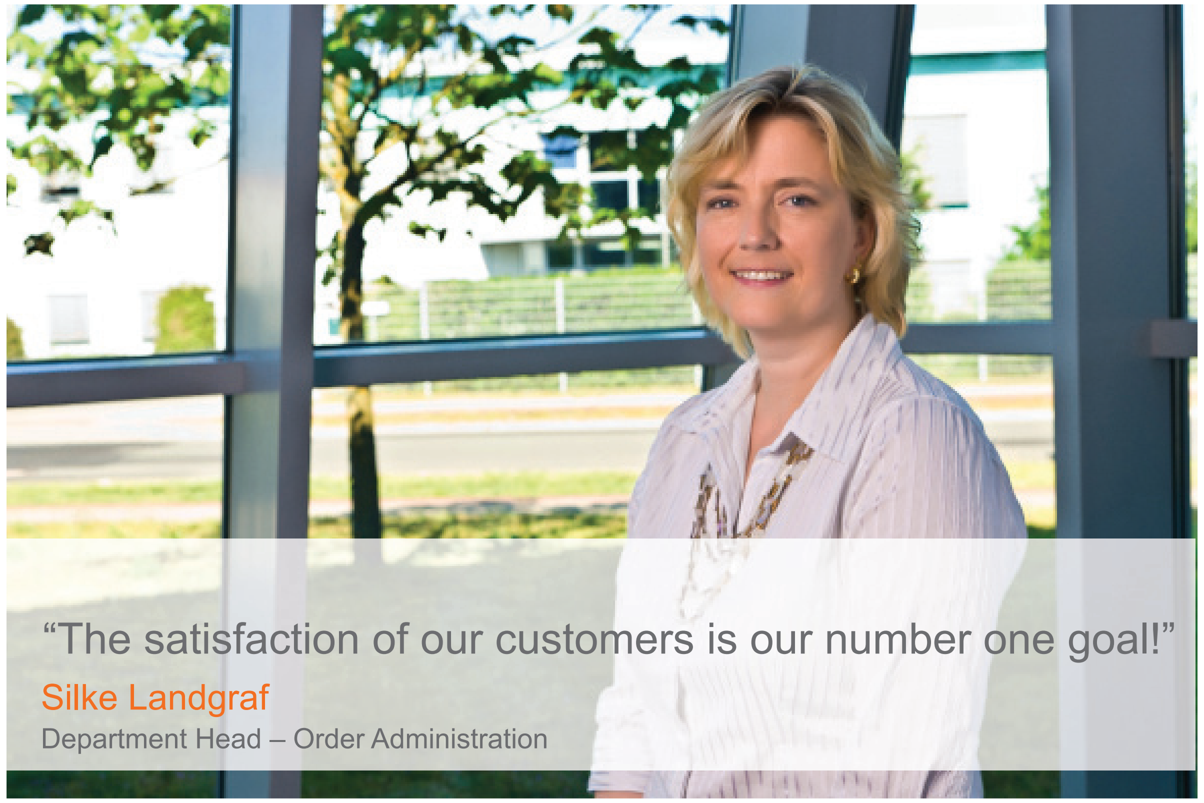
Manager Processes & Improvement

Our customers expect a high quality of our products and services. The Processes & Improvement department is responsible for setting up and establishing quality management that is customer-oriented and partner-oriented. Our goal is continuous and sustainable quality improvement of all processes in the operative units to increase the level of customer satisfaction.

To achieve this goal we implement the instruments of modern quality management and ensure optimisation of the relevant business processes based on the following criteria:

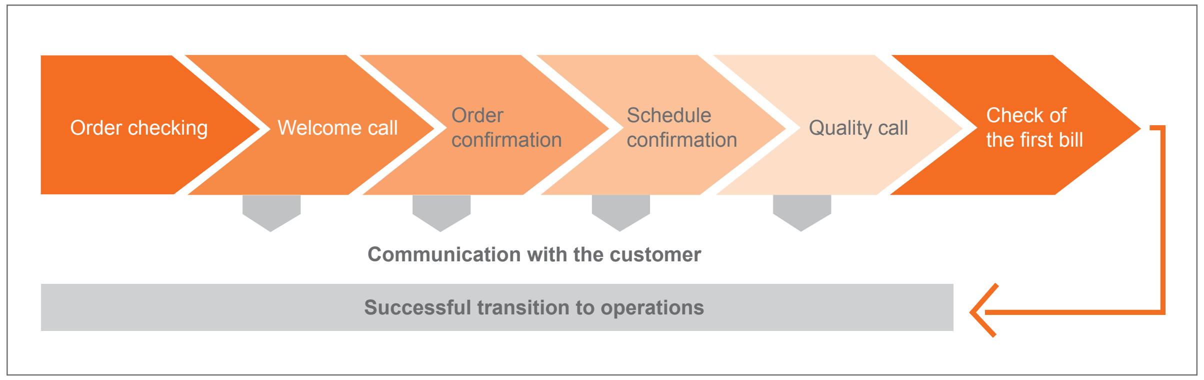
- Definition of quality goals
- Introduction of ISO 27001
- Designing and documenting business processes
- Definition of key performance indicators for processes and review of the quality goals
- Identification and elimination of weak points within the business processes
- Transparency of processes, interfaces, and responsibilities to minimise internal friction losses

As a reliable and trustworthy contact for all topics involving the business processes, we bear the responsibility for the high quality of our services.

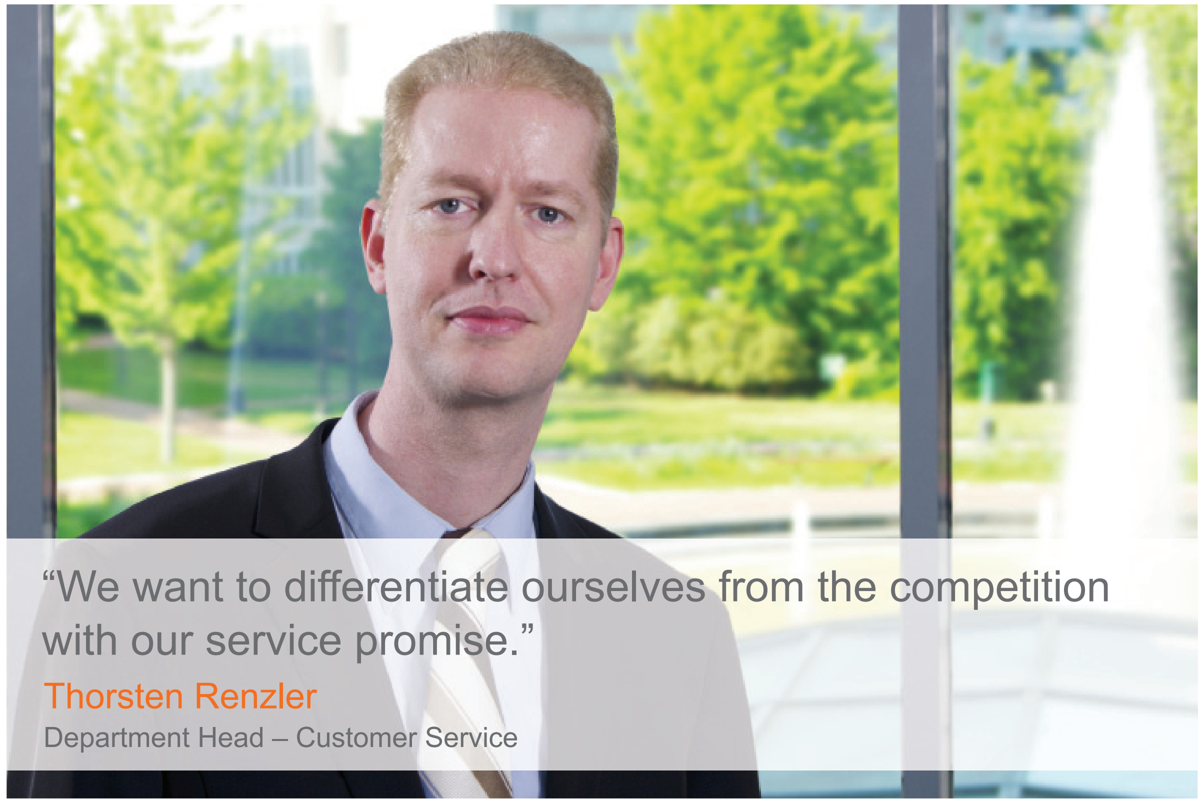


After receipt of the customer order at ecotel, the Order Administration department takes over the execution. In the subsequent implementation phase we accompany the customer via the newly established Contract Ownership process. In this process a personal contact person is assigned to the customer during the order implementation phase; this contact person competently helps the customer with all questions and actively informs the customer about the ongoing status of his order. This special procedure ensures that the customer feels that he is in good hands at ecotel, even during the activation phase.

Contract Ownership – proactive accompaniment of the activation process



Project management is responsible for smooth and on-schedule implementation of the VPN projects and large projects of our data customers. Within the framework of our multi-supplier strategy we offer our customers a mix of various preliminary products in order to realise the best possible bandwidth at the respective locations. On our team central contact persons are available to the customers and partners, to ensure the smoothest possible provision of connections at the respective locations. In close collaboration with the other departments involved, we respond to the individual requirements of the customer, in order to provide him with a tailored solution. We accompany the customer from receipt of order through the implementation process until transition to normal operation and the first checked billing. In this regard customer satisfaction is the top priority in our actions.



“We want to differentiate ourselves from the competition with our service promise.”

Thorsten Renzler

Department Head – Customer Service

Basically we are always reachable – around the clock, 365 days a year. We support our customers individually; not anonymously as a “number”. In the Customer Relationship Management department compliance with and implementation of the services that we have contractually agreed with the customers, is our top priority. For questions regarding contracts, rates, and bills we can usually provide immediate assistance. In the case of technical faults, we get in touch with our Technical department and in a dialogue with our upstream suppliers do all we can to find a solution for the customer.

We are not an external call centre, rather we act as a highly-efficient team within ecotel. This means that we can directly ensure optimal response times and solutions for our customers hand-in-hand and directly with our other departments.

“In 2012 we want to convert our net liabilities into net assets.”

Bernhard Seidl

Management board – finance

2011 was one of most profitable years in ecotel’s history. The free excess cash flow in the last four years has resulted in the fact that ecotel has been able to reduce its net debt by more than EUR 10 million in the last 4 years. Disregarding the subordinated loan from KfW in the amount of EUR 2.5 million that is due from 2017, at the end of 2011 ecotel had a net debt of EUR 0.5 million.

This year we are planning to convert the net debt into net assets. Our goal for the medium term is to achieve triple digit sales and a two-digit EBITDA result. Flanked with additional investor relations measures, share buyback programs and planned payment of dividends, this should also be an additional boost to the ecotel stock.

The ecotel stock

ecotel stock has been listed on the Frankfurt Stock Exchange since March 29, 2006. On August 6, 2007 it moved from Entry Standard to Prime Standard. The capital stock is 3,900,000 shares, of which the Company holds 147,500 of its treasury shares. Thus as of December 31, 2011 there were 3,752,500 shares outstanding.

Price trend 2011

In 2011 the stock market was impacted by the worldwide financial crisis and debt crisis. Many indexes reported significant losses over the course of the year. The DAX as the representative of the large-cap companies lost 15 % in 2011, the TecDax lost approximately 20 % by the end of 2011.

The ecotel stock was able to avoid this negative trend. Ecotel stock opened the year at EUR 3.3. After the stock had developed over the course of the year until the 3rd quarter virtually, identical to the TecDax trend, starting in June, the ecotel stock climbed briefly to over EUR 7, however it could not maintain this high level and closed the year at EUR 4.8. Overall the ecotel shares rose by 45 % in 2011.

Average daily trading of the stock in 2011 was 2053 shares per day compared with 1,100 shares per day in the previous year. At year end ecotel showed market capitalisation of EUR 18.0 million, at a share price of EUR 4.8 and 3,752,500 outstanding shares.

Investor relations

Various investor relations activities were initiated in 2011. A PR road show was executed to raise the level of awareness of the company. Research coverage of the ecotel stock was provided by the analysts of the DZ Bank. In addition in 2011 ecotel presented itself at investor exhibitions, such as the CBS Small & Mid Cap Conference. Again, additional IR measures, such as participating in the Equity Forum, are planned for 2012 to extend the contact to new interested investors. With all of these measures we want to intensify the dialogue with investors, analysts and journalists and further extend the trading volume of the ecotel stock.

Current information on the Company, such as quarterly reports, press releases, and financial calendar, as well as analyst presentations can be accessed by all investors, immediately after they are published on the company's website.

Shareholder structure

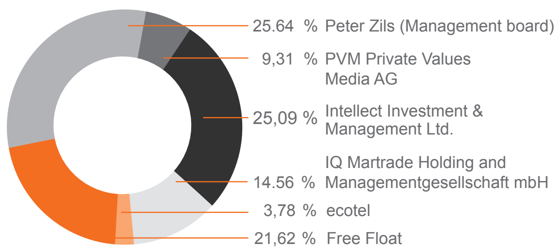
In 2011 there was a significant change in ecotel's shareholder structure. Private Value Media AG acquired the shares of the insolvent AVW Management-Beteiligungs AG, and holds 9.3 % of the company's shares. The company's other major shareholders are Peter Zils (CEO of ecotel) with a share of 25.6 %, Intellect Investment & Management Ltd. with 25.1 % and IQ Martrade Holding und Managementgesellschaft mbH with a share of 14.6 % of the voting shares. The diversified holdings totalled 21.6 %.

Key performance indicators Ø 2011

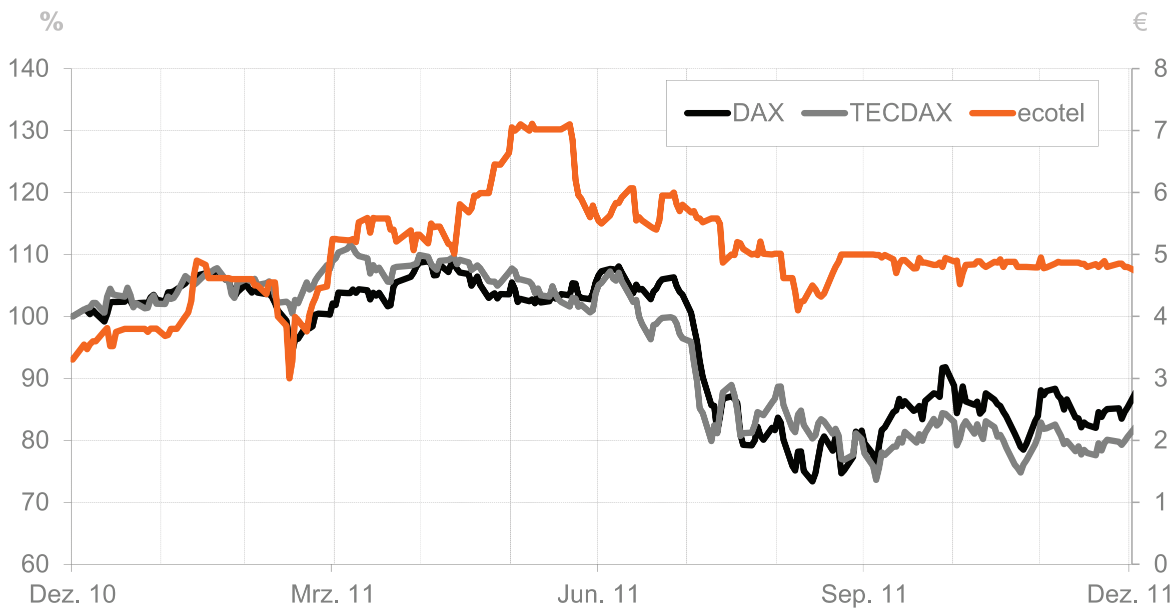
WKN	585434	Date of first listing	03/29/2006
ISIN	DE0005854343	Number of shares	3,752,500
Symbol	E4C	Daily trading volume 2011	2,053
		High share price 2011 (€)	7.1
Market segment starting 08/08/2007	Prime Standard	Low share price 2011 (€)	3.0
Index affiliation	CDAX, Prime All Share Technology All Share	Market capitalisation as of December 31, 2011 (€ m)*	18.0
Class	Non par value shares	Designated Sponsor	Close Brothers Seydler Bank AG

*Based on the closing price as of December 30, 2011 of EUR 4.8 per share and 3,752,500 outstanding shares

Stock ownership (12/31/11) in percent



Price trend of the ecotel stock in 2011 in percent



Business and general conditions

1. ECOTEL – OVERVIEW

The ecotel Group (hereinafter “ecotel”), is a telecommunications company that has been active throughout Germany since 1998, that specialise in meeting the requirements of business customers. ecotel markets products and services via three divisions: Business Solutions, Wholesale Solutions and New Business.

Business Solutions

In the core division, Business Solutions, ecotel offers small and medium-sized enterprises, as well as large customers throughout Germany an integrated product portfolio of voice, data and mobile services from a single source.

In the area of voice services ecotel has a complete portfolio of connection, telephony and value-added services. For the data products the offering extends from data connections such as ADSL, SDSL, leased lines, and Ethernet to secure enterprise networking via VPN, as well as the housing of server farms and hosting of shared services. (Software as a service, cloud computing). In addition, ecotel also markets its own mobile wireless products and offers business customers combined voice and data rates at fixed prices.

Over the last five years the “revenue mix” of the business customer area has changed considerably. In 2006, ecotel still achieved approx. 94 % of business customer sales with pure preselect voice services. Now the successful marketing of full access lines has virtually replaced sales of connection minutes via preselection offerings. As part of the ongoing customer loyalty measures, for existing customers, a successive product change from preselection to ecotel full access lines will be executed. Currently preselection accounts for only approx. 26 % of business customer sales and will continue to decline in the future, due to the focussed product change and high rate of cancellations.

On the other hand the new product areas were able to significantly extend their shares of total sales. In addition to ecotel full access lines, the data and VPN revenues, in particular, developed positively. With full access lines (43 %), data services (21 %), housing / hosting services (7 %), as well as mobile communications (3 %) promising and sustainable product areas already contribute 74 % to the B2B business customer revenue.

Business Solutions product portfolio of the ecotel Group

Fixed-line	Voice	Voice connection	Full access (ISDN) or connection takeover (ISDN) or unbundled local loop with VoIP
		Telephony	Minute rates, minute packages or flat rates
		Value-added services	Service numbers (0800, 0180x, 0900)
	Data	Data connection	via ADSL, SDSL, Ethernet or leased line
		VPN / security	Secure enterprise networking via IP VPN
		Hosting / housing	Housing of server farms and hosting of shared services in our own computer centre
Mobile communications	Voice		Attractive mobile communication rates including convergence products (wireline to mobile)
	Data		Data flat rates and Blackberry solutions / iPhone solutions

Depending on the target group, sales in the Business Solutions division are made via direct sales or partner sales with a total of 500 active sales partners. Thus ecotel has broad access to its target group of small and medium-sized business customers. In addition, ecotel has established itself as a successful partner in its collaboration with more than 100 buying associations and buying and marketing groups.

In the Business Solutions area the Company supplies more than 20,000 small and medium-sized companies with annual sales of EUR 40 million, from all industries with standardised and custom telecommunications solutions.

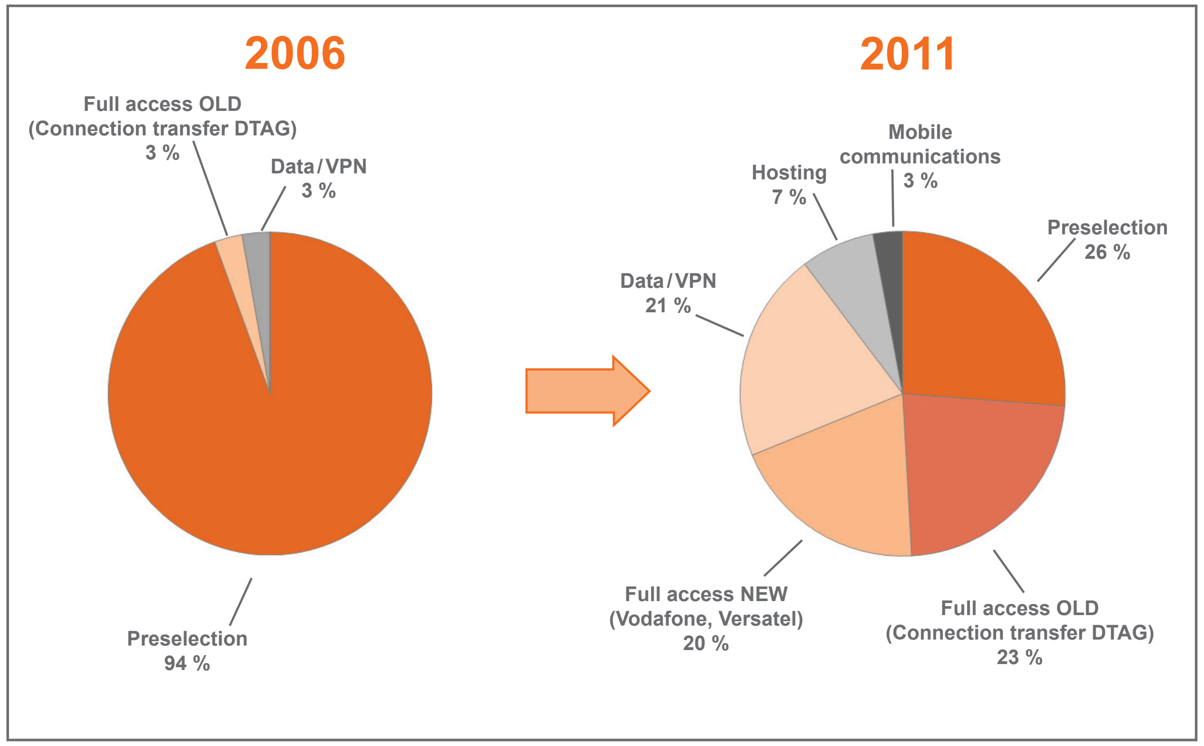
Wholesale Solutions

In the Wholesale Solutions division ecotel integrates the offerings for other telecommunications companies. In addition, the Company is active in cross- network trading of telephone minutes (wholesale) for national and international carriers; for this ecotel maintains network interconnections with approximately 100 international carriers. ecotel also handles the majority of its business customers national and international telephone calls via the wholesale business. The mvneco GmbH holding, as a technical service provider or enabler for mobile communications, is assigned to the wholesale segment.

New Business

The new high growth business segments of ecotel are combined in the New Business division. These include nacamar GmbH with its streaming business for media companies, as well as easybell GmbH with the private customer business.

Shift of sales distribution in the business customer segment



Infrastructure

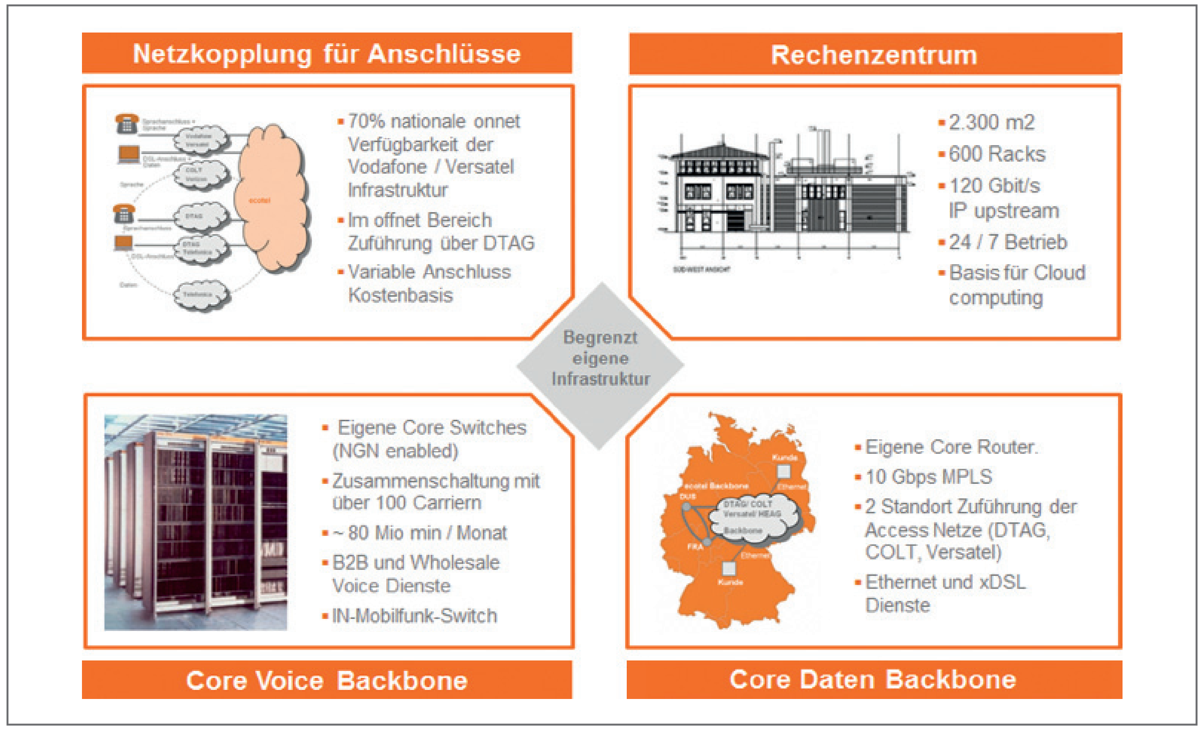
ecotel is "lean" and efficiently aligned on the infrastructure side.

ecotel does not operate its own access network, but rather procures the TC call origination services from various upstream suppliers and can select the operator with the best price/performance ratio. Deutsche Telekom (DTAG), Vodafone, Versatel, Telefonica, QSC and Eplus can be cited as typical upstream suppliers. For ecotel the majority of the cost basis is variable due to customer-related purchase of the call origination service.

ecotel has its own computer centre on the campus of Europe's largest Internet node in Frankfurt a.M. and maintains its own central voice and data backbone network to ensure optimal network interconnection with all major global carriers.

For the new media business the Group maintains its own content delivery network (CDN). mvneco GmbH operates a central mobile communications platform.

On the IT side, ecotel maintains its own systems for order management and billing.



2. LEGAL FRAMEWORK OF THE COMPANY

The voting shares issued by ecotel communication ag are approved on the regulated market of the Frankfurt Stock Exchange (subsegment Prime Standard). The regulated market of the Frankfurt Stock Exchange is an organised market as defined in § 2, para. 7 of the German Securities Acquisition and Takeover Act (WpÜG).

Management body

The legal management and representative body of ecotel communication ag is the management board of the Company. In accordance with § 5 of the articles of association of the Company, the management board consists of at least two persons. In all other aspects the supervisory board determines the number of members of the management board. The supervisory board can appoint a chairman of the management board as well as a deputy chairman of the management board. Deputy members of the management board can also be appointed. Members of the management board are appointed for the term of five years. A repeat appointment or extension of the term of office is permitted for a maximum of five years. The supervisory board can revoke the appointment as member of the management board and the appointment as chairman of the board if there is an important reason. According to the articles of association of the Company the supervisory board issues rules of procedure for the management board. This has been done by the supervisory board.

According to § 6, para. 1 of the articles of association of the Company, ecotel is legally represented by two members of the management board or by one member of the management board together with a Prokurist (signatory authority). The supervisory board has availed itself of its authorisation and determined that each member of the management board has the right to represent the Company alone. Currently the management board of the Company is comprised of Mr. Peter Zils (CEO), Mr. Bernhard Seidl (CFO) and Mr. Achim Theis (CSO).

Remuneration of executive bodies

The members of the management board of ecotel are remunerated on the basis of § 87 of the German Stock Corporation Act (AktG) and Management Board Remuneration Act (VorstAG); remuneration includes a fixed annual base compensation, as well as a variable component. The target requirements (e.g. incoming orders, EBITDA, net income, share price performance) for the variable component are specified annually by the supervisory board. Payment of the variable portion is coupled with sustainable enterprise development over three years and occurs only in the amount of the portion that has already been verifiably earned at this point in time. ecotel has taken out a directors and officers insurance policy (D&O insurance) with an appropriate deductible for the members of the management board.
In addition, two members of the management board participate in the Company's stock options program.

Members of the supervisory board receive a fixed and a variable annual remuneration. In addition ecotel has also taken out a directors and officers insurance policy (D&O insurance) with an appropriate deductible for members of the supervisory board.

The total remuneration of the executive bodies, as well as the individual remuneration of the members of the management board and advisory board are listed in the notes to the consolidated financial statement (comment [29], "Executive body remuneration").

Changes in the articles of association

Every change to the articles of association in accordance with § 179 requires a resolution of the Annual General Meeting. Exceptions to the above are changes in the articles of association that only affect their wording; for such changes the supervisory board is authorised.

If mandatory statutory regulations specify nothing to the contrary in the specific case, shareholders' resolutions are made with a simple majority of votes cast and if prescribed by law, a capital majority in addition to majority of votes, with the simple majority of the capital stock as represented for the resolution.

Capital structure

Share capital

The capital stock of the Company is EUR 3,900,000.00. The capital is divided into 3,900,000 bearer shares. The shares are issued as no-par value shares with a proportional amount of the capital stock of EUR 1.00. The capital stock of EUR 3,900,000.00 is completely paid in. Each no-par value share grants one vote in the Annual General Meeting. Voting right restrictions do not exist. Currently ecotel holds 147,500 treasury shares so that the issued capital is EUR 3,752,500 in the balance sheet. Different voting rights relative to the shares do not exist. The Company's management board is not aware of any restrictions that affect voting rights or transfer of shares, as can occur, for example, due to agreements between shareholders.

Authorised capital

With the shareholders' resolution of July 27, 2007 the management board of the Company is authorised with the consent of the supervisory board to increase the capital stock one time or multiple times by a total of up to EUR 1,750,000.00 against cash and / or investments in kind through the issue of new no-par value bearer shares, until July 26, 2012. The number of shares must increase in the same ratio as the capital stock increases. In the 2011 business year the management board did not avail itself of this authorisation.

Conditional capital

The Annual General Meeting of July 27, 2007 resolved on the conditional increase of the capital stock by up to EUR 1,500,000.00 through issuing up to 1,500,000 no-par value bearer shares (conditional capital I). The conditional increase in capital serves the sole purpose of enabling the Company or a directly or indirectly associated company to issue shares to the holders of options and / or convertible bonds based on the authorization of the Annual General Meeting held on July 27, 2007 in return for cash paid in by July 26, 2012. In the 2011 business year the management board did not avail itself of this authorisation.

Moreover the Annual General Meeting of July 27, 2007 voted to authorise 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 EUR 150,000.00 through the issue of up to 150,000 no-par value bearer shares (conditional capital II). The conditional increase in capital serves exclusively to fulfil option rights that were granted by the authorization of the Annual General Meeting of July 27, 2007, which last until July 26, 2012. In the financial years 2009 – 2011 the success goals for exercise of the issued 145,000 options were not achieved and the granted options are forfeited.

Authorization to acquire treasury shares

With the resolution of July 30, 2010, the Annual General Meeting authorised the Company to acquire treasury shares up to a total of 10 % of the capital stock existing at the time the resolution was passed. The authorisation may not be used by the Company for the purpose of trading in treasury shares. In combination with the other shares owned by the Company or shares that are allocated to it in accordance with § 71a ff. of the German Stock Corporation Act (AktG), at no point in time may the acquired shares amount to more than 10 % of the capital stock. The authorisation to purchase treasury shares runs until July 29, 2015. In the 2011 financial year the Company did not avail itself of the authorisation to acquire and use treasury shares. As of December 31, 2011 ecotel held 147,500 treasury shares.

Capital holdings and control rights

The table below shows the names of the shareholders, who owned more than 3 % of the capital stock at the end of 2011. Different voting rights relative to the shares do not exist.

Shareholder	Share ownership (in %)
Peter Zils	25.64 %
Intellect Investment & Management Ltd.	25.09 %
IQ Martrade Holding und Managementgesellschaft mbH	14.56 %
PVM Private Values Media AG	9.31 %
Retention of the Company's own shares	3.78 %
Total	78.38 %

There are no owners of shares with special rights that grant control authority. There is no voting right control for the case that employees hold Company shares and do not directly exercise their control rights.

Effects of potential takeover bids

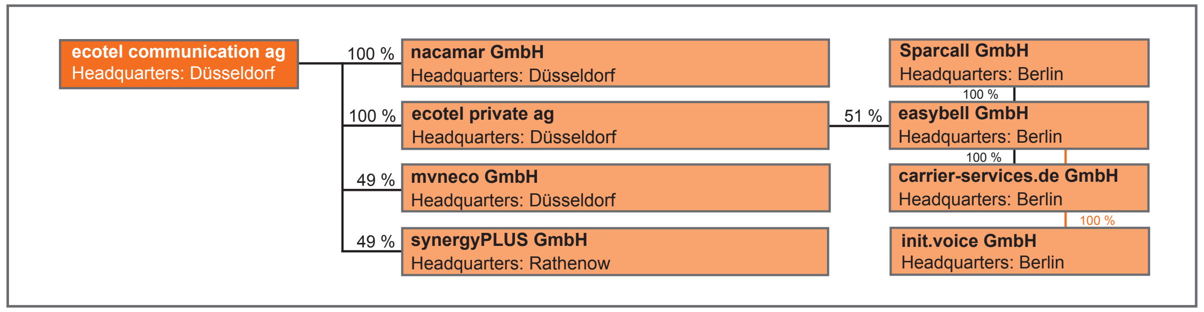
Loans from individual banks are granted on the basis that the stake in ecotel held by Mr. Peter Zils does not underrange a share of 25 % plus a vote of the capital stock during the entire term of the loan contract or is not wholly given up. Moreover the direct or indirect ecotel stake in nacamar GmbH must not underrange a share of 75 % of the capital stock. Additional agreements between ecotel and other persons who could be affected by a change of control as a result of a takeover bid, do not exist. For the members of the ecotel management board there are no agreements that foresee compensation in the event of a takeover.

In the event of a change of control at ecotel communication ag or ecotel private GmbH, the second shareholder of easybell GmbH, Consultist GmbH, has the right to acquire up to a 51 % investment in easybell GmbH from ecotel communication ag or ecotel private GmbH. The purchase price must correspond to the market value of the partial investment.

3. STRUCTURE AND HOLDINGS OF THE COMPANY

As parent company, ecotel communication ag is headquartered in Düsseldorf. In 2011 the Company employed 160 staff members, including the management board and trainees without its subsidiaries; this was 3 more employees than at the end of 2010. The subsidiaries of ecotel communication ag are located in Germany and in 2011, including managing directors and interns employed an average of 56 employees (compared with 52 employees at the end of 2010).

Structure and holdings of ecotel



nacamar GmbH

nacamar GmbH was originally founded in 1995. The company traded under the name World Online, and later as Tiscali Business GmbH. After ecotel acquired 100 % ownership of the company in 2007 and merged the company's B2B business into the parent company in 2009, nacamar now trades as an autonomous service provider in the new media business and offers companies in the media industry a broad-based offering of media applications. These include processing as well as streaming of audio and video content for a wide variety of end devices, management of media libraries for companies, as well as autonomous advertising marketing. nacamar operates its own content delivery network (CDN), as well as the largest German radio streaming platform (free-stream) in the Group's own computer centre with connection to all important national and international networks. Nacamar GmbH is headquartered in Düsseldorf and in 2011 employed an average of 17 employees (previous year: 17 employees).

ecotel private GmbH

Ecotel private GmbH is a wholly-owned subsidiary of ecotel. The company was founded in 2003 and sells voice services to private customers. ecotel private GmbH is headquartered in Düsseldorf. ecotel private GmbH holds 51 % of the shares of easybell GmbH.

easybell GmbH

Easybell GmbH is headquartered in Düsseldorf and in 2011 employed an average of twelve full-time employees. The company offers aggressively-priced telecommunications products to technically oriented private customers. Presently easybell GmbH is active in the areas of fixed-line connection, voice as well as DSL. Sales are primarily executed via telecommunications price portals. In addition, the enterprise holds 100 % of the shares of Sparcall GmbH, which markets the Call-by-Call number "01028" to carrier-services.de GmbH, which offers the Call-by-Call numbers "010010" and "01041", (Tellina). In November 2011, init.voice GmbH, was founded with headquarters in Berlin for execution of the voice over IP services, in which, easybell, in turn holds 100 % of the shares.

mvneco GmbH

Together with other consortia partners ecotel founded mvneco GmbH in April 2007 with headquarters in Düsseldorf. ecotel holds 48.7 % of the company's shares. In 2011, the mvneco GmbH employed 13 employees on average. The company functions as a technical service provider and as a so-called virtual network enabler (MVNE) enables entry into the mobile communications market for other telecommunications companies, such as ecotel communication ag. In this regard the technical platform of mvneco GmbH is connected to the switching network of a mobile communications network operator (e.g. E-Plus), which makes it possible for the company to offer its own mobile communications services.

toBEmobile GmbH

In October 2011, ecotel sold the toBEmobile GmbH shares to André Borutta.

PPRO GmbH

Likewise, in December 2011 the remaining PPRO GmbH shares, Bad Nailbrush's, were sold to Nieland Technologies GmbH.

i-cube GmbH

In November 2011 ecotel sold the operative business activity of i-cube GmbH, Düsseldorf, to infinity3 GmbH, Bielefeld. Subsequently ecotel purchased the outstanding shares of i-cube GmbH, in order to merge the company with ecotel in accordance with the merger agreement February 2, 2012, at the carrying amount.

4. CORPORATE MANAGEMENT OF THE GROUP

ecotel manages the three business units in accordance with the overall strategic alignment of the Group. There is overall budget planning, into which the annual budgets of the business areas, as well as the Group companies flow. Planning is on the product level in accordance with the cost-driver process. In this process direct variable costs are allocated to the earnings types per product and a gross margin is determined for each product. Product-overlapping direct costs, as well as personnel costs are planned separately. Reporting during the year occurs monthly on the sales, earnings, and cash flow level per area with detailed analysis of the deviations relative to planning and the previous year, as well an analysis of the deviations to a regularly updated forecast to the end of the financial year. In addition there is continuous monitoring of liquidity and working capital. Area-specific key indicators (e.g. minute volume, price per minute, purchasing margin, quantity structures) that are mapped in a reporting system are used for control.

5. RESEARCH AND DEVELOPMENT

In 2011 the capitalised development expenses of ecotel (TEUR 174) essentially relate to in-house developed software solutions and product developments. At ecotel communication ag these were primarily the order processing system for fixed-line, data and mobile communications, as well as new interfaces to additional upstream suppliers. For nacamar GmbH the developments essentially included the user statistics, http caching, as well as the customer portal.

6. MARKET AND COMPETITIVE ENVIRONMENT

According to the German Statistical Office (Statistisches Bundesamt), economic growth in 2011 was 3.0 % – after growth of 3.6 % in the previous year. At the end of 2011 German economic strength experienced a slight setback. The gross domestic product (GMP) declined by 0.2 % in the last quarter of 2011, compared to the previous year. For 2012 the leading economic research institutes expect growth of 0.6 %.

Telecommunications market volume also dropped in 2011

In 2011 the total market for telecommunications services (including cable networks) in Germany declined by 0.8 % from EUR 60.8 billion to EUR 60.3 billion (source: VATM-Marktanalyse 2011, p. 5). At the same time the proportion of alternative competitors on the total market increased from 58 % to 59.4 %.

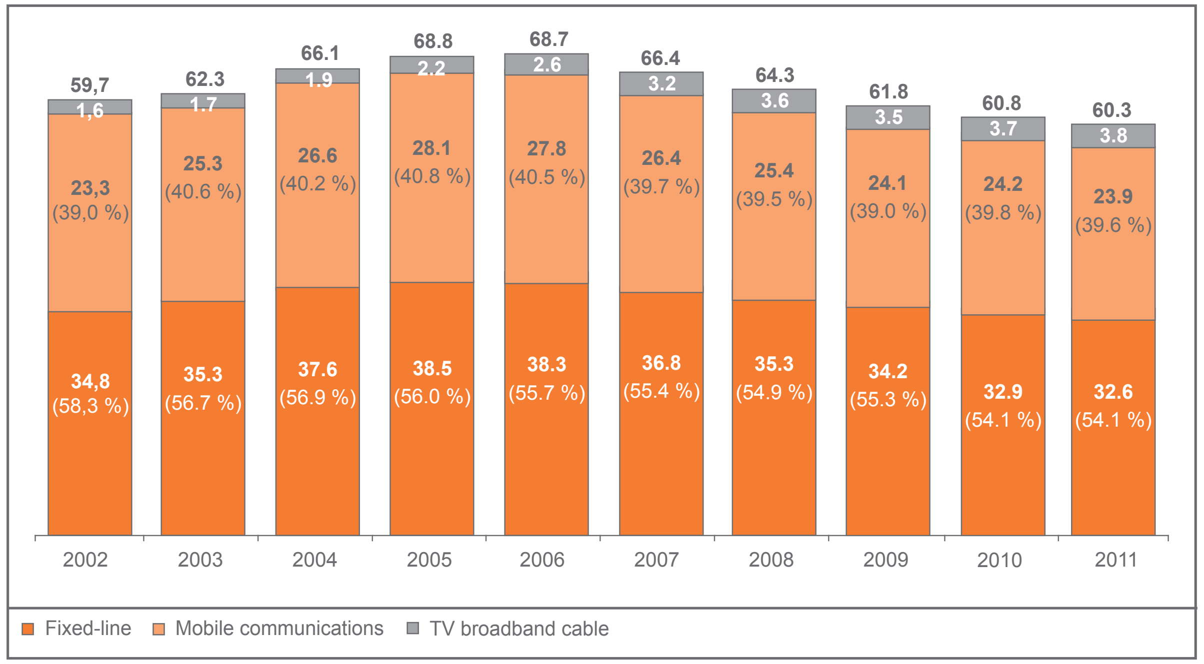
The fixed-line market, consisting of access, voice and data services with external sales of EUR 32.6 billion represents 54 % of the total market for telecommunication services.

In 2011 mobile communications revenues increased from EUR 24.2 billion to EUR 23.9 billion, essentially driven by the significant decrease in the average prices per minute. At the end of 2011 the number of activated SIM cards was slightly above the previous year's number at approx. 111 million SIM cards.

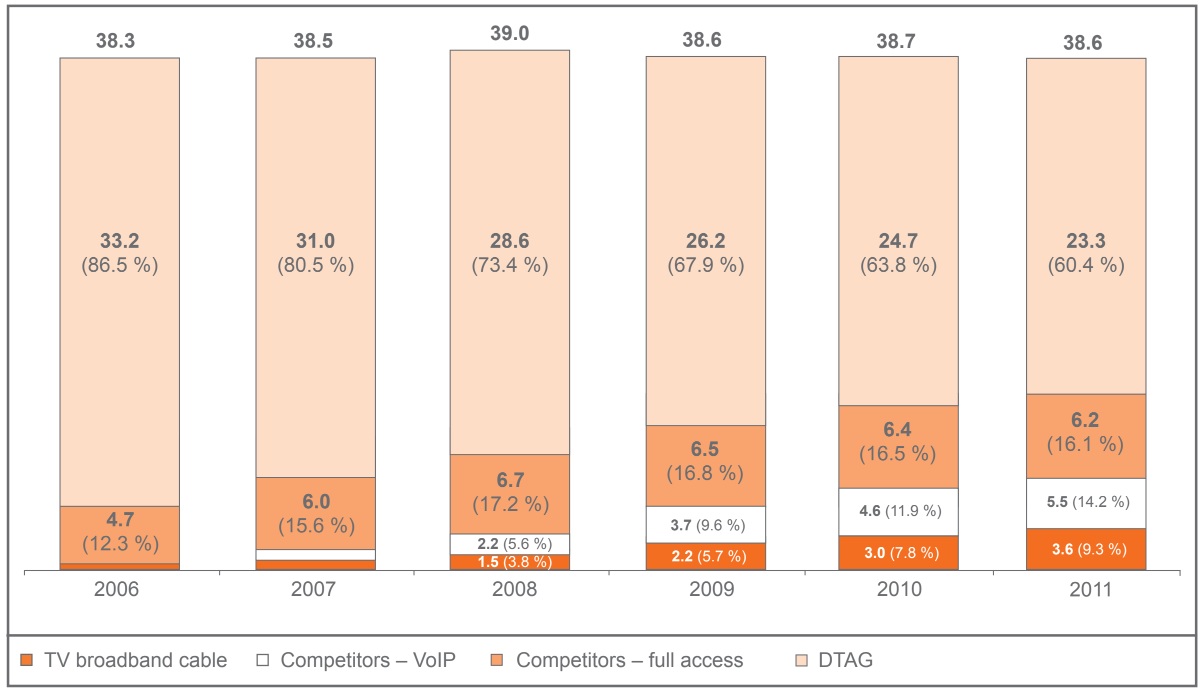
In the meantime the alternative competitors in the fixed-line have switched more than 15 million of their own telephone connections (including the voice accesses via cable TV networks) and thus with 39 million telephone connections have a market share of almost 40 % (source: VATM-Marktanalyse 2011, p. 12). However, while the number of classic full-access lines is currently decreasing slightly, significant growth is observed for unbundled voice over IP connections and for cable TV full access lines.

At the end of 2011 in Germany there were more than 27 million broadband access lines, compared with 26 million broadband access lines at the end of 2010. In this regard 9 million connections (34 %) were for unbundled subscriber access, 2 million connections (8 %) were for resale DSL/wholesale DSL/IP bit stream, 12 million connections (44 %) to DTAG, as well as 4 million connections (13 %) to cable TV. 0.3 million households (1 %) have now been connected via a broadband optical fibre access. DTAG's competitors have a market share of 55 % (source: VATM-Marktanalyse 2011, p. 13).

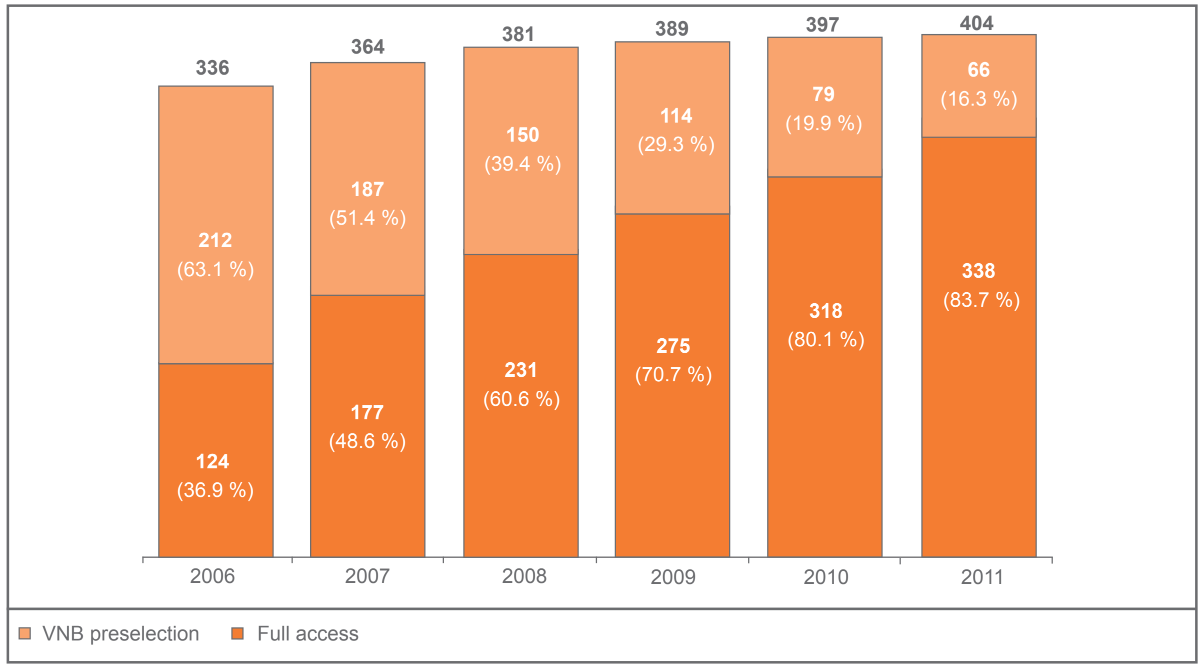
Total market for telecommunications services in Germany in bill. EUR



Fixed-line full access lines in millions



Overall market – competitors – voice services in Germany by product in millions of minutes per day



The share of competitors to DTAG in the traffic volume for voice services has significantly increased in recent years, this is essentially due to the increasing share of competitors for its own full access lines, whose share of the overall traffic volume in the German fixed-line network was 64 % in 2011. In the meantime the proportion of voice connection minutes via full access lines of the total volume of fixed-line minutes that are realised by the competitors was almost 84 %. On the other hand the volume for Call-by-Call (VNB preselection from the DTAG network) declined sharply (source: VATM-Marktanalyse 2011, p. 10).

Trends in the B2B market
Similar to the situation in the previous year, in the business customer segment (B2B) in Germany, the revenue trend declined, essentially driven by the continuing high intensity of competition. In addition the traditional voice technology is increasingly being replaced by voice over IP solutions.

Important TC trends for the future in the business customer area are the continuous extension of broadband Internet accesses, both via fixed-line (VDSL, FTTH), as well as via mobile communications (HSPA + LTE), the shift of telephone systems into the network (hosted PBX / IP Centrex), as well as the strong convergence of telecommunications and IT.

The most significant current IT trend is “cloud computing” with its forms, infrastructure as a service (IaaS), platform as a service (PaaS) and software as a service (SaaS). Essentially this involves the shifting of local computing services (hardware) and application programs (software), as well as data storage (content) into secure computer centres on the Internet, that the user accesses via secured broadband connections.

Other important TC trends are mobile applications, IT security, social media, virtualisation, business intelligence, IT outsourcing, business process management, smart metering, and M-payment (source: Bitkom, 37. Branchenbarometer).

Regulatory trends
As a telecommunications company, ecotel is subject to oversight by the German Federal Network Agency for Electricity, Gas, Telecommunication, Post, and Railroad (BNetzA). The BNetzA promotes the liberalisation and the opening of the market in the telecommunications sector.

Important current topics are:

– Acceleration of the extension of high-performance public telecommunications networks of the next generation, including improved basic conditions for competition-conformant infrastructure investments

– Assurance of a full-coverage basic supply of the same type of telecommunications services (universal services) in urban and rural areas, including broadband connections, at affordable prices

– Network neutrality (i.e. equal and unchanged transmission of data packets through carriers, regardless of where these packets come from, or which applications have generated these packets)

– Strengthening consumer protection relative to the length of time that data traffic is saved

The amendment to the Telecommunications Act was passed at the beginning of 2012. The most important contents are:

– Investment-friendly regulatory principles (consideration of regional particularities, investment risks, enterprise cooperations through the German Federal Network Agency for Electricity, Gas, Telecommunication, Post, and Railroad (BNetzA)

– Increase in the planning security of enterprises (e.g. companies have the right to receive information concerning the general regulatory-conditions for extension of the network)

– Joint use of alternative infrastructures (e.g. sewerlines, energy networks) and obligation to tolerate on the part of property owners

– Microtrenching (installation of optical fibre lines at a low depth)

– Strengthening of consumer rights (including free-of-charge on-hold loops, blocking of added value service numbers for mobile phones, facilitation of changing the TC provider, shorter contract terms, price announcement for call-by-call, strengthening of data privacy, e.g. for mobile phone positioning)

As part of the EU roaming ordinance it is expected that in 2012 and coming years voice and data roaming rates will be further reduced.

7. BUSINESS DEVELOPMENT 2011

A brief overview of the most important events in the ecotel financial year 2011 is provided below.

Successful marketing of full access products
Since the end of 2009, ecotel has been marketing ISDN voice and data connections (so-called full access lines) based on the infrastructure of Versatel AG and Vodafone D2 GmbH, and thus with these connections, covers more than 70 % of the business customers in Germany (so-called on-net areas). With the purchase of these full access lines, ecotel procures the ISDN voice and data connections with an attractive wholesale discount and thus sustainably reduces its cost basis in on-net areas by 35 % compared with purchase via the previous upstream supplier, DTAG. In addition, costs for the delivery of the voice traffic are dispensed with, because delivery occurs in the local exchange carrier’s (LEC) own network. On one hand these savings increase ecotel’s profitability and on the other hand they mean that ecotel can market new products to existing customers and new customers at attractive conditions.

Thus the full access product represents the new basis of the ecotel business and significantly contributes to the increase in gross profit in the business customer segment. At the end of 2011, 13,000 orders for full access lines were active, which have been realised via alternative upstream suppliers.

Successful marketing of data and VPN products
In 2011 ecotel was able to report significant successes in the marketing of its data products. Among other things 135 new broadband Ethernet lines and 250 SHDSL lines were implemented in 2011. In addition, ecotel was able to win a large order from ING DiBa for connecting more than 1,200 ATMs in 2011.

Improvement of the cost basis through lower mobile communications termination rates
On February 24, 2011 the German Federal Network Agency (BNezA) announced its final rate approvals for mobile termination fees, which will remain in effect until November 30, 2012. The resulting halving of mobile termination fees for 2011 was one essential driver for the increase of ecotel’s gross profit last year.

Consolidation of additional subsidiaries
With the sale of the stake in toBEmobile GmbH, and the stake in PPRO GmbH, ecotel has further adapted the scope of the investment portfolio to the overall strategic alignment of the company. This also includes the sale of the business activity of i-cube GmbH and its subsequent merger with the company.

Marketing of new private customer products
In 2011 easybell GmbH successfully established additional business areas. Among other things, easybell started to market an additional call-by-call number (01041). The unbundled voice and DSL products met with strong demand. New products, such as the VDSL package offered since the end of 2011 complete the offering. In addition, the German Institute for Service Quality (Deutsche Institut für Service-Qualität) recognised easybell, along with Kabel Deutschland and Netcologne, as Germany's best Internet service providers in 2011.

Efficiency increases of internal and external business processes
Continuation of the IT system consolidation, as well as commissioning of the automated provisioning interface with Vodafone, resulted in more efficient order processing. Moreover, currently more and more processes are being executed paperless. The increased efficiency on the system side went hand-in-hand with a new order management system to improve customer satisfaction. The complete activation process (order check, order confirmation, schedule confirmation, quality call, first invoice check) for new products and the associated communication between ecotel and the end customer occurs via fixed contact persons (Contract Ownership).

Earnings, financial and asset position

1. EARNINGS AND PERFORMANCE

In 2011 the Group achieved revenue of EUR 84.5 million (previous year: EUR 98.3 million). The decline in revenue is essentially attributed to the Wholesale area, and secondly the business customer area and New Business area. Gross profit (sales revenue minus cost of materials) increased relative to the comparable period of the previous year by 7 %, from EUR 22.9 million to EUR 24.6 million. The reason for the improvement in the cost basis was the improved purchasing conditions for mobile communications as well as the further progression of the migration process of preselection customers to full access products. Compared with the previous year the gross profit margin increased from 23 % to 29 %.

Increasing gross profits in the business customer segment
The Business Solutions segment achieved a share of 49 % (previous year: 46 %) of total gross profit and a share of 76 % (previous year: 76 %) of the gross earnings of the ecotel Group. Sales in the business customer segment were EUR 41.6 million, compared with EUR 44.8 million in the previous year. The 7 % decline in sales relative to the previous year period is due to the continuing loss of customers in the classic preselection business, which in 2011 could not be adequately compensated through new business with full access lines, data products and mobile communications products. In 2011 gross earnings were EUR 18.7 million – after EUR 17.5 million in the previous year, which corresponds to an improvement of 7 %. Compared with the previous year the gross profit margin increased from 39 % to 45 %.

Declining sales in the reseller segment
The business unit Wholesale Solutions contributed to total revenue, with 36 % (previous year: 39 %) and to total earnings with 6 % (previous year: 6 %). Revenue in this segment declined by 21 %, from EUR 38.7 million to EUR 30.6 million. The decline is due to the reduction of the mobile communication termination rates, which are forwarded 1:1 to other carriers and thus result in a correlating reduction in revenue. Gross profit increased slightly from EUR 1.3 million to EUR 1.4 million. This corresponds to a gross profit margin of 5 %.

Gross profit constant in the New Business unit
The business unit New Business contributed with 15 % (previous year: 15 %) to total earnings, and with 18 % (previous year: 18 %) to total gross earnings. Compared with the previous year, New Business revenue declined from EUR 14.8 million to EUR 12.3 million, essentially caused by the decline in the call-by-call voice volume. Gross profit increased from EUR 4.2 million to EUR 4.5 million. This corresponds to a gross profit margin of 37 %.

Other operating income higher
In 2011 other operating income was EUR 1.6 million (previous year: 1.0). Essentially the increase is attributed to the sale of the i-cube business activities to infinity3 GmbH.

Higher personnel expenses and other operating expenses
Personnel expenses increased in 2011 by EUR 0.2 million, from EUR 9.5 million to EUR 9.7 million. The number of employees of the ecotel Group increased to 214 (previous year: 206).

Other operating expenses declined slightly from EUR 9.7 million to EUR 9.5 million.

Significant improvement of EBITDA and EBIT

EBITDA increased in 2011 by 45 %, from EUR 4.9 million to EUR 7.1 million as compared to the previous year. This corresponds to an EBITDA margin of 8.3 % (previous year: 5.0 %). A special effect due to the higher other operating expenses in the amount of EUR 0.5 million is included in the EBITDA.

Scheduled depreciation remained at the previous year's level at EUR 3.3 million. Of which EUR 1.7 million was scheduled depreciation of intangible assets, such as development costs and client bases, and EUR 1.6 million for scheduled depreciation of property, plant and equipment.

The non-scheduled depreciation in the amount of EUR 0.6 million was essentially comprised of EUR 0.4 million depreciation on the goodwill of the nacamar subsidiary, which was based on the fact that a large broadcast customer unexpectedly changed to the streaming framework agreement of a different television station with a new upstream supplier in the second quarter of 2011, as well as depreciation on other intangible assets in the amount of EUR 0.1 million, and depreciation on short-term financial assets in the amount of EUR 0.1 million.

EBIT was EUR 3.1 million, after EUR 1.5 million in the previous year. This represents an increase of 106 %.

The financial result in 2011 was EUR -0.4 million after EUR -0.7 million in the reference period 2010. It includes interest expenses in the amount of EUR 0.3 million, as well as a provision for anticipated losses for the negative cash value of interest rate swaps in the amount of EUR 0.1 million.

The tax expense for 2011 was EUR 1.0 million and is comprised of EUR 0.5 million effective tax expenses and EUR 0.5 million deferred tax expenses due to utilisation of the losses carried forward.

The 2011 consolidated net income before minority interests was EUR 1.7 million, after EUR 0.3 million in the previous year. The 2011 consolidated net income after minority interests was EUR 1.1 million (previous year: EUR 0.1 million). This corresponds to earnings per share of EUR 0.29 (previous year: EUR 0.02). Without deferred taxes the result would have been EUR 0.43.

Comparison of the forecasts with the actual business trend

At EUR 84.5 million, actual revenues achieved were within the EUR 80–90 million range forecast as of June 30, 2011.

Compared with the planned values of EUR 5.5 to 6.5 million, EBITDA of EUR 7.1 million was significantly above this range.

The Company was also able exceed the planned reduction in net financial liabilities to under EUR 3 million, which were EUR 0.5 million as of the key date.

2. FINANCIAL POSITION

Cash flow from operating activities for 2011 was EUR 6.3 million, compared with EUR 5.3 million in the previous year. Working capital (the difference between receivables and liabilities) increased slightly by EUR 0.5 million compared with the previous year.

Cash flow from investing activity in 2011 was EUR -1.6 million after EUR -1.8 million in the previous year. It is essentially comprised of investments of EUR 0.7 million in software licenses and in-house developed software, as well as investments of EUR 1.0 million for servers, network and computer centre infrastructure, as well as proceeds from the sales of financial assets in the amount of EUR 0.1 million.

In 2011, cash flow from financing activity was EUR -4.5 million as it was in the previous year, and includes repayment of financial credits in the amount of EUR 7.5 million, repayment of a shareholder loan in the amount of EUR 0.2 million, repayment of leasing liabilities in the amount of EUR 0.3 million, the assumption of new financial credits of EUR 4 million and interest payments in the amount of EUR 0.5 million.

Cash and cash equivalents increased slightly from EUR 6.1 million at the beginning of 2011 to EUR 6.2 million at the end of 2011.

ecotel has a revolving credit facility of EUR 2.9 million. Of which, at the end of 2011, EUR 1.6 million was used as surety for payment. Thus EUR 1.3 million was still available.

As in previous years, the Company was able to honour its payment obligations without restriction and on time.

3. ASSET POSITION

As of December 31, 2011, the balance sheet total was EUR 45.4 million, which corresponds to a reduction of 7 % relative to EUR 48.8 million as of December 31, 2010. The decline in the balance sheet total is essentially due to depreciation of intangible assets (e.g. customer base) as well as repayment of the financial credits, both of which resulted in a balance sheet contraction.

On the assets side the non-current assets were reduced by 10 %, from EUR 27.1 million to EUR 24.5 million. Goodwill decreased due to the special depreciation of EUR 11.8 million. The value of the customer relations was reduced due to the ongoing depreciation of EUR 3.8 million to EUR 3.1 million. Current assets (without net cash) were reduced from EUR 15.6 million to EUR 14.7 million.

On the liabilities side equity increased by 7 % from EUR 20.0 million to EUR 21.4 million. Thus the equity ratio rose from 41 % at the end of 2010 to 47 % at the end of 2011. Non-current provisions and financial liabilities decreased from EUR 6.2 million to EUR 7.6 million, of which EUR 1.0 million were due to deferred income tax. Non-current provisions and liabilities decreased from EUR 22.6 million to EUR 16.1 million at the end of 2011, essentially due to the final amortisation payment of the investment loan in the amount of EUR 4.6 million, from EUR 22.6 million to EUR 16.1 million. At the end of 2011 net financial liabilities (financial liabilities minus net cash) were EUR 3.0 million with consideration of the equity-like nature of the KfW subordinate tranche (EUR 2.5 million) were EUR 0.5 million, which is equivalent to a reduction by EUR 4.1 million compared with the previous year.

4. GENERAL STATEMENT OF THE ECONOMIC SITUATION OF THE GROUP

The economic situation of the ecotel Group improved significantly compared to the previous year. The positive development of the earnings situation, which formed the basis for the successful reduction in financial liabilities and the associated boost to the financial results, contributed in this regard.

Supplementary report

After conclusion of the financial year there were no noteworthy changes in the boundary conditions. The economic environment did not change to a degree that had an effect on the business activities of ecotel, nor has the industry situation become different than it was as of December 31, 2011. The merger of i-cube GmbH with ecotel must be cited as a significant business transaction since the balance sheet key date. The merger contract in this regard, is dated February 7, 2012, the trade register entries of February 11/16, 2012 for the acquiring or transferring legal entity. Thus economic and legal ownership of the asset objects and debts transitions to ecotel in financial year 2012. The merger has no effect on the assets position, financial position, or earnings situation of the Group.

Risk report

1. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

For early identification and evaluation of entrepreneurial risks and risks that threaten the existence of the Company, as well as for correct handling of such risks, ecotel uses an appropriate risk management system.

Group-wide responsibility for early identification of risks and implementation of measures to counter these risks rests with the management board. For continuous identification and evaluation of risks in the company, the managing directors of the subsidiaries, as well as the members of the ecotel management team assist the management board in this regard.

With the aid of a quarterly risk report the management board and the supervisory board track the identified risks with reference to planned earnings throughout the entire year. In this regard the focus is on identification of the need for action and the status of the measures implemented for systematic control of the identified risks. All material risks are listed that could jeopardise earnings and the existence of the Company, in the form of a risk matrix. All potential risks are evaluated according to their probability and the possible extent of damage. In addition, the risks are quantified relative to the planned earnings of the Company as potential deviation from the plan. Finally, after every potential risk, the control measures that have been implemented are included.

ecotel maintains an internal control system (ICS) to assure the effectiveness and profitability of the business activity, the correctness and reliability of the internal and external accounting, as well as for compliance with the statutory regulations that are authoritative for the enterprise; the internal control system is revised at regular intervals. The risk of financial reporting is that the annual reports and interim reports could contain incorrect presentations that could possibly have a material influence on the decisions of those to whom these reports are addressed. Our accounting-based internal control system is designed to identify possible error sources and to limit the risks resulting from these error sources. To assure the correctness and reliability of the accounting, the internal control system is designed in such a manner that for all material business transactions the dual-control principle is used and that a functional separation between the departments is maintained (creditors, debtors) in the bookkeeping. Account assignment guidelines are used for correct accounting. External service providers are used for the IFRS preparation of financial statements as well as for more complex accounting issues. The same applies for preparation of the tax return. In addition the central key financial figures are monitored by a regular target/actual comparison with deviation analysis.

2. RISKS OF FUTURE DEVELOPMENT

As part of the business activity ecotel is confronted with operative risks, financial risks, strategic risks, and with risks of the market development.

Operative risks

Operative risks are of a more short-term nature and for ecotel are concentrated on possible failures, errors and capacity bottlenecks of the infrastructure (e.g. backbone, computer centre, switching technology, server farms) as well as on correct and prompt handling of processes that are critical for the enterprise in the areas of provisioning, invoicing, receivables management, as well as customer support.

Assurance of the highest possible availability of infrastructure through appropriate system redundancies both on the switching technology side and on the line side, is one of the most important measures that ecotel consistently implements to prevent risks. The implications of a possible failure of the company's own switching technology are minimised in that only the international B2B traffic, as well as the wholesale traffic is terminated via the Group's own switching systems, and the major portion of the B2B voice traffic remains in the networks of the upstream suppliers. For mobile communications traffic there is a fall-back scenario that routes the traffic via the network of the upstream supplier, if our own network fails. In the area of availability of the server farms of the nacamar content delivery network, the server farms were completely duplicated in separate facilities.

In the area of the computer centre infrastructure, there are potential risks of failure of the air conditioning system and emergency power supply. The emergency power supply is structured redundantly, in the area of the air conditioning technology, in 2012, a n+1 redundancy will be implemented. Moreover, in the future free-air cooling will be implemented, which will further increase the energy efficiency of the computer centre, and reduce the risk due to possible increases in power prices. Risks of external capacity bottlenecks for the power supply of the computer centre in Frankfurt/Main continue to exist; these risks can possibly cause hindrances for future customer growth. Because possible expansion measures in the power supply are associated with significant investments, this project will only be undertaken when there is appropriate additional capacity demand on the part of customers.

The dependency of ecotel on DTAG could be reduced in the area of the connection transfer, if ecotel uses the connection transfer via DTAG only in so-called Off-Net regions where alternative subscriber operators (Vodafone, Versatel) do not have their own network (approx. 30 % of German business customers).

In addition, ecotel strives to distribute the know-how for handling enterprise-critical processes over multiple employees to avoid generating an excessive dependency on individual key persons.

Financial risks

For ecotel financial risks include credit risks, liquidity risks, as well as interest risks.

As part of the acquisition financing ecotel has agreed with the financing credit institutions on financial covenants that are usual in the market, that are based on the relationship of specific financial key indicators. The IFRS consolidated financial statement prepared by ecotel serves as the basis for determination of the key performance indicators. A violation of the covenants could possibly result in cancellation and premature payback of the investment loans and revolving credit facilities and thus could entail a significant worsening of the liquidity position of ecotel, if an agreement concerning an adaptation of the financial covenants or refinancing cannot be achieved. For all three of the current covenants (equity ratio (TARGET: >25 %/35 %; ACTUAL: 47 %), net financial liabilities EBITDA (TARGET: <2.5; ACTUAL: 0.08), EBITDA/sales revenue (TARGET: >5 %; ACTUAL: 7.6 %)) ecotel is clearly within the intervals specified by the financial covenants. The enterprise assumes, that in 2012 all covenant threshold values will safely be complied with.

At year end 2011 ecotel had net cash in the amount of EUR 6.2 million. Net liabilities at year end were EUR 3.0 million (after EUR 7.1 million in the previous year). Of which EUR 2.5 million related to a subordinate tranche. The Company assumes that the available cash on hand and the anticipated capital accrual from the ongoing business activity suffice to finance the further enterprise strategy and at the same time reduce the net debt to zero. As an additional liquidity reserve ecotel has a revolving credit facility of EUR 2.9 million. Of which, at the end of 2011, EUR 1.6 million were used as surety for payment.

Presently a legal dispute is underway that has been initiated against nacamar GmbH for the non-acceptance of hardware equipment. The disputed value is 166 TEUR.

In addition, a legal dispute against ecotel, initiated by DTAG is underway for additional claims that are disputed in ecotel's view. The disputed value is 500 TEUR. For this the company has taken the precautionary measure of forming an appropriate provision. Due to the uncertainty of the outcome of the legal dispute, the possibility cannot be excluded that the claim that may possibly be asserted could exceed the amount of precautionary measure that has been initiated.

Possible payment fluctuations for interest due to changes in the interest rate will be limited by the fact that ecotel has concluded interest rate swaps of fixed-rate loans for the outstanding loan amounts.

Strategic risks

Strategic risks are more of a medium-term nature and are based on the strategic enterprise alignment of purchasing, products, sales, technology and IT.

Dependence on suppliers is reduced by the fact that a two-supplier strategy is maintained for essential products.

One strategic risk continues to be the high level of willingness of preselection customers to change to bundle products of other providers and the associated decline in the customer base that could not yet be adequately compensated through our own new products. Should ecotel not succeed, for example in more strongly binding its customers through its own competitive bundle offerings and thus show a lower attrition rate, this could also have significant disadvantageous effects on the asset, financial, and earnings situation of ecotel.

Worsened future prospects could also possibly result in special depreciation of the value of the shareholder loan to mvneco GmbH (EUR 1.6 million). This could occur if the platform services offered by mvneco would become obsolete in the future, if its customers (versatel, ecotel, etc.) could not extend their contracts, because in turn, their IN-MVNO contracts with E-Plus, as supplier of the necessary mobile communications solution, would not be extended in 2013 and for this reason they would be compelled to move to alternative contract models (e.g. service providing). In such a case the shareholders of mvneco, with due consideration of the different interests would have to decide which of the other business fields (managed services/consulting) would enable the company to continue to act successfully for the future. Overall it remains to wait and observe how the market for technical enabling models in mobile communications develops in the future and how the current positive business development is impaired by this situation.

For nacamar GmbH the risk exists that in the event of an inadequately positive development of the company in 2012, special depreciations of the goodwill of the company (EUR 2.9 million) could become necessary.

Risks of the market environment

Other essential risks that could entail a significant worsening of the economic position of ecotel are market-related and industry-related.

The telecommunications industry is characterised by intensive and price-aggressive competition. The existing cut-throat competition in the private customer segment could expand with even more intensity into the business customer segment in the future. A significant consolidation of the telecommunications industry could have negative effects on the asset, financial and earnings situation of ecotel, as dependence on individual suppliers would increase.

Moreover, due to the rapid pace of technological change new products and business models are created. The possibility cannot be excluded that in this manner the ecotel products will become less competitive and thus less in demand. Consequently ecotel continuously monitors the market environment in order to react quickly and effectively to technology changes.

The existing general regulatory conditions, which are materially influenced by decisions of the German Federal Network Agency for Electricity, Gas, Telecommunication, Post, and Railroad (BNetzA), and through other consumer protection measures, could also change to the disadvantage of ecotel's business activities and bring about negative business-relevant changes.

Overall risk can be calculated

In summary, ecotel is convinced that the material risks cited above neither individually nor collectively concretely jeopardise the continued existence of the Company and that ecotel, through the flexible business model and the monitoring system, can quickly recognise risks, react to them, and implement counter measures in 2012 as well.

3. OPPORTUNITIES FOR FUTURE DEVELOPMENT

In addition to the risks there are a number of opportunities that can sustainably affect the business development of the ecotel Group.

Marketing of full access lines to existing customers and new customers

Until 2009 ecotel purchased the voice connections almost exclusively from DTAG, but did not receive any concessions, in the form of wholesale discounts. When purchasing the voice connections but also the data connections from alternative service providers, such as Vodafone and Versatel, ecotel procures these connections at attractive wholesale prices. In addition, costs for the supply of the voice traffic are dispensed with, because the supply occurs in the TNB network. At the end of 2011 ecotel had switched 13,000 active full access lines. Via the discounts achieved for the voice connections, as well as better purchasing conditions of the connection fees, ecotel can considerably optimise the margin situation and has provided the basis for additional competitive products. In addition the ISDN full access line forms a bridge technology for a future migration of the customers to voice over IP technology.

New market developments in the areas of voice over IP and hosted PBX

An important telecommunications trend topic is the shifting of telephone systems onto the Internet (hosted PBX / IP Centrex), in combination with voice over IP. This change has only been made feasible through nationwide availability of broadband Internet accesses. ecotel is carefully observing these developments, and in the medium-term plans to shift it customer base in the off-net regions that are not supplied by Versatel and Vodafone, to so-called NGN (Next Generation Network) connections. Among other things the customers can benefit through this shift from innovative services (e.g. convergent fixed-line and mobile communications products). Simultaneously ecotel profits from significant cost savings.

Extension of the data portfolio

For 2012 ecotel plans further growth in the data area. Among other things the existing Ethernet and SHDSL product range should be extended with new standard functionalities (foreign country coverage, MPLS integration), access technologies, (e.g. satellite, LTE) and capacities (SHDSL 10 Mpbs).

Further growth of the new media business

The market for audio / video applications on the Internet, in which nacamar GmbH is active, is one of the strongest growth areas in the ITC (IT + telecommunications) market segment. As a market leader in the area of radio streaming with its highly modern CDN, its online video management solution, "medianac", as well as new products like HbbTV / social media, has ideal prerequisites for profiting from market growth.

Efficiency increases of internal and external business processes

Conclusion of the system consolidation, as well as commissioning of the automated provisioning interface with Vodafone resulted in significantly better order processing and customer support. The associated increases in efficiency and productivity however must still be implemented, in order to sustainably assure ecotel's competitive position. In 2012 ecotel plans to further reduce its infrastructure costs through a wide variety of optimisation measures in the network and computer centre.

4. COMMENTS ON FORECASTS

This management report also includes future-oriented statements and information, i.e. statements concerning events that are in the future. These future-oriented statements can be identified through formulations such as "expect", "intend", "plan", "estimate" or similar terms. Such forward-looking statements are based on present expectations and specific assumptions. Consequently they are associated with a number of risks and uncertainties. A number of factors, of which many are beyond 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, successes, and performances of the ecotel Group may significantly deviate from the expressed or implicit information on results, successes or performances contained in the future-oriented statements.

Outlook

Increase of the EBITDA margin

Management pursues the goal of bringing the EBITDA margin from the current 8 % to 10 % by 2013.

Increase in B2B revenues

In combination with improved general conditions, for example, Contract Ownership, the new products and rates, the declared objective of the management board is to again achieve increasing B2B sales starting in 2013, and by 2015 to again generate three-figure Group revenue. Among other things this should occur through stronger customer loyalty measures and through an increase in the new customer business.

Further reduction of net financial liabilities

For 2012, on the basis of the operative business development, the Company strives to reduce net financial liabilities from the current EUR 3 million to EUR zero. Possible special effects, such as buybacks of shares, payment of dividends, or additional investments are not considered in this planning.

Forecast for 2012

For 2012 the company expects Group revenue of approx. EUR 80 – 90 million, and EBITDA of EUR 6 – 7 million.

Declarations

Statement on corporate governance

The management board and supervisory board of ecotel communication ag have issued the required statement on corporate governance in accordance with § 289a of the German Commercial Code (HGB), including the statement prescribed in accordance with § 161 of the German Stock Corporation Law (AktG), and have made these statements permanently available to the public on the Internet (www.ecotel.de under Investor Relations / Corporate Governance).

Statement of the legal representatives

To the best of our knowledge, in accordance with the applicable principles for financial reporting, we assure that the consolidated financial statement conveys an appropriate view of the Group's asset, financial and earnings position that corresponds to the actual conditions, and in the Group management report, the development and performance of the Group, including the business results and the position of the Group, are presented in a manner that conveys a view that corresponds to the actual conditions, and that the essential opportunities and risks of the presumable development of the Company are described.

Düsseldorf, March 23, 2012
ecotel communication ag

The management board
Peter Zils Bernhard Seidl Achim Theis

Group balance sheet

as of December 31, 2011

Assets — Information in EUR	(Notes)	12/31/2010	12/31/2011
A. Non-current assets			
I. Goodwill and other intangible assets	(1)	18,501,999.45	16,967,170.81
II. Property plant and equipment	(2)	5,860,123.80	5,079,565.01
III. Financial assets valued based on the equity method	(3)	1,523,272.09	1,586,134.39
IV. Other financial assets	(3)	112,000.00	25,000.00
V. Non-current receivables	(4)	521,674.29	623,799.25
VI. Deferred taxes on earnings	(7)	537,390.46	193,361.40
Total non-current assets		**27,056,460.09**	**24,475,030.86**
B. Current assets			
I. Inventories	(5)	133,698.55	88,777.48
II. Trade receivables	(6)	14,391,255.89	13,424,477.59
III. Other receivables and assets	(6)	817,722.6	1,211,435.67
IV. Current taxes on earnings	(7)	222,743.79	9,194.76
V. Cash and cash equivalents	(8)	6,133,176.51	6,235,215.59
Total current assets		**21,698,597.37**	**20,969,101.09**
Total assets		**48,755,057.46**	**45,444,131.95**

Liabilities — Information in EUR	(Notes)	12/31/2010	12/31/2011
A. Equity			
I. Subscribed capital	(9)	3,752,500.00	3,752,500.00
II. Capital reserves	(9)	1,661,096.69	1,678,036.50
III. Other reserves		13,974,231.78	15,087,043.00
Equity capital to be allocated to shareholders		19,387,828.47	20,517,579.50
IV. Shares of other shareholders	(9)	585,190.90	900,115.78
Total equity capital		**19,973,019.37**	**21,417,695.28**
B. Non-current provisions and liabilities			
I. Deferred taxes on earnings	(10)	792,328.39	979,058.08
II. Non-current loans	(11)	5,331,604.17	6,609,375.00
III. Other financial debts	(11)	69,913.17	0.00
Total non-current provisions and liabilities		**6,193,845.73**	**7,588,433.08**
C. Current provisions and liabilities			
I. Current taxes on earnings	(10)	351,854.69	313,903.36
II. Financial debt	(11)	7,918,409.12	2,715,502.70
III. Trade receivables	(11)	12,801,971.24	11,555,216.98
IV. Liabilities to associated companies	(11)	130,797.79	133,765.95
V. Other liabilities and provisions	(11)	1,385,159.52	1,719,614.60
Total current provisions and liabilities		**22,588,192.36**	**16,438,003.59**
Total liabilities		**48,755,057.46**	**45,444,131.95**

Consolidated profit and loss statement

for the financial year 2011

Information in EUR	(Notes)	01/01-12/31 2010	01/01-12/31 2011
1. Sales revenue	(14)	**98,314,011.76**	**84,481,325.08**
2. Other operating income	(15)	1,045,276.34	1,599,973.98
3. Other own work capitalised		116,812.78	849.00
4. Total revenue		**99,476,100.88**	**86,082,148.06**
5. Cost of materials and services			
Expenses for purchased services	(16)	-75,369,415.34	-59,854,073.84
6. Personnel expenses	(17)		
6.1 Wages and salaries		-8,242,959.50	-8,398,146.02
6.2 Contributions to social insurance, pension plans and other benefits		-1,235,132.51	-1,306,711.76
7. Scheduled depreciation and amortisation	(18)	-3,238,395.12	-3,309,930.54
8. Unscheduled depreciation	(18)		
8.1 Of non-current assets		-135,812.55	-541,547.56
8.2 Of current assets		-85,004.17	-104,276.55
9. Other operating expenses	(19)	-9,702,968.32	-9,471,044.88
10. Earnings before interest and tax (EBIT)		**1,466,413.37**	**3,096,416.91**
11. Financial income		139,638.07	144,145.74
12. Financial expenses		-670,432.64	-545,365.45
13 Result from investments accounted for by the equity method		-205,117.08	-12,137.70
14. Financial result	(20)	**-735,911.65**	**-413,357.41**
15. Result of ordinary business activity before income taxes		**730,501.72**	**2,683,059.50**
16. Taxes on income and earnings	(21)	-392,168.65	-982,536.42
17. Consolidated net income (= consolidated comprehensive income)		**338,333.07**	**1,700,523.08**
18. Net income attributable to minority interests	(22)	-281,871.36	-627,371.44
19 Net income attributable to ecotel communication ag shareholders		**56,461.71**	**1,073,151.64**
Undiluted earnings per share	(23)	0.02	0.29
Diluted earnings per share	(23)	0.02	0.29

Consolidated cash flow statement

for the financial year 2011

Information in EUR	(Notes)	2010	2011
Consolidated profit for the year before income tax and third-party shares	(24)	730,501.72	2,683,059.50
Net interest income	(24)	455,044.88	343,973.04
Depreciation and amortisation expense	(24)	3,425,336.86	3,851,478.10
Amortisation/depreciation of current assets	(24)	85,004.17	104,276.55
Earnings from companies valued based on the equity method	(24)	205,117.08	12,137.70
Cash flow		**4,901,004.71**	**6,994,924.89**
Other expenses (+) and income (-) not affecting the balance sheet	(24)	43,860.00	66,080.97
Profit (-)/loss (+) on disposals of non-current assets	(24)	-9,331.32	-25,801.27
Increase (-)/decrease (+) in trade receivables	(24)	1,792,080.86	997,660.48
Increase (+)/decrease (-) in receivables and other assets	(24)	770,121.18	-487,529.66
Increase (+)/decrease (-) in trade liabilities	(24)	-2,874,444.46	-1,246,016.46
Increase (+)/decrease (-) in liabilities (without financial debts)	(24)	531,798.47	238,027.16
Paid (-)/received (+) income tax	(24)	115,924.00	-276,179.97
Inflow of funds from ongoing business activities		**5,271,013.44**	**6,261,166.14**
Payments received from retirements of intangible assets	(24)	21,891.85	142,853.34
Payments for investments in tangible and intangible assets	(24)	-1,666,495.91	-1,717,732.09
Proceeds from disposal of financial assets	(24)	0.00	119,034.45
Payments for investments in financial assets	(24)	-20,016.18	-25,000.00
Changes due to the initial consolidation of subsidiaries	(24)	233,271.15	0.00
Payments for acquisition of equity interests from minority shareholders	(24)	0.00	-113,800.00
Payments to companies accounted for using the equity method	(24)	-350,399.28	-70,000.00
Interest paid in	(24)	31,328.71	37,020.78
Outflow of funds from investment activities		**-1,750,419.66**	**-1,627,623.52**
Payments to minority shareholders	(24)	0.00	-48,336.00
Proceeds from borrowings	(24)	0.00	4,000,000.00
Repayments of borrowings	(24)	-3,790,060.21	-7,980,210.86
Interest paid out	(24)	-669,292.91	-502,956.68
Inflow/outflow of funds from financing activities		**-4,459,353.12**	**-4,531,503.54**
Change in cash and cash equivalents affecting the balance sheet		**-938,759.34**	**102,039.08**
Cash and cash equivalents at start of period		**7,071,935.85**	**6,133,176.51**
Cache and cash equivalents at end of period		**6,133,176.51**	**6,235,215.59**

Consolidated statement of changes in equity

Information in TEUR Notes (9)	Subscribed capital	Capital reserves	Retained earnings		Equity capital to be allocated to shareholders of ecotel communication ag	Shares of other shareholders	**Total**
			Other retained earnings	Consolidated profit			
As per January 1, 2010	**3,752**	**17,603**	**76**	**-2,154**	**19,277**	**314**	**19,591**
Change due to first consolidation	0	0	-21	0	-21	21	0
Regrouping due to easybell GmbH P/L transfer agreement	0	0	32	0	32	-32	0
Withdrawal of capital reserves from ecotel communication ag	0	-15,985	15,985	0	0	0	0
Reposting of previous year's earnings	0	0	-2,154	2,154	0	0	0
Changes in equity not affecting the earnings	**0**	**-15,985**	**13,842**	**2,154**	**11**	**-11**	**0**
Share options plan	0	44	0	0	44	0	44
Consolidated net income 2010	0	0	0	56	56	282	338
Changes in equity capital affecting the earnings	0	44	0	56	100	282	382
As per December 31, 2010	**3,752**	**1,662**	**13,918**	**56**	**19,388**	**585**	**19,973**
Change due to purchase or sales	0	0	40	0	40	-158	-118
Compensatory payment due to easybell GmbH P/L transfer agreement	0	0	0	0	0	-154	-154
Reposting of previous year's earnings	0	0	56	-56	0	0	0
Changes in equity not affecting the earnings	**0**	**0**	**96**	**-56**	**40**	**-312**	**-272**
Share options plan	0	16	0	0	16	0	16
Consolidated net income 2011	0	0	0	1,073	1,073	627	1,700
Changes in equity capital affecting the earnings	0	16	0	1,073	1,089	627	1,716
As per December 31, 2011	**3,752**	**1,678**	**14,014**	**1,073**	**20,517**	**900**	**21,417**

Notes to the consolidated financial statement of ecotel communication ag

Principles of financial accounting

GENERAL INFORMATION

Ecotel communication ag is a company headquartered in Germany (Prinzenallee 11, 40549 Düsseldorf) and is active throughout Germany as a telecommunications firm specialising in meeting the requirements of medium-sized enterprises in three business areas.

In its core unit, Business Solutions, the ecotel Group offers medium-sized enterprises, as well as large customers, an integrated product portfolio of voice, data and mobile services as a complete package from a single source. Throughout Germany ecotel supplies approx. 20,000 business customers with standardised and custom telecommunications solutions.

In the second area, Wholesale Solutions, the ecotel Group markets preliminary products to other telecommunications companies and outside distributors. At the same time, the company achieves high traffic volumes with this segment, enhancing added value for the core segment of Business Solutions. In addition to the wholesale business of ecotel communication ag, mvneco GmbH is also assigned to this business unit.

New high-growth business sectors and niches of the subsidiaries and holdings, which remain operationally autonomous, are the focus area of the New Business unit. These include nacamar GmbH with its new media business, as well as easybell GmbH with the private customer business.

All standards valid and applicable in the EU on the balance sheet date are applied. In addition the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) have been complied with.

The following pronouncements or changes of pronouncements of the IAB or IFRIC were applied by ecotel in the consolidated financial statement as of December 31, 2011:

Pronouncement	**Date of publication by IASB**	**Title**
IAS 24	November 4, 2009	Related Party Disclosures
IAS 32	October 8, 2009	Financial Instruments: Presentation
IFRIC 14	November 26, 2009	Prepayments of a Minimum Funding Requirement
IFRIC 19	November 26, 2009	Extinguishing Financial Liabilities with Equity Instruments
Annual Improvements Project	May 6, 2010	Improvements to IFRSs 2010

In October 2009 the IASB published a supplement to the standard, IAS 32 “Financial Instruments: Presentation”. The European Union adopted this supplement into European law in December 2009. It concerns the clarification of the classification of options as equity or outside capital, if the options are denominated in a currency other than the functional currency of the issuer. To date, such rights were accounted for as derivative liabilities. The supplement stipulates that such options that are issued proportionately to the shareholders of a company at a fixed currency amount, must be classified as equity. In this regard the currency of the exercise price is not relevant. The changes take effect for financial years that start on or after February 1, 2010. No effects on the presentation of the asset situation, financial situation and earnings situation or on the cash flow of the ecotel Group have occurred from the supplement.

In November 2009 the IASB published a change in the standards for recognition of pension plans. The European Union adopted this change into European law in December 2010. It affects the interpretation **IFRIC 14** “Prepayments of a Minimum Funding Requirement”, which in turn presents an interpretation of IAS 19 “Employee Benefits”. The change applies under the limited circumstances under which a company is subject to minimum financing standards and makes a prepayment of the contributions that satisfy these requirements. It permits companies to recognise the benefit arising from such a prepayment as an asset. The change is mandatory and goes into effect on January 1, 2011. Retrospective application is prescribed. The application of IFRIC Interpretation 14 had no effects on the presentation of the asset situation, financial situation and earnings situation or on the cash flow of the ecotel Group.

In November 2009 the IASB published **IFRIC Interpretation 19** “Extinguishing Financial Liabilities with Equity Instruments”. The European Union adopted IFRIC Interpretation 19 into European law in December 2010. The interpretation clarifies the interpretation of IFRS for borrowers when they renegotiate the terms of a financial liability with a creditor and the creditor agrees to accept equity instruments to settle the financial liabilities. IFRIC 19 specifies that the equity instruments issued to the creditor must be considered as “consideration paid” to partially or fully extinguish the liability. Furthermore these equity instruments must be assessed at fair value. If their fair value cannot be reliably determined the equity instruments must be assessed to reflect the fair value of the extinguished financial liability. Any difference between the carrying amount of the financial liability and the initial assessed amount of the issued equity instruments is included in the profit and loss account. The interpretation takes effect for financial years that start on or after February 1, 2010. No effects on the presentation of the asset situation, financial situation and earnings situation or on the cash flow of the ecotel Group have occurred from the application of IFRC 19.

In May 2010, the IASB published pronouncements that contain changes to six standards and one interpretation as part of the third “Annual Improvement Project”. The European Union adopted the changes into European law in February 2011. The changes must be applied for financial years that start on or after January 1 2011, and had no effects on the presentation of the asset situation, financial situation and earnings situation or on the cash flow of the ecotel Group.

Standards, interpretations and changes that have been published but not yet applied

At the time the consolidated financial statement was drawn up, as of December 31, 2011, the following new and changed standards and interpretations were adopted. However these go into force later and have not been prematurely applied in this consolidated financial statement. A brief description of the content of these alterations or changes, as well as an initial assessment of their effects on the consolidated financial statement of ecotel communication ag is provided below:

In November 2009 the IASB published **IFRIC 9** "Financial Instruments". The European Union has not yet adopted the changes into European law. The standard is the result of the first of three phases of the project to replace IAS 39, "Financial Instruments: Recognition and Measurement" with IFRS 9. IFRS 9 regulates the classification and valuation of financial assets. The regulations concerning impairments of financial instruments and hedge accounting are currently being revised by the IASB. IFRS 9 prescribes that financial assets must be assigned to one of the following two valuation categories: "At amortised cost" or "At fair value". IFRS 9 also grants a fair value option, which allows financial assets that would normally be assigned to the "at amortised cost" category to be designated as "at fair value" if the fair value designation would eliminate or significantly reduce measurement or recognition inconsistency. It is mandatory to assign equity instruments to the "at fair value" category. If, however, the equity instrument is not held for trading, the standard allows an irrevocable option to be made at initial recognition to designate it as "at fair value" through other comprehensive income. Dividend income resulting from the equity instrument must be recognised in the profit and loss account. IFRS 9 must be applied for financial years that start on or after January 1, 2015. Prior periods do not have to be adjusted for first time adoption, but there is a requirement to disclose the effects of first-time adoption. The ecotel Group is currently reviewing the resulting effects on the presentation of the asset situation, financial situation, earnings situation or cash flow of the Group.

In October 2010, the IASB issued the pronouncement "Disclosures – Transfers of Financial Assets" as a supplement to **IFRS 7** "Financial Instruments: Disclosures". The change requires quantitative and qualitative disclosures to be made for transfers of financial assets where the transferred assets are derecognised in the entirety or the transferring entity retains continuing involvement. The change is intended to provide greater transparency of such transactions (e.g. securitisations) and help users understand the possible effects of any risks that may remain with the entity that transferred the assets. The change also requires supplementary information to be disclosed if a substantial proportion of the total amount of transfer activity takes place in the closing days of a reporting period. The changes must be applied for financial years that start on or after July 1, 2011. The European Union adopted this pronouncement into European law in November 2011. The ecotel Group is currently reviewing the resulting effects on the presentation of the asset situation, financial situation, earnings situation or cash flow of the Group. Additional disclosure requirements may occur.

Also in October 2010, the IASB issued requirements on accounting for financial liabilities. These are integrated in **IFRS 9** "Financial Instruments" and replace the existing provisions on this subject in IAS 39 "Financial Instruments: Recognition and Measurement". In the new pronouncement, the requirements relating to recognition and derecognition, as well as most of the requirements for classification and measurement, are carried forward unchanged for IAS 39. The new IFRS 9 modifies the requirements relating to the fair value option for financial liabilities to address the issue of an entity's own credit risk. The prohibition of fair value measurement of derivative liabilities that are linked to an unquoted equity instrument and that must be settled by delivery of an unquoted equity instrument, is eliminated. The pronouncement must be applied for financial years that start on or after January 1, 2015. Prior periods do not have to be adjusted for first time adoption, but there is a requirement to disclose the effects of first-time adoption. The European Union has not yet adopted this pronouncement into European law. The ecotel Group is reviewing the resulting effects on the presentation of the asset situation, financial situation, earnings situation or cash flow of the Group.

In December 2010, the IASB issued the pronouncements "Deferred Tax: Recovery of Underlying Assets – **Amendments to IAS 12"**. The new pronouncement determines which type of implementation is required for certain assets. This is important in cases where different tax consequences can arise depending on the type of realisation. The pronouncement poses the rebuttable assumption that the carrying amount of an investment property that is measured using the new revaluation model of IAS 40 "Investment Property" will be realised through sale. In any case there is also a non-rebuttable assumption that the carrying amount of a non-depreciable asset that is measured using the revaluation model in IAS 16 "Property, Plant and Equipment" will be realised through sale. Interpretation SIC-21 "Income taxes – Recovery of Revalued Non-Depreciable Assets" is no longer in effect due to the new pronouncement. The pronouncement must be applied for financial years that start on or after January 1, 2012; the European Union has not yet adopted this pronouncement into European law. The ecotel Group is reviewing the resulting effects on the presentation of the asset situation, financial situation, earnings situation or cash flow of the Group, but does not expect any resulting effects, as it does not hold investment properties, nor has the revaluation model of IAS 16 been applied.

In May 2011, the IASB published three new IFRS standards **(IFRS 10, IFRS 11, IFRS 12)** as well as two revised standards **(IAS 27, IAS 28)** for the accounting of investments in subsidiaries, joint agreements and associated companies. The European Union has not yet adopted the provisions into European law; they must be applied (mandatory) for financial years that start on or after January 1 2013. The application of the new and changed IFRS will possibly have effects on the presentation of the asset situation, financial situation and earnings situation or on the cash flow of the ecotel Group for future corporate mergers and result in additional disclosures of the ecotel Group. However, the revised IAS 27 is excepted, because this standard now exclusively extends to the individual financial statement, and ecotel does not prepare separate IFRS financial statements in accordance with § 325, para. 2a of the German Commercial Code (HGB).

With **IFRS 10** “Consolidated Financial Statements”, the IASB is introducing a uniform consolidation concept. The previous distinction between “classic” subsidiaries (IAS 27) and special-purpose companies (SIC-12) has been done away with. Control only exists if an investor has the power of decision, is subject to variable returns or if he is entitled to rights relative to the returns, and due to the power of decision is capable of influencing the amount of the variable returns. With entry into force of IFRS 10, SIC-12 “Consolidation – Special Purpose Entities” becomes invalid, as do the provisions of IAS27” Consolidated and Separate Financial Statements” that are relevant for consolidated financial statements.

IFRS 11 “Joint Arrangements” will replace IAS 31 “Interests in Joint Ventures”, as well as SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Ventures”. It governs the accounting of joint ventures and of joint operations. The proportionate consolidation method for joint ventures is no longer permitted with discontinuation of IAS 31. Application of the equity method is now regulated in the new version of IAS 28 “Interests in Associates and Joint Ventures” and extends to associated companies as well as to joint ventures. In the case of joint operation, the share of assets, liabilities, expenses and earnings is directly recognised in the consolidated financial statement and in the financial statement of the joint operator.

In **IFRS 12** “Disclosure of Interests in Other Entities” all disclosure obligations that must be complied with relative to subsidiaries, joint agreements and associated companies, as well as consolidated structured companies, are centrally bundled.

The new version of **IAS 27** “Separate Financial Statements” exclusively governs the accounting depiction of subsidiaries, joint ventures and associated companies in the financial statement, as well as associated disclosures (separate financial statement in accordance with § 325 para 2a of the German Civil Code (HGB)). The new version of **IAS 28** “Investments in Associates and Joint Ventures” governs the inclusion of shares of associated companies and joint ventures in accordance with the equity method.

In May 2011 the IASB also published **IFRS 13** “Fair Value Measurement”. With this publication the IASB has provided a uniform, comprehensive standard for fair value measurement. IFRS 13 is mandatory and must be applied for financial years that start on or after January 1, 2013. IFRS 13 regulates how fair value must be measured, if a different IFRS prescribes fair value measurement (or fair value disclosure). A new definition of fair value applies which characterises fair value as the selling price of an actual or hypothetical transaction between any independent market participants under normal market conditions on the measurement key date. The standard is virtually comprehensive in its application, only IAS 2 “Inventories”, IAS 17 “Leases” and IFRS 2 “Share-based Payment” are excepted. While the scope of these provisions remains virtually unchanged for financial instruments, now these provisions more comprehensively or more precisely govern other circumstances, (e.g. investment property, intangible assets and property, plant and equipment). The familiar three-level fair value hierarchy must be applied overall. Application of IFRS 13 presumably results in extended disclosures in the ecotel consolidated financial statement. The European Union has not yet adopted the provisions into European law.

In June 2011 the IASB published **changes to IAS 1** “Presentation of Financial Statements”. The changes require that the items presented in other income must be divided into two categories – depending on whether or not they will be posted via the profit and loss account in the future (recycling). The changes to IAS 1 must be applied for financial years that start on or after January 1, 2012; the European Union has not yet adopted these changes into European law. The ecotel Group is currently reviewing the resulting effects on the presentation of the asset situation, financial situation, earnings situation or cash flow of the Group and currently expects the changes cited above to be shown in the statement of comprehensive income.

Also in June 2011 the IASB published **changes to IAS 19** “Employee Benefits”. The changes do away with existing option rights for the recognition of actuarial profits and losses. Because the so-called corridor method will no longer be permitted in the future, actuarial profits and losses must be recognised in the full amount immediately in equity in a manner that does not affect net income, which corresponds to our current procedure. Other changes relate to the recognition of past services, expense and the presentation of net interest results for performance-oriented pension plans, as well as the differentiation between termination benefits and other employee benefits. As a significant consequence of these changes the top-up amounts in partial retirement programs will no longer be classified as termination benefits in the future, and consequently must be accrued over their vesting period. In addition disclosure obligations are extended, e.g. for characteristics and risks of performance-oriented plans. The changes to IAS 19 must be applied retrospectively for financial years that start on or after January 1, 2013; the European Union has not yet adopted these changes into European law. The ecotel Group currently assumes the relevance of the extended disclosure obligations for the financial statement and moreover is reviewing the resulting effects on the presentation of the asset situation, financial situation, earnings situation or cash flow of the Group.

In December 2011, in **IAS 32** “Financial Instruments”: Presentation, the IASB published details concerning the offsetting provisions. To satisfy the offsetting prerequisites in accordance with IAS 32, according to the new provisions, an entity’s right to offset at the present time must not be contingent on a future event and must apply in the proper course of business, as well as in the event of default and insolvency of a contracting party. Moreover it is determined that a gross settlement mechanism satisfies the offsetting prerequisites in accordance with IAS 32, if no significant credit and liquidity risks remain, receivables and liabilities are processed in a single settlement process and thus is equivalent to a net settlement in the result. The new provisions are mandatory and must be applied retrospectively for financial years that start on or after January 1, 2014; the European Union has not yet adopted these changes into European law. The ecotel Group is reviewing the resulting effects on the presentation of the asset situation, financial situation, earnings situation or cash flow of the Group.

Also in December 2011, in **IFRS 7** “Financial Instruments”: Disclosures published extended disclosure obligations regarding offsetting rights. In addition to extended disclosures concerning actual offsets in accordance with IAS 32, for existing offsetting rights, disclosure obligations are introduced, regardless of whether an offset in accordance with IAS 32 is actually undertaken. The new provisions are obligatory and must be applied retrospectively for financial years that start on or after January 1 2013; the European Union has not yet adopted these changes into European law. The ecotel Group is reviewing the resulting effects on the presentation of the asset situation, financial situation, earnings situation or cash flow of the Group and anticipates extended disclosure obligations.

In addition to the balance sheet and the comprehensive income statement, a cash flow statement and a statement of changes in equity are shown.

To improve the clarity of presentation, various items of the consolidated balance sheet and the consolidated statement of comprehensive income are summarised. These items are appropriately broken out and explained in the notes. The income statement has been prepared according to the total cost method.

Because the ecotel Group did not have the appropriate circumstances in the previous yea, nor in the financial year 2011, presentation of other comprehensive income at the end of the consolidated statement of comprehensive income.

The financial year of ecotel communication ag and its fully consolidated subsidiaries corresponds to the calendar year. The consolidated financial statement is prepared in Euro. All amounts, including the previous year’s numbers are specified in thousands of EUR (TEUR).

In addition to the Group management report, the audited consolidated financial statement are filed in the electronic version of the German Federal Gazette, the consolidated financial statement will presumably be released for publication by the supervisory board of ecotel communication ag on March 27, 2012.

PRINCIPLES OF CONSOLIDATION

According to IFRS all mergers must be depicted in accordance with the purchase method. The purchase price of an acquired subsidiary is distributed over the purchased assets, debts and contingent liabilities. In this regard the proportionate values at the time control over the subsidiary was obtained are authoritative. The eligible assets and the debts and contingent liabilities taken over are recognised with their fair market values in the full amount – regardless of the capital ownership percentage. A remaining balancing item on the asset side is reported as goodwill. A remaining balancing item on the liabilities side is recognised in the income statement. Earnings and expenses of a subsidiary are included in the consolidated financial statement from the date of acquisition. Earnings and expenses of a subsidiary remain included in the consolidated financial statement until control through the parent company ends. As part of the deconsolidation, the residual carrying amounts of the goodwill are considered in the calculation of the result of the disposal.

Expenses and income between Group companies, as well as receivables and liabilities are set off against each other. Interim results are eliminated, if they are not of subordinate significance. In the individual financial statements depreciation or appreciation on shares in consolidated companies are always reversed.

The shares in associated companies are accounted for using the equity method. According to the equity method the shares in an associated company are shown in the balance sheet at acquisition cost plus post-acquisition changes in the Group’s equity holdings. The goodwill related to the associated company is included in the carrying amount of the investment and is not amortised. The consolidated statement of comprehensive income includes the Group’s participation in the success of the associated company. Changes shown directly in the equity of the associated company are also recognised by the Group proportionally and directly in equity and presented in the statement of changes in equity. The financial statements of the associated companies are prepared on the same balance sheet date as the financial statement of the parent company. To the extent required, adjustments are made to the Group’s uniform accounting and valuation methods.

CONSOLIDATED GROUP

In addition to ecotel communication ag, in the consolidated financial statement, with one exception all (previous year: all) subsidiaries are included, for which ecotel communication ag directly or indirectly controls the majority of voting stock. The company, init.voice GmbH, a German subsidiary of the fully consolidated easybell GmbH, founded in the financial year 2011, has not been included in the consolidated financial statement for reasons of materiality.

Initial consolidation or deconsolidation always occurs at the time of acquisition or sale of equity interests.

	Share of Equity in %[2]	Equity in TEUR[2]	Earnings in TEUR[2]	Revenue in TEUR[2]	Employees[1] (Average)[2]
ecotel private GmbH, Düsseldorf	100.0 (100.0)	931 (581)	304 (47)	23 (31)	0 (0)
easybell GmbH, Berlin	50.98 (50.98)	365 (446)	-81 (116)	2,456 (2,258)	12 (10)
carrier-services.de GmbH, Berlin	100.0 (100.0)	196 (130)	66 (91)	2,046 (2,158)	0 (0)
sparcall GmbH, Berlin	100.0 (100.0)	1,308 (474)	834 (438)	4,640 (5,892)	0 (0)
Init.voice GmbH Berlin	100.00	24	-1	0	0
i-cube GmbH, Düsseldorf (merged with ecotel communication ag in 2012)	100.0 (50.1)	(79)	230 (-54)	1,987 (2,245)	(0)
toBEmobile GmbH, Düsseldorf (sold in the financial year)	(51.03)	(96)	-42 (-14)	5 (16)	(0)
nacamar GmbH, Düsseldorf	100.0 (100.0)	2,913 (5,375)	653 (-46)	3,488 (4,935)	17 (17)
PPRO GmbH, München (sold in the financial year)	(11.2)	(308)	(4)	(9,254)	(6)
mvneco GmbH, Düsseldorf	48.65 (45.0)	-3,472 (-3,446)	-27 (-515)	3,292 (2,033)	13 (9)
synergyPLUS GmbH, Rathenow	49.9 (49.9)	-511 (-383)	-129 (-276)	333 (184)	12 (10)

1) Without management board members / managing directors and trainees
2) Previous year's figures in parentheses

Consolidated financial statement key date for preparation of the consolidated financial statement is December 31, which is also the key date of the individual financial statement of the parent company and all fully-consolidated subsidiaries.

Acquisitions and disposals of equity interests

Through the purchase contract of November 7, 2011 the minority shares (49.8 %) of the former fully consolidated subsidiary, i-cube GmbH, were purchased for TEUR 279. Due to the control relationship that existed prior to purchase, the original purchase price allocation was not adjusted with recognition of the purchased goodwill, but rather was treated as an equity transaction between shareholders. The company was merged with ecotel communication ag on the basis of the merger contract of February 7, 2012 and equity of TEUR 308 (merger key date: 1.12.2011). There were no effects in the Group in this regard.

The former fully consolidated toBEmobile GmbH was sold at a sales price of 1 EUR with the purchase contract of November 11, 2011. The remaining stake in PPRO GmbH (11.2 %) was also sold in the financial year 2011.

Accounting and valuation methods

The annual financial statements of the companies consolidated in the Group are prepared in accordance with uniform accounting and valuation methods. The valuations in the consolidated financial statements are not influenced by tax regulations; they are determined solely by the economic presentation of the asset, finance, and earnings position in accordance with IFRS regulations.

In addition, for the consolidated financial statements the supplementary provisions of § 315a para 1 of the German Commercial Code (HGB) were complied with.

Assets are capitalised if the Group is entitled to all essential opportunities and risks associated with their use. Valuation is executed at historical costs acquisition or manufacture with the exception of specific financial assets.

Acquisition costs include all considerations that have been completed to acquire an asset and to place it in operational condition. Manufacturing costs include all costs that can be directly allocated to the manufacturing process as well as appropriate portions of the production-related overhead costs. Borrowing costs that can be allocated directly to the construction or manufacturing of a qualified asset are always capitalised as a portion of the costs acquisition or manufacture. Qualified assets as defined by IAS 23 are not present in the ecotel Group.

Purchased **intangible assets** are valued at cost of acquisition, self-provided intangible assets from which most likely a future benefit will flow to the Group, and which can be reliably valued, are assessed at cost of manufacture and amortised using the straight-line method over their presumable economic useful life, unless in exceptional cases a different amortisation method more closely corresponds to the course of their use.

Research costs are treated as current expenses. **Development costs** are capitalised and amortised linearly if a newly developed product or procedure can be clearly delimited, is technically feasible and either is intended for the Company's own use or marketing. In addition capitalisation has for its prerequisite that clear expense allocation is possible and that costs are covered through future flow of funds with sufficient probability.

Goodwill from consolidation is subject to an impairment test if there are indications of an impairment, at least once a year, for the cash generating unit in question. As a rule, in this regard the use value is determined on the assumption of the going-concern. If there are specific intentions to sell, then fair value less cost to sell applies.

The following useful lives are regularly used as the basis of the valuation:

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

If there are indications of impairment and if the recoverable amount is under the historical cost of acquisition or manufacture, the intangible assets are amortised. The recoverable amount of an asset corresponds to the higher value net sale proceeds and cash value of the payment flows that must be allocated to the asset (value in use).

Property, plant, and equipment is valued at cost of acquisition or cost of manufacture, reduced by use-related scheduled depreciation and if necessary written down. Property, plant and equipment is always depreciated over the presumable useful life using the straight line method, unless in exceptional cases a different depreciation method better corresponds to the course of the useful life. Property, plant, and equipment is regularly depreciated over the following economic useful lives:

Other equipment, plant and office equipment	3 – 7 years

If there are indications of impairment and if the recoverable amount is under the historical cost of acquisition or cost of manufacture, items of property, plant, and equipment are written down. If the reasons for write-downs carried out in previous years do not apply, appropriate write-ups are carried out. For reasons of simplicity and materiality, low-value capital goods are completely written down in the year of acquisition and are shown as disposals.

Inventories are assessed at cost of acquisition or the net sale value.

Receivables and other assets are initially recognised at fair value with due consideration of transaction costs incurred and correspondingly carried forward. Receivables bearing no interest or low interest with a term over one year are discounted on the basis of interest rates that are in line with the market. All identifiable individual risks and the general default supported on experiential values are carried at appropriately impaired values, if indications exist in the specific case. Receivables denoted in foreign currency are measured at the exchange rate on the balance sheet date.

Prepaid rent and insurance premiums are recognized as **prepaid expenses and accrued income** and is shown under other assets.

Borrowing costs are recognised as an expense in the period in which they are incurred. Qualified assets as defined by IAS 23 are not present in the ecotel Group.

Other **provisions** take into account all obligations identifiable on the balance sheet date that are based on past transactions or past events, and for which the amount or date of settlement are unclear. The provisions are recognised with the probable settlement amount. Offsetting with positive profit contributions does not occur. Provisions are only formed if they are based on a legal or actual obligation to a third party. Non-current provisions are accounted for with their settlement amount on the balance sheet date, if the interest effect resulting from discounting is material. The settlement amount also includes the cost increases that must be considered on the balance sheet date in accordance with IAS 37.

Liabilities are always recognised at the time they are incurred with the amount of the consideration received; transaction costs incurred in this regard, that are not measured at their fair value through profit or loss, are taken into account. Liabilities are subsequently valued at the historical cost of acquisition. Non-current liabilities are discounted on the basis of interest rates that are in line with the market. Liabilities denoted in a foreign currency are valued at the exchange rate on the balance sheet date.

Deferred taxes are formed at different assessment of the assets and liabilities in the consolidated balance sheet and the tax balances of the individual companies, if these different assessments result in income that must be taxed at a higher or lower rate than would have been the case under the standard of the consolidated balance sheet. Deferred tax assets also include claims for tax reductions, that arise due to the expected future use of tax loss carryforwards, and whose realisation is ensured with adequate certainty. Deferred taxes are determined on the basis of the tax rates that apply or are expected in the individual countries at the time of realisation. Deferred taxes on corporation tax carryforwards of domestic Group companies have been calculated as in the previous year at 15 %, plus 5.5 % solidarity surcharge, and on trade tax loss carryforwards at 13 – 16 %. These rates have been used appropriately for determination of deferred taxes on temporary differences, if these differences reverse in the future. Currently there are no foreign Group companies.

Derivative financial instruments are only used in the ecotel Group to a limited extent, and exclusively for hedging interest rate risks arising from the outside financing of the operative business. In accordance with IAS 39, derivative financial instruments are valued at fair value, the change in fair value is shown with effect on net income in the finance result. Fair value is determined by relying on market prices quoted on the capital market that are sampled at the appropriate financial institutions as of the balance sheet date. Derivative financial instruments with a positive fair value are accounted for under other financial assets; derivative financial instruments with a negative fair value are accounted for under the other financial liabilities. Initial booking-in occurs on the settlement date, which as a rule is a few days after the date the debt was incurred (transaction date). The interest rate swap contracts used by ecotel communication ag fall under the financial instrument category “Financial instruments held for sale” (IAS 39.9) and are recognised in the balance sheet at their market values until they are booked out in the case of expiration or dissolution.

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Investments in non-consolidated companies are recognised in the balance sheet at cost of acquisition due to the lack of availability of market prices.

The **other financial instruments** of the ecotel Group relate to the category “Loans and receivables”. At the time of their initial recognition in the balance sheet these are valued at their fair value including directly allocatable transaction costs. They are subsequently carried at historical cost of acquisition with application of the effective interest method.

Recognition of **sales revenues and other operating income** always occurs when the service is provided or the assets have been delivered and thus the transfer of risk has taken place. Provisions for warranties are formed at the time of realisation of the corresponding sales revenues.

In the mobile communications business sales are generated through the offering of mobile communications services and one-time activation charges. Revenues for mobile communications services include monthly service charges, charges for special characteristics, as well as connection and roaming charges, for which ecotel bills the customer. Revenues for mobile communications services are realised on the basis of minutes of use or other agreed rate model minus credit memos and adjustments due to discounts.

Sales revenues from the data and Internet business are reported with the provision of the service. For contracts on the basis of fixed prices, sales revenues are reported proportionally over the term of the service contract, and for all other service contracts sales revenues are reported on the basis of the service provided or based on use. Sales revenues from contracts for services billed according to time and material expense are recognised with provision of the work hours and the incurring of direct costs at the contractually specified hourly rate.

Sales revenues from the sale of hardware or sales-like rental and leasing transactions are realised as soon as the product has been shipped to the customer, and if there are no unfulfilled obligations on the part of the company, that would affect the ultimate acceptance on the part of the customer. All costs arising from these obligations are recognised at realisation of the appropriate sales revenue.

If the conditions for realisation of service revenues are satisfied in accordance with IAS 18.20 ff., on the level of completion of the transaction on the balance sheet date, the corresponding revenue is recognised on the basis of the assessment of the services provided according to this method.

Operating expenses are recognised with effect on net income when the service is used or at the time of causation.

Interest income and expense are recognised in the period in which they occur. Dividends are always collected when the claim legally occurs. Within the financial result the costs of capital procurement that cannot be offset against equity, such as the costs for supporting the share price, are shown. The result of companies accounted for at equity is shown separately within the finance result.

When preparing the consolidated financial statement, discretionary decisions and assumptions are made and estimates have been applied, that have an effect on the amount and disclosure of the recognised assets and liabilities, earnings and expenses as well as the contingent liabilities. The discretionary decisions, assumptions and estimates essentially refer to the uniform Group determination of economic useful lives, the reporting of provisions, the possible realisation of future tax relief, as well as the verification of the intrinsic value of cash-generating units and of underlying parameters for assets. The assumptions upon which the respective estimate is based are explained for the individual items of the balance sheet, as well as for the consolidated profit and loss statement. The actual values may deviate in some cases from the assumptions and estimates made. Such deviations are considered with effect on net income at such a time when improved knowledge makes this necessary. Considerable risks as defined in IAS 1.129, that could be inherent in the assumptions and estimates were not identified at the time the consolidated financial statement was prepared.

Explanations for the consolidated balance sheet

(1) Goodwill and other intangible assets

The intangible assets developed in the financial year 2011 as follows:

Information in TEUR	Goodwill	Concessions, industrial and similar rights and assets and licenses in such rights and assets	Development costs	Customer relationships	Total
Acquisition costs and manufacturing costs as of 01/01/2011	**14,666**	**6,553**	**3,019**	**9,424**	**33,662**
Change to the consolidation group	-240	-322	0	0	-562
Additions	0	481	174	0	655
Transfers	0	70	0	0	70
Disposals	0	0	0	0	0
As of 12/31/2011	**14,426**	**6,782**	**3,193**	**9,424**	**33,825**
Write-downs as of 01/01/2011	**2,534**	**5,113**	**1,899**	**5,614**	**15,160**
Change to the consolidation group	-240	-268	0	0	-508
Scheduled additions	0	564	485	670	1,719
Unscheduled additions	375	112	0	0	487
Disposals	0	0	0	0	0
As of 12/31/2011	**2,669**	**5,521**	**2,384**	**6,284**	**16,858**
Carrying amounts as of 12/31/2010	12,132	1,440	1,120	3,810	18,502
Carrying amounts as of 12/31/2011	**11,757**	**1,261**	**809**	**3,140**	**16,967**

In the previous year 2010 intangible assets developed as follows:

Information in TEUR	Goodwill	Concessions, industrial and similar rights and assets and licenses in such rights and assets	Development costs	Customer relationships	Total
Acquisition costs and manufacturing costs as of 01/01/2010	**14,649**	**6,359**	**2,730**	**9,424**	**33,162**
Change to the consolidation group	17	1	0	0	18
Additions	0	183	289	0	472
Transfers	0	10	0	0	10
Disposals	0	0	0	0	0
As of 12/31/2010	**14,666**	**6,553**	**3,019**	**9,424**	**33,662**
Write-downs as of 01/01/2010	**2,534**	**4,641**	**1,341**	**4,887**	**13,403**
Change to the consolidation group	0	0	0	0	0
Scheduled additions	0	472	477	727	1,676
Unscheduled additions	0	0	81	0	81
Disposals	0	0	0	0	0
As of 12/31/2009	**2,534**	**5,113**	**1,899**	**5,614**	**15,160**
Carrying amounts as of 12/31/2009	12,115	1,718	1,389	4,537	19,759
Carrying amounts as of 12/31/2010	**12,132**	**1,440**	**1,120**	**3,810**	**18,502**

Recognised development costs in financial year 2011 were TEUR 174 (previous year: TEUR 289). At TEUR 131, these relate to the ecotel communication ag software solutions developed in house and product developments. At ecotel communication ag these were primarily the order processing system for fixed-line, data and mobile communications, as well as new interfaces to additional upstream suppliers. For nacamar GmbH the developments essentially included the user statistics, http caching, as well as the customer portal in the amount of TEUR 43.

Customer relationships include purchased customer bases from the acquisition of nacamar in 2007 in the amount of TEUR 2,210 (previous year: TEUR 2,421). An additional customer base resulted at ecotel from the merged former ADTG Allgemeine Telefondienstleistungs GmbH (TEUR 338, previous year: TEUR 563). This customer base is amortised over a useful life of six years, the “nacamar” customer base is amortised over a useful life between 10 and 18 years depending on the customer segment. The customer relationships relative to DSLCOMP GmbH purchased in 2006, as of the balance sheet date are shown at TEUR 583 (previous year: TEUR 783), they are amortised linearly over ten years. Other customer relationships are recognised as of the balance sheet date at easybell GmbH (TEUR 9, previous year: TEUR 43) that is amortised over six years.

In the financial year 2011, the non-scheduled depreciation on long-term assets in the amount of TEUR 375 relates to the impairment of goodwill of nacamar (TEUR 350), due to the change of the nacamar customer, ZDF, to a streaming framework agreement of a different television station with a different upstream supplier, and to i-cube (TEUR 25) due the sale of the reseller business. Additional non-scheduled write-downs of long-term assets relate to licenses of i-cube at TEUR 112 and assets under construction of ecotel communication ag at TEUR 54. The non-scheduled write-downs on current assets in the amount of TEUR 104 relate to defaults on receivables of toBEmobile.

In the previous year there were write-downs of non-current assets at capitalised development costs at toBEmobile GmbH (TEUR 81), as well on assets under construction at ecotel communication ag (TEUR 54). The write-downs on non-current assets in the amount of TEUR 85 refer to the IP transit transmission volume that was previously not called up via T-Net, which expired at the end of 2010.

The goodwill shown is comprised as follows with consideration of write-downs carried out in 2011 due to reduced recoverability:

Cash-Generating Unit (CGU) Information in TEUR	Carrying amount 12/31/2010	Unscheduled write-downs 2011	Carrying amount 12/31/2011
Business customers (DSLCOMP/ecotel)	8,732	0	8,732
i-cube	25	25	0
nacamar	3,234	350	2,884
easybell	124	0	124
carrier-services	17	0	17
Total	**12,132**	**375**	**11,757**

In accordance with IAS 36, impairment tests were performed in the financial year just ended for determination of the value in use, according to the discounted cash flow method for verification of the recovery of the goodwill shown. The data of the respective company planning serves as the basis in this regard (forecast period: 5 years).

In the previous year non-scheduled write-downs on goodwill occurred as well as amortisation, and a disposal occurred due to deconsolidation in the amount of TEUR 353.

The following assumptions served as the basis for performing the impairment tests: Capitalisation interest rate 6.0 % (previous year: 6.2 %) after taxes or 8.6 % (previous year: 8.4 %) before taxes, beta factor 0.9 (previous year: 0.9), debt ratio 34 % (previous year: 46 %). The growth rates for the first five years at nacamar GmbH were 5 % (previous year: 8 %) and all other companies as in the previous year 0 %. For the perpetual annuity at nacamar GmbH a growth rate of 1 % was used (previous year: 2 %), as well as for all other CGUs a growth rate of 0 % was used (previous year: 1 %). The income tax rate used was 31 % (previous year: 31 %).

(2) Property, plant, and equipment

Property, plant, and equipment developed in financial year 2011 as follows:

Information in TEUR	Land, land rights and buildings, including buildings on third-party land	Other equipment, plant and office equipment	Prepayments on tangible assets and assets under construction	Total
Costs of acquisition and manufacturing as of 01/01/2011	**5,508**	**7,764**	**256**	**13,528**
Change to the consolidation group	0	-11	0	-11
Additions	170	840	52	1,062
Transfers	0	58	-128	-70
Disposals	132	85	0	217
As of 12/31/2011	**5,546**	**8,566**	**180**	**14,292**
Write-downs as of 01/01/2011	**2,125**	**5,489**	**54**	**7,668**
Change to the consolidation group	0	-10	0	-10
Scheduled additions	543	1,048	0	1,591
Unscheduled additions	0	0	54	54
Disposals	6	85	0	91
As of 12/31/2011	**2,662**	**6,442**	**108**	**9,212**
Carrying amounts as of 12/31/2010	3,383	2,275	202	5,860
Carrying amounts as of 12/31/2011	**2,884**	**2,124**	**72**	**5,080**

In financial year 2010 development of property, plant, and equipment of the Group was presented as follows:

Information in TEUR	Land, land rights and buildings, including buildings on third-party land	Other equipment, plant and office equipment	Prepayments on tangible assets and assets under construction	Total
Costs of acquisition and manufacturing as of 01/01/2010	**5,179**	**7,155**	**182**	**12,516**
Change to the consolidation group	0	0	0	0
Additions	306	770	118	1,194
Transfers	34	0	-44	-10
Disposals	-11	-161	0	-172
As of 12/31/2010	**5,508**	**7,764**	**256**	**13,528**
Write-downs as of 01/01/2010	**1,598**	**4,613**	**0**	**6,211**
Change to the consolidation group	0	0	0	0
Scheduled additions	538	1,025	0	1,563
Unscheduled additions	0	0	54	54
Disposals	-11	-149	0	-160
As of 12/31/2010	**2,125**	**5,489**	**54**	**7,668**
Carrying amounts as of 12/31/2009	3,581	2,542	182	6,305
Carrying amounts as of 12/31/2010	**3,383**	**2,275**	**202**	**5,860**

The unscheduled write-downs on assets under construction in the amount of TEUR 54 were incurred at ecotel communication ag.

Future lease payments

The outstanding leasing obligations from operating and finance leasing contracts as of December 31, 2011 are presented as follows:

Information in TEUR	Up to 1 year	From 1 year to 5 years	From 5 years	Total 12/31/2011
Operating and office equipment (leasing)	197	230	0	427
Other rental contracts	1,521	1,105	1,152	3,778
	1,718	**1,335**	**1,152**	**4,205**

The leasing obligations essentially result from leasing contracts of technical equipment and software, of company vehicles, as well as from rental obligations arising from rented office furnishings. The other rental contracts essentially include the rent of office space, and of the computer centre and framework agreements for line deliveries.

From finance leasing relationships of nacamar, as of December 31, 2010, liabilities in the amount of TEUR 70 (previous year: TEUR 219), and of ecotel in the amount of TEUR 0 (previous year: TEUR 93) exist, which are completely of a short-term nature. The carrying amounts accounted for in the balance sheet in this regard total TEUR 70 (previous year: TEUR 307).

As of December 31, 2010 the following financial obligations arising from operating and financing leasing contracts existed:

Information in TEUR	Up to 1 year	From 1 year to 5 years	From 5 years	Total 12/31/2010
Operating and office equipment (leasing)	134	141	0	275
Other rental contracts	1,126	1,986	0	3,112
	1,260	**2,127**	**0**	**3,387**

(3) Financial assets

Financial assets valued in accordance with the equity method at TEUR 1,586 (previous year: TEUR 1,523) essentially involve a loan from ecotel communication ag to the company, mvneco GmbH, valued at equity, with an annual interest rate of 5 %, and a qualified subordinated claim. In the amount of the negative equity value of mvneco GmbH, of TEUR 946 as of December 31, 2011, previous year: TEUR 958, an additional write-off of the loan in the amount of TEUR 12 (previous year: TEUR 177) was undertaken.

The carrying value of the holding in mvneco GmbH, valued at equity was TEUR 0 as of December 31, 2011, which was the same as that of the previous year, as the original acquisition costs of this holding of TEUR 254, due to the prorated accumulated net losses of the company, had to be written off completely. The carrying value includes prorated goodwill of TEUR 131 (previous year: TEUR 131). As of the balance sheet date the company showed assets in the amount of TEUR 1,902 and liabilities in the amount of TEUR 5,374.

The carrying value of the holding in synergyPlus GmbH, valued at equity was TEUR 0 as of December 31, 2011, which was the same as that of the previous year, as the original acquisition costs of this holding of TEUR 150, due to the prorated accumulated net losses of the company, had to be written off. As of the balance sheet date the company showed assets in the amount of TEUR 224 and liabilities in the amount of TEUR 735. The negative equity value as of 12/31/2011 was TEUR 133 (previous year: TEUR 88).

In addition, the shares in the non-consolidated Init.voice GmbH (TEUR 25) are shown in the financial assets.

(4) Non-current receivables

The non-current receivables at TEUR 624 (previous year: TEUR 522) involve a loan from ecotel communication ag to the company synergPlus GmbH valued at equity.

(5) Inventories

The inventories shown essentially relate to routers. These are made available to the customers when a service contract is concluded for the term of the contract and when use begins are assigned to the property, plant and equipment to be depreciated. A devaluation of the terminal devices not yet in use to the net disposal value did not occur in the financial year.

(6) Trade receivables and other receivables and current assets

Information in TEUR	Residual term over 1 year	Total 12/31/2010	Residual term over 1 year	Total 12/31/2011
Trade receivables				
To third parties	0	14,335	0	13,337
From affiliated companies	0	0	0	27
From associated companies	0	56	0	60
	0	**14,391**	**0**	**13,424**
Other receivables and current assets				
Prepaid expenses	0	143	0	286
Remaining other receivables and current assets	0	675	0	925
	0	**818**	**0**	**1,211**

Trade receivables from affiliated companies in the amount of TEUR 27 exist against the non-consolidated Init.voice GmbH. The effect on results of the increase of the provision for losses on trade receivables is shown in the other operating expenses that include the release of provisions in other operating income. The receivables do not bear interest and thus are not subject to an interest rate risk. Due to the short-term payment goals the carrying values correspond to the fair values.

(7) Current and deferred taxes on earnings

Information in TEUR	12/31/2010	12/31/2011
Deferred taxes on earnings	537	193
Current taxes on earnings	223	9
	760	**202**

Deferred tax assets of TEUR 193 (previous year: TEUR 537) refer to deferred tax claims due to existing corporation tax and trade tax carryforwards at two (previous year: two) subsidiaries. The effective income tax claims relate to claims for reimbursement of taxes on earnings from trade tax, corporation tax and interest income tax credits.

(8) Cash and cash equivalents

Information in TEUR	12/31/2010	12/31/2011
Deposits in banks	6,119	6,212
Cash on hand and checks	14	23
	6,133	**6,235**

(9) Equity

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

The number of shares of ecotel communication ag in circulation as of December 31, 2011 was 3,752,500 (after offsetting the 147,500 shares held by the Company itself). The Company holds 147,500 of its own shares. Of which 100,000 shares related to the free-of-charge retransfer of ecotel stock through shareholders of the former ADTG Allgemeine Telefondienstleistungs GmbH that occurred in financial year 2008. The retransfer took place on the basis of an earn-out agreement concluded with these shareholders. In the financial year 2009 an additional 47,500 shares were given back, due to a purchase price adjustment that was enforced relative to the shares of the former ADTG Allgemeine Telefondienstleistungs GmbH.

The shares are issued as no-par value bearer shares with a prorated amount of the capital stock of EUR 1.00.

The capital reserves were TEUR 1,678 (previous year: TEUR 1,661). The change resulted from the proportional consideration of the expense from the stock option plan with TEUR 17.

Share-based remuneration

The stock option plan is based on the resolution of the Annual General Meeting of ecotel communication ag, held July 27, 2007. For 45,000 shares of this option plan that were issued prior to 2007, the exercise price to receive a share of the Company corresponds to the 30-day average market price of a share prior to the day of issuance (EUR 13.45). The term of the option plan is five years. The share option may be exercised for the first time after a waiting period of two years after the day of issuance. After the waiting period elapses, one third of the options can be exchanged per year. Options can only be exercised after the waiting period elapses if the average market price of the stock has increased at least 5 % per year compared to the exercise price, and has developed at least two percentage points better than the HDAX (includes the values of all 110 companies from the DAX, MDAX and TecDAX indices).

The fair value amount of the obligation arising from the share-based remuneration agreement has been assessed on the basis of a binomial model. In this process the following parameters were used:

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

The exercise price to receive a share of the Company stock also corresponds to the 30-day average market price of a share prior to the date of issuance (EUR 12.27) for the 100,000 stock options that were additionally issued on the grant date of October 1, 2007. In accordance with IFRS 2 for the valuation of the old 45,000 share options an exercise price of EUR 13.45 was maintained. The underlying volatility for all options is based on historically annualised volatility according to Bloomberg listings for a 260-day period. The expected exercise period is three to five years.

Because the success goals for exercise of the issued 145,000 options were not achieved, as of September 30, 2011 all 145,000 outstanding options are forfeited.

The 145,000 options were granted to two board members (120,000 options, market value upon issuance total TEUR 282), and to an additional executive of ecotel communication ag, for which the expense for the addition to the capital reserve was TEUR 2 (previous year: TEUR 6) (25,000 options, market value upon issuance: TEUR 36). A listing of the market values per person is included in Note 29. The features of the newly granted options are the same as those of the previously granted options. However due to the values at the time of issuance October 1, 2007, determination of the fair value of these newly granted options was also based on a binomial model; the following parameters were used:

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

The underlying volatility is based on historically annualised volatility according to Bloomberg listings for a 260-day period. The expected exercise period is three to five years.

The addition to the capital reserve (TEUR 17; previous year: TEUR 44) is proportionate to the period and is recognised in the personnel expenses. As of December 31, 2011, in the capital reserve an amount of TEUR 318 (previous year: TEUR 301) is included for the existing share options.

Minority interests

The minority interests refer to the indirect minority interests in the equity of easybell GmbH (TEUR 179; previous year: TEUR 219), of sparcall GmbH (TEUR 629, previous year: TEUR 220) and of carrier-services.de GmbH (TEUR 92, previous year: TEUR 60). Moreover, the minority shares of toBEmobile GmbH at TEUR 47, which were sold in the meantime, and of i-cube GmbH at TEUR 38, were shown in the previous year.

Share ownership

The following material stakes in excess of 10 % are held in the Company:

	%
Peter Zils	25.64 %
Retention of the Company's own shares	3.78 %
Diversified holdings	21.62 %
Intellect Investment & Management Ltd.	25.09 %
IQ Martrade Holding und Managementgesellschaft mbH	14.56 %
PVM Private Values Media AG	9.31 %

During the financial year 2011 the following reports were submitted, which in conjunction with § 20, para. 1 or para. 4 of the German Stock Corporation Law (AktG) or in conjunction with § 21, para 1 or para. 1a of the German Securities Trading Law (WpHG) resulted in disclosures in accordance with § 160, para. 1 no. 8 of the German Stock Corporation Law (AktG).

03/31/2011
Notification from the AvW Gruppe, Krumpendorf, Austria, that the share in the voting rights of ecotel communication ag underranged the voting right thresholds of 10 %, 5 % and 3 % on 03/31/2011 and on this day amounted to 0 % (this corresponds to 0 voting rights).

04/07/2011
Notification from Schnigge Wertpapierhandelsbank AG, Düsseldorf, Germany, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 3 %, 5 % and 10 % on 03/31/2011 and on this day amounted to 10.21 % (this corresponds to 398,305 voting rights).

04/07/2011
Notification from Schnigge Wertpapierhandelsbank AG, Düsseldorf, Germany, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 10 % on 04/01/2011 and on this day amounted to 9.31 % (this corresponds to 363,305 voting rights).

04/07/2011
Notification from PVM Private Values Media AG, Frankfurt/Main, Germany, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 3 %, 5 % and 10 % on 03/31/2011 and on this day amounted to 10.21 % (this corresponds to 398,305 voting rights). These voting rights are attributable to the Company in accordance with § 22 para. 1 sentence 1 no. 2 of the German Securities Trading Law (WpHG), from Schnigge Wertpapierhandelsbank AG.

04/07/2011
Notification from PVM Private Values Media AG, Frankfurt/Main, Germany, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 10 % on 04/01/2011 and on this day amounted to 9.31 % (this corresponds to 363,305 voting rights). These voting rights are attributable to the Company in accordance with § 22 para. 1 sentence 1 no. 2 of the German Securities Trading Law (WpHG), from Schnigge Wertpapierhandelsbank AG.

04/08/2011
Notification from Augur Financial Opportunity SICAV, Luxembourg, Luxembourg, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 3 %, 5 % and 10 % on 03/31/2011 and on this day amounted to 10.21 % (this corresponds to 398,305 voting rights). The voting rights are attributable to the Company in accordance with § 22 para. 1 sentence 1 no. 1 of the German Securities Trading Law (WpHG). The chain of the controlled companies is as follows:
– Augur Financial Holding II S.A., Luxembourg
– Augur Financial Holding Zwei GmbH & Co. KG, Frankfurt/Main
– Schnigge Wertpapierhandelsbank AG, Düsseldorf

04/08/2011
Notification from Augur Financial Holding II S.A., Luxembourg, Luxembourg, that the share in the voting rights of ecotel communication ag underranged the voting right thresholds of 3 %, 5 % and 10 % on 03/31/2011 and on this day amounted to 10.21 % (this corresponds to 398,305 voting rights). The voting rights are attributable to the Company in accordance with § 22 para. 1 sentence 1 no. 1 of the German Securities Trading Law (WpHG). The chain of the controlled companies is as follows:
– Augur Financial Holding Zwei GmbH & Co. KG, Frankfurt / Main
– Schnigge Wertpapierhandelsbank AG, Düsseldorf

04/08/2011
Notification from Augur Financial Holding Zwei GmbH & Co. KG, Frankfurt / Main, Germany, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 3 %, 5 % and 10 % on 03/31/2011 and on this day amounted to 10.21 % (this corresponds to 398,305 voting rights). The voting rights are attributable to the Company in accordance with § 22 para. 1 sentence 1 no. 1 of the German Securities Trading Law (WpHG). The chain of the controlled companies is as follows:
– Schnigge Wertpapierhandelsbank AG, Düsseldorf.

04/08/2011
Notification from Augur Capital GmbH, Bad Soden am Taunus, Germany, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 3 %, 5 % and 10 % on 03/31/2011 and on this day amounted to 10.21 % (this corresponds to 398,305 voting rights). The voting rights are attributable to the Company in accordance with § 22 para. 1 sentence 1 no. 1 of the German Securities Trading Law (WpHG). The chain of the controlled companies is as follows:
– Augur Zwei Verwaltungs GmbH, Frankfurt / Main
– Augur Financial Holding Zwei GmbH & Co. KG, Frankfurt / Main
– Schnigge Wertpapierhandelsbank AG, Düsseldorf

04/08/2011
Notification from Augur Zwei Verwaltungs GmbH, Frankfurt / Main, Germany, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 3 %, 5 % and 10 % on 03/31/2011 and on this day amounted to 10.21 % (this corresponds to 398,305 voting rights). The voting rights are attributable to the Company in accordance with § 22 para. 1 sentence 1 no. 1 of the German Securities Trading Law (WpHG). The chain of the controlled companies is as follows:
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Notification from Augur Financial Opportunity SICAV, Luxembourg, Luxembourg that the share in the voting rights of ecotel communication ag underranged the voting right thresholds of 10 %, on 04/01/2011 and on this day amounted to 9.31 % (this corresponds to 363,305 voting rights). The voting rights are attributable to the Company in accordance with § 22 para. 1 sentence 1 no. 1 of the German Securities Trading Law (WpHG). The chain of the controlled companies is as follows:
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– Augur Financial Holding Zwei GmbH & Co. KG, Frankfurt / Main
– Schnigge Wertpapierhandelsbank AG, Düsseldorf

04/08/2011
Notification from Augur Financial Holding Zwei GmbH & Co. KG, Frankfurt / Main, Germany, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 10 % on 04/01/2011 and on this day amounted to 9.31 % (this corresponds to 363,305 voting rights). The voting rights are attributable to the Company in accordance with § 22 para. 1 sentence 1 no. 1 of the German Securities Trading Law (WpHG). The chain of the controlled companies is as follows:
– Schnigge Wertpapierhandelsbank AG, Düsseldorf

04/08/2011
Notification from Augur Capital GmbH, Bad Soden am Taunus, Germany, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 10 % on 04/01/2011 and on this day amounted to 9.31 % (this corresponds to 363,305 voting rights). The voting rights are attributable to the Company in accordance with § 22 para. 1 sentence 1 no. 1 of the German Securities Trading Law (WpHG). The chain of the controlled companies is as follows:
– Augur Zwei Verwaltungs GmbH, Frankfurt / Main
– Augur Financial Holding Zwei GmbH & Co. KG, Frankfurt / Main
– Schnigge Wertpapierhandelsbank AG, Düsseldorf

04/08/2011
Notification from Augur Zwei Verwaltungs GmbH, Frankfurt / Main, Germany, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 10 % on 04/01/2011 and on this day amounted to 9.31 % (this corresponds to 363,305 voting rights). The voting rights are attributable to the Company in accordance with § 22 para. 1 sentence 1 no. 1 of the German Securities Trading Law (WpHG). The chain of the controlled companies is as follows:
– Augur Financial Holding Zwei GmbH & Co. KG, Frankfurt / Main
– Schnigge Wertpapierhandelsbank AG, Düsseldorf

08/11/2011
Notification from the Auer von Welsbach Privatstiftung, Vienna, Austria, that the share in the voting rights of ecotel communication ag underranged the voting right thresholds of 10 %, 5 % and 3 % on 03/31/2011 and since then has amounted to 0 % (this corresponds to 0 voting right).

08/11/2011
Notification from the AvW Beteiligungsverwaltung GmbH, Vienna, Austria, that the share in the voting rights of ecotel communication ag underranged the voting right thresholds of 10 %, 5 % and 3 % on 03/31/2011 and since then has amounted to 0 % (this corresponds to 0 voting rights).

Additional notifications

Notification of Intellect Investment & Management Ltd., Tortola, British Virgin Islands, of 07/01/2009, that the share in the voting rights of ecotel communication ag underranged the voting right threshold of 25 % on 07/01/2008 and on this day amounted to 25.09 % (number of shares: 978,489, share of capital stock 3,900,000). The voting rights are held by Andrey Morozov, Finland, who owns more than 3 % of the voting rights of the company.

Notification from Mr. Peter Zils, Germany, on 01/11/2010 that his share in the voting rights of ecotel communication ag underranged the threshold of 30 % on 01/05/2010 and on this day amounted to 25.64 % (number of voting rights: 1,000,000, total number of voting rights: 3.900.000).

Notification from IQ Martrade Holding und Managementgesellschaft mbH, Düsseldorf on 01/11/2011 that its share in the voting rights of ecotel communication ag exceeded the threshold of 10 % on January 5, 2010 and on this day amounted to 14.56 % (number of voting rights: 567.879). The voting stock is held by the following companies who have more than 10 % of the voting rights:

(1) MARTRADE Logistic GmbH & Co. Kommanditgesellschaft, Düsseldorf
(2) MARTRADE Logistic Verwaltungs GmbH, Düsseldorf
(3) Günther Hahn, Germany

Capital management

The ecotel Group manages its capital with the primary goal of supporting the business activity and to assure that the Company remains a going concern in the long term. Capital management includes equity as well as borrowings. The important goal is compliance with the financial covenants agreed with the banks. Consequently compliance is continuously monitored. In this process future developments relative to their effects on the financial covenants are analysed in order to implement measures in a timely manner, if necessary.

(10) Current and deferred income taxes

Angaben in TEUR	Initial level 01/01/2011	Con-sumption	Reversal	Allocation	Transfers	End level 12/31/2011
Effective tax earnings	352	232	1	195	0	314
Deferred taxes on earnings	792	0	71	495	-237	979
Provisions for income taxes	**1,144**	**232**	**72**	**690**	**-237**	**1,293**
Of which with a term of up to 1 year	352	232	1	195	0	314

(11) Other financial liabilities, trade liabilities and other liabilities

Information in TEUR	Residual term to 1 year	Total 12/31/2010	Residual term to 1 year	Total 12/31/2011
Credit liabilities	7,918	13,250	2,716	9,325
Other	0	70	0	0
Financial debt	**7,918**	**13,320**	**2,716**	**9,325**
Trade receivables	**12,802**	**12,802**	**11,555**	**11,555**
Liabilities to associated companies	**131**	**131**	**134**	**134**
Other taxes	314	314	330	330
Social security	36	36	41	41
Wages and salary to be paid	395	395	408	408
Other personnel-related liabilities	365	365	192	192
Annual audit/supervisory board	105	105	102	102
Other	170	170	647	647
Other liabilities	**1,385**	**1,385**	**1,720**	**1,720**

The financial liabilities are to financial institutions, and in the previous year, a small portion (TEUR 70) to a leasing company. From the valuation of an interest swap at fair value there are financial liabilities of TEUR 83 (previous year: TEUR 98). The change in the fair value is included in the finance result.

Borrowings essentially refer to the residual amount of an acquisition loan taken out in 2007 in the amount of TEUR 250, a KfW innovation loan taken out in 2009 in the amount of TEUR 4,922, as well as an investment loan taken out in 2011 in the amount of TEUR 4,000. The loan taken out in 2007 has a term of five years, the interest rate is determined according to a reference rate plus a margin. One half of the loan taken out in 2009 consists of an outside capital tranche, the other half consists of a subordinated tranche. Both tranches have a term of ten years; the interest rate is fixed. The loan taken out in 2011 has a term of five years, the interest rate is determined according to a reference rate plus a margin. The company shares of nacamar GmbH were pledged to the lending bank. Current borrowings are essentially the repayment due in 2012 for all three loans.

(12) Reporting of financial instruments

In the course of the usual business activity, the Group is confronted with risks associated with exchange rate change, interest rate change and credit rating risks that could have an influence on the asset, finance, and earnings position.

Exchange rate risk: Exchange rate risks occur due to receivables, liabilities, liquid funds and planned transactions that occur or will occur in a currency that is not the functional currency of the Company. The Company reviews the use of derivative financial instruments to hedge the foreign currency risks. Because the exchange rate risk was low in past financial years, no derivative financial instruments were used to hedge exchange rate risks.

Interest rate risk: In the ecotel Group interest rate risks exist primarily due to the financial liabilities of the Group. Hedges through derivative financial transactions are executed to hedge against negative value changes due to unexpected interest rate movements. At the end of 2011 there were three interest rate swaps. The interest rate swaps have a nominal volume of TEUR 2,000, 4,000 or TEUR 250. All derivative financial instruments are valued as financial assets or financial liabilities at fair value as of the key date. For interpretation of the positive or negative fair values of the derivative financial instruments it must be noted that they are balanced out by underlying transactions with compensating risks. The term of the interest rate derivatives concluded is oriented to the term of the underlying transactions and thus for the most part is in the short-term to medium-term range.

Credit risk: A credit risk exists for the Group if transaction partners cannot honour their obligations within the usual payment periods. The maximum default risk is presented on the balance sheet by the carrying amount of the respective financial asset. The development of the receivables portfolio is constantly monitored in order to identify possible default risks early on and implement appropriate measures.

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

Adjustments for receivables 2011 Information in TEUR	Trade receivables	Other receivables and other current assets	Total 12/31/2011
As of 01/01/2011	441	85	526
Adjustments in the reporting period	0	0	0
Disposals	79	85	164
As of 12/31/2011	**362**	**0**	**362**

Adjustments for receivables 2011 Information in TEUR	Trade receivables	Other receivables and other current assets	Total 12/31/2010
As of 01/01/2010	489	0	489
Adjustments in the reporting period	22	85	107
Disposals	70	0	70
As of 12/31/2010	**441**	**85**	**526**

The adjustments relate completely to the valuation category “Loans and receivables”.

As of December 31, 2011, past-due unadjusted receivables existed in the following amount:

Past-due unadjusted receivables Information in TEUR	Gross value 12/31/2011	Past-due adjusted receivables	Unadjusted receivables due in the following time periods				
			To 30 days	31–60 days	61–90 days	91–120 days	Over 120 days
Trade receivables	13,786	362	174	379	410	25	287
Other receivables and other current assets	1,211	0	0	0	0	0	0
	14,997	**362**	**174**	**379**	**410**	**25**	**287**

Individual value adjustments are considered if there are indications of impairment on past-due financial assets threatened by default if the fair value of these receivables is below the carrying amount shown due to unrecoverability or impairment.

Of the stated unadjustable trade receivables that are more than 120 days past due, in the amount of TEUR 287 (previous year: TEUR 378) there are receivables that the company still expects to recover. Of these TEUR 10 (previous year: TEUR 37) relate to the barter transaction of nacamar GmbH; for which liabilities for outstanding invoices are shown corresponding to the missing counter-claims.

As of December 31, 2010 the following situation existed:

Past-due unadjusted receivables Information in TEUR	Gross value 12/31/2010	Past-due adjusted receivables	Unadjusted receivables due in the following time periods				
			To 30 days	31–60 days	61–90 days	91–120 days	Over 120 days
Financial receivables	522	0	0	0	0	0	0
Trade receivables	14,832	441	237	495	172	10	378
Other receivables and other current assets	903	85	0	0	0	0	0
	16,257	**526**	**237**	**495**	**172**	**10**	**378**

In the consolidated balance sheet financial instruments assessed at fair value can be categorised in the following valuation hierarchy, which reflects the extent to which the fair value can be observed:

Level 1: Assessments at fair value based on prices listed (unadjusted) on active markets for identical assets or liabilities.

Level 2: Assessments at fair value based on either directly (as prices) or indirectly (derived from prices) observable input data for the asset or liability, that do not represent any listed prices according to level 1.

Level 3: Assessments at fair value via input data referenced for the asset or liability that is not based on observable market data (unobservable input data).

The ecotel Group uses level 1 and 2 financial instruments exclusively. During the financial year 2011 there were no reclassifications between level 1 and level 2. All financial assets in the presentation as of December 31, 2011 below are assessed at fair value and assigned to level 1. For the financial liabilities, current financial liabilities in the amount of TEUR 83 (previous year: TEUR 98) belong in level 2. As of December 31, 2011, these refer to the negative market value of the interest rate swaps held by ecotel communication ag.

The financial assets and liabilities can be assigned to measurement categories with the following carrying values:

Financial assets as of 12/31/2011 Information in TEUR	Fair value	Carrying amounts				
		Cash and cash equivalents	Loans and receivables	Financial instruments measured at fair value through profit and loss	Financial assets available for sale	**Total carrying amounts**
Liquid funds	6,235	6,235	0	0	0	6,235
Trade receivables	13,424	0	13,424	0	0	13,424
Other current receivables and assets	1,211	0	1,211	0	0	1,211
Financial assets	1,611	0	0	0	1,611	1,611
Non-current financial assets	624	0	624	0	0	624
Total	**23,105**	**6,235**	**15,259**	**0**	**1,611**	**23,105**

Financial liabilities as of 12/31/2011 Information in TEUR	Fair value	Carrying amounts		
		Other current liabilities	Financial instruments measured at fair value through profit and loss	**Total carrying amounts**
Current financial liabilities	2,716	2,633	83	2,716
Trade receivables	11,555	11,555	0	11,555
Liabilities to associated companies	133	133	0	133
Other liabilities current	1,720	1,720	0	1,720
Non-current loans	6,497	6,609	0	6,609
Other financial debts	0	0	0	0
Total	**22,621**	**22,650**	**83**	**22,733**

As of December 31, 2010 the following breakdown existed:

Financial assets as of 12/31/2010 Information in TEUR	Fair value	Carrying amounts				
		Cash and cash equivalents	Loans and receivables	Financial instruments measured at fair value through profit and loss	Financial assets available for sale	**Total carrying amounts**
Liquid funds	6,133	6,133	0	0	0	6,133
Trade receivables	14,391	0	14,391	0	0	14,391
Other current receivables and assets	818	0	818	0	0	818
Financial assets	1,635	0	0	0	1,635	1,635
Non-current financial assets	522	0	522	0	0	522
Total	**23,499**	**6,133**	**15,731**	**0**	**1,635**	**23,499**

Financial liabilities as of 12/31/2010 Information in TEUR	Fair value	Carrying amounts		
		Other current liabilities	Financial instruments measured at fair value through profit and loss	**Total carrying amounts**
Current financial liabilities	8,049	7,951	98	8,049
Trade receivables	12,802	12,802	0	12,802
Other liabilities current	1,385	1,385	0	1,385
Non-current loans	5,332	5,332	0	5,332
Other financial debts liabilities	70	70	0	70
Total	**27,638**	**27,638**	**98**	**27,638**

The derivative financial instruments held for trading purposes were recognised in the Group income statement based on the assessment of fair value on the respective balance sheet date, as TEUR 15 (previous year: expenses of TEUR -77). The effects result exclusively from the interest rate swaps.

Liquidity risk: As a rule refinancing of the ecotel Group companies occurs centrally through ecotel communication ag. Here the risk exists that the liquidity reserves do not suffice to satisfy the financial obligations in a timely manner. In 2012 repayments are due with a nominal value of EUR 2.6 million. To cover the liquidity requirement, cash and cash equivalents of EUR 6.3 million are available. In addition ecotel communication ag has a contractually agreed revolving credit facility in the amount of EUR 2.9 million, which after subtracting credit fees in the amount of EUR 1.6 million, as of December 31, 2011, is EUR 1.3 million (previous year: EUR 1.0 million). So-called financial covenants exist relative to the bank loan taken out by ecotel communication ag (residual value: EUR 9.2 million) and to the available credit line. A violation of the covenants could possibly result in notice of cancellation and premature repayment of the investment loans of TEUR 4,000 and credit limit, if an agreement concerning an adaptation of the financial covenants or refinancing cannot be achieved. Overall the liquidity risk is estimated as low.

The following (non-discounted) payments will presumably result from the financial liabilities in coming years:

Repayments/interest payments for financial liabilities Information in TEUR	Carrying amounts 12/31/2011	Repayments			Interest payments		
		2012	**2013 to 2016**	From 2017	**2012**	2013 to 2016	**From 2017**
Liabilities to banks	9,172	2,563	3,458	3,151	335	724	199
Liabilities from finance leasing	70	70	0	0	1	0	0
Derivative financial liabilities	83	0	0	0	83	0	0

As of the previous year's key date the following presentation occurs:

Repayments/interest payments for financial liabilities Information in TEUR	Carrying amounts 12/31/2010	Repayments			Interest payments		
		2011	**2012 to 2015**	From 2016	**2011**	2012 to 2015	**From 2016**
Liabilities to banks	12,750	7,578	1,500	3,672	370	744	349
Liabilities from finance leasing	322	251	71	0	12	1	0
Derivative financial liabilities	98	0	0	0	97	1	0

Interest rate risks are presented via sensitivity analyses in accordance with IFRS 7. These analyses present the effects of changes in market interest rates to interest payments, interest income and expenses, other results components, and possibly on equity. The interest rate sensitivity analyses are based on the following assumptions:

Market interest rate changes of primary financial instruments with fixed interest rate (financial liabilities) only have an effect on the result if they are measured at fair value. Thus all fixed-rate financial instruments measured at historical cost of acquisition are not subject to interest rate change risks as stipulated in IFRS 7. Changes in market interest rates have an effect on the interest result of primary, variable interest-rate financial instruments, for which interest payments are not designated as underlying transactions as part of cash flow hedges against interest-rate change risks, and consequently are considered in the calculation of the sensitivities determined by results. Changes in the market interest rates for interest derivatives (interest rate swaps) that are not integrated in a hedge relationship in accordance with IAS 39 have effects on the other financial result and consequently are considered in the calculations of sensitivities determined by results. If the market interest rate level would have been higher (lower) by 50 basis points as of December 31, 2011, the earnings before taxes would have been lower (higher) by TEUR 1. The hypothetical effect on the result is determined by the potential effects from interest derivatives of TEUR 31 and primary variable interest rate financial liabilities of TEUR -32.

(13) Contingent receivables and liabilities and other financial obligations

As of December 31, 2011 contingent liabilities due to guarantees and other commitments existed in the amount of TEUR 1,612 (previous year: TEUR 1,878) for surety obligations.

Presently two legal disputes are underway that have been initiated against ecotel communication ag, in one case for the non-acceptance of hardware equipment, and in the other case due to the legal dispute initiated by DTAG for additional claims that are disputed by ecotel. For litigation costs associated with the legal disputes appropriate reserves have been formed.

Other financial obligations occurred exclusively from the obligations arising from the operating leasing relationships, shown above.

Notes to the consolidated income statement

(14) Sales revenue

Information in TEUR	2010	2011
Domestic	84,434	74,309
Foreign	13,880	10,172
	98,314	**84,481**

Distribution of sales revenue across the business units, Business Solutions, Wholesale Solutions and New Business is shown in the segment reporting. Sales revenue is earned exclusively through the provision of services.

(15) Other operating income and other own work capitalised

Other operating income consists of the following:

Information in TEUR	2010	2011
Dissolution of liabilities	80	120
Recharging of fees and expenses	119	85
Reversal of provisions for losses on receivables	75	79
Exchange rate gains	17	12
Disposal of intangible assets, property, plant, and equipment and financial assets	22	27
Other	732	1,277
	1,045	**1,600**

The other own work capitalised shown in 2011 refers to programming projects that were offset within the Group, as in the previous year.

(16) Cost of materials and services

The cost of materials and services was incurred exclusively for external services utilised.

(17) Personnel expenses

Information in TEUR	2010	2011
Wages and salary	8,243	8,398
Social security contributions	1,235	1,307
Of which expenses for pensions and support	632	654
	9,478	**9,705**

In the financial year the average number of staff employed in the consolidated companies:

Staff	2010	2011
Full-time employees	171	176
	171	**176**

In addition the number of management board members or managing directors for the consolidated companies was 6 (previous year: 5) and the number of trainees was 7 (previous year: 8). For the companies valued at equity, 23 (previous year: 17) full-time employees and 2 (previous year: 2) managing directors were employed.

(18) Scheduled depreciation and unscheduled impairment

A distribution of the depreciation for intangible assets, property, plant, and equipment and financial assets is provided in the explanations for the respective item.

In financial year 2011, after execution of the impairment tests, there were unscheduled write-downs on goodwill of the cash-generating units totaling TEUR 375 (previous year: TEUR 0), on other non-current intangible assets of TEUR 112 (previous year: TEUR 81), as well as on property, plant, and equipment of TEUR 54 (previous year: TEUR 55).

In addition, in 2011 other current assets in the amount of TEUR 104 (previous year: TEUR 85) were depreciated.

(19) Other operating expenses

Information in TEUR	2010	2011
Costs of delivering goods	3,866	3,842
Legal, auditing and consultancy fees	1,089	1,246
Rents, leases, premises expenditure	728	708
EDP costs	920	1,002
Other administrative costs	1,535	993
Vehicle costs	430	283
Marketing expenses	416	447
Change in provisions for losses on receivables	350	418
Insurance premiums	187	182
Repairs and maintenance	0	135
Leasing	29	153
Loss on disposal of intangible assets and items of property, plant, and equipment	0	1
Other	153	61
	9,703	**9,471**

(20) Financial result

Information in TEUR	2010	2011
Interest income		
Interest income from bank deposits/fixed-term deposits	3	19
Other interest income and similar earnings	134	125
	137	**144**
Interest expense		
Interest expense on credit liabilities	-615	-486
Result from derivative financial instruments	77	15
Other interest and similar expenses	-54	-17
	-592	**-488**
Net interest income	-455	-344
Other financial expenses and income		
Miscellaneous other financial income	2	0
Costs of supporting the share price and other financial expenses	-78	-57
Result of companies valued at equity	-205	-12
	-281	-69
Financial result	-736	-413

(21) Taxes on income and earnings

Information in TEUR	2010	2011
Effective earnings tax	-218	-453
Deferred taxes on earnings	-174	-529
Income tax expense	**-392**	**-982**

A reconciliation of the expected to actual tax expense is show below. To determine the expected tax expense, the result before income taxes is multiplied by a flat income tax rate of 31 % specified by the Group (previous year: 32 %). This consists of a tax rate of 15 % (previous year: 15 %) for corporation tax, plus 5.5 % for the solidarity surcharge, and 15 % (previous year: 16 %) for trade tax. The expected tax expense is compared with the actual tax expense.

A reconciliation of the expected to actual tax expense for the year under review and for the previous year is show below:

Information in TEUR	2010	2011
Result before taxes	731	2.683
Group tax rate	32.0 %	31.0 %
Expected tax income	**-234**	**-832**
Differences due to tax rates differing from the Group tax rate	14	-11
Tax reductions to due tax-exempt earnings	240	-23
Tax increases due to expenditures that are not tax-deductible	-400	-189
Previous year's taxes	27	0
Valuation adjustment of deferred tax assets on loss carryforwards	24	120
Earnings from equity holdings	-64	-4
Other tax effects	1	-44
Tax expense according to the P/L statement (expense –/income +)	**-392**	**-983**
Effective tax rate in %	**-53.6 %**	**-36.6 %**

Deferred taxes are determined using the balance-sheet oriented liability method. According to this method, tax relief 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 statement and the taxable amount of assets and liabilities that are recognised. If the temporary differences refer to items that directly increase or reduce equity, then the associated deferred taxes are also set off directly against equity. Offsetting without effect on net income did not occur as of December 31, 2011 and December 31, 2010.

The deferred taxes must be allocated to the following items:

Information in TEUR	2010 Assets	2010 Liabilities	2011 Assets	2011 Liabilities
Loss carryforwards	537	0	193	0
Property, plant, and equipment/intangible assets	461	1.218	743	1.691
Trade receivables	0	66	0	57
Financial debt	31	0	26	0
Other items	0	0	0	0
Offset – assets/liabilities	-492	-492	-769	-769
Value adjustment	0	0	0	0
	537	**792**	**193**	**979**

Deferred tax assets in a single tax jurisdiction are offset against deferred tax liabilities in the same jurisdiction, in so far as the terms correspond.

All tax loss carryforwards that are taxable as of the balance sheet dates were taken into account in the recognition of deferred tax assets, since in subsequent years there will presumably be enough taxable earnings available for their use. As of December 31, 2011 at ecotel communication ag the corporation tax loss carryforward of TEUR 957 (previous year: TEUR 1,994) and the trade tax loss as of December 31, 2011 of TEUR 0 (previous year: TEUR 823) were fully taken into account for the tax group of companies with nacamar GmbH, including the tax adjustments to be considered for 2011 for the recognition of deferred tax assets. For ecotel private GmbH, overall an existing income tax loss carryforward of TEUR 134 was completely considered (previous year: TEUR 352).

No deferred taxes are created for the taxable temporary differences in conjunction with shares in subsidiaries and companies accounted for using the equity method, if the conditions are met for an exemption from IAS 12.39.

(22) Share in earnings of other shareholders

The earnings to which other shareholders are entitled of TEUR 627 (previous year: TEUR 282) relate to the proportional annual results of easybell GmbH (TEUR -40; previous year: TEUR 57), of sparcall GmbH (TEUR 409, previous year: TEUR 214), of carrier-services.de GmbH (TEUR 32; previous year: TEUR 45), of toBEmobile GmbH (TEUR -42; previous year: TEUR -7) and of i-cube GmbH until purchase of minority interests in November 2011 (TEUR 114; previous year: TEUR -27). In 2011, in conjunction with the profit and loss transfer agreement with easybell GmbH, there was a claim for compensation on the part of the minority shareholder in the amount of TEUR 154.

(23) Earnings per share

The undiluted earnings per share are determined in accordance with IAS 33 as the quotient of the annual group net profit to which the shareholders of ecotel communication ag are entitled and the weighted average number of no-par value bearer shares in circulation during the financial year.

A dilution of earnings per share occurs when the average number of shares is increased by taking into account the issue of potential shares from options and convertible financial instruments. As of December 31, 2007 and December 31, 2008 the existing 145,000 stock options must always be considered as dilutive equity capital instruments. Due to the balance sheet ratios, until forfeiture of the stock options by the end of the third quarter 2011, and likewise on the previous year key date, however the exercise price of these options was significantly higher than the recorded average stock market price for the ecotel shares for the corresponding period. In accordance with IAS 33.47 these options would have had no diluting effect in the financial year 2011 and as of the previous year's closing date, so that the undiluted and the diluted earnings are identical.

	2010	2011
Accrued consolidated profit for the year (in EUR)	56,461.71	1,073,151.64
Weighted average number of shares	3,752,500.00	3,752,500.00
Undiluted earnings per share (in EUR)	**0.02**	**0.29**
Diluted earnings per share (in EUR)	**0.02**	**0.29**

Notes to the cash flow statement

(24) Cash flow statement

The cash flow statement is prepared in accordance with the regulations of IAS 7 and is organised according to cash flows operating, investing and financing activities. The influences of changes in the basis of consolidation exchange rate changes on cash and cash equivalents are shown separately.

The cash and cash equivalents of the cash flow statement correspond to the item “Cash and cash equivalents” shown in the consolidated balance sheet, minus short-term current account liabilities.

Other notes

(25) Distribution of dividends

In accordance with § 58, para. 2 of the German Stock Corporation Law (AktG), the balance sheet result shown in the legal annual financial statement of ecotel communication ag is definitive for determining dividends distributed to shareholders of the Company, this is TEUR 549 (previous year: TEUR 0).

(26) Related party disclosures

The volume of services supplied to or provided by related parties is presented as follows:

	Volume of services provided		Volume of the services utilised	
Information in TEUR	2010	2011	2010	2011
PhaseFive R&D Ltd.				
from goods and services	98	0	0	0
synergyPLUS GmbH				
from goods and services	160	6	14	297
mvneco GmbH				
from goods and services	847	146	120	1.167
init.voice GmbH				
from goods and services	0	27	0	0

The receivables from the companies synergyPLUS GmbH and mvneco GmbH valued at equity are included in the consolidated balance sheet with TEUR 60 (previous year: TEUR 578).

The loan from ecotel communication ag to the company mvneco GmbH valued at equity in the amount of TEUR 2,544 (previous year: TEUR 2,469) was written off due to the negative equity value of mvneco GmbH as of December 31, 2011, due to the impairment by TEUR 12 (previous year accumulated: TEUR 946).

The ecotel Group maintained service relationships with the following related parties in 2011:

Information in TEUR	Volume of services provided 2010	Volume of services provided 2011	Volume of the services utilised 2010	Volume of the services utilised 2011
Noerr LLP				
From goods and services	0	0	38	6
QITS GmbH				
From goods and services	11	10	853	785
ADCO Umweltdienste Holding GmbH				
From goods and services	86	143	0	0
MPC Service GmbH				
From goods and services	3	12	339	301
GFEI Aktiengesellschaft				
From goods and services	0	0	0	4
Mobile One GmbH				
From goods and services	91	109	0	0
IQ Martrade Holding und Managementgesellschaft mbH				
From goods and services	1	1	0	0

Agreements with QITS GmbH

QITS GmbH, Quality Information Technology Services ("QITS"), whose managing partner is the chairman of the supervisory board, Mr. Johannes Borgmann, has been providing various services for ecotel communication ag since 1999. In addition to services under the framework contract for software, particularly for the Company's billing system, printing services, IT services, data privacy as well as financial bookkeeping services were also provided.

Agreements with Noerr LLP

Nörrr LLP, a partnership of attorneys, tax consultants and auditors has been providing consulting services for the Company since November 2005. The supervisory board member, Dr. Thorsten Reinhard, is an attorney and partner in Noerr.

Agreements with MPC Service GmbH

A business representation contract between MPC Service GmbH and ecotel communication ag has existed since August 2002. Under this contract MPC Service GmbH receives a closing commission for the monthly order acquisition, as well as a product-dependent commission on the monthly revenue of all customers supplied by MPC. The agreement corresponds to the agreement 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 formerly a shareholder of ADTG GmbH which was merged with ecotel in the previous year.

See Note 29 for additional information.

(27) Segment reporting

The internal organisation and management structure, as well as the internal reporting to the management board and the supervisory board are the basis for determination of the segmentation criteria for the business segments for ecotel communication ag.

Segmentation is executed according to the internal reporting by business units that can be delimited as follows:

- In the segment **Business Solutions** (operative core area) the ecotel Group offers small and medium-sized companies voice, data and value-added services in the form of complete packages, as well as direct connections for voice and data traffic, from a single source.
- In the **Wholesale** segment ecotel markets products and comprehensive solutions for other telecommunications companies (including resellers and call shops).
- In the **New Business** segment the high growth business areas and subsidiaries, as well as the new media business are combined.

As segment result, which the management board uses for corporate control and monitoring, the annual result before interest and income taxes is presented. The segment assets correspond to the sum of all segment-related reported assets, without income tax assets. The segment liabilities include the segment-related provisions, liabilities and financial liabilities, however no income tax liabilities.

Information in TEUR	Business Solutions 2010	Business Solutions 2011	Wholesale 2010	Wholesale 2011	New Business 2010	New Business 2011	Consolidated across segments 2010	Consolidated across segments 2011	Group 2010	Group 2011
External revenue	44,813	41,563	38,667	30,618	14,834	12,300	0	0	98,314	84,481
Inter-segment revenue	0	0	5,561	4,392	457	357	-6,018	-4,749	0	0
EBIT	900	1,805	183	551	727	740	-344	0	1,466	3,096
Annual result	331	1,140	183	371	168	189	-344	0	338	1,700
Gross profit	17,455	18,717	1,271	1,390	4,219	4,520	0	0	22,945	24,627
Write-downs	-2,168	-2,342	-260	-483	-1,031	-1,131	0	0	-3,459	-3,956
Result of companies valued at equity	-8	0	-197	-12	0	0	0	0	-205	-12
Segment assets	23,147	23,525	9,416	9,149	13,372	9,038	2,820	3,732	48,755	45,444
Segment liabilities	6,882	6,117	6,278	5,431	2,618	1,926	13,392	10,553	29,170	24,027
Investments in intangible assets and property, plant, and equipment	897	1,237	4	205	765	276	0	0	1,666	1,718

Inter-segment transactions were executed at market prices.

With regard to the classification of revenue according to sales regions, reference is made to the Notes on sales revenue. Segment assets and segment investments refer completely to Germany.

(28) Statement on corporate governance in accordance with § 289 A of the German Commercial Code (HGB) including the statement in accordance with § 161 of the German Stock Corporation Law (AktG) regarding the German Corporate Governance Code

The management board and supervisory board of ecotel communication ag have issued the statement on corporate governance required in accordance with § 289a of the German Commercial Code (HGB,) including the statement prescribed in accordance with § 161 of the German Stock Corporation Act (AktG), and have made these statements permanently available to the public on the Internet site of ecotel communication ag (www.ecotel.de under Investor Relations / Corporate Governance.

(29) Governing bodies and remuneration of governing bodies

In the reporting year 2011 the **management board** of ecotel communication ag was composed as follows:
- Peter Zils, engineer, Düsseldorf (Chairman)
- Bernhard Seidl, engineer, Munich
- Achim Theis, businessman, Düsseldorf

The following persons were appointed as members of the **supervisory board** in 2010:
- Johannes Borgmann, businessman, Düsseldorf (Chairman)
- Mirko Mach, businessman, Heidelberg (Deputy Chairman)
- Dr. Norbert Bensel, independent corporate consultant, Berlin
- Dr. Joachim Dreyer, independent corporate consultant, Heiligenberg (until 07/29/2011)
- Brigitte Holzer, businesswoman, Murnau
- Dr. Thorsten Reinhard, attorney, Frankfurt / Main
- Sascha Magsamen, businessman, Frankfurt / Main (from 29/07/2011)

In 2011, the remuneration of management board and supervisory board consisted of the following components:

Information in TEUR	Fixed remuneration	Perfor-mance-based / variable remuneration	Share options plan	Total	Stock options plan Number	Stock options fair value at issue
Bernhard Seidl	191.9	50.0	12.0	253.9	90.000	239
Achim Theis	191.5	35.8	4.9	232.2	30.000	43
Peter Zils	314.2	25.0	0	339.2	0	0
Johannes Borgmann	14.0	0.2	0	14.2	0	0
Brigitte Holzer	10.0	0	0	10.0	0	0
Dr. Thorsten Reinhard	7.0	0	0	7.0	0	0
Mirko Mach	9.5	0	0	9.5	0	0
Sascha Magsamen	3.0	0.1	0	3.1	0	0
Dr. Norbert Bensel	5.0	0	0	5.0	0	0
Dr. Joachim Dreyer	2.5	0.4	0	2.9	0	0

For financial year 2011 the management board is entitled to variable remuneration in the amount of TEUR 110 (previous year: TEUR 143). Payment of the variable portion is coupled with sustainable Company development over three years and occurs only in the amount of the portion that has already been verifiably earned at this point in time. Appropriate provisions were formed for the well-deserved remuneration entitlements.

In 2011, Ms Sandra Zils received remuneration totaling TEUR 14 for her activity at the ecotel Group (previous year: TEUR 9).

In 2010 the remuneration was comprised as follows:

Information in TEUR	Fixed remuneration	Perfor-mance-based / variable remuneration	Share options plan	Total	Stock options plan Number	Stock options fair value at issue
Bernhard Seidl	210.3	33.3	30.7	274.3	90,000	239
Achim Theis	193.1	21.7	7.2	222.0	30,000	43
Peter Zils	298.5	16.7	0	315.2	0	0
Johannes Borgmann	11.2	1.2	0	12.4	0	0
Brigitte Holzer	5.8	0.5	0	6.3	0	0
Dr. Thorsten Reinhard	4.4	0.5	0	4.9	0	0
Mirko Mach	6.0	0.6	0	6.6	0	0
Stephan Brühl	1.5	0	0	1.5	0	0
Mag. Reinhold Oblak	1.5	0	0	1.5	0	0
Dr. Norbert Bensel	1.6	0.4	0	2.0	0	0
Dr. Joachim Dreyer	1.6	0.4	0	2.0	0	0

As of December 31, 2011 the members of the supervisory board of the Company served on the following boards:

Supervisory board member	Function	Company
Johannes Borgmann	Managing director	ADCO Umweltdienste Holding GmbH
	Currently member of the management board	ADCO HOLDINGS, Inc., in Marietta Georgia 30062, USA
	CEO	ADCO HOLDINGS, Inc., in Marietta Georgia 30062, USA
	Managing director	ADCO Investment- GmbH (Ratingen)
	Managing director	ADCO Immobilien GmbH (Ratingen)
	Managing director	ADCO International GmbH, Ratingen
	President of the administrative board	TOI TOI AG, Affoltern (Switzerland)
	Managing director	MEPS GmbH in Ratingen
	Managing director	QITS GmbH in Ratingen

Supervisory board member	Function	Company
Brigitte Holzer	Member of the supervisory board	Linux Information Systems AG, Munich
	Owner/managing director	Holzer Holding GmbH, Berg
	Owner/managing director	OCTAGON CAPITAL GmbH, Berg
	FP & A manager Eastern Europe, Middle East & Africa	Adobe Systems GmbH, Munich
Mirko Mach	Managing partner	MPC Service GmbH, Heidelberg
	Liquidator	1stopmobile.com AG i. L., Heidelberg
Dr. Thorsten Reinhard	Partner	Noerr LLP, London
	Member of the supervisory board	Wacker Holding SE, Munich
Dr. Norbert Bensel	Member of the supervisory board	Praktiker Bau- und Heimwerkermärkte Holding AG, Kirkel Praktiker AG
	Member of the supervisory board	DEVK Sach- und HUK-Versicherungsverein a.G.
	Member of the supervisory board	Praktiker Deutschland GmbH
	Deputy chairman of the supervisory board	IAS Institut für Arbeits- und Sozialhygiene AG
	Member of the supervisory board	Compass Group Deutschland GmbH
	Chairman of the supervisory board	TransCare AG
	Member of the advisory board	BLG Logistics Group AG & Co. KG
	Member of the advisory board	BREUER Nachrichtentechnik GmbH, Bonn
	Chairman of the advisory board	IQ Martrade Holding und Managementgesellschaft mbH
	Member of the administrative board	Qnamic AG, Switzerland
Dr. Joachim Dreyer	Member of the advisory board	ZU Stiftung, Friedrichshafen
	Member of the advisory board	EnBW Energie Baden-Württemberg AG, Karlsruhe
	Member of the advisory board	Mobile One GmbH, Ratingen
Sascha Magsamen	Chairman of the supervisory board	Wige Media AG, Köln
	Chairman of the supervisory board	ICM Media AG, Frankfurt/Main
	Chairman of the supervisory board	GFEI AG, Frankfurt/Main
	Deputy chairman of the supervisory board	Mistral Media AG, Cologne
	Deputy chairman of the supervisory board	Nextevolution AG, Mainz
	Member of the supervisory board	Close Brothers Seydler Research AG, Frankfurt/Main

The members of the management board hold no positions in oversight and control bodies, as specified in section 285, no. 10 of the German Commercial Code (HGB).

(30) Audit expenses

In the financial year 2011 the fee entered as expense for the auditors of the consolidated financial statement of ecotel communication ag for the audits of the consolidated financial statement and the individual financial statements of the parent company and consolidated subsidiaries was TEUR 65 (previous year: TEUR 65). No other expenses were recorded for the Group auditors for other confirmation or evaluation services, tax consulting services, or for other consulting services.

(31) Exemption from publishing individual financial statements

For the subsidiary nacamar GmbH, Düsseldorf, use is made of the exemption from publishing the individual financial statement, in accordance with § 264 para. 3 of the German Commercial Code (HGB).

Düsseldorf, March 23, 2012

The management board

Peter Zils Bernhard Seidl Achim Theis

Audit opinion of the statutory auditor

We have audited the consolidated financial statement of ecotel communication ag – comprising the balance sheet, statement of comprehensive income, cash flow statement, statement of changes in equity and the notes to the consolidated statement– and its Group management report for the financial year from January 1 to December 31, 2011. Preparation of consolidated financial statement and the Group management report in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements that must be applied in accordance with § 315a, para. 1 of the German Commercial Code (HGB), is the responsibility of the management board of the Company. Our responsibility is to express an opinion on the consolidated financial statement and the Group management report based on our audit.

We have carried out our audit of the consolidated financial statement in accordance with § 317 of the German Commercial Code (HGB) taking into consideration the generally accepted German auditing standards. Those standards require that we plan and perform the audit in such a manner that misstatements materially affecting the presentation of the asset, financial, and earnings positions in the consolidated financial statement in accordance with applicable financial reporting principle 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 evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system referring to accounting and the evidence supporting the disclosures in the books and records, and in the consolidated financial statement and Group management report are examined primarily on a test basis within the framework of the audit. The audit includes the evaluation of the financial statements of the companies included in the consolidated financial statement, the segregation of the consolidated group, the accounting and consolidation principles used and the main assumptions made by the management board, as well as acknowledgement of the entire presentation of the consolidated financial statement and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any objections.

Based on the knowledge gained in the audit the consolidated financial statement of ecotel communication ag, Düsseldorf, is in accordance with IFRS as adopted by the EU and the additional requirements of § 315a, para. 1 of the German Commercial Code (HGB), and conveys in compliance with 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 statement, conveying overall an accurate picture of the Group's situation, and correctly presents the opportunities and risks associated with future development.

Düsseldorf, March 23, 2012
Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Signed Schlereth
Auditor

Signed Frank
Auditor

Corporate Governance

ecotel communication ag (ecotel) has organised itself according to international and national standards for value-oriented and responsible corporate governance. With open information and transparent decision-making structures we attempt to foster trust on the part of investors, customers, employees, and the interested public. In this regard ecotel views corporate governance as a continual process.

The management board and supervisory board of ecotel report below concerning corporate governance in accordance with Number 3.10 of the German Corporate Governance Code (the Code) in the version of May 26, 2010 and also hereby explain deviations from its recommendations. The following report also integrates the remuneration report required in accordance with Number 4.2.5 of the Code.

Management board and supervisory board work closely together for the well-being of the Company with the common goal of sustainable increase of the value of the Company. The management board reports to the supervisory board regularly in written and verbal form, promptly and completely concerning the situation of the Company, business development, corporate planning, as well as the risk situation.

The supervisory board meets regularly to fulfil its monitoring and advisory function. It has formed a three-member audit committee for more efficient handling of accounting, risk management and compliance issues, in particular. In addition the supervisory board has formed a three-member nomination committee that prepares the election proposals for the Annual General Meeting.

The central information event for shareholders is the Annual General Meeting. The management board presents the individual and consolidated financial statements, as approved by the supervisory board, to the Annual General Meeting. The annual financial statement is adopted via approval by the supervisory board unless the management board and supervisory board decide to delegate that determination to the Annual General Meeting. The Annual General Meeting decides on the appropriation of the balance sheet profit, the approval of the actions of the management board and supervisory board, election of members of the supervisory board, and decides on the auditor, the articles of association, as well as in other cases prescribed by law. With appropriate notices before the opening of the Annual General Meeting, shareholders can comprehensively inform themselves of pending decisions via the annual report and the agenda for the Annual General Meeting. All documents and information are also available on the ecotel website.

Corporate communication sets itself the standard of providing true, complete, regular, and timely information. The shareholders are regularly informed of important dates in the quarterly reports, and on an ongoing basis via the Internet and the Company website. Presentations at road shows or at other information events are published immediately and completely on the ecotel website under the heading Investor Relations. All annual reports and quarterly reports, as well as press releases and ad-hoc releases can also be found on the ecotel website.

The remuneration of the members of the supervisory board is appropriate for their tasks and their responsibility. It consists of fixed and variable components; the details are stipulated in the articles of association of the Company. For financial year 2011 members of the supervisory board can only claim the fixed remuneration component.

The members of the management board of ecotel are remunerated on the basis of § 87 of the German Stock Corporation Act (AktG) and Management Board Remuneration Act (VorstAG); remuneration includes a fixed annual base compensation, as well as a variable component. The target requirements (including incoming orders, EBITDA, EBIT) for the variable component are agreed annually between management board and the supervisory board. Payment of the variable portion is coupled with sustainable Company development over three years and occurs only in the amount of the portion that has already been verifiably earned at this point in time. For financial year 2011 the management board is entitled to variable remuneration claims in the amount of TEUR 110. Each of the three members of the management board is entitled to a company car. In addition a stock option plan for members of the management board and top executives of ecotel is implemented on the basis of the resolution of the Annual General Meeting of July 27, 2007. Because the success goals for exercise of the issued 120,000 options were not achieved as of September 30, 2011, these are completely forfeited. Additional information on the stock option program is provided on the website www.ecotel.de under the header, Investor Relations / Corporate Governance, as well as in the Notes to the financial statement. For the members of the ecotel management board there are no agreements for indemnification in the event of a takeover bid.

Information on individual remuneration of management board and supervisory board in 2011 is included in the Notes to the consolidated financial statements.

The table below shows the holdings of management board and supervisory board in the capital stock of the Company at the end of 2011:

Body	Share ownership (in %)
Management board	25.8 %
Supervisory board	1.2 %
Total	**27.0 %**

The information concerning transactions with ecotel shares on the part of members of the management, supervisory boards and other persons with management responsibilities or with closely associated third parties (directors' dealings) is also listed on the website www.ecotel.de under the header, Investor Relations / Corporate Governance.

In addition ecotel has taken out an appropriate pecuniary damage liability insurance policy **(D&O insurance)** for the management board, as well as for the members of the advisory board with a deductible that is in line with the Corporate Governance Code.

ecotel has followed the recommendations of the Code since January 1st 2011, with the following exceptions:

Number 5.1.2
The supervisory board considers diversity an important criteria for the composition of the management board and is of the particular opinion that women must be appropriately considered for board-level appointments. In 2011 however this policy did not result in the appointment of a female member of the management board.
Management board and advisory board regularly conduct discussions on the development of ecotel management. However issues concerning long-term succession planning were not discussed in 2011.

Number 5.4.1, para. 2
In 2011 the supervisory board had not yet cited any concrete goals for its composition, however it intends to do so in 2012.

Number 5.4.3
The supervisory board considers it neither practical nor expedient to inform shareholders of suggestions of candidates for the position of chairman of the supervisory board.

Number 5.4.5 sentence 2
The supervisory board continuously and critically reviews whether its members have sufficient time to carry out their mandate. However, whether this is the case, in the opinion of the supervisory board cannot be determined simply by the number of supervisory board mandates held in combination with the board activity for a publicly listed company. Rather the crucial factor is to carefully review this criterion on a case-by-case basis.

The statement of compliance of ecotel communication ag in accordance with § 161 of the German Stock Corporation Law (AktG) can be reviewed on the Company's website at www.ecotel.de. The complete Code is available on the Internet at www.corporate-governance-code.de.

ecotel communication ag

The management board
of ecotel communication ag

The supervisory board
of ecotel communication ag

Report of the supervisory board

The supervisory board of ecotel communication ag (ecotel) regularly monitored and supported the work of the management board in financial year 2011, in an advisory role. The detailed reports of the management board in written and oral form were the basis of this monitoring and advisory support. The chairman of the supervisory board was involved in a regular exchange of information and ideas with the chairman of the management board. In addition various members of the supervisory board have made their technical expertise available to the management board without requesting or receiving any compensation beyond the supervisory board remuneration stipulated in the articles of association. These consultations involved a number of areas, including organisation, personnel, sales, finances, law and communication.

In the reporting period the ecotel supervisory board came together for a total of seven meetings, of which two meetings were held in the form of a telephone conference. In addition nine resolutions were made via the circulation procedure. No member of the advisory board participated in less than half of the meetings.

In the meetings the ecotel management board reported to the supervisory board on fundamental issues of corporate planning, profitability of the Company the course of the business and the position of the Company, in accordance with legal requirements, and consulted together with the supervisory board concerning these issues. Moreover the supervisory board was integrated in decisions of major significance and in particular reviewed and approved measures of the management board that required its agreement in accordance with the rules of procedure of the management board.

1. Focus of consultation in the supervisory board

The supervisory board supported the management board in its strategy of simplifying the Group structure and simultaneously separating its members from peripheral activities. Thus the supervisory board reviews and approves the decisions of the management board to sell the stakes in Phase Five R&D Ltd., toBEmobile GmbH, and in PPRO GmbH. Likewise the supervisory board agreed with the plan to top up the stake in i-cube GmbH from 51 % to 100 %, in order to then merge the company with ecotel. Two additional important resolutions were adopted that related to the initiation of court proceedings against a network operator; the amount in dispute is less than EUR 10 million, and the refinancing of a loan in the amount of EUR 4 million.

In addition the supervisory board received reports of strategically significant projects. These included a high-volume tender, in which ecotel participated throughout the entire year under review; this tender was not yet definitively concluded at the time this report was prepared. Likewise the supervisory board accompanied the cooperation with a network operator, which was realised in the year under review 2011, which with regard to additional cooperation components is still in the coordination phase. On the other hand the supervisory board is dealing with the loss of large customer at the subsidiary nacamar GmbH.

In addition, the measures with which the management board intends to improve order management processes were presented to the management board. As in the past the supervisory board devoted special attention to risk management issues.

The supervisory board discussed the regular risk reports with the management board and also made recommendations relative to risk management. The supervisory board is convinced that the management board devotes the necessary attention to risk management, prioritises the risks identified by the management board and is striving to reduce these risks through appropriate measures.

The status of the 2010 financial statement was the focus of the supervisory board meeting held on March 28, 2011. In addition, in the meeting of March 28, 2011, as a precaution the supervisory board approved various contracts between ecotel and companies in which members of the supervisory board hold shares (see below for more in this regard).

2. Treatment of conflicts of interest in the supervisory board

All members of the supervisory board are obligated to comply with the principle of aligning their decisions exclusively to the corporate interests of ecotel. If in consultation or taking of resolutions in the supervisory board, conflicts of interest occurred or the concern of conflicts of interest occurred, these were dealt with in the supervisory board. The member of the supervisory board concerned in each case refrained from voting, and if in the specific case it seemed expedient, did not participate in the preceding discussion. In addition the other members of the supervisory board obtained the necessary assurances by posing questions to the management board, that its actions were not influenced by the (potential) conflict of interest of the respective member of the supervisory board. The principles cited above were only employed in the reporting period for resolutions of the supervisory board concerning the approval of contracts between ecotel and companies in which members of the supervisory board hold investments. These affect Mr. Johannes Borgmann, Mr. Mirko Mach and Dr. Thorsten Reinhard.

3. Financial statement and consolidated financial statement

The management board prepared the financial statement and management report of ecotel in accordance with the regulations specified in the German Commercial Code (HGB), and the consolidated financial statements in accordance with IFRS principles. ecotel's auditor, Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, audited the financial statement, the consolidated financial statement, the management report and the Group management report. The auditor has given the annual financial statements and the consolidated financial statement its unqualified audit approval.

The financial statement documents and reports of the auditor were submitted to all members of the supervisory board for review. Representatives of Deloitte & Touche GmbH participated in the negotiations of the supervisory board concerning these documents and have reported on the essential results of their audit.

The supervisory board has thoroughly reviewed the financial statement, the consolidated financial statement, and the Group management report submitted by the management board, and the management board's recommendation for use of the balance sheet profit and has discussed them with the auditor. The supervisory board has reviewed and approved the auditor's report concerning the result of its audit.

After the final result of its review the supervisory board raised no objections to the annual financial statement prepared by the management board or to the consolidated financial statement for financial year 2011, but rather approved the annual financial statement and the consolidated financial statement with the resolution of March 27, 2012. The annual financial statement of ecotel for financial year 2011 is thereby adopted.

4. Changes in the supervisory board in the reporting period

The mandate of all members of the supervisory board ended with the conclusion of the Annual General Meeting on July 29, 2011. Dr. Joachim Dryer had declared beforehand that he would no longer be a candidate for the supervisory board. The other supervisory board members were again presented for election at the recommendation of the supervisory board on July 29, 2011: Ms Brigitte Holzer, Dr. Norbert Bensel, Mr. Johannes Borgmann, Mr. Mirko Mach, Mr. Sascha Magsamen, and Dr. Thorsten Reinhard. Instead of Dr. Joachim Dreyer, the supervisory board recommended that Mr. Sascha Magsamen be elected to the supervisory board. The Annual General Meeting accepted each of the supervisory board's election recommendations. The members of the supervisory board were elected with a mandate that ends at the conclusion of the Annual General Meeting that passes a resolution for ratification of the acts of the supervisory board for the financial year 2015.

5. Changes in the management board in the reporting period

The appointment of board member Berthard Seidl ended on May 31, 2011, as scheduled. By resolution of the supervisory board of February 22, 2011, his appointment was extended for three years. Simultaneously, the employment contract of Mr. Seidl was extended for the same period subject to new conditions.

6. Committees

The supervisory board has formed a three-member audit committee that in particular deals with accounting, risk management and compliance issues. In the reporting period the audit committee met five times, and in particular, dealt with the quarterly reports and the 2010 annual financial statement. The audit committee was newly selected in the meeting of the supervisory board held on July 29, 2011 and is now comprised of Ms Brigitte Holzer (chairwoman) and Mr. Mirko Mach and Mr. Sascha Magsamen.

In addition, the supervisory board has formed a three-member nomination committee that prepares voting selections for the Annual General Meeting. The committee is unchanged and is comprised of Ms Brigitte Holzer, Mr. Johannes Borgmann (chairman) and Dr. Thorsten Reinhard. In the financial year 2011 this committee met once to prepare the election recommendation for the Annual General Meeting for the election of the new supervisory board.

The supervisory board thanks the members of the ecotel management board, as well as all employees of the companies of the ecotel Group for their great dedication to the Company and the work performed in the financial year 2011. Likewise the supervisory board thanks Dr. Joachim Dreyer who resigned from the supervisory board in the year under review for valuable contributions and dynamic support.

Düsseldorf, March 27, 2012
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 network or main network for the connection of local sub-networks, geographically distributed end devices, or centrally controlled networks. As a rule, the backbone has higher transmission capacity than that of the devices and networks connected to it and to each other.

Broadband access
Subscriber-side broadband network connection (broadband access) with high transmission speed. The connection is possible by wire via the existing copper twin wire using DSL processes via fibre optics, or via the broadband cable network (BC).

Carrier
A carrier/network operator is a company that operates telecommunications networks. A carrier/network operator has its own networks or has essential components, switching devices or network management systems that are important for transmission. Network operators are differentiated relative to the territory they cover, as global carriers, national carriers, regional carriers, and city network carriers or so-called city carriers. Global carriers act worldwide or internationally, national carriers offer their services and their network infrastructure in a geographically limited area within a country, and city carriers act within city limits or within a metropolitan area.

Contract Ownership
Is the active support of customers in the realisation phase of the order.

Customer Relationship Management (CRM)
Customer Relationship Management has the goal of addressing customer needs individually in order to increase customer satisfaction and thus keep the customer loyal to the company long-term. To this end the customer-oriented departments of a company, such as sales, marketing, and support are systematically aligned to the customer's needs.

DSL
Digital Subscriber Line – a digital broadband transmission technology with which transmission speeds of as much as several megabits/sec. can be achieved with conventional telephone networks (via copper cable).

Ethernet
Cable-based data network technology primarily used in local area networks (LAN). It enables data exchange between all devices connected in a LAN (PCs, printers, etc.). In its traditional form the LAN is limited to one building. Today Ethernet also connects devices over great distances and in the process enables transmission of greater data volumes.

HGB
Handelsgesetzbuch (German Commercial Code)

Housing/hosting
Provision of computer centre space and computer capacity in the computer centre through Internet service providers for the connection to the Internet.

IFRS
International Financial Reporting Standards.

IP Bitstream Access
The "IP Bitstream Access" product of Deutsche Telekom AG enables providers without their own infrastructure to autonomously market DSL connections without the additional telephone connection which was previously required.

Convergence product
A convergence product is an integrated fixed-line, Internet and mobile communications product.

Media streaming
Audio and video data that is received from a computer network and simultaneously sent.

MVNE
While the Mobile Virtual Network Operator (MVNO) develops, operates, and markets its own services as a virtual network operator, the Mobile Virtual Network Enabler (MVNE) in turn is a partner of the MNVO. The MVNE operates the necessary infrastructure in order to connect the services of the MVNO to the communication infrastructure of a mobile communications network (for transmission of greater data volumes).

MVNO
The Mobile Virtual Network Operator (MVNO) is a new business form of the mobile communications industry between the actual network operator and the service provider or reseller. As opposed to the network operator, the MVNO does not operate its own access network with its own broadcasting stations. However the MVNO has the possibility of operating core network services itself or renting core network services – e.g. switching, IN-platform, customer management, Home Location Register (HLR) from the network operator.
Thus the MNVO has the same possibilities of designing services as does the mobile network operator itself. For the service provider the design possibilities are limited to the implementation of price models that can be calculated on the basis of the voice data supplied by the carrier.

"NetMig" project
The term "NetMig" (abbreviation for network migration) describes the project of concentrating the IP backbone of 21 different access points to 2 redundant access points through consolidation of the network infrastructure. In this project the conventional connections of existing customers via fixed-line connections (leased lines) are replaced by high-performance Ethernet connections.

Network Operation Centre (NOC)
The network operation Centre (NOC) is the technical operating facility for a network and is responsible for the monitoring of the network.

on-net-/off-net area
In on-net areas full access products from alternative network operators are available. In the so-called off-net areas telecommunications services are realised through line transfer via DTAG.

Prepaid card
The term prepaid card describes the use of services via prepaid credit accounts, which is widespread in the telecommunications industry. The frequently-used designation "prepaid card" is based on the English word "prepaid" which is translated in German as "vorausbezahlt".

Preselection
Permanent preselection of the connection for the subscriber network operator (TNB) for a connection network operator (VNB) for handling calls. As a rule preselection requires a contractual agreement with the desired VNB. Implementation of preselection on the connection is made by the subscriber network operator.

Prime Standard
The Prime Standard is the admission segment for companies on the Frankfurt Stock Exchange who desire to position themselves internationally. In Prime Standard joint stock companies must satisfy international transparency requirements that extend beyond the scope of the General Standard.

PSTN
Public Switched Telephone Network (PSTN) is a long-distance network that is designed for handling telephone calls.

Reseller
Entity that resells telecommunications services of other telecommunications companies under its own name and at its own billing. So-called switch-based resellers have their own switching technology, resellers without their own switching computers are referred to as rebillers or switchless resellers.

Roaming
Enables telephone calls via networks of different network operators, for example, such as international roaming in the pan-European GSM system.

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

VoIP
Voice over IP – voice services based on the Internet protocol (so-called VoIP services) that in terms of quality and product design are comparable to traditional telephone services. VoIP services are characterised by the fact that their users can telephone on the basis of a packet-switching data network. In this regard the data network can either be the Internet or managed IP networks.

Full access product
Provision of a "genuine" ISDN connection via alternative subscriber network operators instead of a line transfer through Deutsche Telekom AG. The full access can optionally be purchased with a DSL connection.

VPN
Virtual Private Network – enterprise networks that are used for closed networking of enterprise locations.

White label service
Products that are marketed to customers not under their own brand, but as the brand of other companies, are referred to as white label products.

Wholesale service
Network overlapping trade (purchase and sale) of telephone minutes in larger volumes.

Financial calendar

May 15, 2012	Publication of the quarterly report Q1
July 27, 2012	Annual General Meeting
August 15, 2012	Publication of the quarterly report Q2
November 15, 2012	Publication of the quarterly report Q3

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Notes