2016

Annual Report

ecotel communication ag 2016 Annual Report

ecotel®
all around communication

Key figures

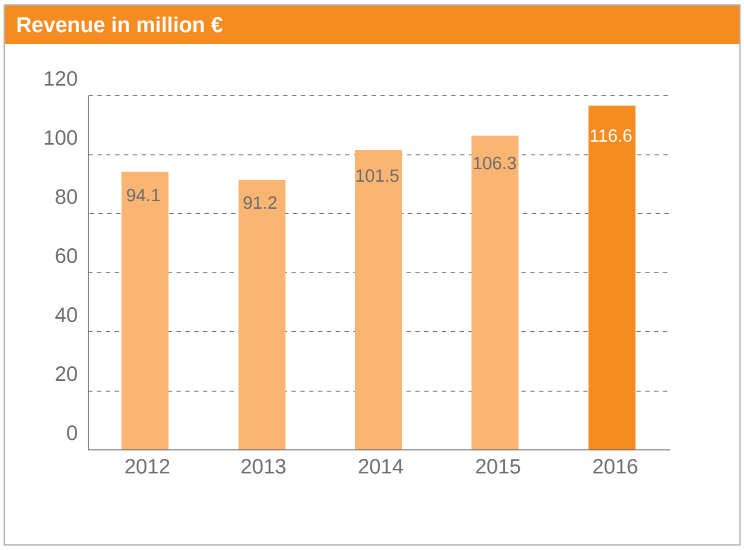
Amounts in million €	2014	2015	2016
Profit and loss account (IFRS)			
Revenue	**101.5**	**106.3**	**116.6**
Business Solutions	41.9	42.9	45.2
Wholesale	43.2	45.8	54.5
New Business	16.4	17.6	16.9
Gross earnings	**26.6**	**27.8**	**28.4**
Business Solutions	20.6	20.9	21.8
Wholesale	0.6	0.4	0.3
New Business	5.4	6.5	6.3
EBITDA [1,2]	**7.3**	**7.9**	**7.0**
in relation to revenue	7.1 %	7.4 %	6.0 %
Operating result (EBIT)	3.0	3.6	2.3
Consolidated profit [3]	1.2	1.6	0.8
Earnings per share in € [4]	0.33	0.46	0.24

Cash flow			
Financial resources at beginning of period	6.1	5.0	7.7
Cash flow from ongoing business activities	4.4	8.5	6.0
Cash flow from investment activities	–2.9	–3.2	–3.6
Cash flow from financing activities	– 2.6	– 2.6	– 2.6
Cash and cash equivalents as of 31/12	5.0	7.7	7.5

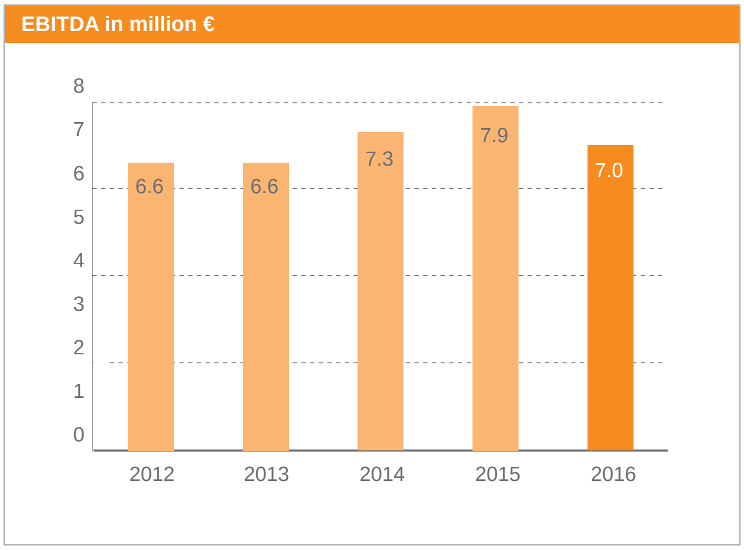
Balance sheet (IFRS)			
Balance sheet total	43.8	50.2	41.5
Equity	20.7	22.0	22.4
in % of the balance sheet total	47.1 %	43.8 %	54.1 %
Net financial assets	**–1.5**	**2.6**	**3.5**

Other key figures			
Number of shares as of 12/31 (outstanding)	3,510,000	3,510,000	3,510,000
Employees as of 31/12 [5]	217	212	241
Personnel expenses (million €)	11.9	11.9	13.1
Free cash flow (million €) [6]	**1.5**	**5.4**	**2.4**

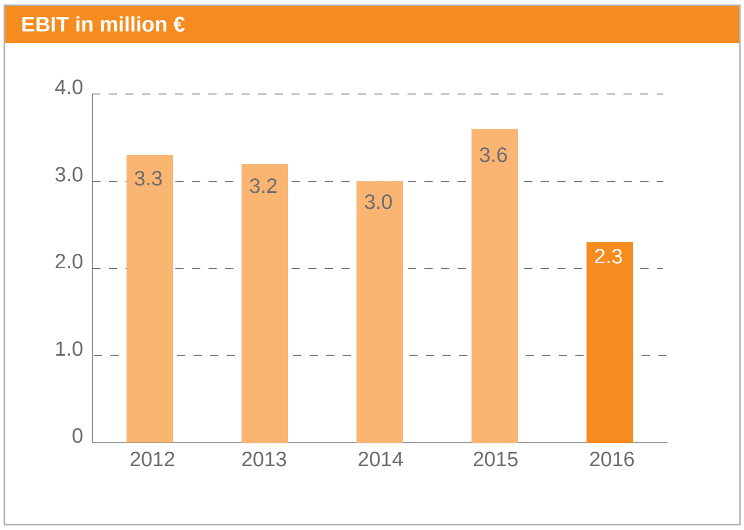
[1] Earnings before interest, taxes, depreciation and amortisation
[2] In 2016 before expenses for management reorganisation (€ 0.4 million)
[3] Corresponds to the consolidated profit after deduction of minority interests
[4] Both undiluted and diluted
[5] Without minority companies (synergyPLUS GmbH, mvneco GmbH)
[6] Free cash flow = cash flow from current business activities + cash flow from investment activities



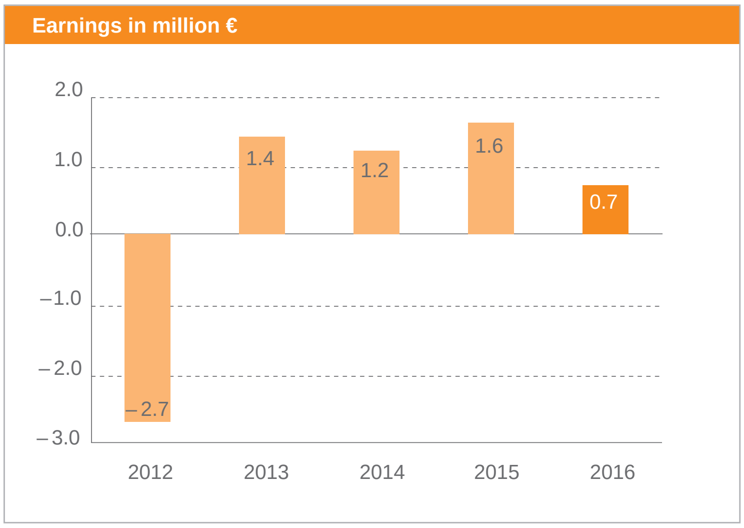
Revenue in million €
120
100
80
60
40
20
0
94.1
91.2
101.5
106.3
116.6
2012
2013
2014
2015
2016



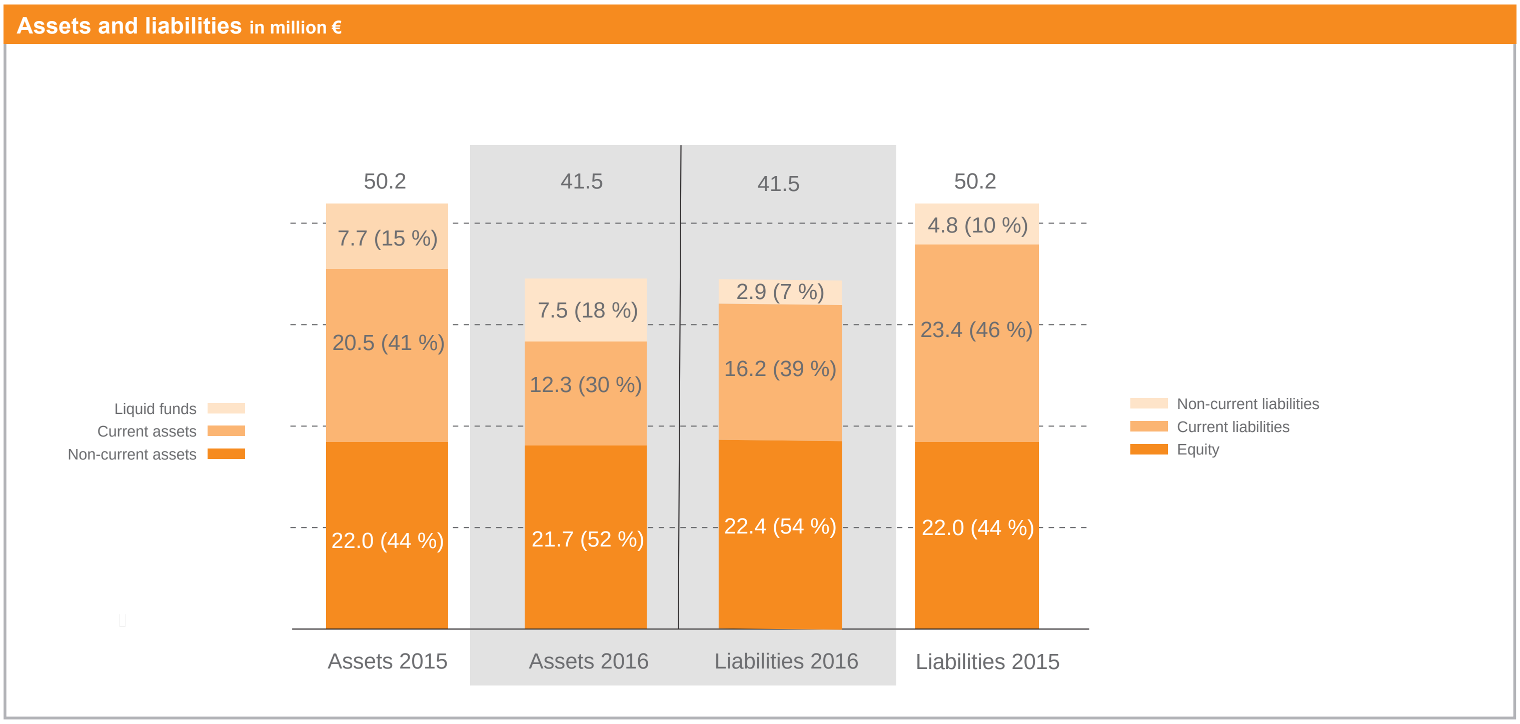
EBITDA in million €
8
7
6
5
4
3
2
1
0
6.6
6.6
7.3
7.9
7.0
2012
2013
2014
2015
2016



EBIT in million €
4.0
3.0
2.0
1.0
0
3.3
3.2
3.0
3.6
2.3
2012
2013
2014
2015
2016



Earnings in million €
2.0
1.0
0.0
−1.0
−2.0
−3.0
−2.7
1.4
1.2
1.6
0.7
2012
2013
2014
2015
2016



Assets and liabilities in million €
50.2
41.5
41.5
50.2
7.7 (15 %)
20.5 (41 %)
22.0 (44 %)
7.5 (18 %)
12.3 (30 %)
21.7 (52 %)
2.9 (7 %)
16.2 (39 %)
22.4 (54 %)
4.8 (10 %)
23.4 (46 %)
22.0 (44 %)
Liquid funds
Current assets
Non-current assets
Non-current liabilities
Current liabilities
Equity
Assets 2015
Assets 2016
Liabilities 2016
Liabilities 2015

Corporate profile

The ecotel Group (hereinafter »ecotel«) is a telecommunications company operating throughout Germany since 1998 that specialises in meeting the information and telecommunication (IT/telecom) requirements of customers. The parent company is ecotel communication ag. The shares are traded in the Prime Standard segment of the Frankfurt Stock Exchange. ecotel markets products and services in the following business segments: »Business Solutions (B2B)«, »Wholesale Solutions«, »Private Customer Solutions (B2C)« and »new media solutions«.

ecotel's core segment is represented by »Business Solutions (B2B)«. Here ecotel offers 18,000 small and medium-sized enterprises and increasingly also key accounts throughout Germany an integrated product portfolio of voice and data services (IT/telecom solutions) from a single source.

In »Wholesale Solutions« ecotel integrates the services offered to other telecommunications companies. In addition, ecotel is active in cross-network trading of telephone minutes (Wholesale) for national and international carriers; for this purpose, ecotel maintains network interconnections with approximately 100 international carriers.

The »Private Customer Solutions (B2C)« of ecotel include the services of the easybell Group. The Berlin-based subsidiary markets high-quality yet low-priced Internet and telephone services. For this purpose easybell provides rate-adaptable ADSL2 and VDSL services nationwide. easybell is also one of the market leaders in the provision of classic Call-by-Call and Internet-by-Call access.

With its »new media solutions« nacamar GmbH offers streaming services for media enterprises on the basis of its own Content Delivery Network (CDN), which is hosted in the ecotel computer centre. The company also markets customised solutions for content management systems, online representation and technical developments (apps) for access by end devices (smartphones, tablet PCs and smart TVs).

The corporate group, with its main office in Düsseldorf, currently has about 270 employees, including subsidiaries and holdings.

Contents

Foreword of the Management Board

Dear Shareholders,

We are very pleased to be able to join you in looking back on another successful financial year. The technological transformation and the related changes in the entire telecom market represent major challenges for us, but also offer ecotel unprecedented opportunities for the future. More about that later.

In the concluded financial year 2016 we again were able to achieve revenue growth. Consolidated revenue increased by € 10.3 million to € 116.6 million. Particularly in the profitable core segment Business Customers (B2B), ecotel continues on a steady course of growth. After € 42.9 million in 2015 the company achieved revenue in the B2B segment of € 45.2 million, with an increasing shift in the revenue mix toward future-viable access variants (xDSL, Ethernet, optical fibre access and VPNs), and from ISDN to modern IP-based voice products.

Revenue in the New Business segment decreased slightly to € 16.9 million (previous year: € 17.6 million). While revenue in Private Customer Solutions (B2C) of the easybell group remained stable, revenue in new media solutions continued to decline. The change in strategy and management implemented at nacamar in 2016 has already proven successful in the form of attractive new orders.

In Wholesale Solutions, unexpectedly high revenue was achieved in 2016, with an increase of € 8.7 million to € 54.5 million.

We were able to increase consolidated gross profit in 2016 by € 0.6 million to € 28.4 million. With a gross profit margin of more than 48 %, this was achieved essentially by an increase of € 0.9 million to € 21.8 million in the Business Customers (B2B) segment. The revenue growth and the change in the product mix therefore correspond to an increase in the gross profit margin. Gross profit in the New Business segment decreased slightly to € 6.3 million (previous year: € 6.5 million).

While EBITDA increased by € 1.1 million in the previous year due to one-time revenue from a successfully concluded legal dispute with an upstream supplier, expenses for management organisations burdened EBITDA with € 0.4 million in the concluded financial year. The overall EBITDA decreased in financial year 2016 from € 7.9 million to € 7.0 million. Johannes Borgmann resigned from the Management Board of ecotel ag on 31 August 2016; we thank him for his many years of service as a member of the Management Board and Supervisory Board. At the same time, the management of nacamar GmbH has changed as part of the strategic realignment.

EBITDA in the core segment Business Customers (B2B) decreased by € 1.2 million to € 4.0 million. Taking into account the described one-time effect from the previous year, there remains a reduction in EBITDA from business operations by € 0.1 million. The delta is primarily the result of additional investments for human resources, process adaptations and system developments. This will allow us to manage the currently increasing All-IP migrations as well as the increased volume of order acquisitions to the satisfaction of the customers. In the New Business segment EBITDA increased by € 0.2 million to € 2.9 million.

In 2016 it was possible to achieve a positive free cash flow of € 2.4 million (previous year: € 5.4 million) and to increase the net financial assets to € 3.5 million (previous year: € 2.6 million). The equity ratio increased from 44 % to 54 %. In view of the continuously improving balance sheet figures and the excellent business development and order situation, the Management Board and Supervisory Board have decided to recommend a dividend of € 0.23 / share to the shareholders at the Annual General Meeting.

Altogether we are very satisfied with the business trend in 2016 and the future perspectives for ecotel. Order acquisitions reached an all-time high, due in part to the acquisition of large-scale projects. The opportunities for further growth in the area of NGN voice products and marketing of Ethernet optical fibre access on the basis of alternative network operators are quite positive; the first contracts were already successfully implemented. The expected revenue and profit will successively become clear in 2017 and the following years.

The established resources and the process adaptations and system developments carried out in the past financial year will likewise already produce positive effects in 2017. The current migration of conventional access to All-IP products, however, will lead to additional investments in customer equipment in the coming years, which will not affect the earnings, but only the free cash flow.

Due to the successful introduction of the new products and the continued increase in order acquisitions, ecotel is in a position to successfully respond to today's fast-changing challenges. As a result of the special developments and growth potentials, the Management Board expects consolidated turnover in 2017 of € 95 million to € 115 million, with EBITDA of € 6.5 million to € 7.5 million and a continued stable gross profit margin and resulting growth of gross profit in the core segment Business Customers.

In conclusion we would like to thank all of our employees for their work and their contribution to our success. We thank our customers, business partners and shareholders for the close and trustful cooperation. We look forward to successful collaboration with you in meeting the upcoming challenges of the telecommunications market.

Achim Theis
Chief Sales Officer

Peter Zils
Chief Executive Officer

Peter Zils (born in 1963) is the company founder and chief executive officer of ecotel communication ag and is responsible for Strategy, Technology, Wholesale, Finance, Investor Relations and HR. He worked as an independent entrepreneur even during his studies at the Bochum University of Applied Sciences, where he completed a degree in communications engineering. In January 1998 Peter Zils established ecotel communication with headquarters in Düsseldorf, which meanwhile has developed into a group of companies with various subsidiaries and holdings. Since February 2015, Peter Zils has been a member of the VATM board. As a member of Germany's most important association of telecom competitors he is actively committed to improving market and competitive conditions for the telecom industry and its customers through regulatory and political measures.

Achim Theis (born in 1964) has been working in the company since 1 January 1999, first as Managing Director of ecotel communication GmbH and since 1 June 2001 as a member of the Management Board. Since 1 September 2016 he is responsible for Sales, Marketing, Product Development and Operations in his capacity as Chief Commercial Officer (CCO). After completing his studies in Business Administration at the German Academy of Administration and Economics (Verwaltungs- und Wirtschaftsakademie (VWA)), he first worked in different Sales and Marketing management positions in various industries. Achim Theis has an experience of more than 18 years and therefore an extensive network and know-how in the telecommunications market.

Wilfried Kallenberg (born in 1960), has been working for ecotel communication ag since 2008. As Chief Technical Officer (CTO) and authorised signatory he is responsible for IT, Network Operation, Product, System and Network Engineering, and Process and Project Management. Since 2014 in his function as Managing Director he has been instrumental in the successful realignment of the 100 % subsidiary nacamar GmbH. After his vocational training at SEL AG and other qualifications he first worked as a professional service engineer. In 1994, when the liberalisation of the telecommunications market became apparent, Wilfried Kallenberg switched from the system provider to the telecom network operator WorldCom (now Verizon). Subsequently, the network and IT expert performed technical and operative functions for other carriers and service providers.

Holger Hommes (born in 1977) has been working for ecotel communication ag since 2014; first as a business manager and since September 2016 as Chief Financial Officer (CFO) and authorised signatory. Besides group controlling and reporting he is also responsible for Financial Accounting, Controlling, Billing and Technical Purchasing. After completion of his degree in sales administration (at a university of applied sciences) in 2000 he began his career in auditing with Arthur Andersen and Ernst & Young, before he switched to the Deutsche Telekom group in 2006. There he held different positions with responsibility for the consolidated financial statements and reporting, including three years in charge of the financial statements for the subsidiaries.

The Management

Evolution of the standards – new hype or old hat

SIP – SDC – UDP – SRTP – TLS – SIPS – T.38 – FMC – HD Audio

The Fantastic Four, Germany's most famous hip hop group, were already singing about the phenomenon of excessive acronyms in 1999 – also in connection with ISDN technology, which was in its boom time back then.

Oliver Jansen
Director Marketing/
Product Management

The phenomenon continues: The switch to All-IP (and also NGN) will provide plenty of new material. We should not forget that the hype word of today will only be a passing reference tomorrow; however, »tomorrow« should not always be taken literally, since the new technology could remain important for a decade before it becomes a matter of course. Think of the bumper stickers in the 80s and early 90s emphasising the anti-lock braking system of what was then considered the modern automobile. Today, ABS is sometimes inadvertently omitted in the sparkling depictions of a particular model – although it is always there as a standard feature of every car.

The present-day hype words from the All-IP environment will undergo a similar development: SIP and related elements such as encryption of the media streams (SRTP) and signal data (TLS/SIPS), the special efforts for continued trouble-free fax communication (T.38), the convenient mobile use of »wireline« access (FMC) and now finally voice quality, as HD audio, that does not have to hide behind the creative high-definition titles of the colleagues from the brown goods sector.

After some initial irritation – perhaps with some resistance, but hopefully also curiosity – these terms will shape the world of telecommunications and will be with us for a long time to come. What manufacturers and providers of telecommunications equipment have been preaching for 20 years is now inevitably and finally becoming reality: the much-talked-about issue of convergence. Without well-founded knowledge of network protocols, bandwidth management, risk assessment and quality classes, telecommunications services – once robust and exclusive – will be lost in the nirvana of data packets or even be replaced through unexpected attacks by trojans.

Successful implementation, however, does not mean that all future-oriented telecommunications companies must now become primarily IT providers. On the contrary – specialisation in the huge area of communication services and their perfect implementation, combined with the knowledge of where to purchase special sub-areas as a service, is the key to success. A doctor who specialises in orthopaedics does well to have certain sub-areas of his diagnosis and treatment performed by a colleague in radiology, for example. That is generally more professional, more economical, time-saving and in the long run better for everyone involved. A suitable acronym for this type of cooperation can be taken from our own specialised jargon: UCC – Unified Collaboration & Communication.

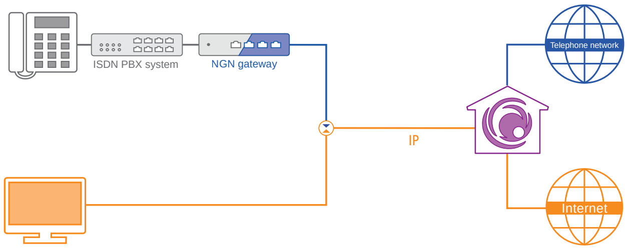
On the basis of a successfully implemented program of product diversification ecotel is well prepared for the upcoming technological transformation from circuit switching voice services (ISDN) to packet switching IP-based voice services (All-IP). Because B2B-capable IP-based voice services require high-quality customer access by means of high-availability Ethernet access products, which ecotel has been successfully marketing for more than eight years.

A special advantage of the modular products offered by ecotel is the option of optimal combination of different services: Through dynamic prioritisation of ecotel voice services on an ecotel data line, for example, it can be used much more effectively and the bandwidth can be selected based on actual requirements. This significantly reduces the amount of unproductive buffer bandwidth. This special product design allows us to offer a much more suitable and economically more attractive range of services compared to many of our competitors.

ecotel has already successfully established the following IP-based voice and data products in the market:

NGN-based PMX

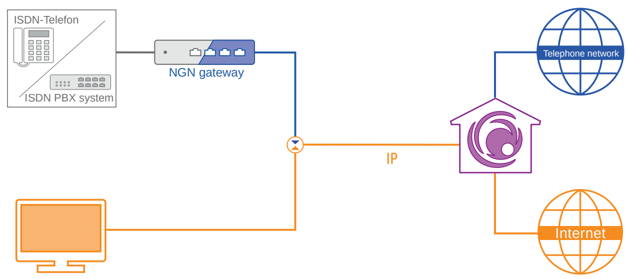
The product PMX VoIP allows ecotel customers throughout Germany to benefit from attractive rates and connection charges for PMX telephone access. For this purpose ecotel provides the customer with an additional network termination component. An NGN gateway converts the incoming and outgoing signals of the existing ISDN PBX systems into IP-based protocols, with no need for retrofitting or new equipment.



In addition to monetary savings on the base price and connection charges the customer also benefits from high flexibility, since he can use the data bandwidth dynamically for voice and data services. He can also continue using the existing ISDN PBX system.

NGN-based S0

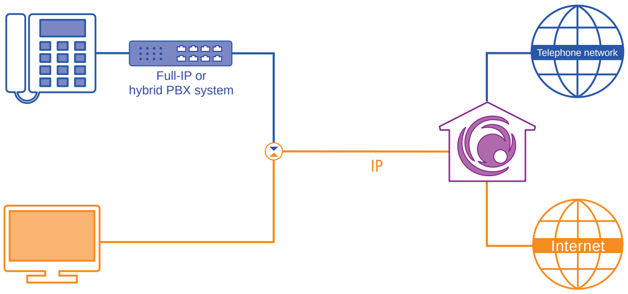
With ecotel office-flat/voice-direct NGN ecotel customers receive emulated ISDN access with all standard services, including voice prioritisation (QoS). The NGN bundle combines voice access with a telephone flat rate (optional in voice-direct NGN) in the national wireline network with ADSL access (optional VDSL) and a data flat rate. With this bundle ecotel offers suitable emulation products for every type and number of S0 or S2M access points in order to optimally meet the requirements of business customers.



The ecotel onnet region is therefore now virtually nationwide.

SIP trunk for customers with IP-capable PBX systems

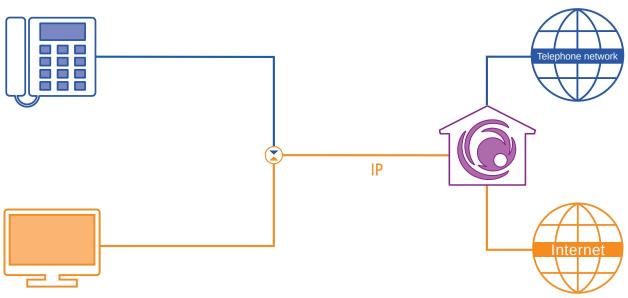
For ecotel customers who already have a complete IP-capable PBX system, the IP-based voice product sipTrunk 2.0 is used. The ecotel SIP trunk and a data line (ecotel or third-party) with sufficient capacity allows the use of between 2 and 300 voice channels, depending on customer requirements. The existing phone numbers can either be retained, or replace or expanded with the assignment of new numbers.



SIP account for customers with IP telephones

If instead of a PBX system customers use IP telephones that are connected directly to the data network, they can be provided with the access product sipAccount 2.0.

The SIP account is therefore a typical alternative product for the former ISDN multi-device connection. As with the latter, the SIP account allows the use of individual telephone numbers (without a direct dialling function). In addition to use by smaller business customers, the product sipAccount 2.0 with its two voice channels is ideal for decentralised application environments, such as branch offices without a central PBX system or for the regional telephone numbers of field sales employees.

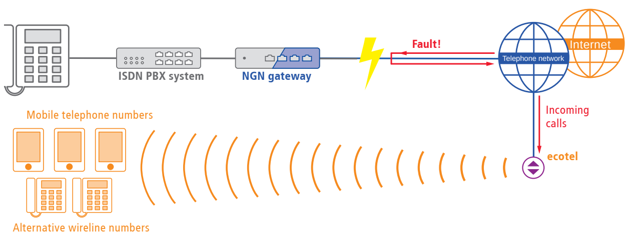


As with sipTrunk 2.0, existing phone numbers can either be retained, or replaced or expanded with the assignment of new numbers.

Uninterrupted availability, also in case of malfunctions

With the market launch of its own TNB products ecotel has developed special services for business customer access that are unequalled – for example, for uninterrupted availability even in the event of technical malfunctions:

»ecotel @once« now ensures uninterrupted availability for the customer even in the event of technical malfunctions (such as power outages or line failures). The storage of destination numbers (such as mobile phone numbers) by phone number or extension in the ecotel switching facilities (TNB, C5 switch) enables automatic and immediate rerouting of the incoming calls from the stored destination number. Rerouting remains active for the duration of the outage and automatically returns to »normal operation« as soon as the fault has been rectified.



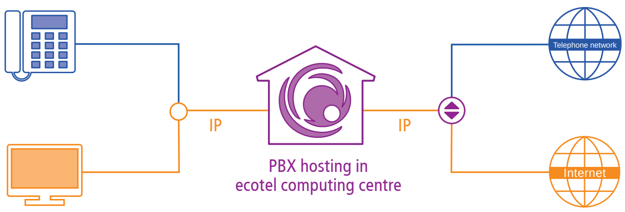
This product option is currently available for the following products:

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

PBX hosting

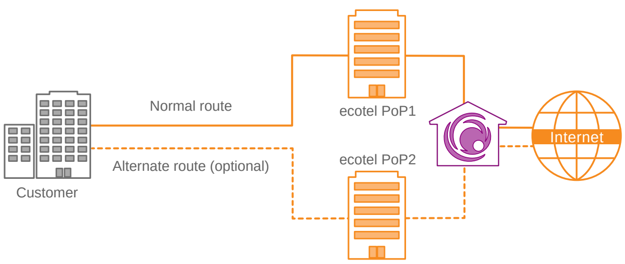
For the first time, ecotel offers pbxHosting as a standard product for hosting services on a virtual server. The product is intended for example for marketers of PBX systems from Unify (formerly SIEMENS).

Instead of a physical PBX system that is installed at the end customer's premises, they choose a virtual system that is centrally hosted in the ecotel computer centre and market it to their customers – as in the past – through their respective business models. The goal is to sell additional products to Unify customers, in addition to the computer centre services. As soon as an ecotel data line and – for switching of external calls – an ecotel SIP trunk are used for access to the PBX system, partners and customers can benefit from the lower package prices. This concept is also available for virtualisable PBX systems of other manufacturers.



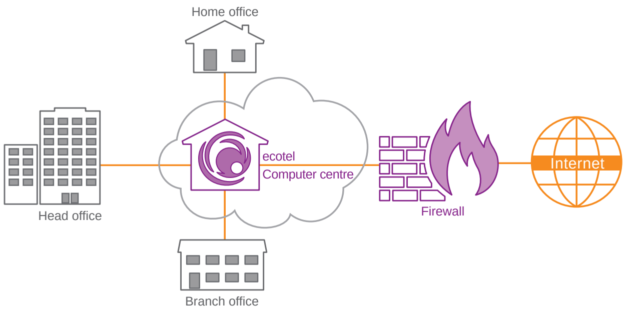
Nationwide available data lines

Professional Internet access from ecotel creates optimal conditions for efficient communication and trouble-free data exchange. On the basis of high-performance Ethernet transmission technology, ecotel offers point-to-point connections with guaranteed bandwidths – due to the multi-carrier concept also at locations where DSL-based access is either not available or infeasible due to insufficient bandwidth.



Multi-location networking via MPLS-VPN

Multi-location networking is implemented by ecotel on the basis of this broadband access via MPLS-VPN with ISO-certified security »Made in Germany«.



The high level of scaling options offered by the access technology and a large number of additional services guarantee the requirement-based and cost-effective networking of locations – ideal as a platform for future-sustainable IP telephony. Integration of the single locations within the MPLS-VPN was implemented by ecotel both with Ethernet lines, including guaranteed bandwidth throughputs and with SHDSL and ADSL lines and mobile UMTS/LTE router solutions. To guarantee availability especially of critical locations, dedicated backup connections with the Hot Standby Routing Protocol (HSRP) are used for automatic switching of the VPN connection as needed. ecotel provides special security in communication with the public Internet via a high-availability central Internet breakout with a 1 Gbit/s port. Due to ecotel's multi-carrier concept for networking of locations, ecotel customers benefit from maximum bandwidth availability and centrally managed connection technologies from a single source.

Comprehensive data concept for MHK Group

Integrated housing & MPLS-VPN »Made in Germany«

The MHK Group AG is a modern service provider and a successful community for small and mid-sized kitchen, furniture and sanitary dealers. With more than 2,300 retail partners representing revenue of more than € 4.5 billion, the MHK Group is one of Europe's leading sales cooperations in the kitchen, furniture and sanitary sector. The corresponding marketing concept »musterhaus küchen Fachgeschäft« is the epitome of individually planned kitchens with first-class service in Germany. The dedication of the MHK Group focuses on Germany, Belgium, the Netherlands, Austria, Switzerland and Spain.

MHK headquarters in Dreieich

Good purchasing conditions reinforce the positions of the partners among the competition. The MHK Group with headquarters in Dreieich near Frankfurt uses clearly defined marketing concepts that are specially tailored to the requirements of SMEs. Service enterprises of the MHK Group specialising in the kitchen, furniture and sanitary sector support the partners with impeccable services connected with marketing, the Internet, business management and finances so they can achieve above-average and lasting success in this market. Since September 2001 the IT subsidiary macrocom has been procuring secure high-availability housing services from ecotel while using ecotel's ISO 27001 certified computer centre for the secure accommodation of the company's own servers in modern system racks. Their availability is monitored and ensured by the ecotel NOC by means of 24x7 service. Domain services round out the housing / hosting bundle.

New requirements for secure WAN network technology

When the MHK Group examined the existing IPSec-VPN and it was time to award a new contract for secure, cross-location corporate communication, ecotel's many years of VPN competence convinced the company in this respect as well. The main requirement was a high-availability WAN network with suitable bandwidths for secure data exchange between MHK locations, both national and international.

An additional challenge: secure integration of the housing services in the form of LAN interconnection of the server systems by means of the new MPLS-VPN. This requires stable and intelligent networking of the locations in the form of a high-performance MPLS Virtual Private Network (VPN) for the fast and secure transmission and processing of large data packets.

MHK proprietary brand Elementa

For the new VPN data network of the MHK Group, ecotel connected 5 locations in Germany and 4 European locations in Belgium, the Netherlands and Austria via high-performance Ethernet connections on the basis of copper and optical fibre technology. This makes it possible to achieve guaranteed symmetrical transmission rates of up to 90 Mbit/s. To further increase security at the MHK headquarters in Dreieich / Frankfurt, a Hot Standby Routing Protocol (HSRP) backup system was set up. In case of line failures, the existing IP network is automatically switched temporarily to the backup system, so that users do not notice the failures.

The integration of the central housing services at the ecotel computer centre in the new MPLS-VPN has the additional advantage of short traffic routes and optimal utilisation of line capacities.

MHK GROUP

Additional security with respect to public Internet

All MHK locations are provided with secure access to the public Internet by means of a central Internet breakout with a 1 Gbit/s port and a firewall that is managed by ecotel. All connected trade partners of the MHK Group have fast and secure access to the hosted services in the ecotel computer centre and applications of the MHK Group. These include for example financing services of the CRONBANK, which belongs to the MHK Group, as well as purchasing services and innovative 3D planning systems.

Jürgen Riese, IT Director of the MHK Group, explains: »With the new data network from ecotel we have not only a highly secure and completely managed MPLS-VPN, but we also see a significant improvement in performance. The focus of services on one provider with contact persons who are responsible for both housing and VPN is an enormous advantage for us. In this respect we rely on the cooperation with ecotel, which has existed for nearly a decade. The transparent overall concept and the fair prices continue to convince us.«

A well-coordinate branch network for the WMF Group

Broadband MPLS data network & gradual VoIP migration

For more than 160 years now the brands of the WMF Group stand for exquisite culinary and gastronomic culture. Every day more than 100 million people around the world use products from WMF, Silit and Kaiser for preparing food, cooking, eating, drinking and baking at home. Or they enjoy speciality coffees and foods that were prepared in restaurants or hotels with the products of the WMF, Schaerer and Hepp brands. The outstanding design, perfect functionality and optimal quality of those products ensure an enjoyable culinary experience. The long-established firm was founded in Geislingen in 1853.

The goal at all locations of the WMF Group is to bring people together. At home, en route or in fine restaurants, to allow them to share exquisite and delicious moments. The high standards of quality that employees of the WMF Group set for themselves are reflected in all business processes and applications.

Since virtually all work processes in the shops and also in the main office are IT supported, the company requires trouble-free and consistently high-speed data transmission. On the basis of state-of-the-art technologies and with fail-safe backup solutions. In 2016, the WMF Group commissioned a standardised corporate network with a homogeneous network topology and maximum available bandwidth at all locations in Germany and in foreign parts. Another requirement was the migration of the existing wireline access from conventional ISDN technology to the innovative All-IP / VoIP technology in the branch offices.

Maximum available bandwidth

The independent corporate consulting firm for information technology and telecommunications, GW Kom of Oberderdingen in the Kraichgau region, was commissioned to search for a suitable IT / telecom provider. After intensive research, especially with respect to availability and performance of the Internet access, ecotel was assessed as a suitable provider for the WMF Group.

Guido Weippert
Managing Director of GW Kom

Guido Weippert, Managing Director of GW Kom, gives the reasons for the decision: »As an established solution provider, ecotel convinced us with almost 20 years of competence in the networking of branch offices and enterprises with multiple locations. The multi-carrier concept – network interconnection with leading infrastructure firms – allows ecotel to offer the maximum available bandwidth at every location nationwide. We were especially impressed by the flexibility of implementing customer requirements beyond what is standard.«

Specifically, the contract includes networking of a total of 210 WMF locations (180 in Germany, and 30 in Belgium, France, the Netherlands and the Czech Republic) in the form of an expandable MPLS-based VPN data network with high bandwidth rates and quality of service (QoS) parameters. The networking of the individual branch offices was implemented predominantly via ADSL and VDSL technology. The mainstays of the ecotel MPLS network are two Ethernet VPN interconnections, each with transfer rates of 100 Mbit/s. The central Internet breakout with a 100 Mbit/s port provides special security in communication with the public Internet. In addition, a comprehensive backup concept on the basis of LTE and UMTS technology ensures stable operation and prevents failures. This is especially important for the branch offices, since the connection of the POS systems to the main office and payment transactions via EC Cash have to function trouble-free at all times.

Gradual All-IP migration in wireline network

In view of the upcoming transformation to All-IP technology, the life cycle of the existing ISDN-based PBX systems was extended by means of VoIP-capable gateways. Smaller shops received new VoIP-capable PBX systems, on which SIP accounts and SIP trunks support Internet telephony and All-IP technology.

Martina Baisch-Kerscher, Head of IT Systems & Services, Global IT of the WMF Group, explains: »Our new networking solution from ecotel is based on a modern infrastructure with new technology and substantially higher bandwidths. The high performance of the overall concept, in combination with the high degree of flexibility and service orientation, confirmed our decision. In ecotel we have found a partner who reliably fulfils our complex technological requirements.«

Turbo data for well-known makes of cars

Innovative networking solution on the basis of optical fibre technology

Established in 1894 and the second oldest Mercedes-Benz partner worldwide, Auto-Scholz® has been operating for more than 120 years in the top segment of car dealerships in Franconia. The principle for success of the owner operated establishment is based on a full-service spectrum for the brands Mercedes-Benz, smart, Porsche and Volkswagen. The scope of service includes dealing in new, used and certified pre-owned cars with original replacement parts and accessories, complete repair services, and attractive financing and leasing options. Auto servicing for Audi and selected services for utility vehicles round out the broad spectrum of services.

requirement was to prepare the wireline system for the transformation from ISDN to All-IP technology to enable the change to VoIP telephony on short notice.

The right solution for the future

The search for a suitable provider was carried out by upDate Service GmbH of Neumarkt, which specialises in consulting services and marketing of IT/telecom solutions for business customers. Managing Director and industry expert Christian Stellwagen is very familiar with the requirements of SMEs with branch structures and knows what is important in the implementation of data intensive company networks:

Company Headquarters, Auto-Scholz® GmbH & Co. KG, Bamberg

Due to continuous growth and the subsequent sharp increase in the company's data volume it became necessary to adapt the communication network of the 16 dealerships at various locations to state-of-the-art technology in the form of a Virtual Private Network (VPN) and to substantially increase the previous performance of the company network. Another

»Our customers expect a substantial increase in performance in the form of faster data connections and higher transfer capacities, together with cost optimisation through the use of up-to-date technology and systems.

Christian Stellwagen, Managing Director of upDate Service GmbH

For the implementation and trouble-free operation of such a complex solution one needs a dynamic provider with optimal customer service. After our analysis of the bids of the different IT / telecom providers, ecotel convinced us with innovative technology, custom services and the best performance content.«

AUTO-SCHOLZ® ZUKUNFT ERFAHREN

Before the new data network for the Scholz dealership was completely installed and configured, two locations in Bayreuth and Sulza first received test access. The positive experience in the installation and configuration of the access and the close cooperation with ecotel's project managers made it possible to integrate all Auto-Scholz® locations in the company network within a short time. On the basis of innovative MPLS technology, the locations were networked as an Ethernet VPN using optical fibre and copper lines with transfer rates from 10 to 100 Mbit/s with guaranteed bandwidths. The network is designed for private routing of the data instead of through the public Internet. The modern MPLS platform is controlled by the company's own Network Operation Centre (NOC) in the ISO-certified ecotel computer centre in Frankfurt am Main. From there, the VPN projects are actively monitored 365 days a year, around the clock.

More transparency through monitoring

The ecotel monitoring tool allows for convenient monitoring and analysis of the customer data lines. It is possible, for example, to measure the actual utilisation of the capacity and to identify bottlenecks early on.

Robert Panzer, Head of IT at Auto-Scholz®, explains the advantages of the cooperation with ecotel in a nutshell: »For the introduction of our new data network we sought a solution to boost the previous performance in the corporate network without increased costs. With the new ecotel Ethernet VPN our internal systems and applications are stable and fast, and are now always available. Even in the roll-out phase we learned to appreciate ecotel's central support and flexibility; the principle of 'high competence with special service' is practised actively here.« He adds, in conclusion: »We are well positioned with ecotel also with respect to the upcoming transformation in wireline technology.«

AddOn your business

nacamar sets focus on digital components

In 2016, digital transformation became more than just a catchword for many companies. Digitalisation is making progress in nearly every business sector and presents enormous challenges to entrepreneurs. The situation demands service providers who can provide support in this process, as well as the right answers, and above all, the right tools.
The following figures give evidence: From the present perspective, many obstacles with respect to access to digital media have already been overcome:

- Connectivity – 89.3 % of households in Germany have access to the Internet*
- Mobility – 95.1 % of Germans own a mobile end device and have mobile online access
- Usability – state-of-the-art smartphones and tablets facilitate access to new media
- Scalability – virtually unlimited storage capacities that are usable and affordable for everyone.

This shows that the conditions for digital transformation have been created. The challenge now is to use them for the individual business model to sustain profitability and create added value.

The Company

This development was recognised early on by the new management of the ecotel subsidiary nacamar consisting of Benjamin Buchholz, Sebastian A. Weiß and Wilfried Kallenberg, who have realigned the company strategy accordingly. Specially developed components, so-called AddOns, close the gap between the raw material and the application, according to the principle of »Software as a Service Concept«, as the following examples show.

AddRadio – the leading radio content delivery network (CDN) in Germany

In recent years the Internet has become an additional established distribution channel for the medium of radio. More than 40 % of Germans use Internet audio services on a daily basis**. More than 5 million listeners use players with technology based on AddRadio.

All components needed for the successful digital development of a radio service are offered by AddRadio:

- CDN – high-availability delivery via the radio CDN in the company's own computer centre
- Players – use of web players for accessing the stream
- AGMA – automated and time-controlled reporting in accordance with the standards for web radio content
- Security – provision of the stream via HTTPS and security through secure link
- Transcoding – maximum range due to automatic conversion of provided audio data in qualities and formats of the respective end devices
- Marketing – Monetisation of the stream by means of advertisement and marketing

With nacamar in the leading market position in Germany, the conditions for developing new markets are ideal in terms of both technology and marketing. Starting in 2017 the goal will therefore be to develop AddRadio into a leading radio product in other European regions.

AddVideo – video components as a service

The subject of Internet video continues to show strong growth. Attractive services such as Netflix, Spotify and Facebook have made video streaming an established part of daily media use. This development is accompanied by the user's expectation to be able to watch his series or the news in high quality at any time – also by means of mobile end devices. It also underlines the increased demand for suitable tools for companies of the digital economy, to be able to use video on the Internet.

This is the approach of the new product from nacamar – AddVideo. AddVideo offers the entire video workflow in a single interface, which allows optimal integration in existing projects. The modular design allows customers to remain flexible; for example, they can easily adapt modified terms and conditions without having to switch to a different technology.

nacamar

Outlook for 2017 – on the way to becoming a product provider

With the AddOn strategy nacamar sees itself as a pioneer or even as a »midwife« for new formats and products. The new components are based to a large degree on the demand and will lead to a much broader portfolio of smaller, scalable products. With this strategy nacamar is pursing the »Software as a Service« concept for the development and marketing of new products.

The components will be used primarily through so-called application programming interfaces (APIs) and can be integrated in existing back-ends or content management systems. The goal is to complete the changeover from a content delivery specialist to a product provider of digital transformation, in order to develop new markets and segments.

** Compare LWR – German Statistical Office survey 2016*
***Source: ARD / ZDF online study 2016*

More than 10 successful years of online marketing

easybell GmbH is the strong pillar of ecotel communication AG in online marketing. The Berlin-based subsidiary markets high-quality yet low-priced Internet and telephone services for private and business customers.

For these customers easybell provides nationwide DSL services as well as FTTH in more and more regions.

In 2016 easybell GmbH celebrated its tenth anniversary. The small start-up in Potsdam meanwhile has become one of the ten most relevant DSL providers in Germany. The relocation within Berlin to a new and larger office was also one of the highlights of the past year.

Fair contract conditions and high customer satisfaction

As a result of its innovative and attractively priced products with fair contract conditions and excellent service, easybell is one of the most popular providers of broadband access lines. This is confirmed for example by the DSL customer survey conducted by Computerbild.de, in which easybell again came out on top.

The reasons for this are obvious: very well-trained and motivated support employees ensure exceptionally high customer satisfaction. No other provider can match the transparent, low-priced products without a contract term. This causes satisfied customers to remain with easybell for a long time and to recommend the products in Internet forums and in personal contact.

This customer behaviour does more than continuously boost the positive image of easybell. The recommendation marketing established in this way, together with intelligent price and marketing strategies, also results in low marketing costs for each new customer.

Moreover, easybell continued to expand its multi-carrier strategy in 2016. Meanwhile, Deutsche Telekom and innogy (subsidiary of RWE) are also marketing upstream services, since QSC AG was integrated in the existing processes as an additional carrier for DSL products in 2015. Positive result: Availability increases while dependency on single carriers decreases.

In addition, easybell invested intensively in self care in 2016, which means that customers can take care of practically all contract matters on the customer portal. That reduces waiting times for the customer as well as the workload of the support team.

Rapid growth in 2016

Many enterprises are now switching to another telephone provider, since ISDN will be discontinued by 2018. This benefited easybell in 2016 as well. The number of customers doubled in the promising SIP trunking market, for example. In this market, easybell convinces SMEs with an attractive price structure. Besides, easybell can offer a certification of numerous PBX systems, in order to guarantee trouble-free operation. easybell therefore continues to grow dynamically.

The major success of SIP trunking offers is also related to the introduction of a partner program. easybell sales partners receive special support, can commission orders directly via a partner portal, and have the ability to conveniently manage the access of their customers. Through well-aimed partner acquisition in 2016 it was possible to acquire about 200 new sales partners.

In addition, easybell GmbH also continues to offer classic Call-by-Call access. In this market segment it has been one of the market leaders for years already.

Product cavalcade in 2017

In 2017, easybell will further diversify its product pallet and push ahead with the carrier structure. For example,the company will introduce an innovative Cloud PBX offer. This will reduce the costs per extension to a level that will attract attention on the market. Also in 2017 there will be bundles for business customers

easybell

that will include not only DSL access with a fixed IP number, but also a SIP Trunk and a Cloud PBX. This represents another innovative product from easybell that will raise the benchmark for the competition.

easybell will continue to increase the number of carriers, resulting in increased availability, in order to reach even more customers. This will allow easybell to continue expanding the company's market position in the German telecommunications market.

The ecotel stock

The stock of ecotel communication ag (ecotel stock) has been listed since 2006 on the Frankfurt stock exchange and since 2007 in the Prime Standard. The capital stock as of 31 December 2016 amounts to 3,510,000 shares. The company holds no treasury shares.

Since 2015 ecotel has distributed a cash dividend annually. Last year's cash dividend amounted to € 0.23 / share.

Price trend 2016

The expansive monetary policy of the reserve banks, a low interest environment and the positive economic outlook continued to be determining factors in the share markets in 2016, resulting in an ambiguous situation.

For the fifth year in a row the DAX remained on a growth course with a plus of 6.9 %. After an unsteady start, it remained during the year below the previous year's level, and reached a plus in December.

The TecDAX developed more positively in 2016, initially analogous to the DAX. In the second half year the TecDAX developed more strongly than the DAX. This development continued to the end of the year.

The ecotel stock experienced a very mercurial stock exchange year in 2016. It started the year at € 8.40. In the first half year the development of the ecotel stock was above the two comparison indices. In the second half year the ecotel stock reached the peak at € 9.25, but was unable to remain at that level. In the fourth quarter the ecotel stock suffered a decline and closed the year at a price of € 7.98, which was below the price at the start of the year. This is a decline of 5 %. With 3,510,000 outstanding shares ecotel had a market capitalisation of € 28.0 million as of 31 December 2016 (previous year: € 29.5 million).

Average daily trading of the stock in 2016 was 2,450 shares per day compared with 8,400 shares per day in the previous year.

Investor relations

In 2016 an intensive dialogue also took place with investors, analysts and journalists to develop the trading volume of the ecotel stock and to boost the company's image. The development of the ecotel stock was again evaluated as in the past by analysts of the DZ Bank in research publications. In addition, ecotel was represented in 2016 at investor fairs, such as the Munich Capital Market Conference. IR measures are again planned for 2017 to maintain contact to potential investors.

Current information on the company, such as quarterly reports, press releases and a financial calendar, as well as analyst presentations can be accessed on the company website under »Investor Relations« immediately after they are published.

Shareholder structure

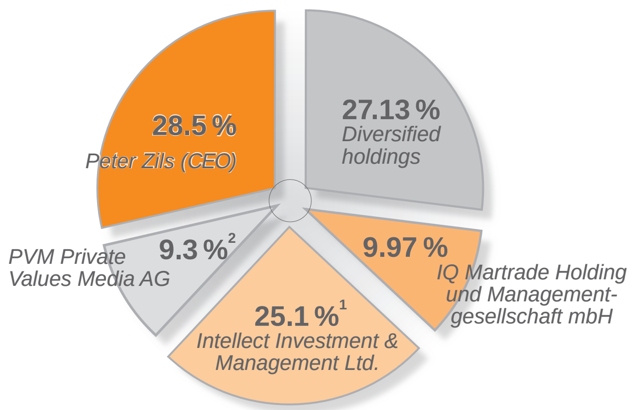
In 2016 there was no significant change in ecotel's shareholder structure. Peter Zils (CEO of ecotel) holds a share of 28.5 %, Intellect Investment & Management Ltd. a share of 25.1 %, IQ Martrade Holding und Managementgesellschaft mbH a share of 9.97 % and Private Value Media AG a share of 9.3 % of the company's stock.

Key figures Ø 2016

WKN	585434	Date of first listing	29/03/2006
ISIN	DE0005854343	Number of shares as of 31/12/2016	3,510,000
Symbol	E4C	Average daily trading volume 2016	2,450
Market segment since 08/08/2007	Prime Standard	*High share price 2016 (€)*	9.25
		Low share price 2016 (€)	7.65
Index affiliation	CDAX, Prime All Share Technology All Share	Market capitalisation as of 31/12/2016 (million €)*	28.0
Class	Non par value shares	Designated sponsor	Close Brothers Seydler Bank AG

** Based on the closing price of € 7.98 per share for 3,510,000 outstanding shares as of 31 December 2016*

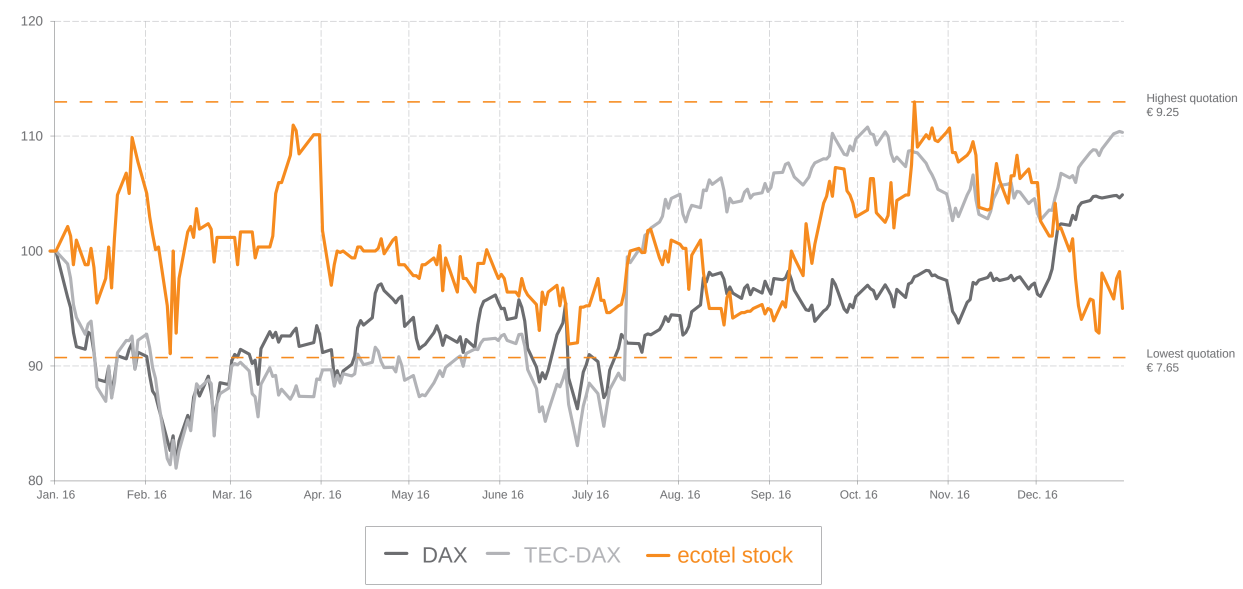
Shareholdings (31/12/2016) in percent



[1] *According to the last notice of 09/07/2009 prior to call-in of treasury shares in 2014 (basis: 3,900,000 shares)*

[2] *According to the last notice of 07/04/2011 prior to call-in of treasury shares in 2014 (basis: 3,900,000 shares)*

Price trend of the ecotel stock in 2016 in percent absolute



Group management report

I. Foundations of the group

1. ecotel overview

Business units and reporting segments

The ecotel Group (hereinafter »ecotel«) is a group of companies operating throughout Germany since 1998 that specialises in the marketing of information and telecommunications solutions for different target groups. The parent company is ecotel communication ag (hereinafter »ecotel ag«).

ecotel markets its products and services in the following segments:
»Business Solutions (B2B)«, »Wholesale Solutions«, »Private Customer Solutions (B2C)« and »new media solutions«.

ecotel divides the business units into the following segments for the segment reporting:

The **Business Customers** segment includes the business solutions (B2B) division of ecotel ag and the **Wholesale** segment includes the wholesale solutions division of ecotel ag and the business activities of the minority holding mvneco GmbH. The **New Business** segment comprises Private Customer Solutions (B2C) of the easybell Group and new media solutions of nacamar GmbH.

Reporting segments	Business Solutions	Wholesale	New Business	
Brands	ecotel all around communication	ecotel all around communication mvneco The MVNE Company	easybell	nacamar
Business divisions	Business Solutions (B2B)	Wholesale Solutions	Private Customer Solutions (B2C)	new media solutions

The four business units are described in more detail below:

Business Solutions (B2B)

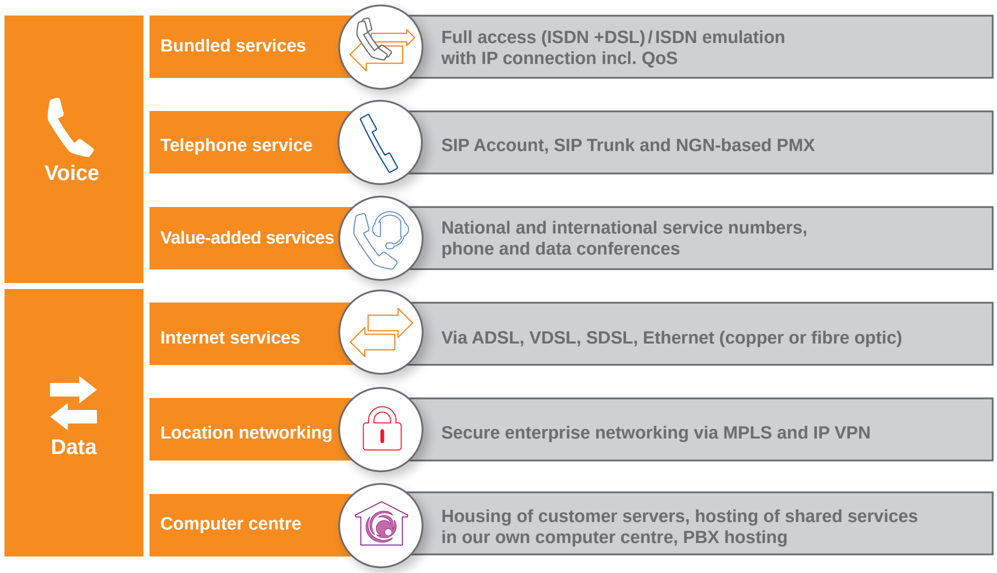
Solutions for business customers are the core business

ecotel's core segment is represented by the business segment »Business Solutions (B2B)«. Here ecotel offers small and medium-sized enterprises and increasingly also key accounts throughout Germany an integrated product portfolio of voice and data services (IT / telecom solutions) from a single source.

ecotel has a complete portfolio of voice services that includes everything from telephone access (ISDN / VoIP) to value-added services. The broad portfolio of data services ranges from ADSL, SDSL and VDSL to Ethernet and fibre optic cable access and secure corporate networks via VPN, as well as managed services.

The following overview shows the product portfolio in Business Solutions:

Product spectrum for voice and data



Sales partners and well-aimed use of direct marketing are the basis for success

Depending on the target group, marketing of Business Solutions (B2B) is controlled via direct marketing (key accounts) or via partner marketing with more than 400 marketing partners. Thus ecotel has broad access to the 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. Nationwide – with annual revenue in this segment of more than € 45 million – ecotel provides standardised and custom telecommunications solutions to more than 18,000 enterprises in different industries.

Wholesale Solutions

In »Wholesale Solutions« ecotel integrates the services offered to other telecommunications companies. In addition, ecotel is active in cross-network trading of telephone minutes (Wholesale) for national and international carriers; for this purpose, ecotel maintains network interconnections with approximately 100 international carriers. ecotel processes a portion of the national and international phone calls of its business customers via the wholesale platform and likewise uses this platform for the company's own growing local exchange network. The mvneco GmbH holding, as a technical service provider and consultant for mobile communications and related managed services, is allocated to the wholesale segment.

Private Customer Solutions (B2C)

The »Private Customer Solutions (B2C)« of ecotel include the services of the easybell Group. Private customers benefit from capabilities and services that previously were available only to business customers. Customers in this segment use the same technology and connections that are used for the business customers. Minimum contract terms are kept to a minimum. Through the subsidiaries sparcall GmbH and Carrier-Services.de GmbH the easybell Group offers inexpensive Call-by-Call services for national and international phone calls.

new media solutions

With its »new media solutions« nacamar GmbH offers streaming services for media enterprises on the basis of its own Content Delivery Network (CDN), which is hosted in the ecotel computer centre. Specially developed AddOns for audio, video and in the future also for data, close the gap between the raw materials and the application, according to the principle of »Software as a Service« concept. In this respect, nacamar has the complete portfolio of tools needed for the production and operation of such components. With AddRadio, nacamar is already the market leader in Germany.

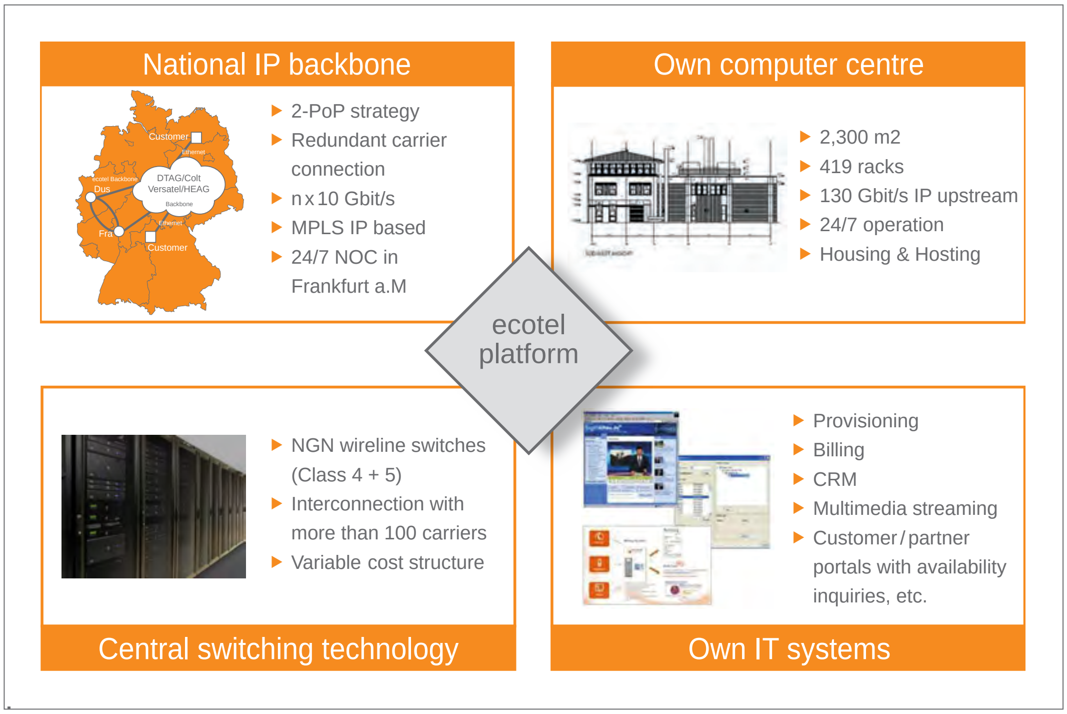
Infrastructure

ecotel does not operate its own access network, but rather procures the TC call origination services from various upstream suppliers and can therefore select the operator with the best price / performance ratio. Deutsche Telekom (DTAG), Vodafone, Versatel, Telefonica, Verizon, Versatel, Unity Media, EWE, QSC and Colt can be cited as typical upstream suppliers. However, the number of upstream suppliers is currently increasing drastically, so that the demand by our business customers for broadband optical fibre cables is constantly on the rise, and that ever more infrastructure providers are opening their state-of-the-art networks to this target group. The majority of the ecotel cost basis is variable due to customer-specific purchasing of the call origination service. ecotel operates its own local exchange network on the basis of state-of-the-art NGN technology and is capable of offering voice switching services, managing multiple number blocks and porting numbers to its own network. This means that the purchase of telecommunications supply services will increasingly be limited to customer access.

Network interconnections with other infrastructure providers increasingly meet the demand for optical fibre access

ecotel operates its own ISO 27001 certified computer centre on the campus of Europe’s largest Internet node in Frankfurt a.M. as well as additional computer centre space in Düsseldorf. The two Points of Presence (PoP) locations are networked via the company’s own central voice and data backbone and are connected with numerous regional and global carriers through network interconnection.

For the new media business the Group maintains its own content delivery network (CDN). mvneco GmbH also operates a central mobile communication platform. On the IT side, ecotel develops and operates its own systems for order and router management, network monitoring and billing.



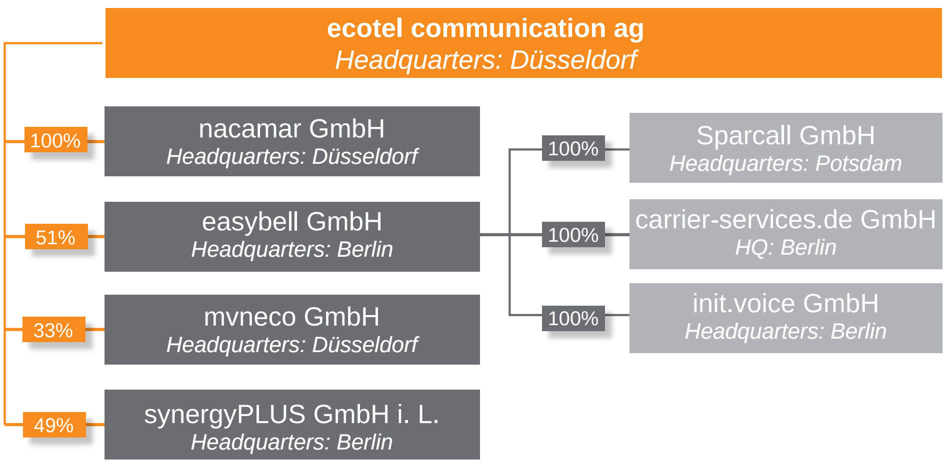
Certified
ISO
27001
Made in Germany.
Computer centre+VPN

2. Structure of the group

ecotel communication ag

Ecotel Group structure

ecotel communication ag (ecotel ag) is the largest operative unit and also the parent company. ecotel ag markets products and services for the segments »Business Solutions (B2B)« and »Wholesale Solutions«.



nacamar GmbH

nacamar on the way to becoming an AddOn company

nacamar GmbH trades as an autonomous service provider in the new media segment and offers companies in the media industry a broad spectrum 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 CDN (Content Delivery Network), as well as the largest German radio streaming platform in the Group's own computer centre with connection to all important national and international networks.

easybell GmbH

easybell adapts to the needs of private customers

easybell GmbH offers a wide range of innovative and low-priced telecommunications products. Currently the Berlin-based company markets broadband Internet access and VoIP telephony for private customers, as well as SIP trunking services for smaller enterprises. The products are marketed primarily online on the company's website or via telecommunications price sites. In addition, the company holds 100 % of the shares in sparcall GmbH as well as 100 % of the shares in carrier-services.de GmbH. Both companies market Call-by-Call services. init.voice GmbH was founded for the development and provision of Voice-over-IP services, in which easybell in turn holds 100 % of the shares.

mvneco GmbH

mvneco GmbH functions as a technical service provider and consultant for telecommunications companies. As a Mobile Virtual Network Enabler (MVNE) mvneco enables its customers to market simple or complex mobile communications services under their own brand name. In this type of cooperation mvneco both sets up and operates the technical IT platform. Integration of the platform in the network of the partner network operator chosen by the customer is likewise part of the service spectrum.

synergyPLUS GmbH i.L.

synergyPLUS GmbH i.L. functioned until the end of 2014 as ecotel's exclusive marketing partner. The company is winding up and no longer has any business operations.

3. Control of the group

Group controlling and management reorganisation

The legal management and representative body of ecotel ag is the Management Board. In accordance with § 5 of the articles of association of ecotel ag, 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. The Supervisory Board appoints Management Board members for a maximum 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 on cogent grounds. According to the articles of association of ecotel ag the Supervisory Board issues rules of procedure for the Management Board. According to § 6, Paragraph 1 of the statutes, ecotel ag is legally represented by two Management Board members or by one Management Board member together with one authorised signatory. The current members of the Management Board of ecotel ag are Peter Zils (Chairman / CEO), who is responsible for Strategy, Business Development, Human Resources, Finance, and Investor Relations, and Achim Theis (CCO), who is responsible for Marketing, Sales, Product Development, and Operations. In addition, two authorised signatories are appointed, who, together with the Management Board, form ecotel's executive board: Holger Hommes (CFO) and Wilfried Kallenberg (CTO).

In 2016, there were changes at the management level of the group: Johannes Borgmann resigned from the Management Board of ecotel communication ag on 31 August 2016. Mr. Borgmann was a member of the Management Board since 1 May 2014 and was responsible for Finances, Operations, and Human Resources. Johannes Borgmann simultaneously retired from the management of nacamar GmbH.

Sustainable corporate controlling

The goal of the executive board of ecotel communication ag is sustainable management of the group, which means focusing on medium- and long-term goals in the decision-making process. When making decisions, the interests of all stakeholder groups are taken into consideration. They are, on the one hand, the **shareholders** and **lenders,** and on the other hand, the **employees, customers, sales partners** and **ecotel** itself.

The **shareholders** expect transparent reporting, reliable forecasts and plannable and attractive shareholder remuneration. The **lenders** expect a solid balance sheet structure and compliance with the stipulated covenants, in addition to on-schedule service of capital (interest and payback). The interests of the **employees, customers and sales partners** focus on safeguarding of workplaces, development of innovative and attractive products, and further development of services and processes for improved customer and partner satisfaction. As a legal entity, **ecotel** requires economic sustainability and investments in new growth fields (All-IP transformation, optical fibre strategy), investments in high-performance customer routers, continued development of the company's own local exchange network, and provision of the necessary funds for the financing of additional large-scale projects.

Sustainable financial strategy

It is necessary for ecotel to ensure a balance of the expectations of these different interest groups. As of the end of 2016 ecotel therefore published a sustainable financial strategy on the basis of this future-oriented corporate management, which continues to be implemented consistently:

Sustainable financial strategy

- The available funds are used for all stakeholder groups.
- The financial stability should not be jeopardised.

ecotel	Employees / customers / sales partners	Lenders	Shareholders
► Growth-related investments in 2017 / 18	► Investments in partner and customer portals and in process optimisation and IT systems	► Stable balance sheet figures	► Transparent capital market reporting
► High-performance customer routers and project financing min. € 3 million	► Growth-related expansion of human resources	► Net financial assets	► Realistic forecasts
► Infrastructure and security technology min. € 2 million	► Attractive remuneration for sales partners and employees	► EBITDA / Revenue > 5 %	► Ability to pay dividends
► All-IP transformation min. € 2 million		► Equity ratio > 45 %	► FCF* goal starting 2019 > € 1 / share
► Cash reserve including credit line min. € 5 million		► Service of capital (interest and repayment) in 2017 / 18 € 3.0 – 3.5 million	► Dividend policy 40 – 60 % of EPS
			► Sustainable profitable growth in B2B segment

ecotel manages the reporting segments in accordance with the overall strategic alignment of the Group. There is overall budget planning, into which the annual budgets of the business units, as well as the other Group companies flow. The focus of this planning is being placed on the two controlling factors consolidated revenue and consolidated EBITDA. In addition, gross profit margin in the Business Customers segment is a significant profitability metric. For this purpose, the direct variable costs in this segment are allocated in the planning at the level of product types / categories based on the cost object method in order to determine the gross margins. Product-overlapping indirect costs (overhead), as well as personnel costs are planned essentially on the basis of cost centres. Reporting during the year for the Business Customers and Wholesale Solutions segments occurs monthly at the revenue and EBITDA level with detailed analysis of the deviations relative to planning and the previous year, as well as a regularly updated forecast for the end of the financial year. For detailed controlling of the core business – the Business Customers segment – specific cross-segment key figures (such as volume per minute, price per minute, purchasing margin, quantity structures) are monitored and visualised in a reporting system. The New Business segment is regularly monitored based on defined reporting criteria for the single legal units. Here the focus of analysis is likewise on the key figures for revenue and EBITDA. The controlling of liquidity, investment and working capital is a central process at ecotel communication ag. It also provides the essential financing for the Group, for example by providing credit lines or taking out long-term annuity loans.

4. Research and development

ecotel itself conducts no basic research or extensive technological developments. ecotel focuses on the compatibility of existing line types, rate combinations and device configurations. The maximum price-performance ratio for the customer is always the top priority. Development expenses in recent years therefore were limited essentially to technical development, including the company's own local exchange network, as well as development services to create a portal for sales partners, and system developments and improvements related to the processing of orders for the new product spectrum. The new products and the consequential new processes and systems necessitate a temporary drastic increase in investments in these fields. The capitalised development expenses in 2016 therefore totalled € 1,095,000 (previous year: € 300,000).

II. Economic report

1. Market and competitive environment

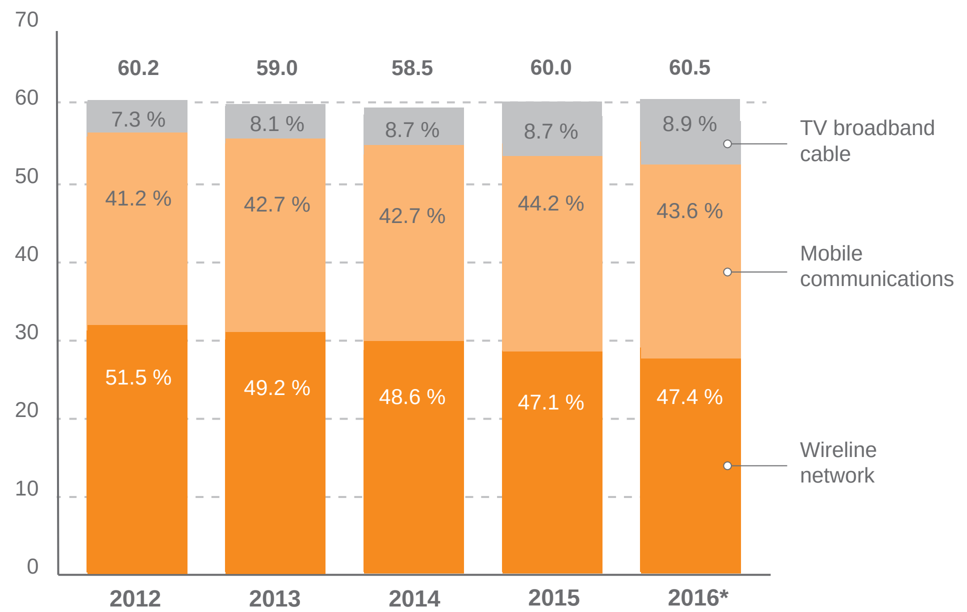
The economic situation in Germany in 2016 was marked by solid and constant economic growth (+0.7 % in the first quarter, +0.5 % in the second quarters, +0.1 % in the third quarter, and +0.4 % in the fourth quarter). For the entire year 2016, this results in growth of 1.9 % (adjusted for calendar effects +1.8 %). In the previous year the GDP grew on a similar scale (+1.7 %). A long-term analysis shows that economic growth in 2016 was half of one percentage point above the average for the last ten years (+1.4 %). *(Source: German Statistical Office)*

Telecommunications market volume increases by 0.8 %

Overall market positive, wireline business carries growth

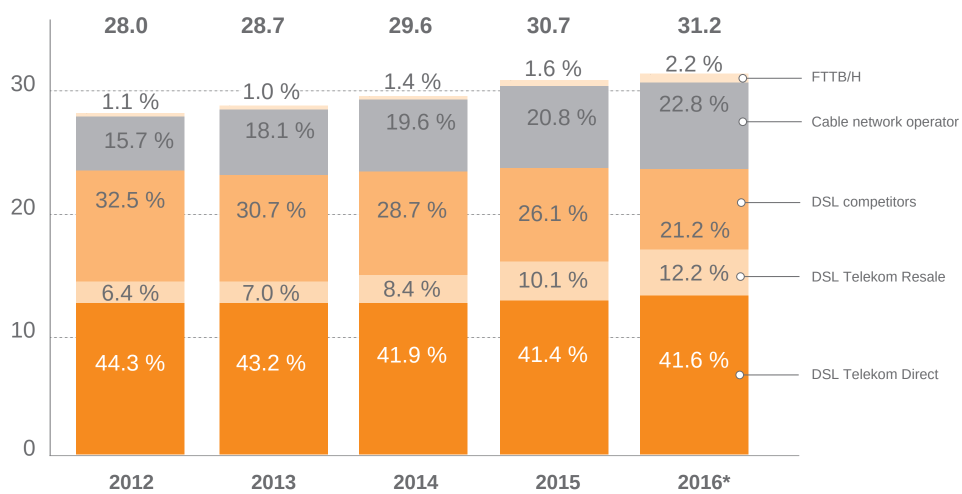
The telecommunications market volume increased in 2016 by 0.8 % compared to the previous year to about € 60.5 billion. The wireline market, consisting of access, voice and data services with external sales of € 34.1 billion represents 56.3 % of the total market for telecommunication services. Mobile communications revenue decreased slightly from € 26.5 billion to € 26.4 billion despite increased data traffic. The number of activated SIM cards will grow by 13.9 % compared to the previous year and will total about 128.1 million cards. The number of activated post-paid cards will exceed the quantity of activated pre-paid cards by nearly 9 million.

Total market for telecommunications in Germany *(in billion € and %)*



*Source: DIALOG CONSULT/VATM 18. Telecom market analysis Germany 2016 * Preliminary figures*

Broadband access *(in million lines and %)*



*Source: DIALOG CONSULT/VATM 18. Telecom market analysis Germany 2016 * Preliminary figures*

The number of broadband access lines in wireline networks increased to about 32.1 million in 2016. In this regard, about 6.6 million connections (21.2 %) were for unbundled subscriber access, 3.8 million (12.2 %) for resale DSL / wholesale DSL / IP bit stream, 13 million (41.6 %) for Deutsche Telekom in direct marketing to end customers and 7.1 million (22.8 %) for cable network operators. 0.7 million households (2.2 %) have now been connected via a broadband optical fibre access.

The competitors of Deutsche Telekom continue to hold a market share of 58 % in the direct end customer relations.

Trends in the B2B market

The Business Customers (B2B) segment in Germany is characterised by continuing intense competition. Revenue in the Business Customers market, at about € 22.5 billion in 2016, remained at about the previous year's level and a total market share of 37.2 %. The transformation from ISDN to All-IP technology is driving the convergence of voice and data communication. The demand for higher bandwidths also persists.

An important foundation of the Business Customers segment is the continued expansion of broadband Internet access both via wireline (fibre optics, vectoring) and mobile technology (LTE, WLAN). Future trends include the shifting of PBX systems into the network (Hosted PBX / IP Centrex) and the strong convergence of telecommunications and IT.

A significant current IT trend is »Cloud Computing« with its different forms: Infrastructure as a Service (IaaS), Platform as a Service (PaaS) and Software as a Service (SaaS). Essentially this involves the shifting of local computer services (hardware) and application programs (software), as well as data storage (content) into central and high-performance secure computer centres of an IT / telecom provider, which are accessed by the user via secure broadband connections. Significant aspects in this connection also include data protection and the security of centrally stored data.

All-IP and cloud services are moving to the foreground

Other important IT / telecom trends are:

- Industry 4.0
- Big Data Analytics
- Machine to Machine (M2M) / Internet of Things (IoT) / Computing Everywhere
- Over The Top (OTT) services such as Skype, WhatsApp, Netflix
- Smart devices / portable, bendable, 3D printing, eHealth / telemedicine
- Mobile payment / contactless payment
- Smart energy / intelligent power systems
- Regulatory trends

In order to remain competitive, B2B enterprises must be able to respond to the aforementioned trends and to offer business customers relevant bundled products nationwide and from a single source. As a production factor, telecommunications services for business customers are especially important in terms of macroeconomics. A suitable regulation framework must therefore ensure that competitors nationwide can fall back on all necessary and physically available preliminary services.

Regulatory decisions of the German Federal Network Agency (BNetzA) are very important in terms of macroeconomics

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

In the area of telecommunications and postal services the German Federal Network Agency ensures

- equal opportunity and functioning competition, also area-wide,
- comprehensive supply of telecommunications and postal services (universal services) at competitive prices,
- support of telecommunication services in public facilities,
- efficient and trouble-free utilisation of frequencies, also in consideration of broadcasting requirements and
- protection of the interests of public safety.

In addition to regulatory functions, the Federal Network Agency also performs other diverse tasks in the telecommunications and postal services market; it

- grants licenses for postal services,
- helps to find solutions relating to issues of standardisation,
- manages frequencies and telephone numbers,
- resolves radio interference,
- combats the misuse of telephone numbers,
- observes the market and
- advises citizens about new regulations and their effects.

ecotel responds to the market trends in the form of customer preferences

ecotel attempts to discover trends early on through market analysis and observation in order to determine risks and potentials. In 2016 ecotel was actively involved in the working groups and in the committee of the Association of Telecommunications and Value-Added Service Providers (VATM) and discussed the following current issues:

- Improvement of the political and regulatory conditions for broadband expansion in Germany
- Assurance of a full-coverage basic supply of the same type of telecommunications services (universal services) in urban and rural areas, including broadband access, at affordable prices
- Coordination of European telecommunications policy (EU Single Market) with the special requirements of the German telecommunications market

- 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)
- Modernisation of existing data protection regulations and of consumer protection
- Support and influence of the initiatives in the regulatory and political arena, with the goal of long-term procurement of adequate preliminary products and emphasis of the special national requirements in view of EU decisions, so that they will be taken into account

2. Earnings, financial and asset position

Earnings and performance

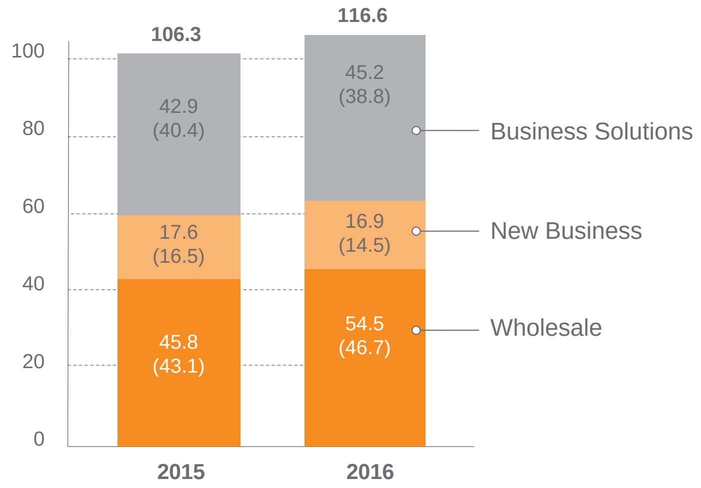
Consolidated revenue grows by 10 %.

B2B segment grows by 5 %.

With total revenue of € 116.6 million (previous year: € 106.3 million) ecotel was again able to exceed the € 100 million threshold in 2016. Total revenue therefore increased by almost 10 %. Growth in revenue was again achieved in the high-margin core segment Business Customers (B2B). Revenue in this segment increased by € 2.3 million or 5 % to € 45.2 million. In the difficult to plan Wholesale Solutions segment, revenue increased by € 8.7 million to € 54.5 million, while the New Business segment experienced a slight decrease in revenue by € 0.7 million to € 16.9 million.

The following diagram shows the revenue development and its breakdown among the reporting segments. The basic breakdown has not changed in comparison with the previous year, since the revenue growth is distributed throughout all segments, if not in the same proportion in all areas.

Revenue breakdown by segments *(in million € and %)*



Business Customers segment: Continued increase in revenue and gross profit

The speed of the transformation from ISDN to data and ALL-IP is increasing

In the core segment Business Solutions (B2B) ecotel was able to increase revenue from € 42.9 million to € 45.2 million. The growth trend of the past years therefore continued. In view of the already increasing transformation of the conventional ISDN-based access to All-IP-based voice access and the subsequent decline in ISDN sales, the revenue mix continues to change significantly.

B2B segment: Revenue and gross profit increased

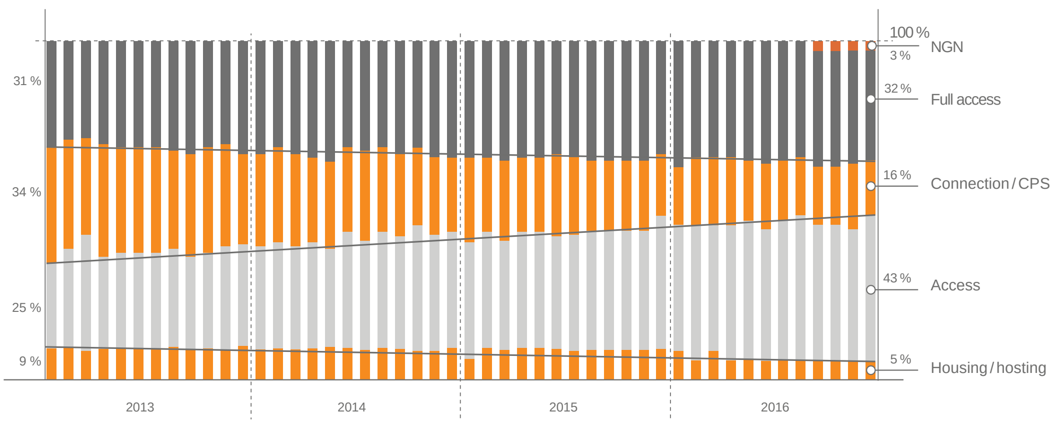
Access, in which revenue from data access (xDSL, Ethernet and optical fibre) is bundled, meanwhile constitutes more than 40 % of total revenue. On the other hand, revenue from pure access / CPS (carrier pre-selection) marketing continues to decline as expected, constituting only about 16 % of total revenue at the year's end.

At the beginning of 2016 ecotel successfully began marketing the company's own NGN products for IP-based voice services. In the fourth quarter, revenue with these All-IP products already made up 3 % of total revenue.

The following diagram shows the revenue development of the essential product groups in the Business Customers segment over the last four financial years. Other revenue in this segment, such as one-time remuneration for the router rollout in the Allianz Group in 2013 and 2014, or the virtually constant revenue from managed router services, were not included in this analysis.

Revenue development in B2B from 2013 to 2016

The speed of the transformation from ISDN to data and All-IP is increasing.



In the core segment Business Customers ecotel increased not only revenue, but also the gross profit from € 20.9 million to € 21.8 million. The gross profit margin of 48.4 % in this segment was virtually unchanged compared to the previous year (48.6 %). The changes in the product and revenue mix must also be taken into account with respect to the gross profit development. For example, ecotel succeeded in compensating the decreased revenue and gross profit in the low-margin product group access / CPS with corresponding increases in revenue with the innovative All-IP products, without significantly affecting the gross profit margin.

New Business segment: Slight decline in revenue and gross profit

The New Business segment developed differently as expected in financial year 2016. For example, new media solutions was completely reorganised, including changes in the strategy and management. While in the past, revenue from streaming services was supplemented especially by custom project solutions in content management and end device compatibility, since mid-2016 the focus in this segment is on scalable products, so-called AddOns for audio, video and, in the future, also data. The resulting decrease in revenue is meanwhile offset by attractive new order acquisitions.

In the Private Customer Solutions (B2C) segment of the easybell Group, revenue remained relatively stable. The transformation process from ISDN to All-IP is also becoming visible in this segment. While the revenue from pure call-by-call transactions has decreased as expected, revenue from the marketing of unbundled Internet and telephone access continued to increase. Furthermore, easybell is meanwhile successfully positioned as an online SIP-Trunk provider for business customers.

Altogether, revenue decreased slightly in this segment from € 17.6 million to € 16.9 million. Consolidated profit therefore decreased slightly by € 0.2 million to € 6.3 million. The gross profit margin remained constant at 37 %.

Wholesale Solutions segment: unexpected high revenue

Revenue in Wholesale Solutions continues to be difficult to plan. In financial year 2016 revenue increased again by € 8.7 million to € 54.5 million. Due to the significant drop in remuneration for mobile access, it was not possible to maintain the level of the gross profit situation, resulting in a slight decrease to € 0.3 million.

EBITDA development

While one-time revenue from a successfully concluded legal dispute with an upstream supplier totalling € 1.1 million increased EBITDA in the previous year, expenses for management reorganisations burdened EBITDA with € 0.4 million in the concluded financial year. Not only did Johannes Borgmann retire from the Management Board of ecotel ag and nacamar GmbH on 31 August 2016; the management of nacamar GmbH was also completely reorganised. EBITDA decreased in financial year 2016 from € 7.9 million to € 6.6 million. Compared to the previous year this corresponds to a decrease of € 1.3 million. Without taking into account the management reorganisation ecotel achieved EBITDA of € 7.0 million in financial year 2016.

EBITDA before expenses for management reorganisation: € 7.0 million.

In 2016, EBITDA included € 1.1 million in one-time revenue.

EBITDA in the core segment Business Customers (B2B) decreased by € 1.2 million to € 4.0 million. Taking into account the aforementioned one-time effects of € 1.1 million from the year 2015, EBITDA in this segment decreased by € 0.1 million. In order to efficiently process the current All-IP transformation, which will gain speed in the coming years, and the increasing order volume, especially in connection with key account projects, to the satisfaction of the customers, additional investments were made in financial year 2016 in human resources, process adaptations and system developments. In 2016, 20 additional employees were hired in this segment, which, including the salary adjustments, corresponds to an increase of about € 0.9 million in expenses for human resources. In past years, investments in hardware and the computer centre for the All-IP transformation did not affect net earnings. In the net earnings from 2016, the aforementioned necessary investments in the future consumed the gross profit increase in the Business Customers (B2B) segment and caused the decrease in EBITDA.

EBITDA in the New Business segment increased from € 2.7 million to € 2.9 million. Cost reductions in this segment and the capitalisation of self-generated intangible assets in the new media solutions segment compensated the slight decrease in gross profit.

EBITDA and results for the year

EBIT decrease to € 2.3 million.

EBIT decreased in 2016 by € 1.3 million to € 2.3 million. Write-downs, at € 4.3 million (previous year: € 4.2 million) remained nearly unchanged.

Financial restructuring of mvneco successfully concluded.

EPS: € 0.24 / share

The financial result, at € – 0.1 million, remained at the level of the previous year. Interest expenses for long-term financial loans taken out remained constant at € 0.2 million. While write-ups of € 0.1 million were carried out on non-current financial assets in the previous year, the result from financial assets measured at equity was reported in financial year 2016 at € 0.2 million. Both effects resulted from mvneco GmbH, where successful financial restructuring measures were implemented in the previous year and in financial year 2016. A detailed explanation of the implemented measures is included in the consolidated notes.

As a result the surplus (consolidated profit) decreased by € 0.7 million to € 1.7 million. After deducting the shares of other shareholders totalling € 0.9 million, the consolidated profit of ecotel totalled € 0.8 million (previous year: € 1.6 million). This corresponds to earnings per share of € 0.24 (previous year: € 0.46).

Comparison of the forecasts with the actual business trend

In 2016 ecotel did not achieve all forecast target corridors.

Forecast for revenue and gross profit achieved

EBITDA forecast including unplanned expenses for management reorganisation of € 0.4 million not achieved

		Target corridor		
Forecast key figure	**2016 ACTUAL (million €)**	**2015 consolidated financial statement (million €)**	**Precise definition November 2016 (million €)**	
Consolidated revenue	**116.6**	**95 to 105**	**about 117**	**met**
share of Business Customers in above	45.2	43 to 46	about 45	met
thereof gross profit margin from business customers	48.4 %	»Stable«	»Stable«	met
share of New Business in above	16.9	17 to 19	about 17	met
share of Wholesale in above	54.5	30 to 40	about 55	met
EBITDA	**6.6**	**7.0 to 8.5**	**about 7.0**	**not reached**
EBITDA before expenses for management reorganisation	7.0			

Financial position

Free cash flow: € 2.4 million; Net financial assets: € 3.5 million

The financial position of the group continues to be very satisfactory and solid. With **free cash flow** of € 2.4 million (previous year: € 5.4 million) the cash and cash equivalents remained at a high level of € 7.5 million (previous year: € 7.7 million). On the other hand, liabilities from financial loans totalled € 4.0 million (previous year: € 5.1 million). The Group's **net financial assets** therefore again increased to € 3.5 million (previous year: € 2.6 million).

The **cash flow from ongoing business** decreased by € 2.5 million to € 6.0 million. In addition to the effects of the lower operative EBITDA, higher tax payments in 2016 contributed significantly to a reduction of the cash flow from ongoing business. Dividend payments within the group were the cause for higher withholding of capital gains tax, which are set off with later tax payments.

As of the previous year's closing date, there was a significant increase in the trade receivables and payables due to the high revenue volume in the Wholesale Solutions segment toward the end of the year. This resulted in receivables not yet due in the previous year totalling € 10.5 million and payables totalling € 10.6 million as of the closing date. As of 31 December 2016 there existed no such high assets and liabilities from this segment. As a result of this, there are major changes in the working capital areas of the capital flow statement (changes in the current receivables, assets and liabilities – not including financial debts). In the net balance, the working capital improved in 2016 by € 0.7 million.

The **outflow of funds from investment activities** in the financial year increased by € 0.4 million to € 3.6 million. In this respect, payments for investments increased by € 0.7 million to € 4.0 million. Essentially, investments in high-performance and custom hardware components were necessary in order to successfully implement the increased order volume. On the other hand the Group received repayments of equity from investments measured at equity totalling € 0.4 million. In the previous year the balance of cash flow with investments measured at equity (repayments of loans, repayments and payments of capital reserves) totalled € 0.1 million.

Cash flow from financing activity remained constant at € 2.6 million (previous year: € 2.6 million). While the payments for dividends increased by € 0.2 million to € 0.8 million compared with 2015, the payments for repayment of financial loans decreased by € 0.2 million to € 1.2 million.

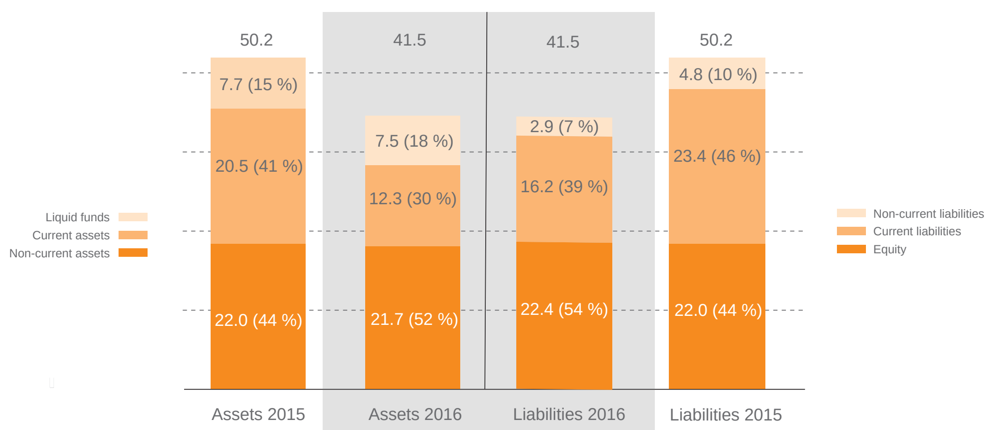
As a result, the cash and cash equivalents decreased slightly from € 7.7 million to € 7.5 million. As of 31 December 2016 ecotel has a working capital credit line of € 5.0 million (thereof € 4.0 million bank overdraft and € 1.0 million to be used for sureties).

As in previous years ecotel was able to honour all payment obligations without restrictions and on schedule. Important financial management goals also include compliance with the financial covenants that exist with banks and minimising of credit and interest rate risks, insofar as they can have a significant effect on the financial situation.

Net worth

The **total assets** of the Group totalled € 41.5 million as per 31 December 2016 (previous year: € 50.2 million). This is a decrease of € 8.7 million or 17 %.

Special effects significantly increased the balance sheet total in the previous year



This significant decrease resulted essentially from the fact that the trade receivables and payables had increased substantially as of 31 December 2015. Revenue in the Wholesale Solutions segment had increased significantly at the end of financial year 2015. The wholesale business conducted there is characterised by trading with minutes between international carriers. In this case, both incoming and outgoing minutes are traded with a carrier. The resulting assets and liabilities are settled on the due date (generally 30 days after billing) by means of contractually agreed »nettings« and only the remaining balances are paid. As of 31 December 2015 there existed trade receivables totalling € 10.5 million and trade payables totalling € 10.6 million, which were limited to transactions with only two carriers. After the »netting« of € 8.1 million at the beginning of the year 2016, there existed receivables of € 2.4 million and payables of € 2.5 million. The conditions for an offset disclosure in the balance sheet did not fully exist. The resulting »on-balance approach« resulted in this significant increase in the balance sheet total at the end of the previous year.

At the end of the financial year there existed receivables totalling € 3.6 million and liabilities totalling € 3.2 million, which were set off for a total amount of € 2.3 million by means of netting. This substantially lower balance of trade receivables and payables is due essentially to the decrease in the balance sheet total.

On the **assets side** the **non-current assets** decreased by € 0.3 million to € 21.7 million. Write-downs totalling € 4.3 million exceeded the investments in assets totalling € 4.0 million. In addition, the reported non-current assets decreased by € 0.2 million to € 0.6 million in connection with the capitalisation of the financial assets measured at equity and other non-current assets due to the measures implemented in connection with the restructuring of mvneco GmbH.

The substantial decrease in **current assets** was essentially the result of the aforementioned effects from the Wholesale Solutions segment. On the other hand, the actual income tax claims increased by € 0.4 million to € 0.6 million, as a result of capital gains taxes paid on dividend payments within the Group.

Equity and equity ratio increased.

On the **liabilities side, equity** increased by € 0.4 million to € 22.4 million. Due to the significant decrease in the balance sheet total, the **equity ratio** decreased to 54 % (previous year: 44 %). The Group equity ratio included the non-current assets. The equity development is explained in more detail in the consolidated notes.

The **non-current liabilities** decreased essentially due to repayments of long-term financial loans.

The substantial decrease in **current liabilities** was essentially the result of the aforementioned effects from the Wholesale Solutions segment.
ecotel’s long-term financing is based on annuity loans. Details of stipulated repayments and other information on the balance sheet items can be found in the consolidated notes.

Statutes / capital structure

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; the Supervisory Board is authorised to make such changes. 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 the law prescribes a capital majority in addition to majority of votes, with the simple majority of the capital stock as represented for the resolution.

Capital stock unchanged at € 3,510,000

The capital stock of ecotel ag totals € 3,510,000. The capital is allocated to 3,510,000 ordinary shares payable to the bearer. The shares are issued as no-par value shares with a proportional amount of the capital stock of € 1.00. The capital stock of € 3,510,000.00 is completely paid in. Each no-par value share grants one vote in the Annual General Meeting. Voting right restrictions do not exist. Different voting rights relative to the shares do not exist. The Management Board of ecotel ag is not aware of any restrictions that affect voting rights or transfer of shares, as can occur, for example, due to agreements between shareholders. For the equity development we refer to the presentation of the development of consolidated equity in the consolidated notes.

Authorised capital

With the shareholders' resolution of 27 July 2012 the Management Board of ecotel ag is authorised with the consent of the Supervisory Board to increase the capital stock of ecotel ag one time or multiple times by a total of up to € 1,950,000.00 against cash and / or investments in kind through the issue of new no-par value bearer shares, until 26 July 2017 (approved capital). The number of shares must increase in the same ratio as the capital stock increases. In the reporting year the Management Board did not avail itself of this authorisation.

Conditional increase in capital

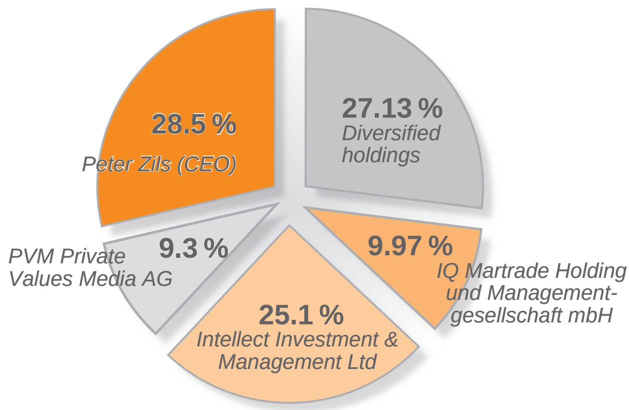
The Annual General Meeting of 27 July 2012 resolved a conditional increase of the capital stock by up to € 1,500,000 by issuing up to 1,500,000 no-par value bearer shares (conditional capital I). In accordance with the convertible bond conditions, the conditional increase in capital serves the sole purpose of enabling ecotel ag to issue shares to the holders of options and / or convertible bonds through 26 July 2017, based on the authorisation of the Annual General Meeting held on 27 July 2012. The conditional increase in capital will be carried out only if the holders of convertible bonds or options to exercise their conversion or option rights or the holders of the convertible bonds obligated to conversion fulfil their obligation and if no other forms of fulfilment are made available for exercising these rights. In the reporting year the Management Board did not avail itself of this authorisation.

With the resolution of 25 July 2014, the Annual General Meeting authorised the Management Board of ecotel ag to acquire treasury shares up to a total of 10 % of the capital stock existing at the time the resolution was passed (authorisation to purchase treasury shares). This authorisation may not be used by ecotel ag for the purpose of trading with treasury shares. In combination with the other shares owned by ecotel ag or shares that are allotted to the company 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 acquire treasury shares is valid until 24 July 2019.

Authorization to acquire treasury shares

The graphic below shows the names of the shareholders, who owned more than 3 % of the capital stock of ecotel ag at the end of 2016. It is based on the holdings made known to ecotel ag. Different voting rights relative to the shares do not exist.

Shareholder structure unchanged



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.

3. General statement of the economic situation of the group

The Group continues to be in a very stable economic position. The balance sheet figures (balance sheet total, equity and net financial assets) were able to be improved in the past financial year. Future financing is ensured by annuity loans and credit lines. Up until the financial statement preparation date of 17 March 2017, in order to secure the necessary future growth investments, ecotel took out another long-term loan for € 3.0 million as well as an additional credit facility of € 3.0 million that is limited to the end of 2018. The earnings situation is characterised by mostly contractually guaranteed recurring revenue in Business Solutions (B2B) and a secure and growing customer base in Private Customer Solutions (B2C). The Wholesale Solutions business is difficult to forecast, but involves no considerable profit risk. For the planned growth strategy and the overall opportunities and risk situation, we refer to the information provided in the forecast, risk and opportunities report.

III. Supplementary report

After conclusion of the financial year and up until preparation of the consolidated financial statement on 17 March 2017, there were no noteworthy changes, with the exception of the occurrence described below. The economic environment did not change in a degree that would have affected the business activities of ecotel, nor has the industry situation changed since 31 December 2016. The occurrences after the balance sheet described below are already taken into account in the assumptions for the forecast for the year 2017.

Safeguarding of growth financing for the coming years

In January 2017, in order to secure the future growth investments, ecotel took out another long-term loan for € 3.0 million as well as an additional credit facility of € 3.0 million that is limited to the end of 2018. The loan has a term of five years and has a repayment holiday period of two years.

IV. Forecast, opportunities and risk report

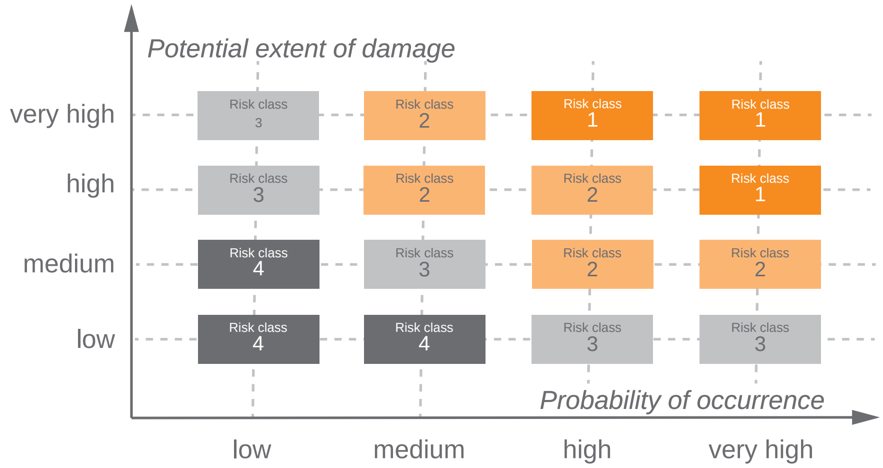
1. Control and risk management system

Early identification of risks by means of a risk management 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 Group, it is supported by the authorised signatories and the managing directors of the subsidiaries. With the aid of a quarterly risk report the Management Board and the Supervisory Board track the identified risks with reference to the planned development 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 Group, in the form of a risk matrix. All potential risks are evaluated in this respect according to their probability of occurrence and the potential extent of damage. The probabilities of occurrence are classified as low, medium, high and very high. The potential extent of damage (as net cash value) is likewise sub-divided into four damage classes according to the following table.

Financial damage class	Potential extent of damage
Very high	>€ 1,000,000
High	€ 300,000 – 1,000,000
Medium	€ 100,000 – 300,000
Low	<€ 100,000

The probabilities and damage classes allocated to the identified risk items are divided into risk classes as shown in the following table. The risk class also results in the gross risk for each risk item (1 through 4). The Management Board derives countermeasures to be introduced for each risk item and uses this for assessment of the net risk (1 to 4). The gross risk and net risk can therefore diverge due to the countermeasures.



Internal control system minimises potential for errors in financial reporting

ecotel continues to maintain 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 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 consolidated 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 the dual-control principle is used for all material business transactions and that a functional separation is maintained in the bookkeeping. Recurring processes are extensively implemented with IT support (interfaces between operative and accounting systems for invoices, inpayments and outpayments, as well as credit balance processes). Account assignment guidelines are used for correct accounting. If necessary, external service providers are called upon to review complex accounting matters. The same applies for preparation of the tax returns. These preparation and consultation services are controlled and processed by internal plausibility checks and reconciliations. In addition the central key financial figures are monitored by a regular target / actual comparison with deviation analysis.

2. Risks of future development

During the course of its business activity ecotel is confronted with operative risks, financial risks, strategic risks, and with risks of the market environment. In the following, the essential risks are explained together with an assessment of the gross risk and net risk (after the initiation of measures). The risk situation has not changed significantly in comparison with the previous year.

Operative risks

Operative risks consist essentially of infrastructure 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 invoicing, commissions of sales partners, receivables management, as well as customer, supplier and partner support.

Assurance of the highest possible availability of the infrastructure through appropriate system redundancies both with respect to the switching technology and the lines, 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 currently minimised in that only parts of the international B2B traffic, as well as the wholesale traffic are still 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. In the area of availability of the server farms, e.g. of the nacamar CDN, the server farms were completely duplicated in separate facilities (gross risk 3 / net risk 3).

In the area of the computer centre infrastructure, there are potential risks of failure of the air conditioning system and emergency power supply, as well as loss of the connection. The emergency power supply is structured redundantly; n+1 redundancy was implemented in the area of the air conditioning technology. However, risks of external capacity bottlenecks exist for the power supply of the computer centre in Frankfurt am Main; these risks can possibly cause hindrances for future customer growth. The necessary expansion and renovation work is closely supervised by the Management Board and management staff and examined with respect to the possible risks for ecotel (gross risk 2 / net risk 2).

Additional computer centre space was leased in Düsseldorf to implement geo-redundancy in the computer centre infrastructure. The computer centres in Düsseldorf and Frankfurt are redundantly interconnected by n x 10 Gbps. In addition, the supply lines of the most important carrier upstream suppliers are redundantly connected to both computer centres. The connection between the Internet and the two PoPs is also geo-redundant via different carriers. If purchase agreements are not renewed or if the terms of purchase worsen, this can have a negative effect on ecotel's earnings situation. ecotel strives to minimise this dependency on upstream suppliers by maintaining an alternative upstream provider for every important product. This is possible at least in the areas where several upstream providers operate parallel infrastructures. Due to the implementation of ecotel's own local exchange carrier infrastructure at the beginning of 2016 the risk in the area of voice switching services, which were purchased in the past, was reduced, since they can now be provided by ecotel (gross risk 2 / net risk 2).

In the implementation of orders, ecotel is dependent on the performance of upstream suppliers and the stability of the systems and processes. In the event of a backlog there is the risk of the company losing its reputation with the sales partners, as well as customers and even orders. In order to identify problems and delays that arise and to develop suitable solutions, Management maintains contact to the different levels of upstream suppliers (gross risk 4 / net risk 4).

The local exchange network brings not only technological challenges, but also increased requirements with respect to data security and data protection (hacking, fraud, etc.). In this respect ecotel will take suitable measures to meet the requirements and to guarantee customers the best possible security (gross risk 3 / net risk 3).

The current transformation from conventional ISDN access products to new NGN All-IP access products and the subsequent technical, organisational and process-related expenses for the migration of the customers in the coming years involves the risk of loss of customers and therefore decreased revenue and high loads on the operative and technical departments (gross risk 1 / net risk 1).

Financial risks

For ecotel financial risks include credit risks, liquidity risks and interest rate risks.

A credit risk exists if transaction partners do not honour their payment obligations. The bad debt loss rate among business customers is currently 0.1 %. The development of the receivables portfolio is constantly monitored in order to identify possible default risks early on and implement appropriate measures (gross risk 4 / net risk 4).

Compliance with covenants in the loan contracts was ensured

ecotel has agreed with the financing credit institutions on so-called financial covenants that are usual in the market and 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. ecotel is well within all of the intervals specified by the relevant financial covenants (equity ratio, EBITDA / revenue and net debt / EBITDA). The enterprise assumes that compliance with all covenant threshold values is ensured again in 2017 (gross risk 4 / net risk 4).

At year-end 2016 ecotel had liquid funds totalling € 7.5 million. The net financial assets at year-end totalled € 3.5 million. As an additional liquidity reserve ecotel has a revolving credit facility of € 5.0 million. Of this amount, € 0.8 million had been used as surety for payment at the end of 2016. Currently, ecotel has no interest risks, since the outstanding loans have a fixed-interest rate.

Legal risks

ecotel is exposed to numerous legal risks. This can include risks related to guarantees, infringement of contract clauses, the law on competition and patent law, as well as tax law. The effects of pending or future legal proceedings often cannot be predicted reliably. The Group continuously identifies and analyses the potential occurrence of risks for legal disputes and quantitatively and qualitatively assesses the potential legal and financial consequences. On this basis, suitable measures are taken in a timely manner to prevent potential damage to the Group. At the end of financial year 2016 the Group does not expect any significant legal disputes.

Tax risks

Risks occur for the Group when tax laws and other regulations have not been observed to the full extent. In addition, they occur due to matters requiring interpretation, in the event that suitable action has not been taken with respect to taxes in the view of the fiscal authorities. Tax field audits can therefore result in payment of tax arrears, interest and penalties. By means of external tax consultation the Group continuously monitors tax risks that can arise for example due to tax laws, changed administrative interpretations or rulings on tax law. By the time the balance sheet was prepared an external income tax audit for the years 2012 to 2014 was completed. The effects of the external income tax audit were included in the annual financial statement. Currently, an external tax audit of the entire Group is being conducted for the years 2012 to 2014. As of the date of preparation of the balance sheet no substantial risks have become known as a result of this audit.

Strategic risks

Strategic risks are more of a medium-term nature and are based on the strategic enterprise alignment for purchasing, products, sales, technology and IT. Delays in the development of innovative NGN voice products could mean that ecotel will not achieve its profit goals for new products in the coming years or only with a delay (gross risk 3 / net risk 3).

ecotel purchases the majority of its lines from a small number of suppliers. Especially in view of the transformation from ISDN to All-IP technology currently being pushed primarily by Deutsche Telekom, access to fast and nationwide line networks will be important for ecotel. The purchasing contracts with the essential suppliers all have terms that extend beyond the year 2016. Currently, ecotel is negotiating with alternative suppliers in order to remain capable of offering competitive All-IP services in the future, without having to abandon the existing multi-supplier strategy (gross risk 2 / net risk 2).

Risks of the market environment

Other substantial risks that could cause a significant worsening of ecotel's economic situation are market- and sector-specific. There is already strong price and predatory competition in the Private Customers segment, which could extend more strongly to the Business Solutions segment in the future. Deutsche Telekom already shows a market share of well over 50 % in all business customer areas. In addition, there are now two additional strong players on the market, due to the acquisition of Kabel Deutschland by Vodafone and the merger of O2 / E-Plus. If the strong consolidation of the telecommunications industry continues, this could have negative effects on ecotel's asset, finance and earnings situation, since this would increase the dependency on single suppliers (gross risk 2 / net risk 2).

Access to nationwide broadband connections is a basic prerequisite for NGN products of the future

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 (gross risk 2 / net risk 2).

The decisions of the regulatory authorities are very important for macroeconomic analysis, but also for technological progress in the telecommunications market

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. It also remains to be seen which regulatory changes will result in a crystallisation of the European domestic telecommunications market (gross risk 2 / net risk 2).

There are tendencies that the federal government could give in to demands by Deutsche Telekom for a reduction of market surveillance and / or regulation. As a result of this, Deutsche Telekom could make it more difficult for alternative telecommunications providers to access its network and the competition could decrease in many segments. Prices for broadband access lines could therefore rise drastically in the future, with negative effects on ecotel's earnings situation (gross risk 2 / net risk 2).

Overall risk is calculable

In summary, ecotel is convinced that the material risks neither individually nor collectively concretely jeopardise the continued existence of the ecotel Group and that ecotel, through the flexible business model and the monitoring system, can quickly recognise risks, respond to them, and implement counter-measures in 2017 as well.

3. Opportunities of future development

In addition to the risks there are a number of opportunities that can sustainably affect the business development of the ecotel Group. The opportunities situation has not changed significantly in comparison with the previous year.

New products in the areas of voice over IP and hosted PBX

ecotel has competitive products that supplement technological change

Two important trends in telecommunications are the replacement of ISDN technology with Voice over IP (VoIP) and the shift of PBX telephone systems to the network (hosted PBX / IP Centrex). This change has only been made feasible through nationwide availability of broadband Internet access. Major telecommunications providers have announced that ISDN technology will be replaced by VoIP technology in the coming years (2017 / 2018). For many business customers that means necessary investments in existing telephone / communications systems. To this end, ecotel has introduced new, innovative products, with which customers can avoid these investments for the time being. On the one hand they include SIP access for business customers for the connection of classic ISDN (PMX VoIP ready) as well as IP-capable telephone systems (ecotel SIP Trunk). On the other hand, there is a new marketing cooperation with Unify and its marketing partners for marketing of individual customer telephone systems (OpenScape business) on a virtualised server in the ecotel computer centre (ecotel PBX Hosting) including connection of the customer location and for an ecotel SIP Trunk solution as a »Private Cloud Solution – Made in Germany«.

Sustainable marketing activities in the data segment

Data revenue including hosting currently constitutes more than 45 % of revenue from Business Customers. The past financial year showed that this quota could grow even more than allowed for by the current planning, for example due to expansion of the existing Ethernet and SHDSL product spectrum to include new functions through combination with new VoIP voice products (see above).

Revenue growth and improved gross profit margin in Business Customers segment due to company's own local exchange network

The company's own local exchange network will enable extensive opportunities for ecotel

As a local exchange carrier, ecotel will benefit for the first time from the collection of termination fees, also from incoming connections to the customer access points operated by the company. In addition to this earnings position, a special opportunity for ecotel exists in the prospect of developing a product and rate portfolio that is largely independent of the upstream suppliers. Ideally, this will enable not only higher added value, but also a more specific customer focus: conceivable models, for example, would be special bundled offers for cooperations and particular industries. In the past, ecotel has primarily processed preliminary products; now it is possible to directly incorporate the experience that has been gained in the basic product design – with the result of lower production costs and higher attractiveness for marketing partners and customers.

Acquisition of further key accounts

Successful implementation of major projects in past years gives ecotel optimal opportunities to implement similar projects for other key accounts with decentralised structures as well. These include in particular individually configurable remote router management service, connectivity solutions within an MPLS-VPN, as well as central firewall services in the ecotel computer centre. In financial year 2016 ecotel achieved very good success in this area and sees further potential for growth.

Setup of strategic cooperations for utilisation of market opportunities as result of closer integration of telecommunications and IT

The current revenue and growth rates of the overall market for cloud services, i.e. the shift from local computing power to secure computer centres, are considerable. This positive development corresponds ideally to the ecotel product pallet in the area of infrastructure and data services – for example with the nationwide available xDSL and Ethernet bandwidths, or the MPLS-VPN solutions and housing / colocation services in the ecotel computer centre.

As opposed to many multi-national cloud providers with their heterogeneous structure, ecotel as a German provider with computer centres in Frankfurt / Main and Düsseldorf creates the conditions for complete and credible compliance with German data protection laws. With a view toward the current data security discussion this is a crucial locational and competitive advantage.

Further revenue and earnings growth at easybell

The coming years will provide a major opportunity for further growth at easybell. Due to the broadband initiative of the federal government, many regional enterprises will install an optical fibre infrastructure in previously under-supplied regions. However, these enterprises often lack the necessary marketing competence. easybell has established a good reputation in this sector through cooperations with innogy, for example. The investments in the IT infrastructure are also bearing fruits in this respect, since additional carriers / suppliers can be integrated in the existing processes. As a growing, yet still agile enterprise easybell will therefore continue to shape the telecommunications industry in Germany.

Consolidation at nacamar

The management reorganisation implemented in 2016 and the subsequent new strategy at nacamar has shown initial successes at the end of 2016 in the acquisition of new customers and a significantly more competitive product spectrum. The successful continuation of the new strategy is expected to bring nacamar GmbH back into the black.

Profitable growth of mvneco GmbH

After the successful financial restructuring and a very positive business trend in 2016, the company has the potential for continued success and positive contributions to the group.

4. Outlook

Comments on forecasts

This Group management report contains forward-looking statements, which reflect the current views of the ecotel Management with respect to future occurrences. They are generally characterised by the words »expect«, »assume«, »presume«, »intend«, »estimate«, »strive«, »set as a goal«, »plan«, »become«, »aspire to«, »outlook« and similar expressions and generally contain information that refers to the expectations or goals for sales revenue, EBITDA, gross profit margin or to other performance-related standards. Forward-looking statements are based on current plans, estimates and expectations. They should therefore be viewed with caution. Such statements involve risks and uncertain factors, most of which are difficult to assess and which generally are beyond the control of ecotel. Other possible factors that can significantly affect the cost and revenue development are changes in interest rates, regulatory requirements and supervisory developments. If these or other risks and factors of uncertainty occur, or if the assumptions on which the statements are based turn out to be incorrect, ecotel's actual results can diverge substantially from those expressed or implied in these statements. ecotel can make no guarantee that the expectations or goals will be attained and – notwithstanding existing capital market obligations – refuses to accept any responsibility whatsoever for updating the forward-looking statements by taking into account new information or future events or other matters.

Forecast

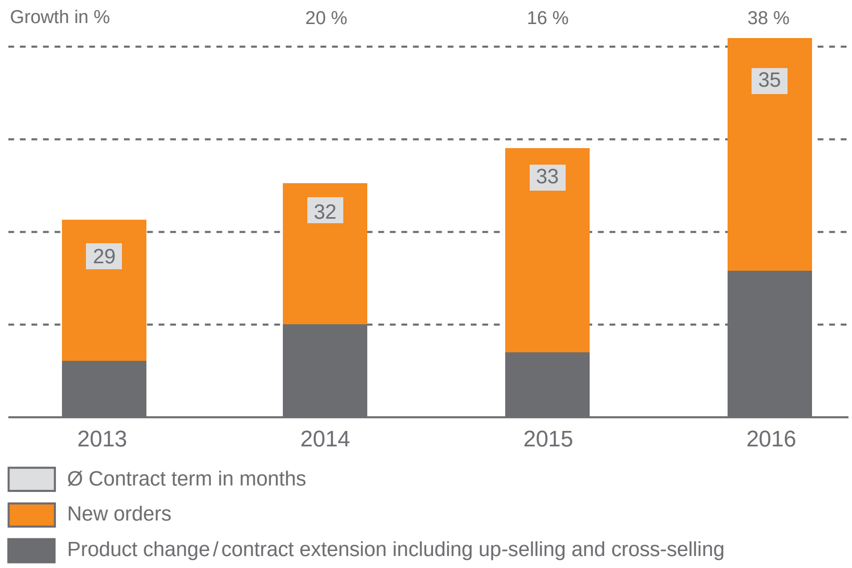
In Germany, a positive growth rate is expected for the overall economy. This will be supported by the continuing positive development of private consumer spending and by increasing investments. The macroeconomic conditions of the market situation presented in this Group management report, in addition to the assessment of the risks and opportunities of the ecotel Group, allow the Management Board to formulate the following forecast:

Special expectations for the Business Customers (B2B) segment

The B2B segment continues to grow. The increase in order acquisitions shows that the products are well received on the market

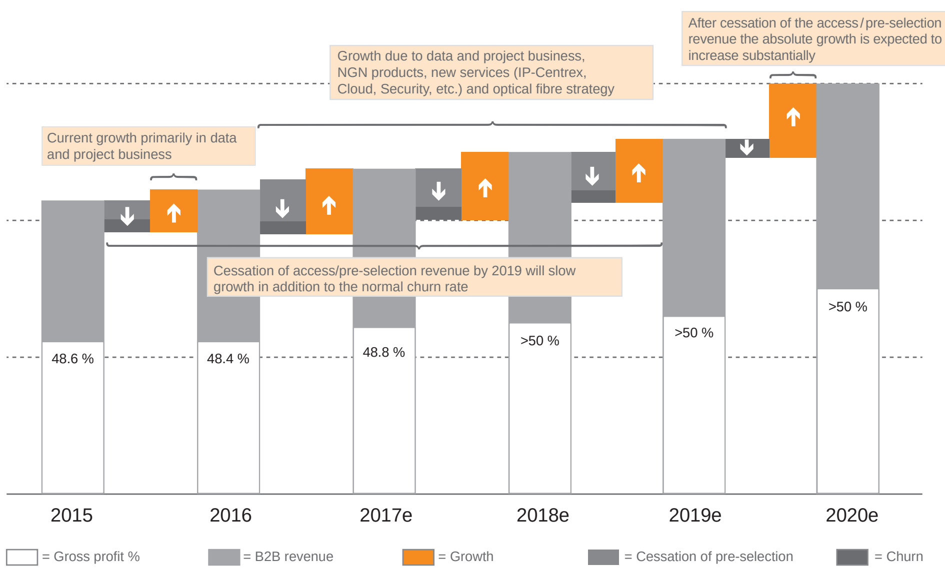
The year 2016 showed that ecotel's products in the Business Customers (B2B) segment, especially the All-IP products that were successfully introduced in the second half year 2016 on the basis of the company's own local exchange network, including data access (Ethernet and optical fibre access), are well received by the customers. Moreover, four new key account contracts were acquired in 2016. Order acquisitions in financial year 2016 therefore increased significantly. The total contract value (TCV) typically measured in this segment was more than 30 % higher than in the previous year. The revenue and profit effects of these order acquisitions, which comprise not only single orders but especially several large-scale projects with as many as a thousand or more single locations, are expected to become visible in the Business Customers (B2B) segment starting the second half year 2017. The following diagram shows the development of the TCV over the past years. The circled figures represent the average minimum contract term in months.

Development of order acquisitions in TCV



Qualitative presentation

In addition to the challenges involved in such an increase in order acquisitions, the recently begun migration of customers who currently still use conventional ISDN-based products or carrier pre-selection to NGN products, is also a challenge at the organisational, technological and process level. After successful implementation of this technological transformation, it should lead to substantially stronger growth potential in the Business Customers (B2B) segment. For one thing, higher gross profit margins are expected for the All-IP-based voice solutions, and for another, the highly churn-susceptible ISDN access and pre-selection customers will have been migrated to innovative and plannable All-IP products by then.
The following diagram illustrates the expected tendencies for the revenue development in the Business Customers (B2B) segment for the coming years:



Qualitative presentation

Forecast for 2017

Expectation for 2017: consolidated revenue of € 95 to 115 million and EBITDA of € 6.5 to 7.5 million

Also in consideration of these special expectations for the Business Customers (B2B) segment, the Management Board makes the following forecast:

For 2017, the Management Board expects consolidated revenue of € 95 to 115 million and EBITDA in the corridor of € 6.5 to 7.5 million.

The Management Board expects that revenue in the core segment Business Customers will be in a corridor between € 45 and € 48 million with a stable gross profit margin, and therefore increasing gross profits. Revenue of € 15 to 17 million is expected for the New Business segment. Revenue planning for the low-margin Wholesale Solutions segment is possible only to a limited extent, since this segment in our experience is subject to large fluctuations. ecotel forecasts revenue in this segment of € 35 million to € 50 million. In order for the developments forecast by Management to occur, there must be no unfavourable changes in the identified risks – such as higher probabilities of occurrence or potential extent of damage – and no new risks that could arise during the forecast period. Identified opportunities must also remain existent and feasible. We refer to the explanations in the »Comments on forecasts«.

Medium-term planning

ecotel has created all conditions necessary for successful implementation of the technological transformation, as well as continued medium-term growth and increased profitability

Management pursues the goal of sustainable operation of the ecotel Group while simultaneously increasing the revenue and profitability metrics, without drawing on the Group's capital. This includes well-aimed investments in the expansion of business fields, new products, technology, IT and security, in addition to investments in employees and optimisation of organisational structures. The remaining free cash flow is to be used to pay back borrowed capital and for remuneration of the shareholders (e.g. dividend payments). In this respect we refer to the information in the section on Group Controlling.

Due to the successful introduction of the new products and the current positive development with respect to order acquisitions, ecotel is in a position to respond to the very fast-changing challenges of today's telecommunications market. From the aforementioned developments, especially the necessity of migration of customer contracts, the successful and timely implementation of which is very difficult to assess at present, but which will have a significant effect on the consolidated revenue and profit development, the Management Board refrains from making a quantitative statement on medium-term planning.

V. Remuneration of Management and the Supervisory Board

1. Remuneration system for board members

Remuneration of board members (Management Board)
The members of the Management Board of ecotel ag are remunerated on the basis of § 87 of the German Stock Corporation Act (AktG) and the Management Board Remuneration Act (VorstAG), as well as the regulations of the German Corporate Governance Code; remuneration includes a fixed annual base compensation, as well as a variable component. The target requirements (e.g. order acquisition, revenue, EBITDA) for the variable component are defined 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 members of the Management Board and all other executive bodies of the Group. In addition, each of the members of the Management Board is entitled to a company car. There exist no share option programs for the board members nor were loans granted to the board members. Furthermore, no regulations exist for the early resignation or retirement of board members.

2. Remuneration system for the Supervisory Board

The members of the Supervisory Board receive fixed remuneration for each full financial year of their membership in the Supervisory Board. In addition, each member of the Supervisory Board receives an attendance fee for each meeting of the Supervisory Board attended in person (but not of a committee of the Supervisory Board). ecotel ag reimburses each Supervisory Board member for expenses incurred during the performance of his duties. Members of the Supervisory Board whose membership in the Supervisory Board was limited to only part of the financial year receive proportionate remuneration for each started month of their activity in the Supervisory Board. ecotel ag provides the members of the Supervisory Board with insurance for the performance of their duties on the Supervisory Board.

The following persons were appointed as members of the Supervisory Board in financial year 2016:

- Dr. Norbert Bensel, independent business consultant, Berlin (Chairman)
- Mirko Mach, businessman, Heidelberg (Deputy Chairman)
- Tim Schulte Havermann, businessman, Recklinghausen (since 22 July 2016)
- Brigitte Holzer, businesswoman, Berg
- Sascha Magsamen, businessman, Oestrich-Winkel
- Dr. Thorsten Reinhard, attorney, Kronberg / Taunus
- Dr. Barbara Bludau, attorney, Munich (until 22 July 2016)

The following table shows the remuneration of the Supervisory Board:

Supervisory Board	Remuneration in € 2016	Remuneration in € 2015
Dr. Norbert Bensel	25,000.00	25,000.00
Mirko Mach	20,000.00	20,000.00
Dr. Thorsten Reinhard	14,000.00	15,000.00
Brigitte Holzer	13,000.00	14,000.00
Sascha Magsamen	14,000.00	14,000.00
Tim Schulte Havermann	7,000.00	–
Dr. Barbara Bludau	8,833.33	15,000.00
Total	**101,833.33**	**103,000.00**

3. Information in accordance with the German Corporate Governance Code

The following table shows the allowances granted to each member of the Management Board in financial year 2016, including fringe benefits, in the case of variable remuneration also with the maximum and minimum achievable remuneration (according to Model table 1 relating to section 4.25, paragraph 3 (1st bullet point) of the German Corporate Governance Code).

Issued in thousand €	Peter Zils *CEO*			
	2016 (target value)	2015 (target value)	2016 (min.)	2016 (max.)
Fixed remuneration	330	325	330	330
Additional services	23	23	23	23
Total	353	348	353	353
One-year var. remuneration	33	37	0	66
Multi-year var. remuneration	18	4	0	34
thereof sustainability 2016	0	2	0	0
thereof sustainability 2017	9	2	0	17
thereof sustainability 2018	9	0	0	17
Total	**404**	**389**	**353**	**453**
Pension expenses	0	0	0	0
Total remuneration	**404**	**389**	**353**	**453**

Issued in thousand €	Achim Theis *CCO*			
	2016 (target value)	2015 (target value)	2016 (min.)	2016 (max.)
Fixed remuneration	220	220	220	220
Additional services	17	17	17	17
Total	237	237	237	237
One-year var. remuneration	33	34	0	66
Multi-year var. remuneration	18	17	0	34
thereof sustainability 2016	0	8	0	0
thereof sustainability 2017	9	9	0	17
thereof sustainability 2018	9	0	0	17
Total	**288**	**288**	**237**	**337**
Pension expenses	0	0	0	0
Total remuneration	**288**	**288**	**237**	**337**

Issued in thousand €	Johannes Borgmann *CFO/COO*			
	2016 (target value)	2015 (target value)	2016 (min.)	2016 (max.)
Fixed remuneration	147	220	147	147
Additional services	18	27	18	18
Total	165	247	165	165
One-year var. remuneration	22	37	0	44
Multi-year var. remuneration	12	4	0	23
thereof sustainability 2016	6	2	0	9
Total	**199**	**288**	**165**	**232**
Pension expenses	0	0	0	0
Total remuneration	**199**	**288**	**165**	**232**

Mr. Borgmann retired on 31 August 2016. The figures presented here for 2016 are therefore proportionate.

The following table shows the inflow for each board member in or for financial year 2016 comprising fixed remuneration, short-term variable, long-term remuneration and other remuneration with differentiation based on the respective years of reference (according to sample table 2 in section 4.2.5, paragraph 3 (2nd indent mark) German Corporate Governance Codex).

Inflow in € thousand	Peter Zils *CEO*		Achim Theis *CCO*		Johannes Borgmann *CFO*	
	2016	2015	2016	2015	2016	2015
Fixed remuneration	330	325	220	220	147	220
Additional services	23	23	17	17	13	27
Total	353	348	237	237	160	247
One-year var. remuneration	33	49	33	44	0	15
Multi-year var. remuneration	0	8	0	7	0	6
thereof sustainability 2014	0	8	0	7	0	6
Total remuneration	**386**	**405**	**270**	**288**	**160**	**268**

No pension expenses were paid for the Management Board in the years 2016 and 2015.

In financial year 2016 the members of the Supervisory Board were also members of the following boards or exercised the following full-time occupations:

Supervisory Board member	Function	Companies
Dr. Norbert Bensel	Managing Director	NB Consulting- und Beteiligungs GmbH, Berlin
	Member of the Supervisory Board	Praktiker AG, i. L., Kirkel
	Member of the Supervisory Board	Praktiker Deutschland GmbH, Kirkel
	Member of the Supervisory Board	IAS Institut für Arbeits- und Sozialhygiene AG, Berlin
	Member of the Supervisory Board	Compass Group Deutschland GmbH, Eschborn
	Member of the Advisory Board	BREUER Nachrichtentechnik GmbH, Bonn
	Member of the Advisory Board	IQ Martrade Holding- und Managementgesellschaft mbH, Düsseldorf
	Management Board	EL-Net Consulting AG, Munich
Brigitte Holzer	Owner / managing director	Holzer Holding GmbH, Berg
	CFO	PPRO Financial Ltd, London (Great Britain)
	Managing Director	PPRO Payment Services Ltd, London (Great Britain)
	Managing Director	WKV prepaid GmbH, Maria Enzersdorf (Austria)
	Managing Director	Pay Plus Services GmbH, Munich
	Managing Director	PPRO Holding GmbH, Munich
Mirko Mach	Managing partner	MPC Service GmbH, Heidelberg
Sascha Magsamen	Chairman of the Supervisory Board	MediNavi AG, Munich

Supervisory Board member	Function	Companies
	Chairman of the Supervisory Board	Tyros AG, Hamburg
	Deputy Chairman of the Supervisory Board	Ecolutions GmbH & Co. KGaA, Frankfurt am Main
	Member of the Supervisory Board	ICM Media Ag, Frankfurt am Main
	Member of the Supervisory Board	Hallgartener Weinkeller EG, Oestrich-Winkel
	Member of the Supervisory Board	Weberhof AG, Heiligenhaus
	Management Board	Impera Total Return AG, Frankfurt am Main
	Management Board	Inspire AG, Salzkotten
	Management Board	Spobag AG, Düsseldorf
	Management Board	Mood and Motion AG iL, Frankfurt am Main
	Liquidator	GBS Asset Management AG IL, Frankfurt am Main
	Managing Director	Mattiak Immobilienverwaltungs-gesellschaft mbh, Frankfurt am Main
Dr. Thorsten Reinhard	Partner (Member)	Noerr LLP, London (Great Britain)
	Chairman of the Supervisory Board	ISS Facility Service Holding GmbH, Düsseldorf
	Member of the Supervisory Board	ISS VSG GmbH, Lübbenau
	Member of the Supervisory Board	Wacker Holding SE, Munich
Tim Schulte Havermann	Managing Director	LaBrea Vermögensverwaltung GmbH, Berlin
	Managing Director	conCapital VV GmbH, Berlin
	Managing Director	TMT Gruppe GmbH, Berlin
	Chairman of the Supervisory Board	ecoblue AG, Munich
	Member of the Supervisory Board	GVA Real Estate AG, Berlin

VI. Information relevant to take-over

Agreements between ecotel and individuals who could be affected by a change of control as a result of a takeover bid, do not exist. For the members of the Management Board and all other board members in the Group there exist no agreements on provisions for damages in the event of a takeover.

Through 31 August 2018 there is no agreement between ecotel and a legal entity that is bound to a change in control.

As of 1 September 2018, in the event of a change in control of ecotel ag, the co-partner of easybell GmbH, Consultist GmbH, has the right to purchase such a partial share in easybell GmbH from ecotel ag, so that it achieves at least a 51 % stake in easybell GmbH. The purchase prices must correspond to the market value of the partial investment.

VII. Statement on corporate governance and corporate governance report

The Management Board and Supervisory Board of ecotel communication ag have issued the required statement on corporate governance in accordance with § 315, par. 5 in combination with § 289a of the German Commercial Code (HGB), as well as the corporate governance report, 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 (http://ir.ecotel.de/cgi-bin/show.ssp?id=6600&companyName=ecotel&language=German).

Düsseldorf, 17 March 2017

ecotel communication ag
The management board

Peter Zils *Achim Theis*

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, 17 March 2017

ecotel communication ag
The management board

Peter Zils *Achim Theis*

Consolidatedfinancialstatement

Consolidated balance sheet as of 31 December 2016

€	Notes	31/12/2015	31/12/2016
Assets			
A. Non-current assets			
I. Intangible assets	(1)	12,721,593.12	12,515,062.59
II. Fixed assets	(2)	8,509,599.41	8,471,686.18
III. Financial assets measured at equity	(3)	91,894.28	589,255.97
IV. Other financial assets	(3)	679,112.59	0.00
V. Deferred income tax claims	(5)	26,882.00	168,079.33
Total non-current assets		**22,029,081.40**	**21,744,084.07**
B. Current assets			
I. Trade receivables	(4)	17,716,539.91	9,295,198.15
II. Other financial assets	(4)	1,707,447.99	1,750,714.19
III. Other non-financial assets	(4)	822,220.02	674,474.72
IV. Actual income tax claims	(5)	219,505.35	601,529.51
V. Cash and cash equivalents	(6)	7,745,070.99	7,453,782.80
Total current assets		**28,210,784.26**	**19,775,699.37**
Total assets		**50,239,865.66**	**41,519,783.44**

€	Notes	31/12/2015	31/12/2016
Liabilities			
A. Equity capital	**(7)**		
I. Subscribed capital		3,510,000.00	3,510,000.00
II. Capital reserves		1,833,254.38	1,833,254.38
III. Other reserves		14,249,014.04	14,275,530.10
Shares of the owners of the parent company		**19,592,268.42**	**19,618,784.48**
IV. Shares of other shareholders		2,424,947.24	2,829,118.52
Total equity capital		**22,017,215.66**	**22,447,903.00**
B. Non-current liabilities			
I. Latent income tax	(8)	875,554.03	718,362.53
II. Non-current loans	(9)	3,963,541.00	2,167,705.00
Total non-current liabilities		**4,839,095.03**	**2,886,067.53**
C. Current liabilities			
I. Actual income tax	(8)	507,738.99	411,291.13
II. Current loans	(9)	1,170,834.00	1,795,836.00
III. Accounts payable	(9)	19,449,137.48	11,673,700.31
IV. Provisions	(9)	22,500.00	28,500.00
V. Other financial liabilities	(9)	1,125,609.86	1,328,049.77
VI. Other non-financial liabilities	(9)	1,107,734.64	948,435.70
Total current liabilities		**23,383,554.97**	**16,185,812.91**
Total liabilities		**50,239,865.66**	**41,519,783.44**

Consolidated profit statement for financial year 2016

€		Notes	1/1 – 31/12/2015	1/1 – 31/12/2016
1.	Sales revenue	(12)	106,313,504.28	116,619,515.28
2.	Other revenues or gains	(13)	2,132,940.90	693,784.51
3.	Other company-manufactured items capitalized		172,918.71	503,431.57
4.	**Total operating performance**		**108,619,363.89**	**117,816,731.36**
5.	Cost of materials			
	Expenses for services purchased	(14)	–78,550,186.69	–88,174,704.69
6.	Personnel costs	(15)		
6.1	Wages and salaries		–10,314,577.97	–11,373,772.56
6.2	Social contributions and expenses for pensions and benefits		–1,620,678.22	–1,744,607.94
7.	Scheduled depreciations	(16)	–4,011,430.14	–4,281,418.29
8.	Unscheduled depreciations	(16)	–215,634.88	0.00
9.	Other operating expenses	(17)	–10,267,765.28	–9,894,537.22
10.	**Operating result (EBIT)**		**3,639,090.71**	**2,347,690.66**
11.	Financial income		193,042.68	11,565.05
12.	Financial expenses		–322,784.12	–299,045.55
13.	Earnings from financial assets measured at equity		–5,569.22	206,277.59
14.	**Financial result**	**(18)**	**–135,310.66**	**–81,202.91**
15.	**Earnings from normal business activities before income tax**		**3,503,780.05**	**2,266,487.75**
16.	Taxes from income and revenue	(19)	–1,085,464.99	–538,500.41
17.	**Surplus (= total consolidated profit)**		**2,418,315.06**	**1,727,987.34**
18.	Allocation of the surplus to the			
18.1	**Owners of the parent company (consolidated surplus)**		**1,622,577.64**	**833,816.06**
18.2	Shares of other shareholders	(20)	795,737.42	894,171.28

€	Notes	1/1 – 31/12/2015	1/1 – 31/12/2016
Undiluted earnings per share	(21)	0.46	0.24
Diluted earnings per share	(21)	0.46	0.24

Due to lack of data, the »other comprehensive income« is not reported.

Consolidated capital flow statement for financial year 2016 (see Notes, marginal no. 22)

€	2015	2016
Earnings from normal business activities before income tax	3,503,780.05	2,266,487.75
Net interest income	155,109.96	168,693.76
Depreciations on non-current and current assets	4,227,065.02	4,281,418.29
Earnings from financial assets measured at equity	–5,569.22	–206,277.59
Other expenses (+)/income (–) not affecting the balance sheet	–144,332.39	0.00
Profit (–)/loss (+) from disposal of intangible assets and items of property, plant, and equipment	28,417.62	0.00
Increase (–)/decrease (+) in the trade receivables	–4,431,059.21	8,421,341.76
Increase (–)/decrease (+) in receivables and other assets	–658,484.61	–36,718.23
Increase (+)/decrease (–) in the accounts payable	7,431,871.75	–7,772,820.67
Increase (+)/decrease (–) in liabilities (without financial debts)	–1,003,568.36	–111,849.73
Paid (–)/received (+) income tax	–559,481.15	–1,016,972.43
Inflow of funds from ongoing business activities	**8,543,749.46**	**5,993,302.94**
Payments made for investments in intangible assets and property, plant, and equipment	–3,270,624.38	–4,035,791.83
Repayment of loans to financial investments measured at equity	182,000.00	0.00
Deposit from repayment of equity from financial investments measured at equity	99,800.00	388,028.49
Payment from the deposit of equity to financial investments measured at equity	–200,000.00	0.00
Interest paid in	12,436.01	11,565.05
Outflow of funds from investment activities	**–3,176,388.37**	**–3,636,198.29**
Dividend payments	–561,600.00	–807,300.00
Payments to non-controlling shareholders	–490,000.00	–490,000.00
Payments for repayment of financing loans	–1,354,375.00	–1,170,834.00
Interest paid out	–203,820.25	–180,258.84
Inflow/outflow of funds from financing activities	**–2,609,795.25**	**–2,648,392.84**
Change in funds balance affecting the balance sheet	**2,757,565.84**	**–291,288.19**
Funds balance at start of period	4,987,505.15	7,745,070.99
Funds balance at end of period	**7,745,070.99**	**7,453,782.80**

Development of the consolidated equity capital

			Retained
Thousand € Notes (7)	**Subscribed capital**	**Capital reserves**	**Other retained earnings**
As per 1 January 2015	**3,510**	**1,833**	**12,037**
Distributions	0	0	–562
Reposting of previous year's earnings	0	0	1,151
Changes in equity capital not affecting the earnings	**0**	**0**	**589**
Consolidated net income 2015	0	0	0
Changes in equity capital affecting the earnings	**0**	**0**	**0**
As per 31 December 2015	**3,510**	**1,833**	**12,626**
As per 1 January 2016	**3,510**	**1,833**	**12,626**
Distributions	0	0	–807
Reposting of previous year's earnings	0	0	1,623
Changes in equity capital not affecting the earnings	**0**	**0**	**815**
Consolidated net income 2016	0	0	0
Changes in equity capital affecting the earnings	**0**	**0**	**0**
As per 31 December 2016	**3,510**	**1,833**	**13,442**

Differences in the totals can occur due to commercial rounding.

Earnings			
Consolidated profit	Shares of the owners of the parent company	Shares of other shareholders	Total
1,151	**18,531**	**2,119**	**20,650**
0	−562	−490	−1,052
−1,151	0	0	0
−1,151	**−562**	**−490**	**−1,052**
1,623	1,623	796	2,419
1,623	**1,623**	**796**	**2,419**
1,623	**19,592**	**2,425**	**22,017**

1,623	**19,592**	**2,425**	**22,017**
0	−807	−490	−1,297
−1,623	0	0	0
−1,623	**−807**	**−490**	**−1,297**
834	834	894	1,728
834	**834**	**894**	**1,728**
834	**19,619**	**2,829**	**22,448**

Notestotheconsolidatedfinancialstatementofecotelcommunicationag
Principles of financial accounting

General information

The ecotel Group (hereinafter »ecotel«) is a telecommunications company operating throughout Germany since 1998 that specialises in meeting the information and telecommunication (IT / telecom) requirements of customers. The parent company is ecotel communication ag (hereinafter »ecotel ag«). ecotel reports on the following segments:

The **Business Customers** segment includes the business solutions (B2B) division of ecotel ag and the **Wholesale** segment includes the wholesale solutions division of ecotel ag and the business activities of the minority holding mvneco GmbH. The **New Business** segment comprises the business divisions Private Customer Solutions (B2C) of the easybell Group and new media solutions of nacamar GmbH.

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

The shares of ecotel communication ag are traded in Frankfurt am Main and other German stock exchanges.

In addition to the Group management report, the audited consolidated financial statements are filed in the German Federal Gazette; the consolidated financial statement will be released for publication on 17 March 2016, through submission by the Management Board to the Supervisory Board of ecotel communication ag.

Principles of financial accounting

The consolidated financial statement was prepared in compliance with the International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU), and the additional requirements that must be observed in accordance with § 315a, par. 1 of the German Commercial Code (HGB).

The financial year corresponds to the calendar year. The consolidated financial statement is prepared in euros (€). The consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated capital flow statement and the consolidated statement of changes in equity each contain comparative figures for one previous year.

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 down and explained in the notes.

The consolidated statement of comprehensive income is structured according to the total cost method. Expenses in the profit or loss are summarised by type and not distributed by their relation to single functional areas of the enterprise.

Because ecotel did not have the appropriate circumstances in the previous year, nor in financial year 2016, there will be no presentation of »other comprehensive income« at the end of the profit and loss account.

The financial statements of the subsidiaries are included in the consolidated financial statements in compliance with the accounting and valuation methods that apply to the Group.

All standards valid and applicable in the EU on the balance sheet date are applied. In addition, the interpretations of the IFRS Interpretations Committee (IFRS IC) were also complied with.

New or changed pronouncements of the IASB to be applied for the first time in the consolidated financial statement as per 31 December 2016

At the time the consolidated financial statement was drawn up, as of 31 December 2016 the following new and changed standards and interpretations were endorsed by EU legislation. Only those new and changed pronouncements of the IASB are presented that theoretically could have effects due to the current business activity of the ecotel Group.

New or changed pronouncements of the IASB to be applied for the first time as per 31 December 2016

Standard / Interpretation	First-time mandatory application in accordance with IASB	First-time mandatory application in the EU
Annual improvement project cycle 2010–2012	1 July 2014	1 February 2015
Changes to IAS 16 »Property, Plant and Equipment« and IAS 38 »Intangible Assets«: Clarification of acceptable methods of depreciation	1 January 2016	1 January 2016
Changes to IAS 1 »Presentation of Financial Statements«	1 January 2016	1 January 2016
Annual improvement project cycle 2012–2014	1 July 2014	1 February 2015

The first-time application of this standard had no significant effects on the asset, finance and earnings situation of the ecotel Group.

New or changed pronouncements of the IASB not yet to be applied in the consolidated financial statement as per 31 December 2016

At the time the consolidated financial statement was drawn up, as of 31 December 2016 the following new interpretations were endorsed by EU legislation. However, they will go into force at a later time and have not been prematurely applied in this consolidated financial statement (see table on following page).

Standard / Interpretation	First-time mandatory application in accordance with IASB	First-time mandatory application in the EU
IFRS 9 »Financial Instruments«	1 January 2018	1 January 2018
IFRS 15 »Revenue from Contracts with Customers«	1 January 2018	1 January 2018

The company does not intend to prematurely apply the new and changed pronouncements that will be obligatory in the future. In the following, the expected effects on the asset, finance and earnings situation of the ecotel Group are presented:

IFRS 9 »Financial Instruments« contains regulations for the recognition, accounting and derecognition of financial assets and debts, as well as for the accounting of hedging relationships. The IASB published the final version of the standard on 24 July 2014 as a result of completion of the different phases of its extensive project on financial instruments. This means that the previous method for accounting of financial instruments in accordance with IAS 39 »Financial Instruments: Recognition and Measurement« can now be completely replaced by accounting in accordance with IFRS 9. The now published version of IFRS 9 supersedes all previous versions. The central requirements of the final IFRS 9 can be summarised as follows:

- Compared with the previous IAS 39 standard the requirements of IFRS 9 for the area of application as well as recognition and derecognition are unchanged for the most part.
- However, the provisions of IFRS 9 provide for a new classification model for financial assets that differs from IAS 39.
- The subsequent measurement of financial assets in the future will be based on three categories with different standards of value and a different recognition of changes in value. This categorisation is based both on the contractual cash flows of the instrument and on the business model in which the instrument is held. In principal, it is therefore a matter of obligatory categories. In addition, enterprises also have individual options at their disposal.
- For financial liabilities, on the other hand, the existing provisions have been retained in IFRS 9 for the most part. The only significant change relates to financial liabilities in the fair value option. For these, due to changes in the credit risk, fair value fluctuations are to be recognised in the other comprehensive income.
- IFRS 9 provides for three levels that will define the amount of losses and interest received to be recognised in the future. Accordingly, expected losses amounting to the cash value of an expected 12-month loss are to be recognised at the time of inflow (level 1). In the event of a significant increase in the credit risk, the provision for risks is to be increased to the amount of the expected losses for the entire remaining term (level 2). Upon the occurrence of an objective indication of loss of value the interest income is to be recognised on the basis of the net carrying value (carrying value minus provision for risk) (level 3). A simplified model is to be applied for certain financial assets (such as trade receivables).
- In addition to extensive transitional provisions, IFRS 9 is also connected with extensive disclosure requirements both during the transition and in ongoing application. Changes in comparison to IFRS 7 »Financial Instruments: Notes« relate primarily to the provisions for impairments.

The final ***IFRS 9*** is obligatory for financial years starting on or after 1 January 2018; earlier application is permissible. The relevant categories for ecotel are essentially trade receivables and lendings. The business model currently provides for carrying of the receivables, so that no significant effects are expected. ecotel does not use a fair value option in the classification of financial liabilities, so that no significant effects are to be expected here either. However, the new regulations tend to result in earlier recognition of impairments and credit risks.

In May 2014 the IASB published the new standard ***IFRS 15*** »Revenue from Contracts with Customers«. The goal of the new standard for revenue recognition is to combine the provisions previously contained in diverse standards and interpretations in one standard. In addition, standardised principles are defined that can be applied to all industries and all types of sales transactions. Questions about the amount and time frame for recognising revenue are answered by the 5-level model. The standard also contains numerous additional provisions with detailed explanations and an expansion of the information required in the notes. The new standard must be applied for financial years that start on or after 1 January 2018. The first-time application must be retrospective, however diverse simplification options are granted; earlier application is permissible.

With its business model, the Group is affected by the changes in IFRS 15. The group's business model – especially in the Business Customers (B2B) segment – provides for multi-component contracts with separate performance obligations over a defined contract term. Besides the provision of a custom data line, different services as well as hardware components and provision services are bundled in one customer contract. Due to requirement in IFRS 15 for distribution of the performance obligations in relation to the single selling prices, the income not allocated to any performance obligation and the income for which the performance obligation is not rendered predominately at the beginning, will be achieved periodically different from revenue in the future. In addition, contract fulfilment costs, such as payments for supplier connection services, will be deferred over the contract term in the future. The result of this will be the formation of contractual assets and debts. ecotel will presumably apply the option of simplified first-time adoption, which means that comparative figures of the previous year's periods will not be adjusted. The cumulative effect of the change-over will be recognised as of 1 January 2018 in the equity as not affecting net income against other reserves. The change of items in the balance sheet and statement of comprehensive income will be explained in the year of first-time adoption. The impact analysis showed that the overall effect on the future recognised revenue and on the expenses for services purchased and the balance sheet figures presumably will not significantly impair the comparability with previous years.

At the time the consolidated financial statement was drawn up, as of 31 December 2016 the following new and changed standards and interpretations were adopted, however without having been endorsed by EU legislation. Only those new and changed pronouncements of the IASB are presented that theoretically could have effects due to the current business activity of the ecotel Group. However, these go into force later and likewise should not be prematurely applied:

Standard / Interpretation	First-time mandatory application in accordance with IASB	First-time mandatory application in the EU
IFRS 16 »Leases«	1 January 2019	Unknown as of yet
IAS 12 »Deferred Taxes«	1 January 2017	Unknown as of yet
IAS 7 »Disclosure Initiative«	1 January 2017	Unknown as of yet
IFRS 4 »First-time Adoption of IFRS 9«	1 January 2018	Unknown as of yet
Clarification to IFRS 15	1 January 2018	Unknown as of yet
Annual improvement project cycle 2014 – 2016	1 January 2017 / 2018	Unknown as of yet

With the exception of the rules of IFRS 16, the application of these standards and changes is expected to have no significant effects on the asset, finance and earnings situation of the ecotel Group.

IFRS 16 »Leases« affects essentially the accounting of operating leasing relationships of the ecotel Group. As of the closing date, obligations exist from operating leasing relationships totalling € 5,215 thousand (see disclosure 2). They consist essentially of the long-term leasing of real estate for operation of the computer centre and the administration. The adoption of the rules of IFRS 16 will probably result in the recognition of right-of-use assets and the recognition of leasing obligations. A detailed analysis of the effects has not yet been conducted.

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. Control assumes that the Group has the power of disposition over the subsidiary, in that the Group has substantive rights to control the essential business activities of the subsidiary. 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. 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 the Group's uniform accounting and valuation methods. The entire net investment (at-equity value including financial assets vis-a-vis these enterprises for which no adequate securities exist) will be subjected to an impairment test in accordance with IAS 28 in combination with IAS 36 in the event of indications of a possible impairment.

Consolidated group

In addition to ecotel communication ag, all (previous year: all) subsidiaries are included in the consolidated financial statement for which ecotel communication ag directly or indirectly controls the majority of voting stock and has substantive rights to control the decisive business activities of the subsidiary. Initial consolidation or deconsolidation always occurs at the time of acquisition or sale of equity interests. In the reporting and comparison year, ecotel communication ag had the following direct and indirect holdings (share owners list, on the basis of the financial reports as of 31 December 2016):

Information is provided on the basis of IFRS	Share of capital in % [2]	Equity in thousand € [2]	Earnings in thousand € [2]	Revenue in thousand € [2]	Employees [1)] (average) [2]
easybell GmbH, Berlin (consolidated)	50.98	2,803	1,766	12,427	25
	(50.98)	(2,037)	(1,246)	(10,735)	(20)
carrier-services.de GmbH [3] Berlin (consolidated)	100.0	1,811	271	1,251	4
	(100.0)	(1,541)	(546)	(2,564)	(5)
sparcall GmbH [3] Bad Belzig (consolidated)	100.0	1,038	507	1,551	0
	(100.0)	(1,282)	(583)	(1,816)	(0)
init.voice GmbH [3] Berlin (consolidated)	100.0	173	30	290	0
	(100.0)	(143)	(–1)	(186)	(1)
nacamar GmbH, Düsseldorf (consolidated)	100.0	807	78	1,718	12
	(100.0)	(1,628)	(–37)	(2,471)	(17)
mvneco GmbH, Düsseldorf (associated company)	33.33	1,780	734	5,499	26
	(33.33)	(146)	(513)	(4,140)	(24)
synergyPlus GmbH (i.L.), Berlin (associated company)	49.9	3	–4	1	0
	(49.9)	(87)	(–10)	(1)	(0)

[1] Without Management Board members/managing directors and trainees
[2] Previous year's figures in parentheses
[3] Indirect holding via easybell GmbH

With the entry dated 16 October 2015 in the commercial register, synergyPlus GmbH (i. L.) initiated liquidation proceedings.

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.

Accounting and valuation methods

The essential accounting and measurement methods that are relevant for the consolidated financial statement are explained in the following.

Assets are capitalised if the Group is entitled to all essential opportunities and risks associated with their use. The measurement is carried out based on the acquisition or manufacturing costs.

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.

Purchased intangible assets are always depreciated at the cost of acquisition using the straight line method, unless in exceptional cases a different depreciation method better corresponds to the course of the useful life.

Self-generated intangible assets, from which most likely a future benefit will flow to the Group and that can be measured reliably are measured at their cost of manufacture. Entry on the asset side assumes that completion is technologically ensured. This assumes that completion of the intangible asset is intended. Generally, self-generated intangible assets are self-created software, applications and programs that are not sold, but rather intended for in-house use.

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

Concessions and commercial property rights	Development costs	Software	Customer base
3–5 years	5 years	3 years	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). ***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 is intended either for the company's own use or for marketing. In addition capitalisation has for its prerequisite that clear expense allocation is possible, that costs are covered through future flow of funds with sufficient probability and the ability to use or sell the intangible asset.

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. According to IAS 36 the carrying value is to be reported in addition to the recoverable amount. The recoverable value is defined as the higher of the two values fair value less costs to sell and the value in use.

Items of property, plant, and equipment are valued at cost of acquisition or cost of manufacture, reduced by use-related scheduled depreciations and write-downs, if applicable. 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. Tangible fixed assets (other equipment, plant and office equipment) are written off regularly over a period of 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 impairments 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.

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 are carried at appropriately impaired values, if indications exist in the specific case. Receivables denoted in foreign currency are evaluated at the exchange rate on the balance sheet date.

Prepaid rent and insurance premiums as well as prepayments to suppliers for future temporally defined services are shown as ***other non-financial assets.***

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. 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. In addition, deferred taxes are formed on tax losses carried forward of the single companies. 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. Currently there are no foreign Group companies.

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.

In the **Business Customers (B2B)** segment the sales revenue is recognised essentially as follows:

Sales revenue from voice connections is realised when the contractually agreed services have been provided. Any shares calculated in advance and invoiced to the customer as agreed by contract (such as monthly basic fees calculated in advance) that have not yet been furnished or provided are reported in the sales revenue for the respective period.

Sales revenues from the data business are reported with the provision of the service. For contracts on the basis of flat rates, 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.

Revenue from the provision of hardware and computer centre services is recognised depending on the contractual agreement either upon provision or in the form of monthly fees. Generally, ecotel installs pre-configured hardware (e.g. routers) at the customer’s location; this hardware remains the property of ecotel and is recognised as a network component (with the end point at the customer’s location).

In the **Wholesale Solutions** segment revenue is recognised at the point when the contractual services are provided. This relates essentially to trading with voice minutes for different national and international telecommunications providers. The services are documented in a statistics portal. They are regularly reconciled with the supplier and customer and invoiced monthly.

In the **New Business** segment, revenue is recognised essentially as follows:

In the *Private Customer Solutions (B2C)* segment revenue is recognised upon provision of the service. In general, contracts on the basis of flat rates are concluded, which 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. Generally the customer is provided with pre-configured hardware (a router), which remains the property of ecotel and is invoiced in the form of a user fee.

In the *new media solutions* segment revenue is generally recognised when the contractually agreed service is provided. Any shares calculated in advance and invoiced to the customer as agreed by contract (such as monthly basic fees calculated in advance) that have not yet been furnished or provided are reported in the sales revenue for the respective period. 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.

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

Interest income and expenses 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 measured at equity is shown separately within the financial result.

Discretionary decisions and estimation uncertainties

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*** essentially refer to the uniform Group determination of economic useful lives, 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 on which the respective ***estimate*** is based and the corresponding carrying amounts are explained in the individual items of the balance sheet, as well as for the statement of comprehensive income. 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 1.125 that could be inherent in the assumptions and estimates were not identified at the time the consolidated financial statement was prepared. With respect to additional information on significant estimates, we refer to the explanations of the impairment test (disclosure 1) and on accounting of financial assets / other financial assets measured at equity (disclosure 3).

Explanations for the consolidated balance sheet

(1) INTANGIBLE ASSETS

The intangible assets developed in financial year 2016 as follows:

Thousand €	Goodwill	Concessions, industrial and similar rights and assets and licenses in such rights and assets	Self-generated intangible assets	Cus-tomer base	Prepayments / developments	Total
Acquisition costs and manufacturing costs as of 1/1/2016	**14,427**	**5,035**	**3,076**	**9,769**	**80**	**32,387**
Additions	–	311	387	–	329	1,027
Transfers	–	–	284	–	–284	0
Disposals	–	176	–	–	–	176
As per 31/12/2016	**14,427**	**5,170**	**3,747**	**9,769**	**125**	**33,238**
Write-downs as of 1/1/2016	**5,553**	**3,886**	**1,914**	**8,312**	**0**	**19,665**
Scheduled additions	–	543	394	296	–	1,233
Disposals	–	176	–	–	–	176
As per 31/12/2016	**5,553**	**4,254**	**2,308**	**8,608**	**0**	**20,723**
Carrying amounts as of 31/12/2016	**8,874**	**916**	**1,439**	**1,161**	**125**	**12,515**

In the previous year intangible assets developed as follows:

Thousand €	Goodwill	Concessions, industrial and similar rights and assets and licenses in such rights and assets	Self-generated intangible assets	Cus-tomer base	Prepayments / developments	Total
Acquisition costs and manufacturing costs as of 1/1/2015	**14,427**	**8,525**	**4,410**	**9,769**	**0**	**37,131**
Additions	–	463	300	–	80	843
Disposals	–	3,953	1,634	–	–	5,587
As per 31/12/2015	**14,427**	**5,035**	**3,076**	**9,769**	**80**	**32,387**
Write-downs as of 1/1/2015	**5,553**	**7,347**	**3,210**	**7,929**	**0**	**24,039**
Scheduled additions	–	487	335	383	–	1,205
Disposals	–	3,948	1,631	–	–	5,579
As per 31/12/2015	**5,553**	**3,886**	**1,914**	**8,312**	**0**	**19,665**
Carrying amounts as of 31/12/2015	**8,874**	**1,149**	**1,162**	**1,457**	**80**	**12,722**

The reported goodwill is composed as follows:

Cash-Generating Unit (CGU)	Carrying amount 31/12/2015	Carrying amount 31/12/2016
	Thousand €	Thousand €
Business Solutions	8,732	8,732
easybell	124	124
carrier-services	17	17
Init-voice	1	1
	8,874	**8,874**

In accordance with IAS 36, impairment tests were performed in the financial year just ended, according to the discounted cash flow method for verification of the recovery of the goodwill shown. The data from the respective company planning was used as a basis for this (forecast period: 5 years) and the value in use was determined. In financial year 2016, as in the previous year, there was no requirement for depreciation.

The following assumptions served as the basis for implementation of the impairment tests of the CGU Business Customers:

- Capitalisation interest rate (WACC) after taxes: 4.7 % (previous year: 5.6 %), before taxes: 6.5 % (previous year: 7.8 %)
- Growth rate (perpetual annuity): 0.5 % (previous year 0.5 %)

In the preparation of the impairment test of the CGU Business Customers the following important assumptions were made based on the experience of the management and supported by external information on expected market developments, which were included accordingly in the 5-year analysis for the cash flow forecast:

- Stable gross profit margin of the CGU between 49.0 % and 50.0 %
(previous year: 48.0 % and 49.5 %)
- Annual revenue growth of the CGU between 3 % and 5 % (previous year: 2 % and 5 %)
- The future annual investment volume covers the annual depreciations

(2) Fixed assets

Property, plant, and equipment developed in financial year 2016 as follows:

Thousand €	Land, land rights and buildings, including buildings on third-party land	Technical equipment and machines	Other equip-ment, plant and office equipment	Prepayments on tangible assets and assets under construction	Total
Acquisition costs and manufacturing costs as of 1/1/2016	**6,304**	**169**	**16,894**	**392**	**23,759**
Additions	117	47	2,820	27	3,011
Transfers	–	–	–	–	–
Disposals	27	–	1,098	–	1,125
As per 31/12/2016	**6,394**	**216**	**18,616**	**419**	**25,646**
Write-downs as of 1/1/2016	**4,337**	**103**	**10,593**	**216**	**15,249**
Scheduled additions	636	22	2,389	1	3,048
Unscheduled additions	–	–	–	–	–
Disposals	27	–	1,096	–	1,124
As per 31/12/2016	**4,946**	**125**	**11,886**	**217**	**17,174**
Carrying amounts as of 31/12/2016	**1,448**	**91**	**6,731**	**202**	**8,472**

In financial year 2015 development of property, plant, and equipment of the Group was presented as follows:

Thousand €	Land, land rights and buildings, including buildings on third-party land	Technical equipment and machines	Other equip-ment, plant and office equipment	Prepayments on tangible assets and assets under construction	Total
Acquisition costs and manufacturing costs as of 1/1/2015	**6,519**	**119**	**16,557**	**731**	**23,926**
Additions	132	50	2,089	158	2,429
Transfers	2	–	495	–497	0
Disposals	349	–	2,247	–	2,596
As per 31/12/2015	**6,304**	**169**	**16,894**	**392**	**23,759**
Write-downs as of 1/1/2015	**4,003**	**77**	**10,719**	**–**	**14,799**
Scheduled additions	671	26	2,108	–	2,805
Unscheduled additions	–	–	–	216	216
Disposals	337	–	2,234	–	2,571
As per 31/12/2015	**4,337**	**103**	**10,593**	**216**	**15,249**
Carrying amounts as of 31/12/2015	**1,967**	**66**	**6,301**	**176**	**8,510**

For write-downs in the previous year we refer to the information in marginal no. 16.

Future lease payments

As of the closing date the following obligations arising from operating/leasing contracts existed:

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

The leasing obligations from operating and office equipment are essentially the result of leasing contracts for company vehicles. The other rental contracts essentially include the rent of office space, and of the computer centre.

As of 31 December 2015 the following financial obligations arising from operating/leasing contracts existed:

Thousand €	Up to 1 year	From 1 year to 5 years	From 5 years	Total 31/12/2015
Operating and office equipment (leasing)	245	282	0	527
Other rental contracts	975	2,649	1,584	5,208
	1,220	**2,931**	**1,584**	**5,735**

The payments from leases recognised as expenses in the reporting period are stated in text number 17.

(3) Financial assets / other long-term financial investments measured at equity

The financial assets measured at equity are comprised as follows:

Thousand €	Carrying value (previous year)	Capital share (previous year)
synergyPlus GmbH	0 (43)	49.0 % (49.0 %)
mvneco GmbH	589 (49)	33.3 % (33.3 %)

mvneco GmbH

mvneco GmbH functions as a technical service provider and consultant for mobile services and related managed services.

The following table presents the key data for mvneco GmbH (associated company):

Thousand €	31/12/2015	31/12/2016
Short-term assets	2,443	2,483
Long-term assets	103	74
Debts	2,400	776
Net financial assets (equity)	146	1,781
Pro-rated net assets	49	589
At-equity carrying amount	49	589
	2015	2016
Sales revenue	4,140	5,499
Earnings	513	734

At the start of the financial year the shareholders of mvneco GmbH allocated outstanding loans receivable totalling € 1,945 thousand (nominal value), thereof ecotel € 938 thousand (nominal value) with a carrying value of € 679 thousand, to the capital reserves. As of the end of year 2016 ecotel therefore no longer recognises any lendings vis-a-vis mvneco. In the course of the financial year, a sum of € 1,044 thousand, thereof a share of € 348 thousand to ecotel, was paid back from the capital reserves. In view of the positive result from financial assets valued at equity totalling € 206 thousand, the total assets for mvneco GmbH at the end of the year totalled € 589 thousand.

In the previous year ecotel sold about 15 % of the shares in mvneco GmbH to the majority shareholder sirius B at a purchase price of € 1 and waiving a call option existing on the part of sirius B to take over the rights from the shares in mvneco GmbH as well as from the granted loan at a specified purchase price. In the previous year lending developed as follows:

Thousand €	2015
Outstanding receivables incl. interest 1/1	**1,243**
Repayment	–182
Interest	35
Waiver	–158
Outstanding receivables incl. interest 31/12	**938**
Decrease in value 1/1	**–714**
Waiver	158
Depreciation	0
Reversal	146
Appreciation not affecting net income	151
Decrease in value 31/12	**–259**
Carrying value 31/12	**679**

In the previous year, in accordance with IAS 36 in combination with IAS 28, the recoverable amount for the entire net investment of mvneco (equity value including other non-current financial assets) was determined based on the discounted cash flow method. The data from the company planning was used as a basis for this (forecast period: 5 years) and the value in use was determined. This resulted in a recoverable amount of € 728 thousand for the net investment.

The following assumptions served as the basis for determining the recoverable amount:

- Capitalisation interest rate (WACC) after taxes: 6.52 %, before taxes: 8.55 %
- Growth rate (perpetual annuity): 0.0 %

In the preparation of the measurement the following important assumptions were made based on the experience of the management and supported by external information on expected market developments, which were included accordingly in the 5-year analysis for the cash flow forecast:

- Annual conservative revenue growth between 1.5 % and 2.5 %
- Stable, non-increasing gross profit margin
- The future annual investment volume covers the annual depreciations

synergyPlus GmbH

Until mid-2014 synergyPLUS GmbH functioned as a sales partner for the Group. synergyPLUS GmbH currently no longer has any business operations; with the entry dated 16 October 2015 in the commercial register the company initiated liquidation proceedings. The reported profit or loss is € –4 thousand (previous year: € –6 thousand). In the concluded financial year the capital reserve of synergyPLUS GmbH decreased by € 80 thousand (previous year: € 200 thousand). Of that amount, € 39 thousand (previous year: € 100 thousand) was allotted to ecotel.

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

Thousand €	Remaining term more than 1 year	Total 31/12/2015	Remaining term more than 1 year	Total 31/12/2016
Trade receivables	0	17,717	0	9,295
Remaining other receivables and current assets	0	1,707	0	1,751
Other non-financial assets	298	822	0	674

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.

As of 31 December 2016 trade receivables exist for which the settlement balances agreements with customers and suppliers exist. The business activity of the Wholesale Solutions segment consists of the wholesale trading of telephone minutes with international carriers. The offset as a »reduced« payment is customary in the trade and contractually agreed. The conditions (IAS 32, 42) for an offset disclosure in the balance sheet did not fully exist. Up until the time at which the balance sheet was prepared, these receivables were fully settled.

Thousand €	Gross (recognised)	Netting	Net (cash flow)
Trade receivables	3,582	2,278	1,304
Accounts payable	3,195	2,278	917

As per 31 December 2015, there existed receivables totalling € 10.5 million and liabilities totalling € 10.6 million, which were set off for a total amount of € 8.1 million.

(5) Current and deferred taxes on earnings

Thousand €	31/12/2015	31/12/2016
Deferred income tax claims	27	168
Actual income tax claims	220	602
	247	**770**
Deferred tax claims with a remaining term of more than one year	**0**	**168**

As in the previous year, the actual income tax claims relate to claims for reimbursement of taxes on earnings from trade tax, corporation tax and capital gains tax.

(6) Funds

Thousand €	31/12/2015	31/12/2016
Deposits in banks	7,740	7,450
Cash on hand and checks	5	4
	7,745	**7,454**

(7) 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 31 December 2016 was 3,510,000 (previous year: 3,510,000). The shares are issued as no-par value bearer shares with a prorated amount of the capital stock of EUR 1.00.

The **shares of non-controlling shareholders** relate to the direct minority shares in the equity capital (unchanged at 49.02 %) of the easybell Group. These comprise easybell GmbH (€ 1,374 thousand, previous year: € 631 thousand) and the indirect minority shares in the equity of sparcall GmbH (€ 497 thousand, previous year: € 984 thousand), carrier-services.de GmbH (€ 884 thousand, previous year: € 751 thousand) and init.voice GmbH (€ 74 thousand, previous year: € 59 thousand).

Aggregate key data of the easybell Group:

Million €	31/12/2015	31/12/2016
Total assets	**7.5**	**8.4**
Cash and cash equivalents	5.4	5.6
Other current assets	1.2	1.6
Non-current assets	0.9	1.2
Total debts	**2.7**	**2.6**
Short-term debts	2.7	2.6
Long-term debts	0.0	0.0
Equity	4.8	5.8

Million €	2015	2016
Sales revenue	15.1	15.0
Profit	1.7	1.8
Cash flow	1.5	0.2

Share ownership

The table below shows the names of the shareholders, who owned more than 3 % of the capital stock of ecotel communication ag at the end of 2016.

	%
Peter Zils	28.50 %
Intellect Investment & Management Ltd.	25.10 %
IQ Martrade Holding und Managementgesellschaft mbH	9.97 %
PVM Private Values Media AG	9.30 %
Subtotal:	72.87 %
Diversified holdings	27.13 %

The notifications in connection with § 20 para. 1 or para. 4 Corporation Law (AktG) or in connection with § 21 para. 1 or para. 1a German Securities Trading Law (WpHG) resulted in disclosures according to § 160 para. 1 no. 8 of the Corporation Law. The underlying notifications are itemised in the annual financial statement of ecotel ag.

Authorised capital

The Management Board of ecotel ag 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 € 1,950 thousand against cash and / or investments in kind through the issue of new no-par value bearer shares, until 26 July 2017.

Capital management

The ecotel Group manages its capital with the primary goal of supporting the business activity and of assuring that the company remains a going concern in the long term. Capital management includes all equity as well as borrowings on the balance sheet. Summary quantitative information on the managed capital can be found in the balance sheet and in the corresponding notes. The important goal is compliance with the financial covenants agreed with the banks. These financial covenants consist of compliance with certain standards with respect to the equity ratio, net debt-EBITDA ratio and the EBITDA-sales revenue ratio. The financial covenants are reviewed within the framework of the reporting during the year. In this process, also future developments relative to their effects on the financial covenants are analysed in order to implement measures in a timely manner, if necessary.

For all current covenants, ecotel was clearly within the prescribed intervals in financial year 2016 and as of the balance sheet date.

(8) Liabilities from actual and deferred taxes

Thousand €	Opening balance 1/1/2016	Consump-tion	Reversal	Allocation	Closing balance 31/12/2016
Actual income tax	508	508	-	411	411
Deferred taxes on earnings	876	45	168	55	718
	1,384				**1,129**
Deferred taxes with a term of more than one year	730				570

Thousand €	Opening balance 1/1/2015	Consump-tion	Reversal	Allocation	Closing balance 31/12/2015
Actual income tax	535	535	-	508	508
Deferred taxes on earnings	852	33	-	57	876
	1,387				**1,384**
Deferred taxes with a term of more than one year	678				730

OTHER FINANCIAL AND NON-FINANCIAL LIABILITIES

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

Thousand €	Remaining term up to 1 year	Total 31/12/2015	Remaining term up to 1 year	Total 31/12/2016
Loans	**1,171**	**5,134**	**1,796**	**3,964**
Accounts payable	**19,449**	**19,449**	**11,674**	**11,674**
thereof Liabilities vis-a-vis affiliated companies	24	24	21	21
Provisions	**23**	23	29	29
Other financial liabilities	**1,126**	**1,126**	**1,328**	**1,328**
thereof liabilities related to social security	0	0	14	14
thereof liabilities for wages and salaries	46	46	512	512
thereof other personnel-related liabilities	307	307	170	170
thereof liabilities for audit/supervisory board	227	227	207	207
Other non-financial liabilities	**718**	**1,108**	**682**	**948**

As of 31 December 2016, as in the previous year, there existed no derivative financial debts. The credit liabilities relate to long-term loans with fixed interest rates and contractually agreed repayments. Current borrowings essentially comprise the repayment of loans due in 2017.

The reserves essentially comprise potential liabilities from guarantees.

(10) Reporting of financial instruments

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

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 Group. Since the exchange rate risk was low after expiration of the secured contracted transactions in previous years, no further derivative financial instruments were used for exchange rate security in the previous year and in the concluded financial year.

Interest rate risk: In the ecotel Group interest rate risks can exist primarily due to the financial liabilities of the Group. Risks from negative changes in value that can result from unexpected interest rate movements are fundamentally secured by derivative financial transactions. Due to the fixed interest rate of the reported loan no interest rate risks exist as of the closing date, which also means that no security transactions were concluded.

Credit risk: A credit risk exists for the Group if transaction partners do not or cannot honour their payment obligations. 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, value adjustments for receivables under the following balance sheet items have developed in the Group, as follows:

Adjustments for receivables 2016 (thousand €)	Trade receivables
As per 1/1/2016	191
Adjustments in the reporting period	2
Disposals	37
	156

Adjustments for receivables 2015 (thousand €)	Trade receivables
As per 1/1/2015	95
Adjustments in the reporting period	112
Disposals	16
	191

The valuation allowances apply only to the valuation category »Loans and receivables« and relate only to current assets.

As of 31 December 2016, past-due unadjusted receivables existed in the following amount:

Past-due unadjusted receivables (€ thousand)	Gross value 31/12/2016	Adjusted receivables	Unadjusted receivables due in the following time periods				
			Up to 30 days	31–60 days	61–90 days	91–120 days	Over 120 days
Trade receivables	9,451	156	762	4,739	39	4	87
Other financial assets	1,751						
	11,202	**156**	**762**	**4,739**	**39**	**4**	**87**

Allowances are made for provisions are if there are indications of impairment on past-due financial assets threatened by default if the cash value of the future cash flow of these receivables is below the carrying amount shown due to unrecoverability or impairment. For non-overdue and unadjusted receivables, full recoverability is expected.

The stated unadjusted trade receivables that are more than 120 days past due, totalling € 87 thousand (previous year: € 55 thousand) are relevant for receivables, the recovery of which is yet expected.

As of 31 December 2015 the following situation existed:

Past-due unadjusted receivables (€ thousand)	Gross value 31/12/2015	Adjusted receivables	Unadjusted receivables due in the following time periods				
			Up to 30 days	31–60 days	61–90 days	91–120 days	Over 120 days
Trade receivables	17,908	191	772	1,693	82	14	55
Other financial assets	2,386	0	0	0	0	0	0
	20,294	**191**	**772**	**1,693**	**82**	**14**	**55**

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).

With the exception of long-term financial assets and long-term loans vis-a-vis credit institutes, the carrying values of financial assets and liabilities stated in the following tables that are not recognised at fair value represent a good approximation for their fair value primarily due to their short-term character. The fair values listed in the following tables were measured using the input data for the respective asset or liability that is not based on observable market data (level 3). The market value of the long-term loans is calculated over the term based on current market interest rates, interest structure curves and in consideration of the company's own credit risk.

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

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

Financial liabilities as of 31/12/2016 (thousand €)	Fair value	Carrying amounts	
		Other current liabilities	Carrying amounts
Current loans	n/a	1,796	1,796
Accounts payable	n/a	11,674	11,674
Other financial liabilities	n/a	1,328	1,328
Non-current loans	2,059	2,168	2,168
	2,059	**16,966**	**16,966**

As of 31 December 2015 the following breakdown existed:

Financial assets as of 31/12/2015 (thousand €)	Fair value	Carrying amounts		
		Cash and cash equivalents	Loans and receivables	Carrying amounts
Liquid funds	n/a	7,745	–	7,745
Trade receivables	n/a	–	17,717	17,717
Other current financial assets	n/a	–	1,707	1,707
Non-current financial assets	679	–	–	679
	679	**7,745**	**19,424**	**27,848**

Financial liabilities as of 31/12/2015 (thousand €)	Fair value	Carrying amounts	
		Other current liabilities	Carrying amounts
Current loans	n/a	1,171	1,171
Accounts payable	n/a	19,449	19,449
Other financial liabilities	n/a	1,126	1,126
Non-current loans	3,943	3,964	3,964
	3,943	**25,710**	**25,710**

Liquidity risk: As a rule the ecotel Group companies are refinanced 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 2017 repayments are due with a nominal value of € 1.8 million. To cover the liquidity requirement, cash and cash equivalents of € 7.4 million (previous year: € 7.7 million) are available. In addition, ecotel communication ag has access to a contractually agreed revolving credit facility totalling € 5.0 million, which can be used up to a value of € 1.0 million for surety obligations. As of 31 December 2016 revolving credit facilities of € 4.0 million (previous year: € 4.0 million) therefore exist. Financial covenants exist for the bank loans taken out by ecotel communication ag (residual value: € 4.0 million; previous year: € 5.1 million) and the available line of credit. A violation of the covenants could possibly result in notice of cancellation and premature repayment of investment loans and the 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. All other financial liabilities are due within one year.

To secure the financing of ecotel's planned continued growth, a further loan contract for € 3.0 million was concluded on 29 December 2016. The loan was disbursed in January 2017. The following presentation does not include the redemption payments and interest payments for this loan.

Repayments / interest payments for financial liabilities (€ thousand)	Carrying amounts	Repayments			Interest payments		
	31/12/2016	2017	2018 to 2021	From 2022	2017	2018 to 2021	From 2022
Liabilities to banks	3,964	1,796	2,168	0	123	84	0

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

Repayments / interest payments for financial liabilities (€ thousand)	Carrying amounts	Repayments			Interest payments		
	31/12/2015	2016	2017 to 2020	From 2021	2016	2017 to 2020	From 2021
Liabilities to banks	5,134	1,171	3,963	0	172	210	0

Interest rate risks are fundamentally reported in accordance with IFRS 7 by means of sensitivity analyses, if the Group is subjected to such risks on the balance sheet date. Primary variable interest-bearing financial instruments whose interest payments are not designed as underlying transactions for cash flow hedges against interest rate risks, as well as interest derivatives (interest swaps) that are not included in a hedge in accordance with IAS 39, existed neither on the previous year's closing date nor as of 31 December 2016. Likewise there were no primary financial instruments with fixed interest rates (financial debts) and reporting at fair value on 31 December 2016 or on the previous year's closing date, since all financial instruments are shown in the balance sheet at historical cost of acquisition. On 31 December 2016 the ecotel Group was therefore not subject to interest rate risks in accordance with IFRS 7. A sensitivity analysis for the interest rate risks therefore was not conducted.

Exchange rate risks are likewise presented in accordance with IFRS 7 by means of sensitivity analyses, insofar as the Group is subject on the balance sheet date to risk variables from the use of non-functional currencies in which consolidated companies agree to financial instruments. This also was the case neither in the previous year, nor on 31 December 2016, so that no sensitivity analysis was conducted for the exchange rate risk.

(11) Contingent receivables and liabilities and other financial obligations

As of 31 December 2016 contingent liabilities due to guarantees and other commitments totalled € 588 thousand (previous year: € 588 thousand) for surety obligations.

The carrying value of financial assets provided as security totalled € 14 thousand (previous year: € 13 thousand) as of 31 December 2016.

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

Notes to the consolidated statement of comprehensive income

(12) Sales revenue

Thousand €	2015	2016
Distribution of revenue by segment		
Business Solutions	42,923	45,178
Wholesale	45,804	54,584
New Business	17,586	16,858
Private Customer Solutions (B2C)	15,115	15,140
new media solutions	2,471	1,718
	106,314	**116,620**
Domestic	73,669	72,436
Foreign	32,645	44,184
	106,314	**116,620**

Sales revenue is earned exclusively through the provision of services. The revenue breaks down into domestic and foreign, based on the customer location.

(13) Other revenues or gains

Other operating income consists of the following:

Thousand €	2015	2016
Payments in kind for motor vehicle use	258	241
Revenue from dissolution of liabilities	108	123
Revenue from collection fees	111	75
Recharging of fees and expenses	16	22
Reversal of provisions for losses on receivables	16	9
Revenue from damages	1,257	0
Other	367	224
	2,133	**694**

The revenue from damages in 2015 resulted from a settlement payment connected with the resolution of legal disputes and was allocated to the Business Customers segment.

(14) Cost of materials

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

(15) Personnel costs

Thousand €	2015	2016
Wages and salary	10,315	11,374
Social security contributions	1,621	1,745
– thereof expenses for pensions and support	764	822
	11,936	**13,119**

For all employees of the consolidated companies in Germany there exists a contribution-oriented pension plan within the framework of the German pension insurance, into which the employer must pay the amount of a currently applicable contribution rate of 9.35 % (employer's contribution). No other pension plans exist.

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

Staff	2015	2016
Full-time employees	210	218

(16) Scheduled depreciations and impairments

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 2016 and in the previous year, after execution of the impairment tests there were no unscheduled depreciations on goodwill of the cash generating units. In the previous year, a write-down of tangible fixed assets in the Business Customers segment totalling € 216 thousand (to a value in use of € 137 thousand) was necessary, because a customer notified us that he no longer uses router products that were in the ecotel inventory.

(17) Other operating expenses

Thousand €	2015	2016
Partner and dealer commissions, marketing expenses and advertising costs	4,367	4,459
Data processing costs	1,349	1,379
Other administrative costs	1,183	1,325
Rents, leases, premises expenditure	649	706
Legal, auditing and consultancy fees	1,064	629
Change in provisions for losses on receivables / losses on receivables	338	369
Leasing payment for motor vehicles	203	214
Repairs and maintenance	171	198
Motor vehicle costs (without leasing payment)	167	131
Other	777	485
	10,268	**9,895**

(18) Financial result

Thousand €	2015	2016
Interest income		
Other interest income and similar earnings	14	1
Interest income from non-current financial assets	35	10
	49	**11**
Interest expense		
Interest expense on credit liabilities	–200	–173
Other interest and similar expenses	–4	–7
	–204	**–180**
Net interest income	**–155**	**–169**
Other financial expenses and income		
Capital market support costs	–118	–118
Revenue from write-ups of non-current financial assets	144	0
Result of companies measured at equity	–6	206
	20	**88**
Financial result	**–135**	**–81**

(19) Taxes from income and revenue

Thousand €	2015	2016
Actual income tax	–1,008	–837
Deferred taxes on earnings	–77	298
	–1,085	**–539**

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: 31 %). This consists of a tax rate of 15 % (previous year: 15 %) for corporation tax, plus 5.5 % (previous year: 5.5 %) for the solidarity surcharge, and 15 % (previous year: 15 %) for trade tax. The expected tax expense is compared with the actual tax expense.

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

Thousand €	2015	2016
Earnings before taxes	3,504	2,266
Group tax rate	**31.0 %**	**31.0 %**
Expected tax expense	–1,086	–703
Differences due to tax rates differing from the Group tax rate	49	52
Tax effect due to changes of permanent differences	0	168
Tax effects due to tax-free revenue / expenses in the case of profit distributions	–27	–27
Tax increases due to expenditures that are not tax-deductible	–32	–16
Previous year's taxes	–15	–14
Income from equity holdings and long-term lendings	60	60
Other tax effects	–34	–59
Tax expense according to the P/L statement (expense – / income +)	–1,085	–539
Effective tax rate in %	**30.9 %**	**23.8 %**

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.

The deferred taxes must be allocated to the following items:

Thousand €	2015 Assets	2015 Liabilities	2016 Assets	2016 Liabilities
Property, plant, and equipment / intangible assets	493	1,316	403	1,097
Trade receivables	0	26	0	24
Tax deferrals from losses carried forward	0	0	168	0
Offset assets / liabilities	–466	–466	–403	–403
	27	**876**	**168**	**718**

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.

(20) Allocation of the surplus to the shares of other shareholders

The share of the surplus of € 894 thousand (previous year: € 796 thousand) allocated to the non-controlling shareholders relates to the proportionate results for the year of easybell GmbH (€ 498 thousand; previous year: € 243 thousand), sparcall GmbH (€ 248 thousand; previous year: € 286 thousand), carrier-services.de GmbH (€ 133 thousand; previous year: € 267 thousand) and init.voice GmbH (€ 15 thousand; previous year: € 0 thousand).

(21) 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 the earnings per share can occur if the average number of shares is increased due to the additional issue of potential shares from options and convertible financial instruments. As of 31 December 2016, as in the previous year, there were no respective diluting financial instruments, so that the undiluted and diluted earnings per share are identical.

	2015	2016
Accrued consolidated profit for the year (in €)	1,622,577.64	833,816.06
Weighted average number of shares	3,510,000	3,510,000
Undiluted earnings per share (in €)	0.46	0.24
Diluted earnings per share (in €)	0.46	0.24

Notes to the cash flow statement

(22) Cash flow statement

The cash flow statement is prepared in accordance with the provisions of IAS 7 and is organised according to cash flows from operating, investing and financing activities.

The cash and cash equivalents of the cash flow statement correspond to the item »Cash and cash equivalents« shown in the consolidated balance sheet.

Other notes

(23) Disposition of profits

For the disposition of profits of the ecotel Group, pursuant to § 58, paragraph 2 of the German Stock Corporation Law (AktG) the annual financial statement of ecotel communication ag, which is prepared in accordance with commercial law, is decisive. The annual financial statement of ecotel communication ag shows a balance sheet profit of € 1,099 thousand (previous year: € 4,272 thousand). In financial year 2016 ecotel communication ag planned a distribution of € 0.23 per qualified share for financial year 2015. A total amount of € 807 thousand was distributed to the shareholders.

(24) Related party disclosures

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

Thousand €	Volume of services provided by ecotel		Volume of the services utilised by ecotel	
	2015	2016	2015	2016
mvneco GmbH				
– from goods and services	20	19	20	53

As of 31 December 2016 the receivables vis-a-vis mvneco GmbH total € 2 thousand and accounts payable to mvneco GmbH total € 21 thousand.

The ecotel Group maintained service relationships with the following related parties (or their enterprises) in 2016:

Thousand €	Volume of services provided by ecotel		Volume of the services utilised by ecotel	
	2015	2016	2015	2016
MPC Services GmbH				
– from goods and services	4	3	345	346

Agreement with MPC Services GmbH

A business representation contract exists between MPC Services GmbH and ecotel. Under this contract MPC Services 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 Services GmbH. Supervisory Board member Mirko Mach is managing director and shareholder of MPC Services GmbH. As of the balance sheet date receivables totalling € 0 thousand (previous year: € 0 thousand) and liabilities totalling € 33 thousand (previous year: € 35 thousand) existed vis-a-vis MPC Services GmbH.

In 2016 Ms. Sandra Zils, the spouse of the CEO, received remuneration as an employee of ecotel communication ag totalling € 9 thousand (previous year: € 10 thousand) for her work in the ecotel Group.

(25) Segment reporting

The internal organisational and management structure and the internal reporting to the Management Board and the Supervisory Board form the basis for defining the criteria for classification of the business segments of ecotel.

The classification of segments is based on the internal reporting by business segments, which are defined as follows:

- In the Business Solutions segment (operative core segment) ecotel offers SMEs »bundled« voice, data and value added services as well as direct connections for voice and data communications from one source.
- In the Wholesale segment ecotel markets products and comprehensive solutions for other telecommunications companies (including resellers and call shops).
- The New Business segment comprises the private customer business (B2C) of easybell GmbH and the New Media business of nacamar GmbH.

Annual earnings before interest, taxes, depreciations and amortisations (EBITDA) are presented as a segment result, which the Management Board uses for corporate control and monitoring. The segment reporting is prepared according to the accounting and measurement methods of the Group. Therefore, there are no valuation adjustments.

The business conducted in the Wholesale segment is characterised by the trading with minutes with international carriers. In this case, both incoming and outgoing minutes are traded with a carrier. The volumes are very difficult to predict. In financial year 2016 the segment achieved revenue with two international carriers totalling more than 10 % of the consolidated revenue (€ 19.4 million / € 20.7 million) (previous year: € 16.7 million / € 11.2 million).

Thousand €	Business Solutions		Wholesale		New Business		Consolidation, cross-segment		Group	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
External revenue	42,923	45,178	45,804	54,584	17,586	16,858	–	–	106,314	116,620
Inter-segment revenue	–	–	987	829	187	379	–1,174	–1,207	0	0
Gross earnings	20,862	21,840	394	259	6,508	6,346	–	–	27,763	28,445
EBITDA	5,225	3,961	–52	–238	2,693	2,906	–	–	7,866	6,629
Scheduled depreciations	–3,620	–3,770	–	–	–392	–511	–	–	–4,011	–4,281
Unscheduled depreciation	–216	0	–	–	–	–	–	–	–216	0
EBIT	1,389	190	–52	–238	2,301	2,396	–	–	3,639	2,348

Inter-segment transactions were executed at market prices. The Group's revenue originated essentially in Germany. The revenue was allocated to the categories domestic and foreign based on the customer location. For additional explanations, we refer to the information on revenue. Segment assets and segment investments are allotted completely to Germany.

(26) Statement on corporate governance in accordance with § 289a of the German Commercial Code (HGB) including the statement in accordance with § 161 of the German Stock Corporation Law (AktG)

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 available to the public on the Internet site of ecotel communication ag (www.ecotel.de under Investor Relations / Corporate Governance).

(27) Remuneration of key management (disclosure in accordance with § 314 HGB and IAS 24)

Total remuneration in thousand €	Peter Zils		Achim Theis		Johannes Borgmann	
	2015	2016	2015	2016	2015	2016
Fixed remuneration	325	330	220	220	220	147
Additional services	23	23	17	17	27	13
One-year var. remuneration	49	33	44	33	15	–
Multi-year var. remuneration	8	–	7	–	6	–
Total remuneration	**405**	**386**	**288**	**270**	**268**	**160**

Johannes Borgmann resigned from the Management Board of ecotel communication ag on 31 August 2016. In addition to his contractually stipulated monthly salary, Mr. Borgmann was paid € 227 thousand as a lump-sum payment in financial year 2016. This payment is recognised in connection with reporting of the termination of the activity and of the total remuneration for former members of the Management Board.

The success-related variable remunerations are linked to a sustainable corporate development over a period of three years. For financial year 2016 the Management Board is entitled to well-earned variable remuneration in the amount of € 66 thousand (previous year: € 129 thousand), in addition to the fixed salaries and fringe benefits. After deducting already paid remuneration shares, corresponding obligations were formed. The remunerations are solely for short-term due services. The remuneration for financial year 2016 therefore totalled € 816 thousand (previous year: € 961 thousand), without lump-sum payments.

The following table shows the remuneration of the Supervisory Board:

Supervisory Board	Remuneration in thousand € 2015	Remuneration in thousand € 2016
Dr. Norbert Bensel	25	25
Mirko Mach	20	20
Dr. Thorsten Reinhard	15	14
Brigitte Holzer	14	13
Sascha Magsamen	14	14
Dr. Barbara Bludau (Until 22 July 2016)	15	9
Tim Schulte Havermann (starting 22 July 2016)	–	7
Total	**103**	**102**

In addition to the Management Board and Supervisory Board members, since September 2016 ecotel includes the two authorised signatories in the key management in accordance with IAS 24. The total remuneration for the entire key management including the lump-sum payments of € 227 thousand therefore totals € 1,279 thousand (previous year: € 1,064 thousand) and is overall short-term. For additional information on the remuneration of the Management Board and Supervisory Board we refer to the Group management report.

(28) Audit expenses

In financial year 2016 the fee entered as expense for the auditors of the consolidated financial statement of ecotel ag for audit services for the consolidated financial statement and the individual financial statements of the parent company and consolidated subsidiaries totalled € 97 thousand (previous year: € 85 thousand). As in the previous year, no other expenses were reported for the auditor for other confirmation services, tax consulting services, or other services.

(29) Events after the reporting period

In January 2017, in order to secure the future growth investments, ecotel took out another long-term loan for € 3.0 million as well as an additional credit facility of € 3.0 million that is limited to the end of 2018. The loan has a term of five years and has a repayment holiday period of two years.

(30) Exemption from publication

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

Düsseldorf, 17 March 2017
The management board

Peter Zils *Achim Theis*

Auditor's opinion

We have audited the consolidated financial statement of ecotel communication ag – comprising the balance sheet, cash flow statement, statement of comprehensive income, 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 31 December 2016. Preparation of the consolidated financial statement and the Group management report in accordance with 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 German auditing standards defined by the IDW Institute of Public Auditors in Germany. 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 relating 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 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, complies with the statutory regulations, conveys overall an accurate picture of the Group's situation, and correctly presents the opportunities and risks associated with future development.

Düsseldorf, 17 March 2017
PricewaterhouseCoopers GmbH
Auditors

Verena Heineke Auditor	ppa. Jörg Klein Auditor

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 2016, 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 additionally involved in a regular exchange of information and ideas with the Chairman of the Management Board.

The Supervisory Board and Management Board of ecotel convened for a total of five sessions in the reporting year, on 26 January 2016, on 22 March 2016, on 1 June 2016, on 22 July 2016 and on 7 December 2016. In addition, the Supervisory Board convened one time via telephone. Furthermore, four resolutions by circulation were made. In the meetings the ecotel Management Board regularly 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 and consulted together with the Supervisory Board concerning these issues. Moreover, the Supervisory Board was involved 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

In all Supervisory Board meetings in 2016, the Supervisory Board received detailed reports on the development in particular of the Business Customers segment, on projects of strategic importance and on the development of the market situation. In particular, there were also unresolved regulatory requirements. Strategic supplier contracts were also discussed regularly.

In addition, the Supervisory Board received periodic reports on the course of business of the subsidiaries easybell GmbH and nacamar GmbH as well as the holdings in mvneco GmbH and discussed their strategic development with the Management Board. In the case of nacamar GmbH, several meetings focused on restructuring concepts and their implementation (including personnel changes in management).

Projects requiring approval were discussed in detail between the Supervisory Board and Management Board. Among other issues the Supervisory Board approved various proposed resolutions with respect to personnel changes and a recommendation of the Management Board to take out a loan.

As in the past the Supervisory Board devoted special attention to risk management issues in the reporting year. 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.
Other important resolutions of the Supervisory Board in the reporting year concerned the recommendation to the general meeting for disposition of profits by distributing a dividend of € 0.23 per share.

The supervisory board meeting held on 22 March 2016 focused on the auditing and approval of the 2015 annual and consolidated financial statements. In addition, in the meeting of 22 March 2016, as a precaution the Supervisory Board approved various contracts between ecotel and companies in which members of the Supervisory Board hold shares.

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 respective Supervisory Board member did not take part in the discussion and withheld his vote in the passing of the respective resolution. 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 affected 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. The auditor selected by the ecotel Annual General Meeting of 22 July 2016, PricewaterhouseCoopers Aktiengesellschaft of Frankfurt, 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 auditor conducted the audit in accordance with § 317, par. 4 of the Commercial Code and determined that the Management Board has established a monitoring system, that the statutory requirements for early detection of existential threats for the company are fulfilled and that the Management Board has taken suitable measures for the early detection of developments and the prevention of risks.

The auditor submitted to the Supervisory Board the statement of independence required by the Corporate Governance Code and disclosed to the Supervisory Board the auditing and consultation fees that accrued in the respective reporting year.

The financial statement documents and reports of the auditor were submitted to all members of the supervisory board for review. Representatives of PricewaterhouseCoopers Aktiengesellschaft 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 reports submitted by the Management Board, including the annual financial statement, the consolidated financial statement, the management report and the Group management report as well as the recommendation for utilisation of the net profit for the year, 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 2016, but rather approved the Annual Financial Statement and the Consolidated Financial Statement with the resolution of 22 March 2017. The Annual Financial Statement of ecotel for financial year 2016 is thereby adopted.

4. Corporate governance

No member of the Supervisory Board participated in less than half of the Supervisory Board meetings.

In reporting year 2016, the Management Board and Supervisory Board issued a joint compliance statement on 22 February 2016 in accordance with § 161 of the German Stock Corporation Act (AktG) on the German Corporate Governance Code. The statement was made permanently available through publication on the company's website.

5. 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 22, 2016. Dr. Bludau had declared beforehand that she would no longer candidate for the Supervisory Board. The other supervisory board members were again presented for election at the recommendation of the supervisory board on 22 July 2016: Brigitte Holzer, Dr. Norbert Bensel, Mirko Mach, Sascha Magsamen, and Dr. Thorsten Reinhard. Instead of Dr. Barbara Bludau, the Supervisory Board recommended that Tim Schulte Havermann 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 2020.

6. Changes in the Management Board in the reporting period

In the reporting year Johannes Borgmann resigned from the Management Board on 31 August 2016. The divisions for which Mr. Borgmann is responsible, namely Finance and Human Resources, were taken over by Peter Zils as the CEO. Operations was taken over by Achim Theis as CCO of the company.

In addition, Achim Theis was appointed as Chairman of the Management Board of ecotel effective 1 December 2017 for a period of three more years. Accordingly his contract now ends on 30 November 2020. Mr. Theis continues to be in charge of Sales, Marketing, Product Development and Operations.

7. 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 four times and in particular, dealt with the financial reports during the year and the 2016 annual financial statement and consolidated financial statement. Furthermore, the audit committee discussed the internal control system. The audit committee has not changed and is comprised of Ms Brigitte Holzer (Chairwoman) and Mr. Mirko Mach and Mr. Sascha Magsamen.

The Supervisory Board also formed a three-member nominating committee, which prepares recommendations for nominees to the annual meeting of shareholders and also performs the duties of the personnel committee. The nominating and personnel committee was unchanged until 22/07/2016 and was comprised of Dr. Thorsten Reinhard (Chairman), Dr. Barbara Bludau and Dr. Bensel. With effect from 22 July 2016 Tim Schulte Havermann was elected by the Supervisory Board as an additional member of the nominating and personnel committee. This committee convened three times in fiscal year 2016.

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 financial year 2016. The Supervisory Board would like to mention Mr. Borgmann and Dr. Bludau, to whom ecotel owes a debt of gratitude for their contributions. This applies especially to Mr. Borgmann, who for many years helped shape the company as a member and as chairman of the Supervisory Board and since 2014 as vice chairman.

Düsseldorf, 22 March 2017
For the Supervisory Board:

Dr. Norbert Bensel

Chairman of the Supervisory Board

Glossary

All-IP

All-IP refers to the standardised switch-over from previous transmission technologies in telecommunication networks to technology based on the Internet Protocol (IP). Services such as telephony, television and mobile wireless access are consequently no longer provided via conventional circuit switching, but instead via packet switching using the network protocol commonly used in computer networks.

CDN

A Content Delivery Network (CDN), also known as a Content Distribution Network, is a network of locally distributed servers connected via the Internet that is used to deliver content (especially large media files).

Cloud Computing

Cloud Computing describes a network for providing abstracted IT infrastructures (e.g. computing capacity, memory, network capacities or also ready-to-use software) that are dynamically adapted to requirements.

Fraud

Fraud (lat. fraus, fraudis: deceit) is a generic term for various types of commercial offences in general and corporate offences in particular.

FTTH

FTTH (Fibre To The Home or Fibre all the way To The Home) refers to the installation of optical fibre cables from computer centres directly to the residence of the subscriber.

IP

The Internet Protocol (IP) is a widespread network protocol in computer networks and constitutes the basis of the Internet. It is the implementation of the Internet layer of the TCP/IP model or the network layer of the OSI model. IP is a connectionless protocol, which means that no prior arrangement between the communication partners is necessary.

IP Centrex

IP-Centrex refers to the use of the Centrex principle in IP telephony, by which the functions of a PBX telephone system are provided on the public network by a provider.

IP-Sec

Extension of the Internet Protocol (IP) created for establishing a Virtual Private Network (VPN).

LEC

A Local Exchange Carrier (LEC) is an operator of local telephony networks that connects subscribers to his network, therefore providing network access.

LTE

Long Term Evolution (LTE) is a wireless standard of the fourth generation (3.9G standard) that can achieve substantially higher download rates of up to 300 megabits per second. The basic structure of UMTS is retained in LTE. This enables fast and low-cost retrofitting of infrastructures based on UMTS technology (3G standard) to LTE Advanced (4G standard).

M2M

Machine-to-Machine stands for the automated exchange of information between end devices such as machines, vending machines, vehicles or containers or with a central control station, increasingly by means of the Internet and various access networks, such as the mobile communications network. One application is remote monitoring, control and maintenance of machines, plants and systems, traditionally referred to as telemetry. M2M technology combines information and communication technology.

MPLS

Multiprotocol Label Switching (MPLS) enables connection-oriented transmission of data packets in a connectionless network via a previously established (»signalled«) path.

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).

NGN
Next Generation Network (NGN), also known as Next Generation Access Network (NGA network), describes telecommunications technology that replaces conventional circuit switching networks such as telephone networks, cable TV networks, mobile communications networks, etc. with a standardised packet switching network infrastructure and architecture; NGN technology is compatible with older telecommunications networks.

OWG
Optical waveguides (OWG) or fibre optic cables (FOC) are cables consisting of optical conductors and connectors that are used for the transmission of light. The light is guided in fibres made of quartz glass or plastic (polymer optical fibres). They are also often referred to as glass fibre cables, in which several optical waveguides are typically bundled, with additional mechanical reinforcement for protection and stabilisation of the single fibres.

PBX Hosting
This term refers to a dedicated telephone system provided centrally in a computer centre for a customer with several locations. The locations are connected via IP data networks; external phone calls are made by means of a central SIP trunk set up in the telephone system.

PoP
Point of Presence (PoP) is a physical node for a connection to a (private) data network.

QoS
Quality of Service (QoS) gives priority to voice traffic in situations where other types of data, such as computer data, are transmitted simultaneously on the same data line.

Server farm
A server farm is a group of networked server hosts of the same type that are connected to create a logical system (also: data centre). It optimises the internal processes by distributing the load among the single servers and speeds up computer processes by utilising the computing capacity of several servers.

Session Border Controller
A Session Border Controller (SBC) is a network component for the secure connection of different computer networks or of computer networks with different security requirements. SBCs are used primarily in IP telephone networks (VoIP) in order to connect external (non-secure) data networks with internal (secure) IT structures and to implement sessions.

SIP Trunk
SIP is the abbreviation for Session Initiation Protocol. SIP Trunk refers to a technology by which IP-based telephone systems can manage many phone numbers via a single account. The classic SIP method is characterised by the fact that each end device needs a separate account for each phone number. SIP trunking on the other hand makes it possible to manage multiple extension numbers with one account. This capability is especially in demand at companies, which usually require many end devices with separate numbers.

Vectoring
VDSL2 vectoring is an extension of VDSL2, which reduces unwanted crosstalking between neighbouring subscriber lines. This can significantly increase the transmission rate, especially in unshielded cable bundles of standard telephone networks with a large number of VDSL subscribers. The ITU-T designation for this technology is G.993.5.

VoIP
Voice over IP – voice services based on the Internet protocol (VoIP services) which 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.

Financial calendar	
11 May 2017	Publication of quarterly financial report (Q1)
28 July 2017	Annual General Meeting
10 August 2017	Publication of mid-year financial report
09 November 2017	Publication of quarterly report (Q3)

Imprint

Photography: Thorsten Schmidtkord

ecotel

all around communication

ecotel communication ag

Prinzenallee 11

40549 Düsseldorf

Phone: +49 (0) 211 55 007-0

Fax: +49 (0) 211 55 007-222

info@ecotel.de

www.ecotel.de

ecotel communication ag 2016 Annual Report