2018 ANNUAL REPORT

ecotel®

all around communication

Group structure

ecotel® – all around communication

ecotel – 20th anniversary – all around communication

214 employees

300 partners

40,000 voice lines

14,000 data lines

Awards and certifications:

Datacenter Star Audit – eco – Certificate

Certified ISO 27001 – Rechenzentrum + VPN – Made in Germany

Innovationspreis-IT – Best of 2018 – Initiative Mittelstand – Telekommunikation

nacamar

Equity interest 100%

10 employees

YBRID®

Add+Radio

1.64 billion listener hours

1.12 billion Sessions

easybell

Equity interest 51%

40 employees

69,000 contract customers

sparcall

ROUTERMIETE.DE

init voice

CARRIER-SERVICES.de

mvneco – The MVNE Company

Equity interest 33%

27 employees + 23 employees (in network)

Company profile

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

ecotel currently supports more than 50,000 customers throughout Germany with around 14,000 data lines and over 80,000 voice lines.

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

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

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

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

The Group is headquartered in Düsseldorf and has around 300 employees including those at its subsidiaries and affiliated companies.

Contents

Foreword by the Management Board

Dear shareholders,
We are happy to be able to look back with you on a successful 2018 that started on a high note as we celebrated our company's 20-year anniversary on 30 January 2018.

The transformation from traditional ISDN connections to pioneering all-IP products on broadband carrier lines is advancing ever faster and extremely successfully. We have now transferred more than 40% of our customers' telephone minutes to our NGN voice platform. The higher value added in the new products is being reflected ever more clearly in growing gross profit in the ecotel Business Customers segment. And the good news is that we still have plenty of potential to significantly increase the ecotel Group's profitability and sustainability with our new and existing customers.

In contrast to the past two financial years, the € 2.0 million increase in gross profit to € 31.9 million resulted in a rise in EBITDA. With an increase of € 0.5 million to € 7.5 million, EBITDA is right in the middle of the forecast range of between € 7 million and € 8 million. The rise in expenses for technical and staff resources and for process adjustments was reduced in the financial year.

The high level of investments in 2017 and 2018 caused depreciation and amortisation to increase by € 0.6 million to € 5.3 million. After deducting net finance costs, taxes and minority interests, ecotel generated a consolidated net profit of € 0.5 million in 2018 (previous year: € 0.5 million). This corresponds to earnings per share of € 0.13 (previous year: € 0.13).

In 2018, we made further growth investments of € 5.8 million (previous year: € 5.1 million) in high-performance customer equipment, in the data centres and in IT developments.

These were mainly financed with a significantly increased cash flow from operating activities of € 6.7 million (previous year: € 4.2 million) and with net financial assets. Consequently, we generated positive free cash flow of € 0.9 million (previous year: € -0.8 million) despite the high level of investments. Net financial assets declined from € 1.2 million to € 0.4 million as at the end of 2018, chiefly due to distributions and dividends.

Based on the very good development of the key operating figures for B2B sales, gross profit, EBITDA and free cash flow and the continued very stable balance sheet ratios, we decided together with the Supervisory Board, as in the previous year, to propose a dividend totalling 100% of the consolidated net profit – i.e. € 0.13 per share – to the Annual General Meeting.

In our core "ecotel Business Customers" segment, sales rose by € 0.5 million to € 48.1 million. In the same period, gross profit posted a disproportionately high increase of € 0.9 million to € 23.6 million. The gross profit margin in this segment therefore rose by 1.4 percentage points to 49.1%. As a result of the still growing share of all-IP business (NGN products), we expect to see further increases in the gross profit margin here in the coming years.

The "easybell" segment increased its sales by € 0.7 million to € 15.9 million, while gross profit grew by as much as € 1.0 million to € 6.9 million. As in the ecotel Business Customers segment, the successful marketing of profitable SIP products can also be seen at easybell. This is particularly due to the new focus on smaller business customers.

In the "nacamar" segment, sales declined slightly as expected to € 2.0 million, but gross profit here was also increased slightly to € 1.0 million.

The amendments to the German Telecommunications Act (section 35 (5a) TKG) as at the end of 2018 prompted us to keep total consolidated sales below the threshold of € 100 million. In this way, ecotel is protecting itself in most cases from risks that could potentially arise from retroactively regulated purchase prices of market-dominating companies. This was achieved by way of a targeted reduction of sales to € 32.9 million (previous year: € 55.8 million) in the low-margin "ecotel Wholesale" segment.

For 2019, we anticipate sales in a range of € 48 million to € 50 million in the core "ecotel Business Customers" segment, along with a continued slight increase in gross profit margins and thus a rise in gross profit. Sales of between € 15 million and € 17 million are anticipated in the "easybell" segment, and sales of € 2 million to € 3 million in the "nacamar" segment. EBITDA is expected to be within a range of € 8 million to € 9 million, taking account of the positive effects of the initial application of the leasing standard IFRS 16 and the negative effects of the accounting regulations under IFRS 15 on EBITDA that are anticipated for 2019. According to current estimates, these two opposing effects will roughly cancel each other out, meaning that the planned and forecast increase in EBITDA will mainly result from an improvement in operating business.

In addition to the necessary strategic vision and forward-looking products, our success is particularly based on our committed and highly qualified employees. We would therefore like to take this opportunity to thank not only you, our shareholders, but also our many colleagues for their great work. Our special thanks also go to our loyal business partners and customers for the trust they have placed in us.

We are highly confident for the future and look forward to the challenges and opportunities that the fast-moving telecommunications market has in store for us.

Peter Zils
Chairman of the Management Board

Achim Theis
Management Board member

Management Board member

Peter Zils (born in 1963) is the founder and Chairman of the Management Board of ecotel communication ag and is responsible for the areas of strategy, technology, wholesale, finance, investor relations and HR. He already started working as an independent entrepreneur while studying telecommunications engineering at Bochum University of Applied Sciences. In January 1998, Peter Zils founded ecotel communication, headquartered in Düsseldorf, which has since developed into a corporate group with various subsidiaries and equity investments. Peter Zils has been a member of the executive committee of the VATM, the main German telecommunications industry association, since February 2015. In this role, he campaigns intensively in the regulatory and political environment for better market and competitive conditions for the telecommunications industry and its customers.

Achim Theis (born in 1964) has been working at the company since 1 January 1999, initially as the managing director of ecotel communication GmbH and since 1 June 2001 as a member of the Management Board. Since 1 September 2016, he has been responsible for the areas of marketing, sales, product development and operations in his role as Chief Commercial Officer (CCO). After studying business economics, he initially worked in various management positions in sales and marketing in different sectors. Achim Theis has more than 20 years of experience and therefore has an extensive network and expertise in the telecommunications market.

Authorised signatories

Wilfried Kallenberg (born in 1960) has been working for ecotel communication ag since 2008. As Chief Technical Officer (CTO) and an authorised signatory, he is responsible within the company for the areas of IT; network operation; product, system and network engineering; and process and project management. Since 2014, he has played a key role in the successful realignment of the wholly-owned subsidiary nacamar GmbH in his role as managing director. After completing his vocational training at SEL AG and earning other qualifications, he initially worked as a professional service engineer. Back in 1994, when the liberalisation of the telecommunications market was in the offing, Wilfried Kallenberg moved from a system supplier to the telecommunications network operator WorldCom (now Verizon). The network and IT expert subsequently worked in technical and operational management roles for other carriers and service providers.

Holger Hommes (born in 1977) has been working for ecotel communication ag since 2014, initially as a commercial manager and since September 2016 as Chief Financial Officer (CFO) and authorised signatory. In addition to group management and reporting, he is responsible for the financial accounting, controlling, billing and technical purchasing departments. After completing his studies in business administration in 2000, he started his professional career in auditing at Arthur Andersen and Ernst & Young, before moving to the Deutsche Telekom Group in 2006. Here he was responsible in various positions for the preparation of the consolidated financial statements and for group reporting and held a senior management role for the preparation of the financial statements before moving to ecotel.

Dr. Norbert Bensel (Chairman) (born in 1947) has been a member of the Supervisory Board of ecotel communication ag since July 2010 and took on the role of Chairman with effect from 1 May 2014. Dr Norbert Bensel is an independent business consultant. After completing his doctorate in chemistry, Dr Bensel worked in various roles in HR development and executive support at major German corporations and later became a member of the management board of debis AG. He then moved to Deutsche Bahn AG as Chief Human Resources Officer and most recently worked as a Management Board member at DB Mobility Logistics AG (DB Schenker) with responsibility for the areas of transport and logistics.

Mirko Mach (born in 1976) has been a member of the Supervisory Board of ecotel communication ag since July 2007 and took on the tasks of Deputy Chairman on 18 December 2007. In 1995, Mirko Mach founded the company MPC Service GmbH together with Ferdinand Ruppert, taking on the establishment of this telecommunications consultancy during his mechanical engineering studies already. As a managing partner, Mr Mach is currently responsible for project management in the landline segment and for the company's strategic development.

Tim Schulte Havermann (born in 1969) has been a member of the Supervisory Board of ecotel communication ag since July 2016. Mr Schulte Havermann is a businessman and works as an entrepreneur in various different business areas. After studying pharmacy, he was initially self-employed as a pharmacist while also getting involved in other sectors both entrepreneurially and with financial investments. Tim Schulte Havermann is a former CFO of ecotel communication ag (from 2002 to 2006) and has since worked as a managing director and supervisory board member at a number of investment companies in various areas, particularly property trading and project development.

Brigitte Holzer (born in 1961) has been a member of the Supervisory Board of ecotel communication ag since January 2006. Since 2012, Ms Holzer has held the role of Chief Financial Officer for PPRO Financial Ltd. After studying business administration, Ms Holzer worked in finance at various companies, including as Director of Finance at Cybernet AG for its German business and the holding company, as Director of Finance at VOICE. TRUST AG and as FP&A Manager for Emerging Markets at Adobe Systems GmbH.

Sascha Magsamen (born in 1974) has been a member of the Supervisory Board of ecotel communication ag since July 2011. Since 1 January 2010, Sascha Magsamen has been the sole management board member of Ferax Capital AG, a capital-market-oriented investment company based in Frankfurt. He is also the sole management board member of PVM Private Values Media AG, a privately owned investment and management company specialising in finance, renewable energy, media and viticulture. Prior to this, he had worked in proprietary trading at Dresdner Bank in Frankfurt since 2004, where he was responsible for the segment of small and mid caps in the DACH region with a separate portfolio. Before working in investment banking at Dresdner Bank, he was the business editor for publications including "Die Börsen-Zeitung" (WM Group) and "Die Telebörse" (Handelsblatt publishing group). In 1999, he completed his studies in public administration at the University of Applied Sciences for Public Administration in Mayen. He has founded more than a dozen SMEs in the media and financial services sectors.

Dr. Thorsten Reinhard (born in 1970) has been a member of the Supervisory Board of ecotel communication ag since January 2006. Dr Reinhard has been a lawyer at Noerr LLP (formerly Nörr Stiefenhofer Lutz) since 2005, initially in Berlin and then since 2009 in Frankfurt am Main. He has been a partner there since 2007. After studying law and then earning a doctorate, Dr Reinhard qualified as a lawyer in 1999. Before moving to Noerr, Dr Reinhard worked for another international corporate law firm in Düsseldorf and London.

Supervisory Board report

The Supervisory Board of ecotel communication ag ("ecotel" or "the company") regularly monitored the Management Board's work and supported it with advice in the 2018 financial year. This was based on detailed written and verbal reports by the Management Board. In addition, the Chairman of the Supervisory Board regularly exchanged information and ideas with the Chairman of the Management Board.

The Supervisory Board and the Management Board of ecotel met four times in total in the year under review, on 20 March 2018, on 18 May 2018, on 20 July 2018 and on 5 December 2018. The Supervisory Board also held three meetings by telephone. In addition, two resolutions were adopted by way of circulation.

At the meetings, the Management Board of ecotel regularly informed the Supervisory Board about fundamental issues relating to corporate planning, the company's profitability, the course of business and the company's position and discussed these issues together with the Supervisory Board. The Supervisory Board was also involved in important decisions and particularly examined and approved measures by the Management Board that required its approval in accordance with the rules of procedure for the Management Board.

1. Focus of Supervisory Board discussions

At all of its meetings in 2018, the Supervisory Board was informed in detail about the course of business and the company's position. Focus areas included the development of the Business Customers segment, major supplier agreements and customer projects and the development of the market situation and its regulatory conditions. Supervisory Board resolutions to grant approval related to important customer and supplier contracts. In addition, the Supervisory Board supported the Management Board with strategic issues. Its strategic discussions in 2018 particularly focuses on changes in the telecommunications market, for example as a result of cable network operators and the ever-growing importance of fibre-optic infrastructure providers.

The Supervisory Board was also continuously informed about the subsidiaries easybell GmbH and nacamar GmbH and the equity investment in mvneco GmbH and discussed their strategic development with the Management Board. With regard to nacamar GmbH, the discussions mainly related to the company's focus and a major customer project.

The Supervisory Board also dealt with various personnel matters. A diversity plan was developed to ensure that the company's executive bodies have a composition that allows them to draw on a variety of skills and perspectives. In this context, the Supervisory Board set itself the goal of having women account for a third of its members by 30 June 2022. For the Management Board, the Supervisory Board is not aiming to achieve any change by 30 June 2022, meaning that the targeted proportion of women there is still at least 0%.

The Supervisory Board discussed ecotel's financial strategy with the Management Board. As part of the medium-term financial planning, it approved a Management Board submission permitting the company to increase its bank loans in order to finance additional investments. Another forward-looking resolution related to approval for a five-year renewal of the lease for the company headquarters in Düsseldorf together with an increase in rental space.

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

At the Supervisory Board meeting on 20 March 2018, the focus was on the review and approval of the annual and consolidated financial statements for 2017. It also approved the proposal for the appropriation of net profit that was put forward to the Annual General Meeting by the Management Board, which provided for the distribution of a dividend of € 0.13 per share. In addition, the Supervisory Board approved various contracts between ecotel and companies in which members of the Supervisory Board hold interests.

At the Supervisory Board meeting on 18 May 2018, the Supervisory Board prepared for the company's Annual General Meeting together with the Management Board.

2. Handling of conflicts of interest in the Supervisory Board

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

3. Annual and consolidated financial statements

The Management Board prepared the annual financial statements and management report of ecotel in accordance with the German Commercial Code and prepared the consolidated financial statements and group management report in accordance with IFRS principles. The auditor for ecotel as elected by the Annual General Meeting of ecotel on 20 July 2018, the Düsseldorf branch of Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, headquartered in Stuttgart, audited the annual financial statements, the consolidated financial statements, the management report and the group management report. It issued an unqualified audit opinion for the annual financial statements and the consolidated financial statements.

As part of its audit, the auditor was required to carry out a review in accordance with section 317 (4) of the German Commercial Code (HGB) to assess whether the Management Board has set up an effective monitoring system that is capable of detecting developments that pose a risk to the company's continued existence at an early stage. The auditor confirmed that this was the case.

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

The financial statement documents and the auditor's reports were available to all members of the Supervisory Board for review. Representatives of Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft took part in the Supervisory Board's deliberations on these documents and reported on the main findings of their audit.

The Supervisory Board and the Audit Committee formed from among its members thoroughly examined the annual financial statements, consolidated financial statements, management report, group management report and the proposal for the appropriation of net profit submitted by the Management Board and discussed these with the auditor. The Supervisory Board acknowledged and approved the auditor's report on the findings of its audit.

Based on the final results of its review, the Supervisory Board did not raise any objections to the annual financial statements or the consolidated financial statements prepared by the Management Board for the 2018 financial year, but instead approved the annual financial statements and the consolidated financial statements by way of a resolution adopted on 12 March 2019. The annual financial statements of ecotel for the 2018 financial year were thus approved.

4. Corporate governance

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

In the year under review, the Management Board and the Supervisory Board issued a joint declaration of compliance with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG) on 8 March 2018. The most recent joint declaration of compliance by the Management Board and the Supervisory Board was made on 26 February 2019. The declarations were each made permanently available to the public on the company's website.

5. Changes in the Supervisory Board in the year under review

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

6. Changes in the Management Board in the year under review

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

7. Committees

The Supervisory Board has formed a three-person Audit Committee that particularly deals with accounting, risk management and compliance issues. In the year under review, the Audit Committee held four meetings at which it particularly discussed the intra-year financial reports and the annual and consolidated financial statements for 2018. The Audit Committee also discussed the internal control system. As before, the Audit Committee consists of Ms Brigitte Holzer (Chairwoman), Mr Mirko Mach and Mr Sascha Magsamen.

The Supervisory Board has also formed a three-person Nomination Committee that prepares nominations for the Annual General Meeting and also takes on the tasks of a Personnel Committee. As before, the Nomination and Personnel Committee consists of Dr Thorsten Reinhard (Chairman), Dr Bensel and Mr Tim Schulte Havermann. This committee held two meetings in the 2018 financial year.

The year 2018 provided an opportunity to look back at the establishment of ecotel 20 years ago and the successful path that it has taken since then. The motivation, customer focus and innovative capacity of the ecotel Group's Management Board and employees also give the Supervisory Board confidence for the future. As such, it would like to thank them all for their successful work.

Düsseldorf, 12 March 2019
For the Supervisory Board:

Dr Norbert Bensel
Chairman of the Supervisory Board

InvestorRelations

Key figures

Income statement (IFRS)		2016	2017	2018
Sales	in € million	**106.6**	**120.6**	**98.9**
ecotel Business Customers	in € million	45.3	47.6	48.1
ecotel Wholesale	in € million	54.5	55.8	32.9
easybell	in € million	15.1	15.2	15.9
nacamar	in € million	1.7	2.0	1.9
Gross profit	in € million	**28.4**	**29.9**	**31.9**
ecotel Business Customers	in € million	21.7	22.7	23.6
ecotel Wholesale	in € million	0.4	0.4	0.4
easybell	in € million	5.5	5.9	6.9
nacamar	in € million	0.8	0.9	1.0
EBITDA [1,2]	in € million	**7.0**	**7.0**	**7.5**
Operating result (EBIT)	in € million	2.3	2.2	2.2
Consolidated net income [3]	in € million	0.8	0.5	0.5
Earnings per share [4]	in €	0.24	0.13	0.13

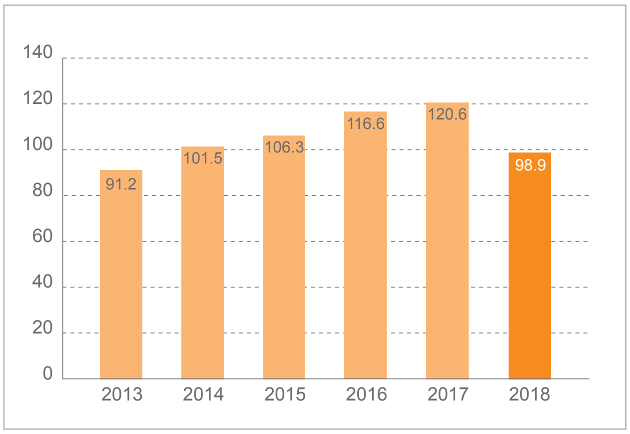
Cash flow		2016	2017	2018
Cash and cash equivalents at beginning of period	in € million	7.7	7.5	6.4
Cash flow from operating activities	in € million	6.0	4.2	6.7
Cash flow from investing activities	in € million	-3.6	-5.0	-5.8
Cash flow from financing activities	in € million	-2.6	-0.3	-1.2
Cash and cash equivalents as at 31 December	in € million	7.5	6.4	6.1
Free cash flow [5]	in € million	**2.4**	**-0.8**	**0.9**

Statement of financial position (IFRS)		2016	2017	2018
Total assets	in € million	41.5	41.8	43.7
Equity	in € million	22.4	22.5	22.7
in % of total assets		54.1%	53.9%	52.0%
Net financial assets	in € million	**3.5**	**1.2**	**0.4**

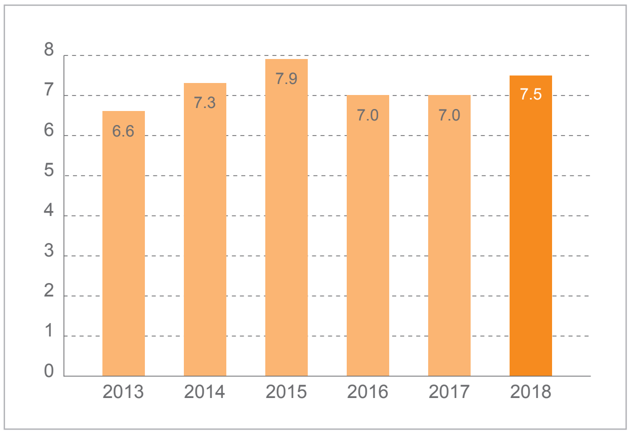
Other ratios		2016	2017	2018
Number of shares as at 31 December (outstanding)	Number	3,510,000	3,510,000	3,510,000
Employees as at 31 December [6]	Number	241	239	264
Staff costs	in € million	13.1	13.7	14.4

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

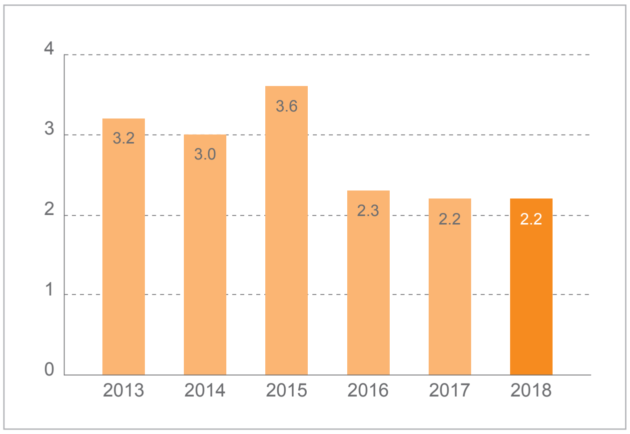
Sales in € million



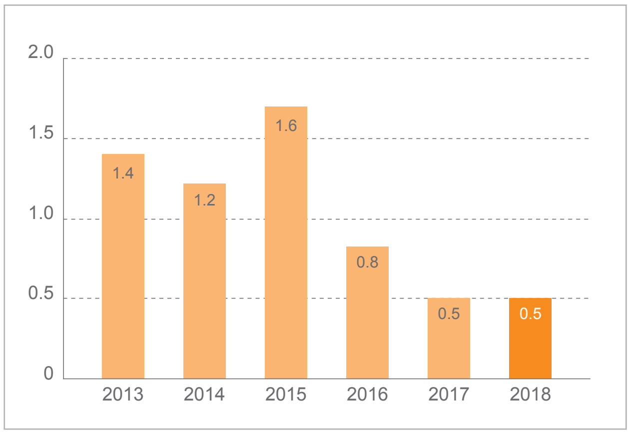
EBITDA in € million



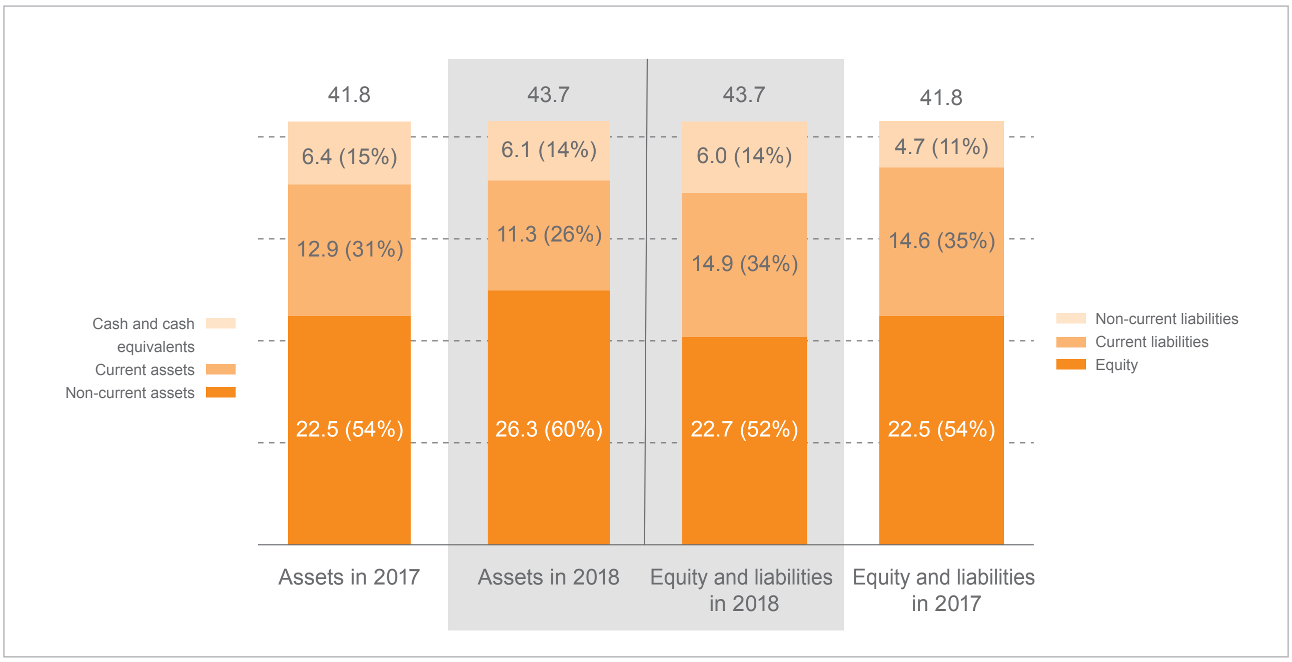
EBIT in € million



Net income in € million



Assets and equity/liabilities in € million



The ecotel share

The ecotel communication ag share (ecotel share) has been listed on the Frankfurt Stock Exchange since 2006 and in the Prime Standard since 2007. As at 31 December 2018, the share capital still amounted to 3,510,000 shares. The company does not hold any treasury shares.

Since 2015, ecotel has distributed a cash dividend each year. Last year's cash dividend amounted to € 0.13 per share.

Share price performance in 2018

After six years of significant price gains, the DAX was under huge pressure in 2018. The index was beset by rising interest rates and concerns over the negative impact of growing protectionism, particularly in trade between the EU, China and the USA. As a result, the most important German stock market barometer fell by almost 20% over the course of the year.

The TecDAX also developed in line with the DAX initially over the course of 2018. Starting from the second quarter of 2018, the TecDAX posted a considerably stronger performance, but it then decreased towards the end of the year and finished up just below its opening price at the start of the year.

The ecotel share started 2018 with significant price gains. However, from the second quarter onwards it fell significantly, both in absolute terms and in comparison to the two indices. At the end of the year, the share price came to € 7.20 and was thus considerably lower than the opening price of € 10.73.

At the start of 2019, the share recovered some of its losses and also managed to narrow the gap with the development of the DAX somewhat.

As at 31 December 2018, market capitalisation amounted to € 25.4 million (previous year: € 37.7 million). The average daily trading volume of the share in 2018 came to 1,617 shares per day compared to 3,913 shares per day in the previous year.

Investor relations

There was an intensive dialogue with investors, analysts and journalists again in 2018. This particularly focused on the company's development, the opportunities and risks of the ISDN transformation and the effects of the new financial reporting standards on the key figures.

In November 2018, ecotel took part in the Lang & Schwarz Small/Midcap Conference. Further IR measures are also planned in 2019.

Current information on the company, such as quarterly reports, press releases and the financial calendar, can be viewed by investors and interested parties in the Investor Relations section of the company's website immediately after publication.

Shareholder structure

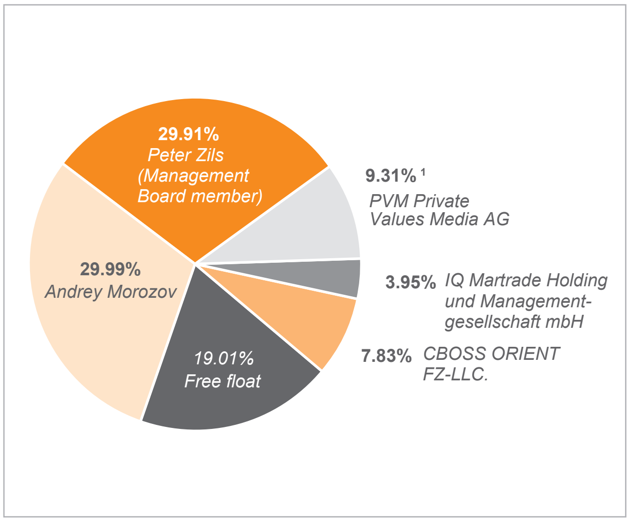
The following changes in the shareholder structure took place in 2018:

Mr Peter Zils (Chairman of the Management Board) and Mr Andrey Morozov now each hold just under 30% of the shares. Magic Assets Investment Ltd disposed of its shares. CBOSS Orient FZ-LLC now holds 7.83% of the shares. At the same time, IQ Martrade Holding und Managementgesellschaft mbH reduced its stake to 3.95%. Free float accounts for around 19% of the share capital.

Key figures 2016 average			
Securities Identification Number (WKN)	585434	Date of first listing	29 March 2006
ISIN	DE0005854343	Number of shares as at 31 December 2018	3,510,000
Symbol	E4C	Average daily volume in 2018	1,617
Market segment since 8 August 2007	Prime Standard	Highest price in 2018 (€) Lowest price in 2018 (€)	12.40 7.00
Index membership	CDAX, Prime All Share Technology All Share	Market capitalisation as at 31 December 2018 (€ million)*	25.4
Category	No-par-value shares	Designated Sponsor	Lang & Schwarz Broker GmbH

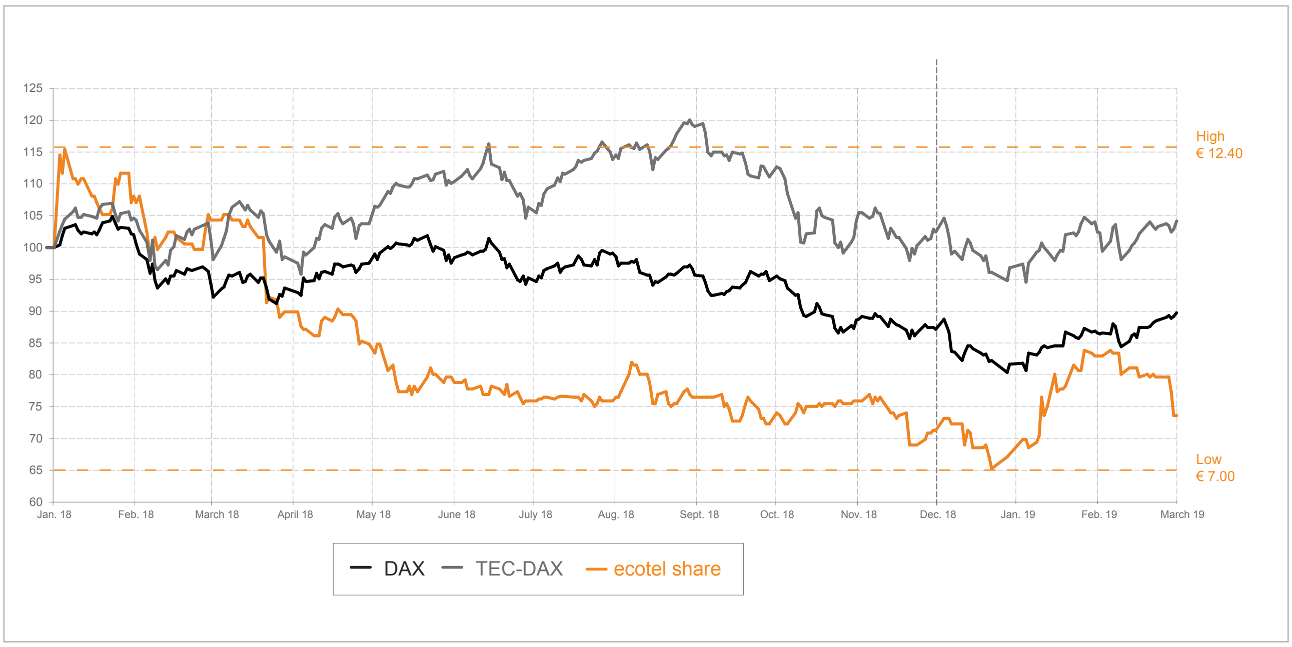
** Based on the closing price on 31 December 2018 of € 7.20 per share with 3,510,000 shares outstanding*

Share ownership (31/12/2018) in percent



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

Price performance of the ecotel share in 2018 in percent



Group Management

Report

I. Basic information on the Group

1. ecotel at a glance

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

On 30 January 2018, ecotel celebrated its 20-year anniversary, giving it the opportunity to look back on the company's sustainably successful development and look ahead to the future with confidence.

As at the end of 2018, ecotel supports more than 50,000 customers throughout Germany with around 10,000 data lines and over 80,000 voice lines.

ecotel markets its products and services in the following segments:
"ecotel Business Customers", "ecotel Wholesale", "easybell" and "nacamar".

Segments	ecotel Business Customers	ecotel Wholesale	easybell	nacamar
Brands	ecotel	ecotel	easybell	nacamar

The four segments are described in more detail below:

"ecotel Business Customers" segment
The "ecotel Business Customers" segment represents ecotel's core area. It provides 18,000 business customers throughout Germany with an integrated product portfolio of voice and data services (ICT solutions) from a single source. The focus in this segment is on business customers with more than 50 employees. These may be customers with just one location or with several locations or large chains from the retail, insurance or banking sectors. ecotel has suitable ICT solutions for all of these customer groups. In this segment, ecotel also provides products as a supplier for other ICT companies (e.g. resellers).

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

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

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

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

"ecotel Wholesale" segment

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

"easybell" segment

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

"nacamar" segment

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

Infrastructure

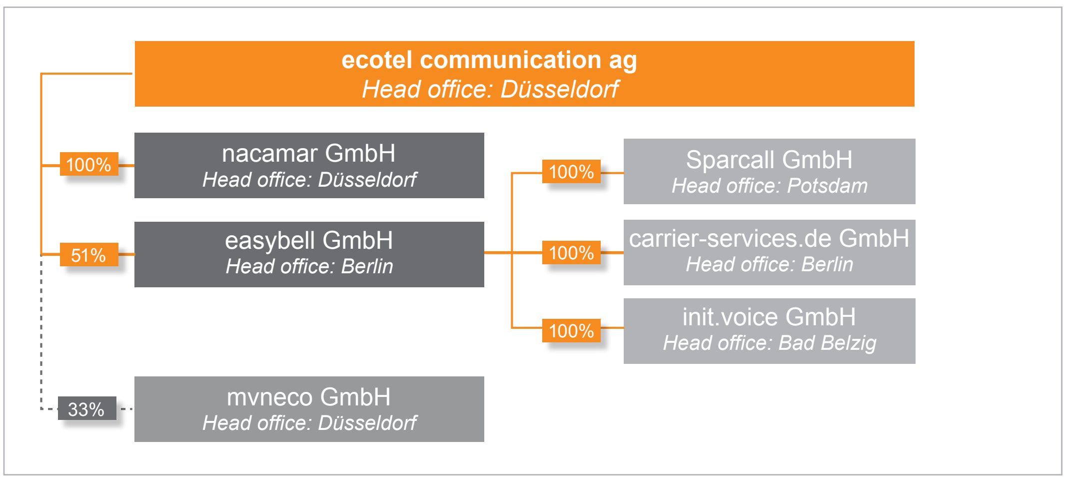
ecotel does not operate its own access network, but instead procures telecom supply services from various upstream suppliers and can therefore choose the operator offering the best value for money in each case. Typical upstream suppliers include Deutsche Telekom, Vodafone, Verizon, Versatel, Unity Media,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

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

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

2. Structure of the Group

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



3. Management of the Group

Group management

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

Sustainable corporate management

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

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

Based on this sustainable company management, ecotel has published a sustainable financial strategy that was updated in 2018 and continues to be followed:

Sustainable financial strategy

Sustainable financial strategy

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

ecotel	Employees / customers / sales partners	Capital backers	Shareholders
Sustainable and profitable growth in the B2B area	Attractive and competitive products	Stable balance sheet ratios	Transparent capital market reporting
Increase in gross profit in the B2B area: > 50%	Development of modern, forward-looking IT systems	Net financial assets	Realistic forecasts
Growth-dependent investments in 2018/2019: At least € 8 million	Attractive remuneration for sales partners and employees	EBITDA / sales > 5%	Ability to pay dividends
Liquidity reserve including credit facility At least € 5 million	Securing jobs	Equity ratio > 45%	Increase in EBITDA
	Sustainable HR policy and training measures	Debt servicing (interest and principal) in 2018/2019 approx. € 3.0 million	FCF* target from 2019 on: > € 1 per share
			Dividend policy for 2018/2019: At least 50% of EPS

** Cash flow from operating activities + cash flow from investing activities before investments and customer equipment for future projects with major customers*

ecotel manages the segments in line with the Group's overall strategic alignment. There is an overall budget plan that incorporates the annual budgets of the business divisions and of the other Group companies. At the level of the ecotel Group's Governing Board, the focus is placed on the key performance indicators of sales and gross profit/the gross profit margin in the core **Business Customers segment** and consolidated EBITDA. In this segment, direct variable costs are allocated to sales in line with the partial cost method and gross margins are calculated at the level of product types/categories in the planning. Indirect cross-product costs (overheads) and staff costs are mostly planned and monitored in cost centres. Intra-year reporting for the **ecotel Business Customers** and **ecotel Wholesale segments** takes place on a monthly basis at segment sales, gross profit and EBITDA level with a detailed analysis of deviations from the planning and the previous year and a regularly updated outlook for the end of the financial year. For detailed management of the core segment – the ecotel Business Customers segment – specific key ratios relating to the business areas (e.g. minutes volume, price per minute, gross profit margin, quantity structures) are also monitored and are mapped in a reporting system.

The **easybell** and **nacamar** segments are regularly monitored by the Governing Board on the basis of specified reporting. Here, too, the analyses focus on the key figure of sales.

Liquidity, investments and working capital are monitored centrally at ecotel ag, which also provides the main financing for the Group, for example by providing credit lines or borrowing long-term annuity loans.

4. Research and development

ecotel itself does not conduct any fundamental research, but instead focuses on the compatibility of existing types of lines, tariff combinations and device configurations. The focus here is always on the greatest possible cost/benefit effect for customers. For this reason, development expenses in recent years have mainly been limited to technical developments to establish the company's own local exchange carrier operations and development work for a sales partner portal, as well as system developments and improvements for processing orders for the new product range. The new products and the new processes and systems required for them make it necessary to significantly increase investments in these areas on a temporary basis. Capitalised development expenses therefore amounted to € 1.2 million in 2018 (previous year: € 0.9 million).

II. Economic report

1. Market and competitive environment

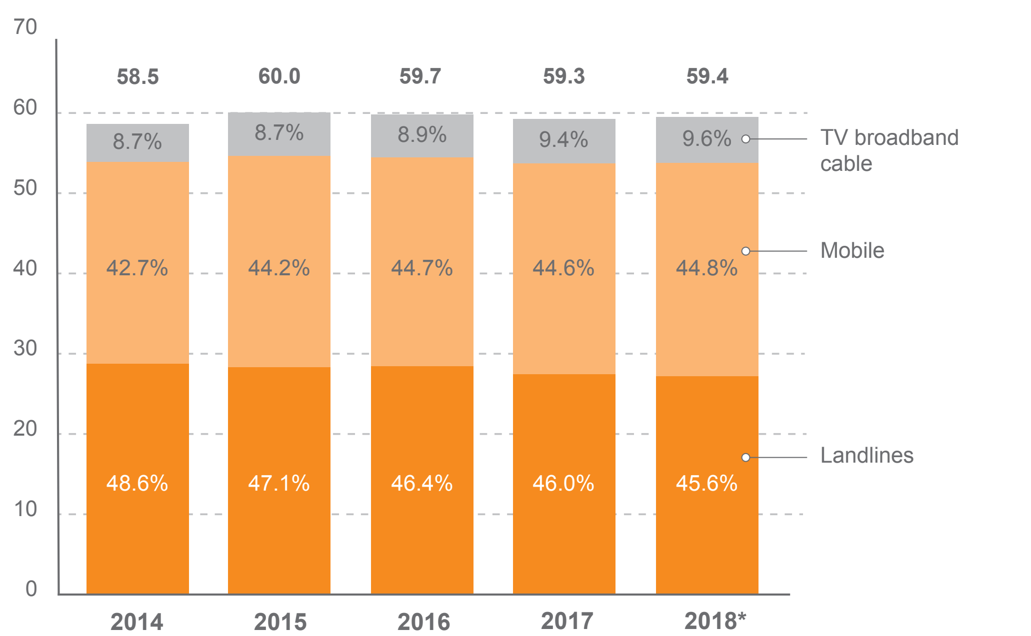
The economic situation in Germany was once again characterised by economic growth in 2018. According to initial calculations by the German Federal Statistical Office (Destatis), inflation-adjusted gross domestic product (GDP) in 2018 was 1.5% higher than in the previous year. The German economy thus grew for the ninth year in a row. Compared to the previous years, the pace of growth was not maintained. In 2016 and 2017, GDP had risen significantly by 2.2%. Compared to the average economic growth over the past ten years of 1.2%, growth in 2018 was still above this level. (Source: German Federal Statistical Office)

Slight increase in telecommunications market volume

Slight growth in overall market

The volume of the telecommunications market increased slightly year-on-year to € 59.4 billion in 2018 (previous year: € 59.3 billion). The landline market, consisting of connections, voice services and data services including TV broadband cable, accounts for 55.2% of the overall telecommunication service market with external sales of € 32.8 billion. This corresponds to the previous year's level.

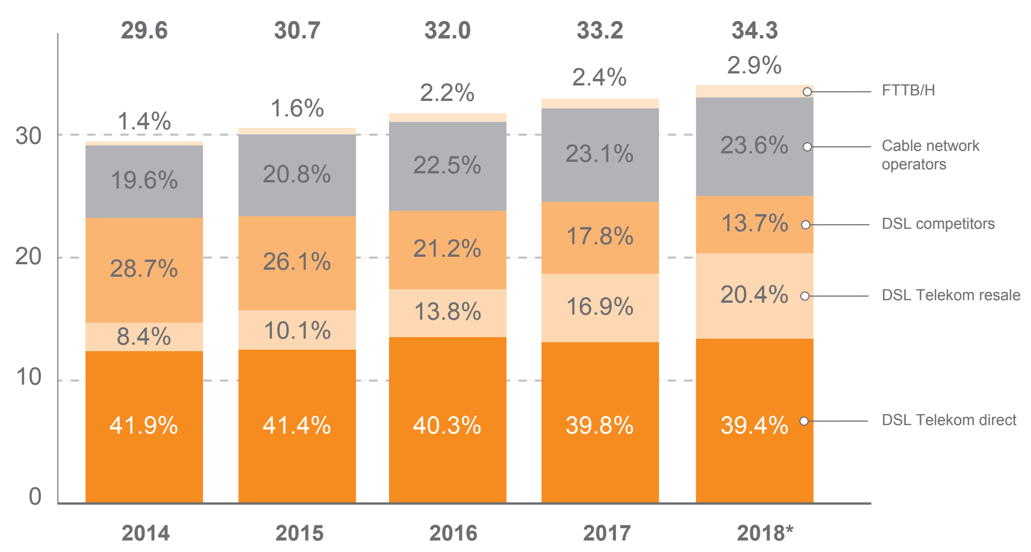
Overall market for telecommunications in Germany in billion € and in %



Source: DIALOG CONSULT/VATM 19th Telecoms Market Analysis Germany 2018 * Provisional figures

Broadband connections in millions and in %

Share of fibre-to-the-home still at very low level



Source: DIALOG CONSULT/VATM 19th Telecoms Market Analysis Germany 2018 * Provisional figures

The number of broadband landline connections increased by 1.1 million to 34.3 million in 2018. Around 5 million of these connections related to unbundled subscriber access, 7 million to Telekom resale (resale DSL/wholesale DSL/IP bitstream), 13.5 million to Deutsche Telekom in direct sales to end customers and 8.1 million to cable network operators. 8.1 million connections are provided by broadband cable network operators. The shift from unbundled subscriber access (previous year: 6.1 million connections) to DSL Telekom resale (previous year: 5.5 million connections) continued in 2018.

It is striking that the share of customers connected by Telekom competitors using upstream bitstream services of the former monopolist has increased substantially sine 2013.

Trends on the B2B market

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

The business customer segment (B2B) in Germany is characterised by continued intense competition. Sales on the business customer market were stable at around € 21.6 billion in 2018 (previous year: € 21.6 billion) and accounted for 36.4% of the total market. Telekom posted a slight decline in sales with business customers, which are expected to come to € 10.0 billion in 2018 after € 10.1 billion in 2017. The change in technology from ISDN to all-IP is continuing to drive the convergence of voice and data communication. In addition, there is undiminished demand for higher bandwidths.

Business customers need fibre-optic connections

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

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

Other important ICT trends include:

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

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

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

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

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

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

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

ecotel reacts to key trends at an early stage

Based on its knowledge and observation of the market, ecotel aims to identify key trends at an early stage and derive risks and potential from them. In 2018, ecotel dealt with the following topical issues or was actively involved in them as part of the working groups and executive committee of the VATM (German Association of Telecommunications and Value-Added Service Providers):

- improving the political and regulatory conditions for the expansion of broadband and the business customer market in Germany
- ensuring similar basic provision of telecommunication services (universal services) including broadband connections at affordable prices in urban and rural areas nationwide

- reconciling the European telecommunications policy (EU single market) with the specific requirements of the German telecommunications market
- net neutrality (i.e. equal and unchanged transmission of data packages by carriers, regardless of where they come from and what applications generated them)
- modernising the existing data protection regulations and consumer protection
- supporting initiatives in the regulatory and political field and influencing these with the aim of being able to purchase sufficient upstream products on a long-term basis and highlighting national specificities with regard to EU decisions so that these are taken into account
- trading platform for providers and consumers of broadband connections

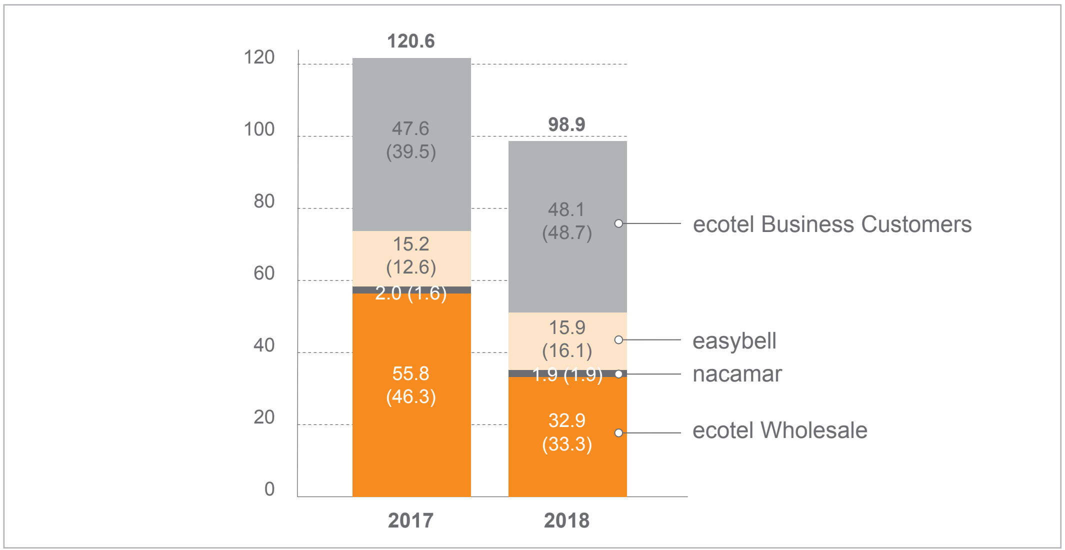
2. Result of operations, financial position and net asset position

Result of operations

The chart below shows the development of the sales breakdown by segment. Amendments to the German Telecommunications Act (section 35 (5a) TKG) as at the end of 2018 made it necessary to manage the Group's total sales such that they remained below the € 100 million threshold. This was not done at the expense of the high-margin segments, but rather only in the low-margin ecotel Wholesale segment. Further information on the impact of this change in legislation can be found in section IV. Forecast and report on opportunities and risks.

ecotel protects itself from unforeseeable risks of the new section 35 (5a) TKG

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



All segments developing in line with expectations, particularly ecotel Business Customers

ecotel Business Customers segment: further increase in sales and gross profit

In the core ecotel Business Customers segment, sales rose from € 47.6 million to € 48.1 million. The anticipated decline in sales with products based on traditional ISDN technology was more than compensated by the marketing and migration of all-IP products and the successful implementation of acquired major projects. The gross profit margin was even increased by € 0.9 million.

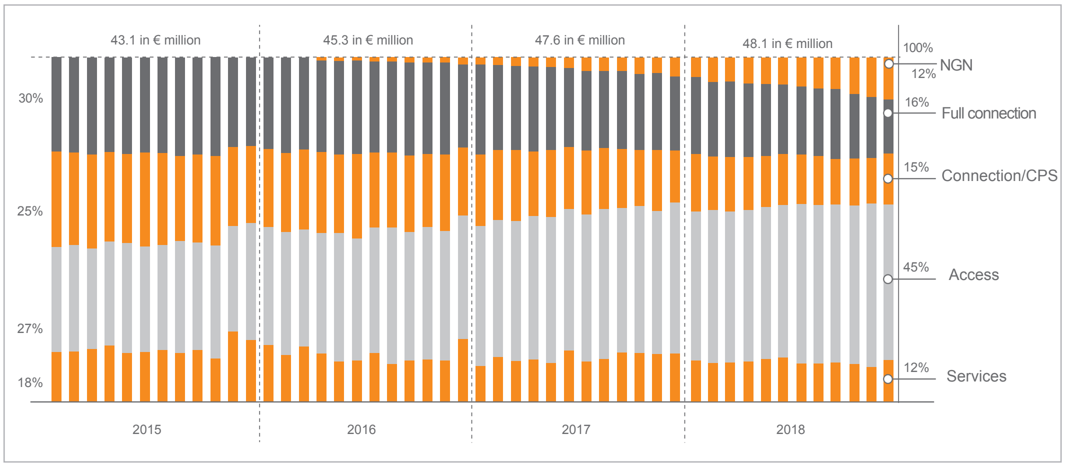
The Access area, where sales from data lines (xDSL, ethernet and fibre optic) are bundled, now accounts for 45% of the segment's total sales (end of 2014: 27%). As expected, the share of sales attributable to ISDN connection/CPS marketing (carrier preselection) and traditional full connection fell to around 30% as at the end of the year (end of 2014: 55%).

Sales with the Group's own NGN products for IP-based voice services and associated carrier lines, which have only been marketed since mid-2016, continued to rise in 2018 and already accounted for 12% of total sales as at the end of the year. With these products, ecotel is able to offer almost all products and forms of this new product generation that are required by business customers. This product area will become increasingly important and continue to contribute to profitable growth in the coming years, too.

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

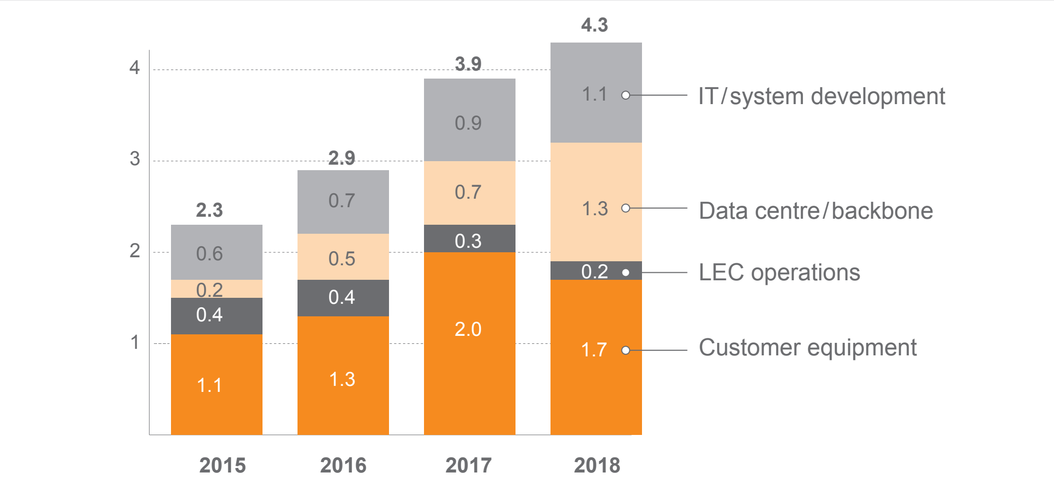
The sales mix is changing significantly as a result of the all-IP transformation

Development of B2B sales from 2015 to 2018



Growth investments were required in the ecotel Business Customers segment again in 2018. The chart below shows the breakdown of investments in this segment over the past four financial years in millions of euros.

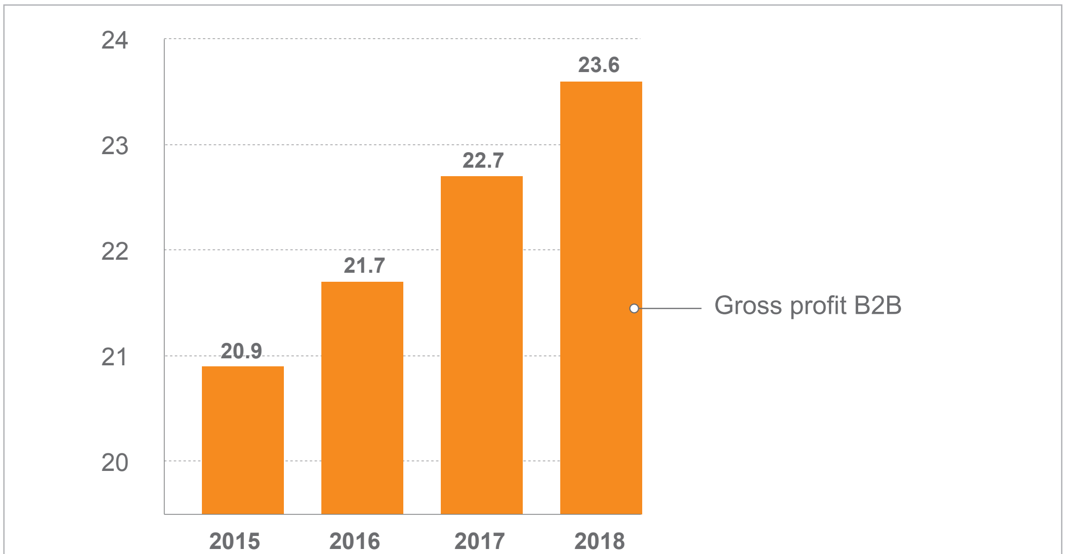
Growth investments in the ecotel Business Customers segment, 2015 to 2018



Growth investments increase in the ecotel Business Customers segment

Growth investments are made only if they will lead to rising gross profit in the future. For example, this may be possible with investments in customer routers that lead to higher sales, but also with investments in systems and higher-margin products that do not involve sales growth.

Development of gross profit in the ecotel Business Customers segment, 2015 to 2018



Investments lead to higher gross profits in ecotel Business Customers segment

Over the past four financial years, gross profit in the ecotel Business Customers segment has been sustainably increased from € 20.9 million to € 23.6 million in 2018. This corresponds to growth of around 13%. The gross profit margin in this segment consequently increased to 49.1% (previous year: 47.7%). The segment's much greater value added for its own NGN products and the associated higher margin for these products is now also reflected in gross profit. In addition, the major projects successfully implemented in the past years are now also having a positive impact on the development of gross profit in this segment.

easybell segment: sales and gross profit margin increase

easybell grows and increases profitability

The easybell segment increased its sales by € 0.7 million to € 15.9 million in 2018. In the same period, gross profit climbed by € 1.0 million to € 6.9 million. The gross profit margin was increased from 38.4% to 43.1%. Business with high-margin NGN voice services for small business customers (SIP trunk) is developing very positively here. The planned further reduction in business with call-by-call minutes was thus more than compensated.

nacamar segment: new business model established

nacamar has established its new business model

Sales in the nacamar segment were down slightly year-on-year at € 1.9 million (previous year: € 2.0 million). This decrease was attributable to the transition from historical billing models to new price models that took place as planned at the start of 2018. By contrast, the segment's gross profit was increased slightly to € 1.0 million (previous year: € 0.9 million).

ecotel Wholesale segment: business volume reduced

As described above, ecotel considerably reduced its business volume in the ecotel Wholesale segment as at the end of the year in order to keep consolidated sales as a whole below the € 100 million threshold. Sales in this low-margin segment therefore decreased to € 32.9 million (previous year: € 55.8 million). However, gross profit remained at the previous year's level at € 0.4 million. Although this segment still has low margins, the processes and systems implemented in this context are becoming increasingly important for operations in the ecotel Business Customers segment, as the call minutes produced ("terminated") in ecotel's network are managed ("routed") by this segment.

EBITDA development

EBITDA rises by € 0.5 million to € 7.5 million

Earnings before interest, taxes, depreciation and amortisation (EBITDA) climbed to € 7.5 million in the 2018 financial year (previous year: € 7.0 million). In the previous year, expenses of € 0.1 million from the pro-rata settlement of damages from manipulated contracts to the detriment of ecotel and other carriers were reported as a non-operating one-off effect. In the year under review, the EBITDA of € 7.5 million was not significantly influenced by one-off effects.

EBITDA in the core ecotel Business Customers segment climbed by € 0.2 million to € 3.9 million. Expenses for process adjustments, system developments and customer service were still required in this segment in order to handle the increased order volume efficiently and satisfactorily for the customers However, this additional expense was compensated by increased gross profit in this segment.

EBITDA in the easybell segment grew by € 0.3 million to € 3.3 million in 2018. In this segment, too, operating expenses and the headcount increased year-on-year. The marketing and operation of high-margin NGN products necessitate these investments here, too.

In the nacamar segment, EBITDA remained stable at € 0.2 million. The consolidation of the company and the focus on core products also continued to be implemented in 2018. The segment has thus laid the foundations for further growth and profitability.

EBIT and net profit for the year

EBIT unchanged; EPS: € 0.13

EBIT was unchanged at € 2.2 million (previous year: € 2.2 million). This was due to a € 0.6 million increase in depreciation and amortisation to € 5.3 million (previous year: € 4.6 million).

Ultimately, the Group generated net profit (consolidated comprehensive income) of € 1.4 million (previous year: € 1.4 million). After deducting minority interests of € 0.9 million (previous year: € 0.9 million), ecotel's consolidated net profit amounted to an unchanged € 0.5 million (previous year: € 0.5 million). This corresponds to earnings per share of € 0.13 (previous year: € 0.13).

Comparison of forecasts with the actual business development

Forecasts achieved

ecotel achieved all forecast target ranges with one exception in 2018. Only the nacamar segment's sales fell slightly (€ 0.1 million) short of the forecast.

	Target range		
Forecast figure	**2018 (€ million)**	**Forecast (€ million)**	
Consolidated sales	**98.9**	**90 to 120**	**Achieved**
Thereof ecotel Business Customers	48.1	48 to 50	Achieved
Thereof ecotel Wholesale	32.9	25 to 50	Achieved
Thereof easybell	15.9	14 to 16	Achieved
Thereof nacamar	1.9	2 to 3	Not achieved
Gross profit margin for ecotel Business Customers	**49.1%**	**Slight increase**	**Achieved**
EBITDA	**7.5**	**7.0 to 8.0**	**Achieved**

Financial position

Free cash flow positive again and net financial assets still reported

ecotel was largely able to finance the necessary growth investments with its own cash flow. The Group's financial position is still very satisfactory and sound. As expected, **free cash flow** was positive again at € 0.9 million (previous year: minus € 0.8 million). Cash and cash equivalents were at the previous year's level at € 6.1 million (previous year: € 6.4 million). They are countered by liabilities from financial loans of € 5.7 million (previous year: € 5.2 million). The Group's **net financial assets** therefore declined to € 0.4 million as expected (previous year: € 1.2 million). In addition to the reported cash and cash equivalents, credit lines totalling € 6.2 million are available to ecotel as at 31 December 2018, up to € 1.0 million of which may be used for guarantee liabilities.

Cash flow from operating activities rose by € 2.5 million to € 6.7 million (previous year: € 4.2 million). Alongside the increase in operating earnings (EBITDA), the positive year-on-year change in working capital assets also contributed to this development. By contrast, other working capital liabilities recorded a negative change.

As expected, **net cash used in investing activities** increased again in the 2018 financial year to € 5.8 million (previous year: € 5.0 million). This increase reflects the predicted growth investments in efficient, customer-specific hardware components. Investments are necessary both for the implementation of major projects and for the ISDN transformation in order to provide the services that customers want.

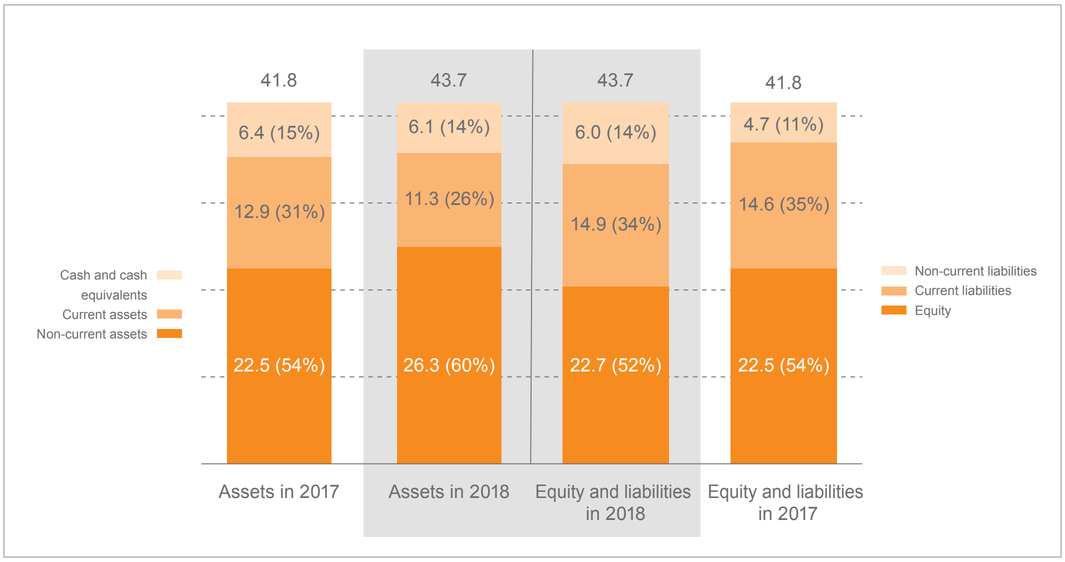
Net cash used in financing activities rose by € 0.9 million to € 1.2 million (previous year: € 0.3 million). In 2018, ecotel once again took out a long-term loan of € 1.8 million (previous year: € 3.0 million) to finance the growth investments described above. In addition to repayments of € 1.3 million (previous year: € 1.8 million), dividend payments of € 0.5 million (previous year: € 0.8 million) and payments to minority shareholders of € 1.0 million (previous year: € 0.5 million) were also made.

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

Net asset situation

The Group's **total assets** amounted to € 43.7 million as at 31 December 2018 (previous year: € 41.8 million).

Assets and equity/liabilities in € million



Equity ratio still > 50%

On the **assets side** of the statement of financial position, **non-current assets** climbed by € 3.8 million to € 26.3 million. This increase was primarily attributable to the capitalised contract costs of € 2.8 million that were recognised for the first time due to the initial application of the new financial reporting standard IFRS 15 (further information on the initial application of IFRS 15 can be found in the notes to the consolidated financial statements). In addition, non-current assets increased as a result of the growth investments made, which exceeded depreciation and amortisation.

Current assets decreased by € 2.0 million to € 17.3 million. This was largely attributable to the € 1.4 million decline in trade receivables, which in turn was mainly due to the management of sales in the ecotel Wholesale segment to avoid anticipated risks from the new section 35 (5a) TKG.

On the **equity and liabilities** side of the statement of financial position, equity increased slightly by € 0.2 million to € 22.7 million. Based on the increased total assets of € 43.7 million, this resulted in a lower equity ratio of 52.0% (previous year: 53.9%). The development of equity is described in more detail in the notes to the consolidated financial statements.

Non-current liabilities increased by € 1.3 million to € 6.0 million. In addition to higher reported deferred income tax liabilities (up € 0.3 million) and the rise in liabilities from long-term loans (up € 0.2 million), this increase was mainly attributable to the initial recognition of non-current contract liabilities from the initial application of IFRS 15 in the amount of € 0.8 million.

Current liabilities were virtually unchanged year-on-year at € 14.9 million (previous year: € 14.6 million). Here, too, the initial application of IFRS 15 had an impact with the initial recognition of current contract liabilities of € 1.0 million. By contrast, trade payables fell to € 1.2 million in line with the development of trade receivables.

Articles of association/capital structure

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

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

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

Contingent capital increase

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

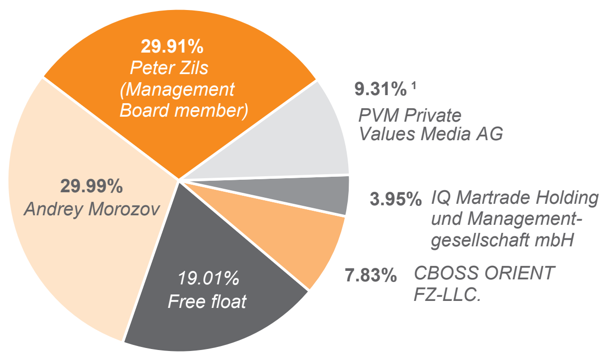
At the Annual General Meeting on 28 July 2017, a contingent increase in the share capital of up to € 1,755,000 by issuing up to 1,755,000 no-par-value bearer shares was resolved (Contingent Capital I). In line with the conditions for the convertible bonds, the contingent capital increase is to be used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

Authorisation to acquire treasury shares

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

The chart below shows the names of shareholders that held an interest of more than 3% in the share capital of ecotel ag at the end of 2018. It is based on the share ownership information announced by ecotel ag. There are no different voting rights in relation to the shares.

Share ownership (31/12/2018) in percent



No significant impact from changes in the shareholder structure

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

3. Overall statement on the Group's economic situation

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

III. Supplementary report

Please refer to the disclosures in the notes to the consolidated financial statements.

IV. Forecast and report on opportunities and risks

1. Control and risk management system

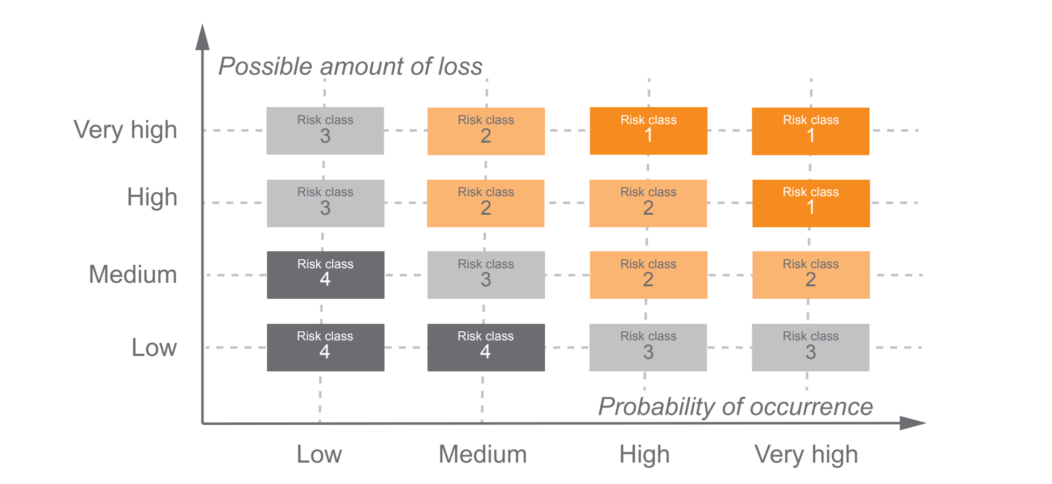
Early detection of risks by means of a risk management system

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

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

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

Risk matrix



Internal control system minimises potential for errors in financial reporting

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

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

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

2. Risks of future development

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

Operational risks

Operational risks mainly consist of infrastructure risks

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

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

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

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

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

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

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

Financial risks

Financial risks at ecotel include credit risks, liquidity risks, foreign currency risks and interest rate risks.

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

Covenants in the loan agreements were comfortably achieved

ecotel has agreed customary creditor protection clauses relating to certain key ratios (known as financial covenants) with the financing banks. These ratios are calculated based on the consolidated financial statements prepared by ecotel in accordance with IFRS. Failure to comply with the covenants could possibly result in termination and early repayment of the investment loans and working capital facilities and therefore a significant deterioration in ecotel's liquidity position if no agreement can be reached on an adjustment of the financial covenants or on refinancing. For all of the financial covenants agreed (equity ratio, EBITDA/ sales and net debt/EBITDA), ecotel is currently well within the stipulated ranges. The company also expects to be able to comply with all covenant thresholds comfortably in 2019 (gross risk 4/net risk 4).

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

As at the end of 2018, ecotel had cash and cash equivalents of € 6.1 million. Net financial assets amounted to € 0.4 million as at the end of the year. ecotel also holds working capital facilities totalling € 6.2 million as an additional liquidity reserve. € 1.0 million of this can be used as a guarantee facility. There are no interest rate risks at ecotel at present, as the outstanding loans have fixed interest rates or interest rate hedges have been concluded.

Legal risks

ecotel is exposed to a variety of legal risks, including risks in relation to warranties, breach of contract, competition and patent law and tax law. The effects of pending or future legal proceedings often cannot be predicted with certainty. The Group continuously identifies and analyses possible risks for the emergence legal disputes and assess the potential legal and financial effects both quantitatively and qualitatively. On this basis, appropriate measures are taken in good time to avoid potential losses for the Group. As at the end of the 2018 financial year, the Group is not exposed to any significant legal disputes.

Tax risks

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

Strategic risks

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

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

Risks relating to the market environment

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

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

Furthermore, rapid technological change is giving rise to new products and business models. It cannot be ruled out that ecotel's products could consequently become less competitive and therefore see less demand. In particular, the German Federal Network Agency's current activities to regulate Deutsche Telekom's existing upstream products and newly launched upstream products may have a significant impact on ecotel's competitiveness. These products are key upstream products for the provision of new and existing services to customers. For this reason, ecotel continuously monitors the market environment and is an active participant in associations and consultations so that it can react quickly and effectively to technological changes and influence decisions (gross risk 1/net risk 1; particularly ecotel Business Customers segment).

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

Overall risk is calculable

In summary, ecotel is convinced that the key risks identified neither individual nor collectively pose a tangible risk to ecotel's continued existence and that ecotel's flexible business model and monitoring system will enable it to detect risks quickly, react to them and initiate countermeasures in 2019, too.

3. Opportunities of future development

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

Sales increase from the marketing of new products in the area of voice over IP and IP centrex/hosted PBX

Two key trends in telecommunications are the replacement of ISDN technology with voice over IP (VoIP) and the relocation of telephone systems to the network (IP centrex/hosted PBX). This change was only made possible by the comprehensive availability of broadband internet access. Deutsche Telekom has slightly changed its original plan of replacing ISDN technology with VoIP technology by the end of 2018. We expect that the migration of connections currently provided by Deutsche Telekom will mostly be completed by the end of 2019. For other telecommunications providers, longer periods are scheduled in some cases.

ecotel has complete product range to satisfy customers' wishes

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

Sustainable sales activities for data

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

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

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

Acquisition of further major customers and renewal of contracts and expansion with existing major customers

The successful implementation of major projects, especially in 2017 and 2018, creates additional opportunities for ecotel to implement similar projects for other major customers with decentralised structures. These particularly include the customisable remote router management service, connectivity solutions within an MPLS VPN, and central firewall services in ecotel's data centre. ecotel achieved very good success in this area in the 2017 and 2018 financial years and sees further growth potential here.

It is also possible to enter into contract renewal talks with existing customers before the end of the contractual minimum terms. The experience and knowledge gained gives ecotel the opportunity to extend relationships with major customers. In addition, potential new customers benefit from the experience ecotel has gathered in recent years (e.g. rollouts in the retailer environment), giving ecotel the opportunity to conclude further profitable contracts with major customers.

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

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

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

Further increase in sales and earnings at easybell
Business with call-by-call minutes continued to decline as planned. However, easyball successfully launched business with NGN voice services for small business customers (SIP trunk) and a new router rental model (www.routermiete.de) on the market. These new products and other product ideas may have a positive influence on easybell's sales and earnings performance in the future.

New products at nacamar
nacamar has positioned itself very well with digital media services for broadcasting customers and is currently working on innovative new solutions for internet radio (streaming). For example, a new product called YBRID was developed at the end of 2018 and is already being used at a number of radio stations. Together with technology partners, this product allows for broadcasting, streaming and player technologies to be combined without changing existing programme sequences (the user can choose between different music tracks while the radio programme is playing). This new product and further focussing may have a positive impact on nacamar's sales and earnings performance.

Profitable growth at mvneco GmbH (included using the equity method)
mvneco is increasingly evolving into an IT system vendor for telecommunications providers and associated business models. This may give rise to opportunities that are not entirely foreseeable at the moment.

4. Forecast

Note on forecasts
This group management report contains forward-looking statements that reflect the current views of ecotel's management with regard to future events. Such statements are generally characterised by the words "expect", "anticipate", "assume", "intend", "estimate", "aim for", "target", "plan", "will", "endeavour", "outlook" and comparable expressions, and they generally contain information relating to the expectations or targets for sales, EBITDA, the gross profit margin or other performance indicators. Forward-looking statements are based on currently applicable plans, assessments and expectations. They should therefore be treated with caution. Such statements are subject to risks and uncertainties that tend to be difficult to estimate and are generally beyond ecotel's control. Other possible factors that could significantly impact the cost and sales development include changes in interest rates, regulatory requirements and supervisory law developments.

If these or other risks and uncertainties materialise, or if the assumptions on which the statements are based prove to be incorrect, then ecotel's actual results could differ significantly from those expressed or implied in these statements. ecotel cannot provide any guarantee that the expectations or targets will be achieved and – notwithstanding existing obligations under capital market law – does not accept any responsibility for updating forward-looking statements to take account of new information, future events or other things.

Forecast

In Germany, a positive growth rate is still expected for the overall economy, driven by the continuing positive development of private consumer spending and by increasing investments. Of course, global developments may influence this assessment either positively or negatively. In the past, however, ecotel's business has mostly not been affected by macroeconomic fluctuations. The general economic conditions of the market situation and the assessment of the risk and opportunity situation as presented in this group management report were incorporated in the forecast for 2019.

In addition to the opportunities and risks already described in this group management report, the following key parameters and influencing factors were applied when preparing the forecast:

Changes to the German Telecommunications Act (TKG), particularly the effects of the 4th TKG amendment (section 35 (5a) TKG)

Section 35 (5a) TKG, which was adopted in 2018, states (in simplified terms) that under certain legal conditions telecommunications providers with a dominant market position (primarily Deutsche Telekom) can now also implement regulatory decisions on fees retroactively with their contract partners/customers. However, companies with annual sales not exceeding € 100 million are protected from these retroactive negative effects in most cases.

Section 35 (5a) TKG allows protection from retroactive regulation for companies with sales of less than € 100 million

For this reason, ecotel has already significantly reduced the business operations and thus the sales of the ecotel Wholesale segment for 2018 so as not to exceed this € 100 million threshold and to minimise this risk for the Group. However, the core ecotel Business Customers segment and the easybell and nacamar segments will be able to continue their growth in the future, too. By controlling the low-margin ecotel Wholesale segment, the Group should also manage not to exceed the € 100 million threshold in 2019.

Profitable growth can be continued, even taking account of the € 100 million threshold

As a result, ecotel can take advantage of the protection from negative retroactive regulatory decisions that is provided for in the law. Total consolidated sales have therefore become less important with regard to assessing the Group's development and will no longer be a key figure in future. Instead, the focus will be on segment sales and particularly sales in the core ecotel Business Customers segment.

Effects of amendments to International Financial Reporting Standards (IFRSs), particularly IFRS 15 and IFRS 16

Since 1 January 2018, ecotel has applied the new financial reporting standard IFRS 15 on revenue recognition. The effects on the Group's reported sales were not material in 2018. If the business operations of the ecotel Business Customers segment take place as planned for 2019, ecotel will generate significant sales in this segment that will be billed in 2019 already but can only later be reported in sales in accordance with the provisions of IFRS 15. However, the resources required for this business (e.g. expenses for external service providers, staff costs, etc.) are included in the planned expenses for 2019.

With effect from 1 January 2019, ecotel will apply the new financial reporting requirements of IFRS 16 (Leases). These amendments have a material impact on the presentation of the consolidated statement of comprehensive income, the consolidated statement of financial position and the consolidated statement of cash flows. From 2019 onward, the rental expenses (mainly for the data centre and location rents) previously reported under operating expenses and therefore affecting EBITDA will be divided into amortisation expense and interest expense. Further details on the effects of applying IFRS 16 can be found in the notes to the consolidated financial statements.

Ultimately, these two effects are expected to have the following impact on the forecast key figures for 2019:

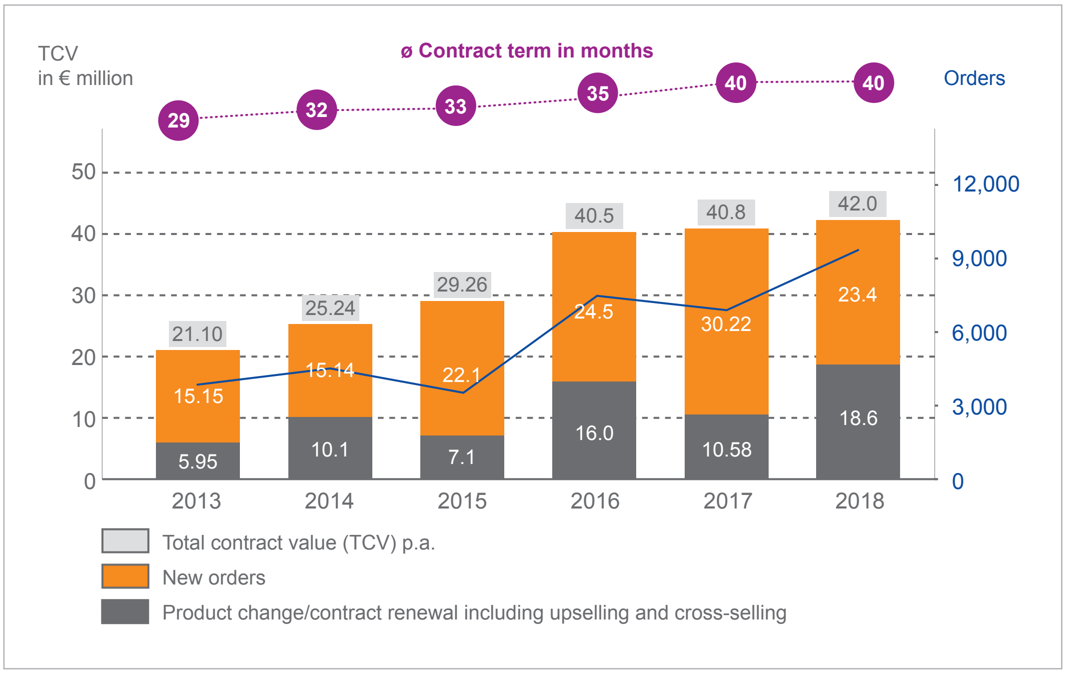
New IFRS accounting requirements have significant impact on key figures

[in € million]	IFRS 15	IFRS 16	Total
Sales in Business Customers segment:	-1.0	-	-1.0
Gross profit in Business Customers segment:	-0.9	0.3	-0.6
EBITDA:	-1.0	1.3	0.3
Depreciation and amortisation:	-	-1.2	-1.2
Net finance costs:	-	-0.3	-0.3
Net income for the year:	-0.7	-0.1	-0.8
Total assets:			11.0
Equity:			-0.8
Equity ratio [percentage points]:			-6

Because the adjustments in line with IFRS 16 do not represent operational changes but rather only accounting and reporting changes, ecotel will accordingly adjust the definition of the key figure for free cash flow so that it will not be affected by these changes and will remain comparable with the previous years.

Special parameters in the ecotel Business Customers segment

Development of incoming orders in total contract value (TCV)



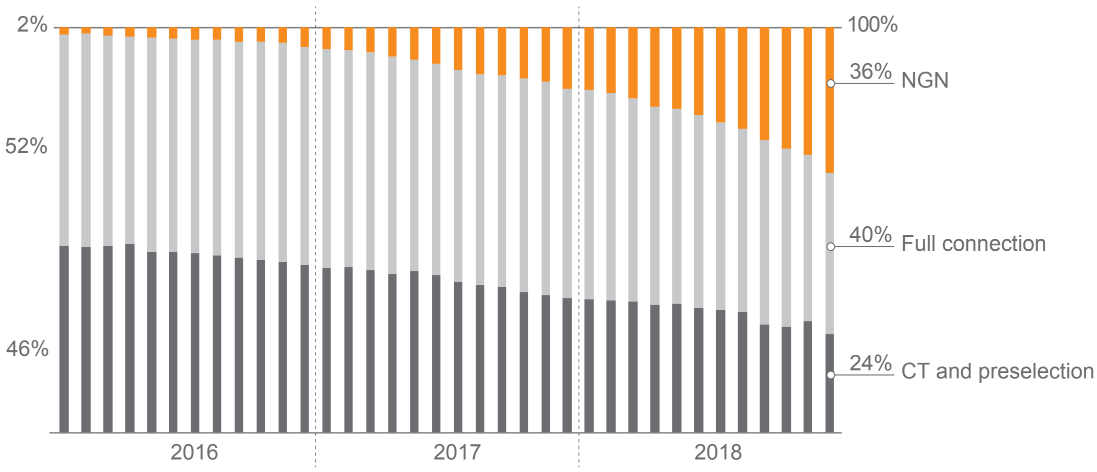
Incoming orders (TCV) still at encouragingly high level

Incoming orders, measured in terms of the total contract value (TCV), were at a very encouraging level again in 2018. The average contract term for new orders or modifications to contracts was still 40 months. As expected, there has been a shift in the ratio of new orders to product changeovers. The aim is to secure almost every ISDN connection migration with a simultaneous contract modification/extension with the customer.

Steady growth in share of minutes in own LEC operations

Effects of the all-IP transformation

The migration from traditional connections based on ISDN technology to forward-looking all-IP solutions is advancing successfully. The chart shows the share of voice minutes in the past three years. It is assumed that the minutes in the area of connection takeover and carrier preselection (CT/CPS) can be almost entirely transferred to Deutsche Telekom products by the end of 2019. In the case of minutes from the full connection product, which are mostly purchased from Vodafone Germany, this transformation is expected to last until mid-2021.



Forecast for 2019

In view of the above-mentioned effects, the Management Board is issuing the following forecast:

Expectations for 2019: sales growth in Business Customers segment and EBITDA of € 8.0 million to € 9.0 million

For 2019, the Management Board anticipates sales in a range of € 48 million to € 50 million in the core ecotel Business Customers segment, along with a continued slight increase in gross profit margins and thus a rise in gross profit. Sales of between € 15 million and € 17 million are anticipated in the easybell segment, and sales of € 2 million to € 3 million in the nacamar segment.

EBITDA is expected to be within a range of € 8 million to € 9 million.

The actual occurrence of the forecast developments is subject to there being no adverse changes in the identified risks – such as higher probabilities of occurrence or higher losses – and no new risks that could arise within the forecast period. Identified opportunities must also still exist and be achievable. Please refer to the information in the “Note on forecasts”.

Medium-term planning

The management pursues the goal of operating ecotel's business sustainably while also increasing its income and profitability figures without damaging the Group's financial substance. This includes further targeted investments in the expansion of business areas, new products, technology, IT and security, as well as investments in staff and optimisation of organisational structures. Subsequently remaining free cash flow is to be used to repay debt and remunerate the shareholders (e.g. with dividend payments). Please also refer to the comments in the section on group management. As a result of the successful launch of new products and the currently very good level of incoming orders, ecotel is well positioned to deal with the very rapidly changing challenges on the telecommunications market at present. Based on the particular developments described above – especially the need for migration of customer contracts, the timing and success of which are difficult to estimate at present but will have a significant impact on the Group's sales and earnings performance – the Management Board is refraining from issuing a quantitative statement on the medium-term planning.

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

1. Remuneration system for members of executive bodies

Remuneration for members of executive bodies (the Management Board)

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

2. Remuneration system for the Supervisory Board

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

The following individuals were appointed as members of the Supervisory Board in the 2018 financial year:

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

The table below shows the remuneration of the Supervisory Board:

Supervisory Board	Remuneration in € in 2018	Remuneration in € in 2017
Dr Norbert Bensel	24,000	24,000
Mirko Mach	19,000	19,000
Dr Thorsten Reinhard	13,000	14,000
Brigitte Holzer	13,000	14,000
Sascha Magsamen	14,000	14,000
Tim Schulte Havermann	13,000	14,000
Total	**96,000**	**99,000**

3. Disclosures in accordance with the German Corporate Governance Code

The table below shows the amounts granted, including fringe benefits, for each Management Board member for the 2018 financial year.In the case of variable remuneration components, it also shows the maximum and minimum achievable remuneration (in accordance with sample table 1 on item 4.25 paragraph 3 {first bullet point} of the German Corporate Governance Code).

Amounts granted in thousand €	Peter Zils *CEO*			
	2018 (target)	2017 (target)	2018 (min.)	2018 (max.)
Fixed remuneration	345	330	345	345
Fringe benefits	23	23	23	23
Total	**368**	**353**	**368**	**368**
One-year var. remuneration	53	13	0	78
Multi-year var. remuneration	14	13	0	52
Thereof Sustainability 2018	0	0	0	7
Thereof Sustainability 2019	7	7	0	27
Thereof Sustainability 2020	7	6	0	19
Total	**435**	**379**	**368**	**498**
Pension expenses	0	0	0	0
Total remuneration	**435**	**379**	**368**	**498**

Amounts granted in thousand €	Achim Theis *CCO*			
	2018 (target)	2017 (target)	2018 (min.)	2018 (max.)
Fixed remuneration	250	220	250	250
Fringe benefits	17	17	17	17
Total	**267**	**237**	**267**	**267**
One-year var. remuneration	45	59	0	67
Multi-year var. remuneration	12	26	0	59
Thereof Sustainability 2018	0	0	0	13
Thereof Sustainability 2019	6	13	0	30
Thereof Sustainability 2020	6	13	0	16
Total	**324**	**322**	**267**	**393**
Pension expenses	0	0	0	0
Total remuneration	**324**	**322**	**267**	**393**

The table below shows the amounts received by each Management Board member in/for the 2018 financial year, consisting of fixed remuneration, short-term variable remuneration, long-term remuneration and other remuneration, differentiated based on the respective base years (in accordance with sample table 2 on item 4.2.5 paragraph 3 {second bullet point} of the German Corporate Governance Code).

Amounts received in thousand €	Peter Zils *CEO*		Achim Theis *CCO*	
	2018	**2017**	**2018**	**2017**
Fixed remuneration	345	330	250	220
Fringe benefits	23	23	17	17
Total	368	353	267	237
One-year var. remuneration	53	13	45	59
Multi-year var. remuneration	0	0	0	0
Total remuneration	**421**	**366**	**312**	**296**

No pension expenses were paid for Management Board members in 2018 or in 2017.

The members of the Supervisory Board were also members of the following committees and worked in the following principal occupations in the 2018 financial year:

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

Supervisory Board member	Role	Company
Sascha Magsamen	Chairman of the Supervisory Board	MediNavi AG, Munich
	Chairman of the Supervisory Board	Auden AG, Berlin
	Chairman of the Supervisory Board	Oxacell AG, Potsdam
	Deputy Chairman of the Supervisory Board	Ecolutions GmbH & Co. KGaA, Frankfurt am Main
	Supervisory Board member	ICM Media Ag, Frankfurt am Main
	Supervisory Board member	StarDSL AG, Hamburg
	Supervisory Board member	Hallgartener Weinkeller EG, Oestrich-Winkel
	Management Board member	PVM Private Values Media AG, Frankfurt am Main
	Management Board member	Ferax Capital AG, Frankfurt am Main
	Management Board member	Inspire AG, Salzkotten
	Management Board member	Mood and Motion AG, Frankfurt am Main
	Management Board member	Novetum AG, Frankfurt am Main
	Liquidator	GBS Asset Management AG (in liquidation), Frankfurt am Main
	Liquidator	ENNF UG iL, Frankfurt am Main
	Managing director	Mattiak Immobilienverwaltungsgesellschaft mbh, Frankfurt am Main
	Managing director	Ferax Capital Beratungs GmbH, Frankfurt am Main
	Managing director	PVMC GmbH, Frankfurt am Main
Dr Thorsten Reinhard	Partner (member)	Noerr LLP, London (UK)
	Chairman of the Supervisory Board	ISS Facility Service Holding GmbH, Düsseldorf
	Supervisory Board member	ISS Energy Systems GmbH, Lübbenau
	Supervisory Board member	Wackler Holding SE, Munich
Tim Schulte Havermann	Managing director	LaBrea Vermögensverwaltung GmbH, Berlin
	Managing director	conCapital VV GmbH, Berlin
	Managing director	TMT Gruppe GmbH, Berlin
	Managing director	Beta Allround Service GmbH, Berlin
	Chairman of the Supervisory Board	ecoblue AG, Munich
	Deputy Chairman of the Supervisory Board	PIAG ProInvest Real Estate AG, Dresden
	Supervisory Board member	GVA Real Estate AG, Berlin

VI. Disclosures under takeover law

There are no agreements for compensation in the event of a takeover for Management Board members or for any other executive body members in the Group. There are no further agreements between ecotel and individuals that take effect in the event of a change of control resulting from a takeover bid.

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

VII. Declaration on corporate governance and corporate governance report

The Management Board and Supervisory Board of ecotel communication ag have issued the declaration on corporate governance required in accordance with section 289f and section 315d of the German Commercial Code (HGB) and the corporate governance report including the declaration stipulated in section 161 of the German Stock Corporation Act (AktG) and have made them permanently available to the public online ***(http://ir.ecotel.de/websites/ecotel/English/6000/corporate-governance.html)***.

Düsseldorf, 8 March 2019

ecotel communication ag
The Management Board

Peter Zils *Achim Theis*

Statement by the legal representatives

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

Düsseldorf, 8 March 2019

ecotel communication ag
The Management Board

Peter Zils *Achim Theis*

Consolidated Financial

Statements

Consolidated statement of financial position as at 31 December 2018

in €	Notes	31/12/2017	31/12/2018
Assets			
A. Non-current assets			
I. Intangible assets	(1)	12,692,592	12,964,382
II. Property, plant and equipment	(2)	8,751,550	8,976,903
III. Capitalised contract costs	(3)	-	2,799,351
IV. Investments accounted for using the equity method	(4)	704,063	856,465
V. Deferred income tax assets	(6)	333,733	740,258
Total non-current assets		**22,481,938**	**26,337,359**
B. Current assets			
I. Trade receivables	(5)	9,294,375	7,908,908
II. Contract assets	(5)	-	56,180
III. Other financial assets	(5)	1,845,389	2,073,951
IV. Other non-financial assets	(5)	996,287	577,581
V. Current income tax assets	(6)	783,621	624,792
VI. Cash and cash equivalents	(7)	6,393,218	6,093,030
Total current assets		**19,312,890**	**17,334,441**
Total assets		**41,794,828**	**43,671,800**

Since 1 January 2018, the new financial reporting standards IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” have been applied. The previous year’s figures have not been adjusted. For more information, please refer to the information on accounting principles starting on page 7.

Differences in the totals may occur due to rounding.

in €	Notes	31/12/2017	31/12/2018
Equity and liabilities			
A. Equity	(8)		
I. Share capital		3,510,000	3,510,000
II. Capital reserves		1,833,254	1,833,254
III. Other reserves		13,934,161	14,061,246
Interests attributable to owners of the parent		**19,277,415**	**19,404,500**
IV. Minority interests		3,235,119	3,313,290
Total equity		**22,512,534**	**22,717,791**
B. Non-current liabilities			
I. Deferred income taxes	(9)	843,000	1,191,182
II. Long-term loans	(10)	3,859,369	4,049,999
III. Contract liabilities	(11)	-	780,967
Total non-current liabilities		**4,702,369**	**6,022,148**
C. Current liabilities			
I. Current income taxes	(9)	759,629	672,447
II. Current loans	(10)	1,308,336	1,609,370
III. Trade payables	(10)	10,408,125	9,228,576
IV. Contract liabilities	(11)	-	957,860
V. Provisions	(10)	54,176	19,850
VI. Other financial liabilities	(10)	1,330,004	1,567,864
VII. Other non-financial liabilities	(10)	719,655	875,894
Total current liabilities		**14,579,925**	**14,931,862**
Total equity and liabilities		**41,794,828**	**43,671,800**

Consolidated statement of comprehensive income for the 2018 financial year

in €	Notes	1/1–31/12/2017	1/1–31/12/2018
1. Revenue	(14)	120,623,516	98,856,994
2. Other operating income	(15)	279,389	304,908
3. Other own work capitalised		528,566	543,650
4. Total operating performance		**121,431,471**	**99,705,552**
5. Cost of materials			
Cost of purchased services	(16)	-90,747,350	-66,938,718
6. Staff costs	(17)		
6.1 Wages and salaries		-11,517,344	-12,338,418
6.2 Social security and expenses for pensions and other benefits		-1,888,240	-2,022,856
7. Depreciation and amortisation	(18)	-4,648,691	-5,290,468
8. Other operating expenses	(19)	-10,537,794	-10,962,192
9. Operating result (EBIT)		**2,092,052**	**2,152,900**
10. Interest income		21	784
11. Interest expense		-191,664	-229,141
12. Other financial expenses		-	-49,450
13. Net income from investments accounted for using the equity method		214,807	152,402
14. Net finance costs	(20)	**23,164**	**-125,405**
15. Profit from ordinary activities before income taxes		**2,115,216**	**2,027,495**
16. Income tax expense	(21)	-753,285	-642,194
17. Net profit (= consolidated comprehensive income)		**1,361,931**	**1,385,301**
18. Allocation of net profit to			
18.1 owners of the parent (consolidated net profit)		**465,731**	**450,561**
18.2 minority interests	(22)	896,200	934,741

in €	Notes	1/1–31/12/2017	1/1–31/12/2018
Basic earnings per share	(23)	0.13	0.13
Diluted earnings per share	(23)	0.13	0.13

Due to a change in presentation as at 1 January 2018, the previous year's figures have been adjusted to provide better comparability. For more information, please refer to the description of accounting policies starting on page 13 and to note 20.

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

Differences in the totals may occur due to rounding.

Consolidated statement of cash flows for the 2018 financial year

(see note 24)

€ thousand	2017	2018
Profit from ordinary activities before income taxes	2,115	2,027
Net interest income	191	228
Depreciation of fixed assets	4,649	5,290
Net income from investments accounted for using the equity method	-215	-152
Other non-cash expenses (+)/income (-)	-	-
Gain (-)/loss (+) from disposals of fixed assets	2	11
Changes in working capital assets	-581	225
Change in provision	26	-34
Change in other working capital liabilities	-1,368	-354
Income taxes paid (-)/received (+)	-587	-571
Net cash from operating activities	**4,232**	**6,671**
Payments for investments in intangible assets and property, plant and equipment	-5,108	-5,799
Cash receipts from repayments of equity by investments measured using the equity method	100	-
Interest payments received	0	1
Net cash used in investing activities	**-5,008**	**-5,798**
Cash receipts from taking out financial loans	3,000	1,800
Dividends paid	-807	-456
Payments to non-controlling shareholders	-490	-980
Repayments of financial loans	-1,796	-1,308
Interest payments	-191	-228
Net cash used in financing activities	**-284**	**-1,173**
Cash-effective change in cash and cash equivalents	**-1,061**	**-300**
Cash and cash equivalents at beginning of period	7,454	6,393
Cash and cash equivalents at end of period	**6,393**	**6,093**

Differences in the totals may occur due to rounding.

Statement of changes in Group equity

€ thousand Note (7)	Share capital	Capital reserves
As at 1 January 2017	**3,510**	**1,833**
Distributions	0	0
Reclassification of prior-year result	0	0
Changes in equity not recognised in income	**0**	**0**
Consolidated net income for 2017	0	0
Changes in equity recognised in income	**0**	**0**
As at 31 December 2017	**3,510**	**1,833**

As at 31 December 2017	**3,510**	**1,833**
Adjustment due to initial application of IFRS 15 and IFRS 9	**0**	**0**
As at 1 January 2018	**3,510**	**1,833**
Distributions	0	0
Reclassification of prior-year result	0	0
Changes in equity not recognised in income	**0**	**0**
Consolidated net income for 2018	0	0
Changes in equity recognised in income	**0**	**0**
As at 31 December 2018	**3,510**	**1,833**

Since 1 January 2018, the new financial reporting standards IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” have been applied. The previous year’s figures have not been adjusted. For more information, please refer to the information on accounting principles starting on page 7.

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

Earnings reserves				
Other earnings reserves	Consolidated net income	Interests attributable to owners of the parent	Minority interests	Total
13,442	**834**	**19,619**	**2,829**	**22,448**
-807	0	-807	-490	-1,297
834	-834	0	0	0
27	**-834**	**-807**	**-490**	**-1,297**
0	466	466	896	1,362
0	**466**	**466**	**896**	**1,362**
13,468	**466**	**19,277**	**3,235**	**22,513**
13,468	**466**	**19,277**	**3,235**	**22,513**
133	**0**	**133**	**124**	**257**
13,601	**466**	**19,410**	**3,359**	**22,769**
-456	0	-456	-980	-1,436
466	-466	0	0	0
10	**-466**	**-456**	**-980**	**-1,436**
0	450	450	935	1,385
0	**450**	**450**	**935**	**1,385**
13,611	**451**	**19,405**	**3,313**	**22,718**

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

General information

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

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

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

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

The audited consolidated financial statements including the group management report will be filed in the German Federal Gazette.The consolidated financial statements will be released for publication on 8 March 2019 with their handover from the Management Board to the Supervisory Board of ecotel communication ag.

Accounting principles

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

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

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

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

Because there were no corresponding circumstances at ecotel in the previous year or in the 2018 financial year, no presentation of other comprehensive income is shown after the income statement.

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

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

New standards or amendments to pronouncements of the IASB applicable for the first time in the consolidated financial statements as at 31 December 2018

By the date the consolidated financial statements as at 31 December 2018 were prepared, the following new and amended standards and interpretations had been adopted and endorsed by the EU in European law. Only the new or amended pronouncements of the IASB that could theoretically have an impact based on ecotel's current business operations are shown.

New standards or amendments to pronouncements of the IASB applicable for the first time as at 31 December 2018

Standard/interpretation	First-time mandatory application according to IASB	First-time mandatory application in the EU
IFRS 9 "Financial Instruments"	1 January 2018	1 January 2018
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018	1 January 2018
Amendments to IFRS 15 "Revenue from Contracts with Customers": Clarifications	1 January 2018	1 January 2018
Amendments to IFRS 15 "Revenue from Contracts with Customers": Date of first-time adoption	1 January 2018	1 January 2018
Amendment to IAS 28 "Investments in Associates and Joint Ventures" Annual improvements project 2014–2016 cycle	1 January 2018	1 January 2018

New standards or amended pronouncements of the IASB that were to be applied for the first time in consolidated financial statements as at 1 January 2018 and had an impact on the consolidated financial statements of ecotel communication ag are discussed below:

IFRS 9 "Financial Instruments" contains provisions for the recognition, accounting treatment and derecognition of financial assets and liabilities and for hedge accounting. Accounting for financial instruments that was previously performed in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" has now been fully replaced by accounting in accordance with IFRS 9. In summary, the main requirements of IFRS 9 are as follows:

- Compared to the preceding standard IAS 39, the requirements of IFRS 9 are largely unchanged with regard to the scope of application and to recognition and derecognition.
- However, the regulations of IFRS 9 stipulate a new classification model for financial assets as compared to IAS 39.
- In future, subsequent measurement of financial assets will be based on three categories with different measures of value and different recognition of changes in value. Categorisation will depend on both the contractual cash flows of the instrument and the business model in which the instrument is held. These are generally mandatory categories. However, the company also has options available in some isolated cases.
- By contrast, the existing provisions for financial liabilities have largely been maintained in IFRS 9. The only significant change relates to financial liabilities in the fair value option, for which fluctuations in fair value due to changes in the company's own default risks are to be recognised in other comprehensive income.
- IFRS 9 stipulates three levels that will in future determine the amount of losses to be recognised and the collection of interest. Under this system, anticipated losses in the amount of the present value of an expected 12-month loss are already recognised on initial recognition of the instrument (level 1). If there is a significant increase in the default risk, the risk provision is raised to the level of the anticipated losses over the entire remaining term (level 2). If objective evidence of impairment emerges, interest income is recognised based on the net carrying amount (carrying amount less risk provision) (level 3). For certain financial assets (e.g. trade receivables without significant financing components), a simplified model is to be used.
- In addition to extensive transitional provisions, IFRS 9 is also associated with extensive disclosure requirements both on transition and in its ongoing application. Changes in IFRS 7 "Financial Instruments: Disclosures" mainly relate to the regulations on impairment.

ecotel applied the new standard retrospectively as at 1 January 2018, with the practical exemption permitted under the standard. Comparative figures for 2017 therefore were not adjusted. The cumulative effect (before deferred taxes) on trade receivables of € 77 thousand was offset against reserves directly in equity. ecotel mainly has trade receivables without significant financing components. ecotel does not use the fair value option when classifying financial liabilities, so no significant effects arose here either.

***IFRS* 15 "Revenue from Contracts with Customers"** aims to combine the large number of regulations on revenue recognition previously contained in various different standards and interpretations. At the same time, it defines uniform basic principles that apply to all sectors and all types of revenue transactions. A five-level model is used to determine in what amount revenues are to be recognised and at what time or over what period. In addition, the standard contains a number of other regulations on detailed issues and adds to the disclosures required in the notes. The new standard is to be applied for annual reporting periods beginning on or after 1 January 2018. ecotel exercised the option for simplified initial application, i.e. comparative figures from prior-year periods were not adjusted. The cumulative effect from the transition was reported directly in equity against other reserves as at 1 January 2018.

Further details on the significant changes with regard to determining and recognising **sales** and accounting for **capitalised contract costs, contract assets** and **contract liabilities** can be found in the section on accounting policies in these notes.

The initial application of IFRS 15 as at 1 January 2018 had the following effects on the presentation of the consolidated statement of financial position.

Item	1 January 2018
Capitalised contract costs	€ 2,386 thousand
Contract assets	€ 0 thousand
Other non-financial assets	€ -398 thousand
Total assets	**€ 1,988 thousand**
Deferred income taxes	€ 140 thousand
Non-current contract liabilities	€ 780 thousand
Current contract liabilities	€ 758 thousand
Other reserves	€ 310 thousand
Effect on earnings from IFRS 15	**€ 0 thousand**
Total equity and liabilities	**€ 1,988 thousand**

New standards or amended pronouncements of the IASB not yet applicable in the consolidated financial statements as at 31 December 2018

By the date the consolidated financial statements as at 31 December 2018 were prepared, the following new interpretations had been adopted and endorsed by the EU in European law. However, these do not take effect until later and have not been applied early in these consolidated financial statements.

Standard/interpretation	First-time mandatory application according to IASB	First-time mandatory application in the EU
IFRS 16 “Leases”	1 January 2019	1 January 2019
Amendments to IFRS 9 “Financial Instruments”: Prepayment Features with Negative Compensation	1 January 2019	1 January 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	1 January 2019	1 January 2019

The new standards and amended pronouncements required to be applied in the future are not applied early. The anticipated effects on the net assets, financial position and result of operations of ecotel are described below:

IFRS 16 “Leases” supersedes the previous standard on leases (IAS 17) and IFRIC 4 “Determining Whether an Arrangement Contains a Lease”. The standard governs the recognition, measurement, presentation and disclosure of leases. It differentiates between lessees and lessors. For the **lessee**, a single accounting model is introduced. In future, all rights and obligations from leases are to be recognised in the statement of financial position as a “right of use” or a “lease liability”. The right of use is to be recognised at the present value of the future lease payments plus initial direct cots and amortised over the planned term of the lease. The lease liability is also recognised at its present value. In the subsequent measurement of the lease liability, the carrying amount accrues interest at the applied rate and is reduced by the payments made. There are recognition exemptions for leases for low-value assets and for short-term leases (less than twelve months).

For the **lessor**, the accounting requirements remain largely unchanged. The lessor still has to differentiate between finance leases and operating leases. This standard is required to be applied for the first time for financial years beginning on 1 January 2019. Recognition must be based on the retrospective or modified retrospective method, with optional simplification rules.

The standard will be applied for the first time as at 1 January 2019 in line with the modified retrospective method, i.e. the previous year's figures will not be adjusted. The cumulative effect from the transition is offset against reserves directly in equity.

The contract analysis performed to date has shown that ecotel as a lessee is mainly affected in the following areas: properties rented on a long-term basis to operate the data centre and for administration, network infrastructure rented on a long-term basis (backbone) and the vehicle fleet, which is rented on a long-term basis. As at 31 December 2018, there are obligations from operating leases amounting to € 6.8 million (see note 2). The current operating leases mainly relate to the three areas mentioned above.

Taking account of the current rental and lease obligations and the discretion and estimates currently used, the transaction is expected to result in the capitalisation of rights of use and lease liabilities of approximately € 9.5 million. The previous presentation of lease instalments under other operating expenses (2018: € 1.5 million) will no longer be recognised directly in future, but instead will be replaced by amortisation of the capitalised right of use and interest expense from the accrual of interest on the lease liability. The actual lease payment is divided into interest and principal components. This is expected to result in a negative impact on earnings of € 0.1 million in 2019. In the consolidated statement of cash flows, the change in presentation results in an increase in operating cash flow and a decrease in cash flow from financing activities (of € 1.3 million in each case).

As a lessor, the contract analysis so far has shown that the application of IFRS 16 will not have any impact on ecotel. Although the Group provides customers with hardware components, these do not meet the criteria for the recognition of a lease as defined in IFRS 16, as the customers' rights are largely limited and the customers do not have any significant decision-making rights with regard to the hardware provided to them. The leases from hardware rental (www.routermiete.de) in the easybell segment are all operating leases, so there are no effects from IFRS 16 here, either. In the housing and hosting business model, server capacity and space for storage of own servers are leased. However, it is also currently assumed that the contracts do not meet the criteria for recognition as a lease.

By the date the consolidated financial statements as at 31 December 2018 were prepared, the following new and amended standards and interpretations had been adopted but not yet endorsed by the EU in European law. Only the new standards or amended pronouncements of the IASB that could theoretically have an impact based on ecotel's current business operations are shown. However, these do not take effect until later and will not be applied early.

Standard/interpretation	First-time mandatory application according to IASB	First-time mandatory application in the EU
Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”: Definition of “Material”	1 January 2020	Not yet known
Amendments to IAS 28 “Investments in Associates and Joint Ventures”: Long-term Interests in Associates and Joint Ventures	1 January 2019	Not yet known
Amendments to IFRS 3 “Business Combinations”: Definition of a Business	1 January 2020	Not yet known
Amendments to referencing of the Conceptual Framework in IFRS standards	1 January 2020	Not yet known
Annual improvements project 2015-2017 cycle	1 January 2019	Not yet known

Principles of consolidation

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

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

Scope of consolidated financial statements

In addition to ecotel communication ag, the consolidated financial statements include all (previous year: all) subsidiaries in which ecotel communication ag directly or indirectly holds the majority of the voting rights and has substantial rights to govern the subsidiary's main business activities. Initial consolidation/deconsolidation generally takes place at the time the investment is acquired/sold. In the year under review and in the previous year, ecotel communication ag directly and indirectly held the following equity investments (list of shareholdings, based on the financial statements as at 31 December 2018):

Disclosures made on IFRS basis	Share of capital in % [2]	Equity in € thousand [2]	Earnings in € thousand [2]	Sales in € thousand [2]	Employees [1] (average) [2]
easybell GmbH, Berlin (consolidated)	50.98	3,730	1,761	14,147	34
	(50.98)	(3,716)	(1,913)	(13,184)	(28)
carrier-services.de GmbH [3], Berlin (consolidated)	100.00	2,182	154	913	4
	(100.00)	(2,027)	(216)	(1,018)	(4)
sparcall GmbH [3], Bad Belzig (consolidated)	100.00	616	399	1,179	0
	(100.00)	(667)	(379)	(1,187)	(0)
init.voice GmbH [3], Berlin (consolidated)	100.00	287	43	281	0
	(100.00)	(244)	(71)	(199)	(0)
nacamar GmbH, Düsseldorf (consolidated)	100.00	887	38	1,884	8
	(100.00)	(850)	(44)	(1,991)	(7)
mvneco GmbH, Düsseldorf (associate)	33.33	2,567	457	5,355	27
	(33.33)	(2,112)	(632)	(5,242)	(25)

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

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

Accounting policies

The main accounting policies for the consolidated financial statements are described below. Besides the effects of standards and interpretations required to be applied for the first time, the following changes in reporting were made in the consolidated statement of comprehensive income:

In the consolidated statement of comprehensive income, income from non-cash remuneration from the use of vehicles – which represents a notional claim to compensation for the notional expenses from the non-cash benefit from the use of vehicles that were previously reported under staff costs – was previously reported under other operating income. Since 1 January 2018, these two items have been offset against one another. The prior periods have been adjusted to provide better comparability. Other operating income and staff costs were thus reduced by € 274 thousand in 2017.

Since 1 January 2018, the capital market management costs previously reported under financial expenses have been reported under other operating expenses and the description "financial expenses" in the consolidated statement of comprehensive income has now been changed to "interest expenses". The prior periods have been adjusted accordingly to provide better comparability. Interest expenses were thus reduced by € 117 thousand in 2017, while other operating expenses were increased by € 117 thousand.

Apart from the effects of standards and interpretations required to be applied for the first time, the following **accounting policies** have not changed in comparison to the previous year:

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

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

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

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

Their measurement is regularly based on the following useful lives:

Concessions and industrial property rights	Development costs	Software	Customer base
3–5 years	5–10 years	3–7 years	6–18 years

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

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

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

Property, plant and equipment is measured at cost less use-based depreciation and less any impairment losses. Property, plant and equipment is generally depreciated on a straight-line basis over its estimated useful life, unless another depreciation method better corresponds to its usage pattern in exceptional cases. Property, plant and equipment (other equipment, operating and office equipment) is regularly depreciated over 3 to 7 years. If there are indications of impairment and the recoverable amount is lower than amortised cost, property, plant and equipment is written down. If the reasons for impairment losses recognised in previous years no longer apply, the corresponding impairment losses are reversed. For simplification and materiality reasons, low-value assets are written off in full and reported as disposals in the year they are added.

Capitalised contract costs (initial application of IFRS 15 from 1 January 2018) consist of the additional costs incurred when obtaining a contract (costs to obtain contracts) and the costs that result from fulfilling a contract with the customer (costs to fulfil contracts), provided these do not come under the scope of application of another standard. Costs to obtain contracts are recognised as an asset if future settlement of the costs can be assumed and if the costs were incurred solely in connection with the conclusion of a contract and can be allocated directly to the customer contract. Expenses that relate solely to short-term performance obligations are recognised directly in profit or loss. Costs to fulfil contracts are recognised as an asset if all of the following conditions are met: The costs are directly attributable to an existing or anticipated contract or will be incurred upon an upcoming contract renewal; the costs incurred contribute to the fulfilment of the performance obligation and create or improve the company's resources; and the costs are expected to be offset in the future. Capitalised contract costs are amortised on a straight-line basis. For costs to obtain contracts, this is done on the basis of the average customer retention period (5 years), whereas for costs to fulfil contracts it is based on the average contract term (3-6 years) depending on the type of performance obligation and its allocation to an operating segment. Amortisation of costs to obtain contracts is reported in other operating expenses while amortisation of costs to fulfil contracts is reported in the cost of materials, meaning that both form part of operating earnings. In the event of significant changes in the underlying assumptions, the useful lives or other parameters are adjusted. An impairment loss is recognised in profit or loss as soon as the carrying amount of the capitalised contract costs exceeds the remaining amount of the consideration to which the capitalised costs relate, less the costs to fulfil the contract. Capitalised contract costs are reported under non-current assets.

Trade receivables and other financial assets are accounted for at fair value on initial recognition, taking account of any transaction costs incurred, and are amortised accordingly. These receivables represent an unconditional right to receive consideration. All trade receivables are of a short-term nature. Receivables denominated in a foreign currency are measured using the selling rate on the reporting date. The previous measurement category "loans and receivables" was replaced by the major category "amortised cost (AC)" as at 1 January 2018.

The valuation allowances only relate to this major category and are entirely attributable to current assets. The business model currently provides for the receivables to be held, meaning that a different classification does not result in any significant effects. Valuation allowances for trade receivables are always measured in the amount of the lifetime expected credit losses. In accordance with IFRS 9, the simplified model is used in relation to impairment, as the Group only has trade receivables without significant financing components. The Group applies the simplified approach here and takes advantage of the permitted practical expedient. The expected credit loss risk for trade receivables is measured using an impairment matrix. Up until 31 December 2017, identifiable individual risks were taken into account by recognising appropriate impairment losses when there were indications of this in individual cases.

Contract assets (initial application of IFRS 15 from 1 January 2018) are recognised when there is a conditional right to receive consideration from the customer. This right results from the transfer of the service to the customer before the customer then pays the contractually agreed consideration or payment is due. The contract asset is tested for impairment using the simplified model under IFRS 9.

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

Provisions include all identifiable obligations on the reporting date that are based on past transactions or events and whose amount or settlement date is uncertain. Provisions are recognised at their probable settlement amount.

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

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

Contract liabilities (initial application of IFRS 15 from 1 January 2018) are the payments already received from the customer for the future transfer of services or the customer's unconditional right to certain consideration. Contract liabilities thus represent the obligation to provide a service to the customer. They are recognised as soon as one of the following criteria is met: The customer pays or the payment is due. Depending on the type of performance obligation and its allocation to an operating segment, the performance obligation is fulfilled and thus recognised as sales within the average contract term (3-6 years). Contract liabilities are divided into current and non-current liabilities depending on their settlement date.

Sales consist of sales from contracts with customers and lease income from operating leases. Starting from 1 January 2018, sales revenue from contracts with customers are recognised in line with the provisions of IFRS 15. This revenue is determined and recognised using the five-step model described in IFRS 15. Sales revenue is recognised when the contractual performance obligation has been fulfilled through the transfer of the good or service and the customer has gained control over it. Control over the benefit can be transferred either over a period or at a specific point in time. The performance obligation is considered to be fulfilled when the service has been performed or is being used by the customer. Sales revenue is measured at the transaction price. The transaction price is compared against the individual selling price and represents the consideration from the customer for the performance obligation fulfilled by the Group. There are no financing components or variable consideration; all consideration is payable in the short term. For contracts that contain more than one individual performance obligation (multi-component contracts), the transaction price to be determined is allocated to the separate performance obligations within the contract when the contract is concluded based on the individual selling prices of these performance obligations. The contractual performance obligations consist of amounts already paid, and reversal mainly takes place from fixed amounts. There are no obligations for returns, refunds or other similar obligations and no bill-and-hold arrangements.

The recognition of sales based on the business models of the individual operating segments is described in detail below:

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

The customer contracts in this segment mainly relate to the following performance obligations, which have a defined minimum contract term. In addition to the provision of a customer-specific **data line** (including necessary hardware components), with or without additional services such as voice transmission (all-IP) or security features (e.g. VPN service), **voice lines** acquired from a third-party provider that do not include any multi-component contracts are also offered as a multi-component contract. This chiefly relates to the monthly provision of voice lines, minutes and flat rates for minutes.

In general, the allocation of the transaction price as required under IFRS 15 is performed in relation to the individual selling prices of the performance obligations. Income that does not belong to any performance obligation and income for which the performance obligation is not mainly fulfilled at the beginning will in future be recognised as revenue over the term of the contract. The transaction price is made up of the sum of all provision charges and the monthly charges multiplied by the average contract term. The customer continuously receives benefits from the multi-component contracts, so sales are recognised over the term of the contract. Because the services are performed at an even rate over the average contract term, the transaction price allocated to these two performance obligations is to be recognised as sales at an even monthly rate. Any portions calculated and billed to the customer in advance as contractually agreed (e.g. monthly charges calculated in advance) that have not yet been performed or provided are recognised with corresponding deferred sales on an accrual basis under sales. Sales from contracts for services billed according to time expenditure and material costs are recognised at the contractually stipulated hourly rate when the work hours are worked and the direct costs are incurred.

Depending on the contractual arrangement, sales from the provision of **hardware and data centre services** are recognised either when these services are provided or in the form of monthly charges. The monthly charges are recognised at a specific point in time. The revenue, which generally arises when the one-off installation of the preconfigured hardware (e.g. router) is performed, is recognised over a period of time. The hardware provided to the customer is still owned by ecotel and is capitalised at ecotel as a network component (end point at the customer). The router forms the basis for using the monthly service in the form of the provision of voice and data lines.

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

The business model in the **easybell segment** is comparable with that of the ecotel Business Customers segment in substance. Only the target group is different. In addition to small business customers, this segment primarily targets private customers. Sales are therefore recognised in accordance with the same principles as in the ecotel Business Customers segment.

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

Other operating income and ***other operating expenses*** are recognised in profit or loss when the service is utilised or when they are incurred.

Interest income and expenses are recognised on an accrual basis. Net finance costs also include capital procurement costs that are not offset against equity. Net income from companies accounted for using the equity method is reported separately within net finance costs.

Judgement and estimation uncertainties

When preparing the consolidated financial statements, judgements and assumptions were made and estimates were used that had an impact on the amount and presentation of the recognised assets, liabilities, income, expenses and contingent liabilities. ***Judgements*** primarily relate to the viability of future tax relief and the parameters on which impairment tests for cash-generating units are based.

In addition, judgements, estimates and assumptions were made with regard to determining, recognising and measuring revenue from contracts with customers in accordance with IFRS 15. These chiefly relate to the period of the transfer of services to the customer in the case of capitalised contract costs and to considerations regarding the distinction between principal and agent. The assumptions on which the respective ***estimates*** are based and the corresponding carrying amounts are explained in the individual items of the statement of financial position and the statement of comprehensive income. In individual cases, the actual values may deviate from the assumptions and estimates made. Such deviations are taken into account in profit or loss when better knowledge becomes available. No significant risks as defined in IAS 1.125 that could be inherent in assumptions and estimates were identified at the time the consolidated financial statements were prepared.

Notes to the consolidated statement of financial position

(1) Intangible assets

Intangible assets developed as follows in the 2018 financial year:

€ thousand	Goodwill	Concessions, industrial property rights and similar rights and asset	Internally generated intangible assets	Customer base	Advance payments/ developments	Total
Cost as at 1/1/2018	**14,427**	**5,495**	**4,600**	**9,769**	**189**	**34,480**
Additions	-	251	453	-	739	1,443
Reclassifications	-	38	672	-	-710	0
Disposals	-	68	315	-	-	383
As at 31/12/2018	**14,427**	**5,716**	**5,409**	**9,769**	**218**	**35,540**
Amortisation as at 1/1/2018	**5,553**	**4,674**	**2,804**	**8,757**	**0**	**21,787**
Depreciation	-	382	646	143	-	1,171
Disposals	-	68	315	-	-	383
As at 31/12/2018	**5,553**	**4,988**	**3,135**	**8,899**	**0**	**22,575**
Carrying amounts as at 31/12/2018	**8,874**	**727**	**2,275**	**870**	**218**	**12,964**

In the previous year, intangible assets developed as follows:

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

The term of internally generated intangible assets has been adjusted from between 5 and 7 years originally to between 5 and 10 years. Another adjustment was required, because significant internally generated intangible assets were capitalised at the end of 2018, for which a term of 10 years is considered appropriate. There is therefore no change in the useful lives of assets already capitalised in the past. Internally generated intangible assets include systems that are essential to ecotel for marketing new products or facilitating modern, up-to-date communication with partners and customers.

The reported goodwill breaks down as follows:

Cash-generating unit (CGU) € thousand	Carrying amount 31/12/2017	Carrying amount 31/12/2018
Business Customers	8,732	8,732
easybell	124	124
carrier-services	17	17
Init-voice	1	1
	8,874	**8,874**

In accordance with IAS 36, impairment tests were performed in line with the discounted cash flow method in the past financial year to test for impairment of the reported goodwill. This was done based on the data from the respective corporate planning (forecast period: 5 years) and calculating the value in use. As in the previous year, there were no impairment requirements in the 2018 financial year.

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

- Capitalisation rate (WACC) after taxes: 4.1% (previous year: 5.5%), before taxes: 5.7% (previous year: 7.6%)
- Growth rate (perpetuity): 0.5% (previous year: 0.5%)

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

- Increasing gross profit development of the CGU of between 50.0% and 53.0% (previous year: between 50.0% and 53.0%)
- Annual sales growth of the CGU of between 1% and 3% (previous year: between 4% and 5%)
- The future annual investment volume covers the annual depreciation and amortisation.

(2) Property, plant and equipment

Property, plant and equipment developed as follows in the 2018 financial year:

€ thousand	Land, land rights and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and assets under development	Total
Cost as at 1/1/2018	**5,913**	**183**	**21,908**	**441**	**28,445**
Additions	195	35	4,192	25	4,445
Reclassifications	-	-	48	-48	0
Disposals	28	-	1,141	91	1,259
As at 31/12/2018	**6,081**	**218**	**25,006**	**327**	**31,632**
Depreciation as at 1/1/2018	**4,880**	**82**	**14,510**	**220**	**19,693**
Depreciation	394	37	3,689	-	4,119
Impairment	-	-	-	-	-
Disposals	28	-	1,130	-	1,158
As at 31/12/2018	**5,246**	**119**	**17,069**	**220**	**22,655**
Carrying amounts as at 31/12/2018	**835**	**99**	**7,937**	**107**	**8,977**

In the 2017 financial year, property, plant and equipment developed as follows:

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

If they have not yet been paid, the acquired assets are subject to the usual reservations of title.

Lease payments in subsequent years

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

€ thousand	Up to 1 year	1 to 5 years	5 years or more	Total as at 31/12/2018
Operating and office equipment (leasing)	206	229	0	435
Other rental agreements	1,267	4,925	140	6,332
	1,473	**5,154**	**140**	**6,767**

The lease obligations from operating and office equipment mainly result from leases for company vehicles. Other rental agreements chiefly comprise rent for office space and the data centre. For some of these rental agreements, extension options are available.

As at 31 December 2017, there were the following financial obligations from operating leases:

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

The lease payments recognised as expense in the reporting period are shown in note 19.

(3) Capitalised contract costs

Capitalised contract costs consist of costs to obtain contracts and costs to fulfil contracts. Costs to obtain contracts mainly consist of commissions for the conclusion of contracts with new customers. Costs to fulfil contracts chiefly consist of payments to upstream suppliers of the Group for connecting lines in order to provide network access to customers. As at 31 December 2018, capitalised contract costs amounted to € 2,799 thousand (1 January 2018: € 2,386 thousand). Depreciation and amortisation amounted to € 1,293 thousand in the 2018 financial year and was recognised and reported under other operating expenses and the cost of materials. There were no impairment losses in the reporting period.

(4) Investments accounted for using the equity method

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

€ thousand	Carrying amount (previous year)	Share of capital (previous year)
mvneco GmbH	856 (704)	33.3% (33.3%)

mvneco GmbH

mvneco GmbH is a strategic investment of ecotel. It acts as a technical service provider and advisor for mobile communication solutions and related managed services.

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

€ thousand	31/12/2017	31/12/2018
Current assets	2,612	3,164
Non-current assets	61	110
Current liabilities	560	707
Net assets (equity)	2,112	2,567
Pro-rata net assets	704	856
At-equity carrying amount	704	856
	2017	2018
Revenue	5,242	5,355
Earnings	632	457

(5) Trade receivables, contract assets and other financial and non-financial assets

€ thousand	Remaining maturity of more than 1 year	Total as at 31/12/2017	Remaining maturity of more than 1 year	Total as at 31/12/2018
Trade receivables	0	9,294	0	7,909
Contract assets	-	-	43	56
Miscellaneous other receivables and assets	0	1,845	114	2,074
Other non-financial assets	285	996	0	578

As at 31 December 2018, contract assets were reported in the amount of € 56 thousand (1 January 2018: € 0 thousand). There was no impairment in 2018. The effect on earnings from the increase in valuation allowances on trade receivables is included in other operating expenses, while the effect from the reversal of valuation allowances is included in other operating income. The receivables do not bear interest and therefore are not subject to interest rate risk. Due to the short-term payment dates, the carrying amounts correspond to the fair values.

As at 31 December 2018, there are receivables and liabilities with settlement balances agreements with customers and suppliers. The business activities in the ecotel Wholesale segment consist of trading in telephone minutes (wholesale) with national and international carriers. Netting is contractually agreed as a “reduced” payment in line with usual industry practice. The conditions (IAS 32.42) for net reporting in the statement of financial position were not fully met. At the time the statement of financial position was drawn up, these receivables and liabilities were settled in full.

€ thousand	Gross (reported)	Netting	Net (cash flow)
Trade receivables	2,613	1,857	755
Trade payables	2,587	1,857	729

As at 31 December 2017, receivables and liabilities from settlement balances agreements broke down as follows:

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

(6) Current and deferred income tax assets

€ thousand	31/12/2017	31/12/2018
Deferred income tax assets	334	740
Current income tax assets	784	625
	1,118	**1,365**
Deferred income tax assets with a remaining term of more than one year	334	740

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

(7) Cash and cash equivalents

€ thousand	31/12/2017	31/12/2018
Bank balances	6,385	6,093
Cash in hand and cheques	8	0
	6,393	**6,093**

(8) Equity

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

The share capital and capital reserve of the Group correspond to the share capital and capital reserve of the parent company. Other reserves include cumulative retained earnings.

Interests of non-controlling shareholders relate to direct minority interests in the equity (unchanged at 49.02%) of the easybell Group. This consists of easybell GmbH (€ 1,974 thousand, previous year: € 1,821 thousand) and the indirect minority interests in the equity of sparcall GmbH (€ 144 thousand, previous year: € 315 thousand), carrier-services.de GmbH (€ 1,065 thousand, previous year: € 990 thousand) and invoice GmbH (€ 130 thousand, previous year: € 109 thousand).

Aggregated key data of the easybell Group:

in € million	31/12/2017	31/12/2018
Total assets	**8.9**	**8.6**
Cash and cash equivalents	5.9	5.4
Other current assets	1.5	1.1
Non-current assets	1.5	2.1
Total liabilities	**2.4**	**2.2**
Current liabilities	2.4	2.2
Non-current liabilities	0	0
Equity	6.5	6.4

in € million	2017	2018
Revenue	15.3	15.9
Profit	1.8	1.9
Cash flow	0.3	-0.5

Share ownership

The table below shows the names of shareholders that held an interest of more than 3% in the share capital of ecotel communication ag at the end of 2018.

	2018
Peter Zils	29.91%
Andrey Morozov	29.99%
PVM Private Values Media AG	9.31%
CBOSS Orient FZ-LLC	7.83%
IQ Martrade Holding und Managementgesellschaft mbH	3.95%
Subtotal:	80.99%
Free float	19.01%

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

Authorised capital

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

Capital management

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

For all current covenants, ecotel was well within the specified limits in the 2018 financial year and as at the reporting date.

(9) Liabilities from current and deferred income taxes

€ thousand	Opening balance as at 1/1/2018*	Utilisation	Reversal	Additions	Closing balance as at 31/12/2018
Current income taxes	760	760	-	672	672
Deferred income taxes	960	264	28	523	1,191
Deferred income taxes with a term of more than one year	790				998

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

** Since 1 January 2018, the new financial reporting standards IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" have been applied. For this reason, the opening balance as at 1 January 2018 does not match the previous year.*

Other financial and non-financial liabilities

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

€ thousand	Remaining maturity of up to 1 year	Total as at 31/12/2017	Remaining maturity of up to 1 year	Total as at 31/12/2018
Loans	**1,308**	**5,168**	**1,609**	**5,659**
Trade payables	**10,408**	**10,408**	**9,229**	**9,229**
Thereof liabilities to associated companies	16	16	8	8
Provisions	**54**	**54**	**20**	**20**
Other financial and non-financial liabilities	**2,050**	**2,050**	**2,385**	**2,444**
Thereof social security liabilities	19	19	16	16
Thereof liabilities from wages and salaries	487	487	555	555
Thereof other personnel-related liabilities	334	334	473	473
Thereof liabilities for auditing/Supervisory Board	211	211	187	187

As in the previous year, there were no derivative financial liabilities as at 31 December 2018. The loan liabilities relate to long-term loans with fixed interest rates and contractually agreed repayments. The short-term loan liabilities relate to the loan repayments due in 2019.

The provisions chiefly comprise possible obligations from warranties.

(11) Contract liabilities

Contract liabilities represent the obligation to provide a service to a customer. As at 31 December 2018, contract liabilities were reported in the amount of € 1,739 thousand (1 January 2018: € 1,538 thousand). Depending on the type of performance obligation and its allocation to an operating segment, the performance obligation is fulfilled and thus recognised as sales within the average contract term (3–6 years). Contract liabilities are divided into current and non-current liabilities depending on their settlement date.

(12) Reporting on financial instruments

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

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

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

Credit risk: A credit risk for the Group arises if transaction partners do not or cannot meet their payment obligations. The maximum default risk is presented in the accounts with the carrying amount of the respective financial asset. Due to the different business models and customer structures of the segments, different credit risks are also defined. In the ecotel Business Customers segment and at nacamar, trade receivables are divided into different measurement clusters (major customers, customers with special payment agreements, etc.). Within the clusters, impairment is recognised pro rata depending on the length of time by which the receivables are past due. In the ecotel Wholesale segment, no impairment is recognised on trade receivables. There are settlement balances agreements with the customers. As a result of this netting in line with usual industry practice, there is no credit risk. In the easybell segment, receivables are mainly settled by direct debit, which considerably reduces the credit risk. Other receivables are impaired based on an age structure from one to more than 90 days. If they are past due by more than 90 days, they are written off completely. The development of the receivables portfolio is continuously monitored so that potential default risks can be identified at an early stage and appropriate measures can be initiated.

As at 31 December 2018, there are receivables and liabilities with settlement balances agreements with customers and suppliers. The business activities in the ecotel Wholesale segment consist of trading in telephone minutes (wholesale) with national and international carriers. Netting is contractually agreed as a "reduced" payment in line with usual industry practice. The conditions (IAS 32.42) for net reporting in the statement of financial position were not fully met. At the time the statement of financial position was drawn up, these receivables and liabilities were settled in full.

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

Valuation allowances for 2018 (€ thousand)	Trade receivables	Contract assets
As at 1/1/2018*	251	0
Valuation allowances for the year under review	39	0
Disposals	28	0
As at 31/12/2018	**262**	**0**

* *Since 1 January 2018, the new financial reporting standard IFRS 9 "Financial Instruments" has been applied. For this reason, the opening balance as at 1 January 2018 does not match the previous year.*

Valuation allowances for receivables in 2017 (€ thousand)	Trade receivables
As at 1/1/2017	156
Valuation allowances for the year under review	38
Disposals	19
As at 31/12/2017	**176**

As at 31 December 2018, there were receivables past due but not impaired in the following amounts:

Receivables past due but not impaired (€ thousand)	Gross value as at 31/12/2018	Impaired receivables	Receivables not impaired but past due in the following time ranges				
			Up to 30 days	31–60 days	61–90 days	91–120 days	More than 120 days
Trade receivables	7,909	262	5,927	1,519	132	113	218
Other financial assets	2,074						
	9,983	262	5,927	1,519	132	113	218

In accordance with IFRS 9, the simplified model is used for determining impairment on trade receivables. Valuation allowances for trade receivables are measured in the amount of the lifetime expected credit losses. The expected credit loss risk for trade receivables is measured using an impairment matrix. Receivables that are not due and not impaired are expected to be recoverable in their full amount.

The non-impaired trade receivables past due by more than 120 days in the amount of € 218 thousand (previous year: € 91 thousand) relate to receivables that are still expected to be recoverable. This primarily relates to a receivable (€ 180 thousand) that is allocated to the Wholesale segment. There is a settlement balances agreement with the customer for this receivable.

As at 31 December 2017, the situation was as follows:

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

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

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

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

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

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

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

Financial assets	31/12/2018		
	Fair value	Buchwerte	
(€ thousand)		At amortised cost (AC)	At fair value through profit or loss
Cash and cash equivalents		6,093	
Trade receivables		7,909	
Contract assets		56	
Other current financial assets		2,064	10

The financial assets also include an interest rate cap that is allocated to the "At fair value through profit or loss" category. This was calculated based on observable market data (level 2) using recognised measurement methods. Hedge accounting was not designated. Changes in value are recognised under net finance costs. In the 2018 financial year, there was no reclassification between different classes. In the 2018 financial year, there were no reclassifications between different classes.

Financial liabilities	31/12/2018		
	Fair value	Carrying amount	
(€ thousand)		Other liabilities	Total
Current loans	1,709	1,609	1,609
Trade payables		9,229	9,229
Contract liabilities		1,739	1,739
Other financial liabilities		1,568	1,568
Long-term loans	4,121	4,050	4,050
	5,830	**18,195**	**18,195**

As at 31 December 2017, the breakdown was as follows:

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

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

Liquidity risk: The ecotel Group companies are generally refinanced centrally by ecotel communication ag. There is a risk here that the liquidity reserves may not be sufficient to meet the financial obligations on schedule. In 2019, principal payments with a nominal volume of € 1.6 million (previous year: € 1.3 million) are due. Cash and cash equivalents of € 6.1 million (previous year: € 6.4 million) are available to cover the liquidity requirements. In addition to the reported cash and cash equivalents, credit lines amounting to € 6.2 million (previous year: € 8.0 million) are available to ecotel as at 31 December 2018, up to € 1.0 million (previous year: € 1.0 million) of which may be used for guarantee liabilities. To secure financing for the planned growth of ecotel, an additional loan of € 1.8 million was concluded on 21 December 2018. Financial covenants have been agreed in relation to the bank loans borrowed by ecotel communication ag (residual value: € 5.7 million; previous year: € 5.2 million) and the available credit lines. Failure to comply with the financial covenants could possibly result in termination and early repayment of the investment loans and the credit facility if no agreement can be reached on an adjustment of the financial covenants or on refinancing. Overall, the liquidity risk is considered to be low. The financial liabilities are expected to result in the following (undiscounted) payments in the coming years. All other financial liabilities are due within one year.

Principal/interest payments for financial liabilities (€ thousand)	Carrying amounts as at 31/12/2018	Principal payments			Interest payments		
		2019	2020 to 2023	2024 and after	2019	2020 to 2023	2024 and after
Deposits by banks	5,659	1,609	4,050	0	104	118	0

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

Principal/interest payments for financial liabilities (€ thousand)	Carrying amounts as at 31/12/2017	Principal payments			Interest payments		
		2018	2019 to 2022	2023 and after	2018	2019 to 2022	2023 and after
Deposits by banks	5,168	1,308	3,859	0	133	128	0

In accordance with IFRS 7, interest rate risks are generally presented using sensitivity analyses if the Group is exposed to such risks as at the reporting date. Primary floating-rate financial instruments whose interest payments are not designated as hedged items in cash flow hedges against interest rate risks, together with interest rate derivatives (interest rate swaps) that are not part of a hedging relationship in accordance with IAS 39, amounted to € 10 thousand as at the reporting date (previous year: € 59 thousand).

On 31 December 2018, as at the previous year's reporting date, there were no primary financial instruments with fixed interest rates (financial liabilities) that were accounted for at fair value, as all financial instruments were accounted for at amortised cost. ecotel therefore was not exposed to any significant interest rate risks as defined in IFRS 7 on 31 December 2018. For this reason, no sensitivity analysis was performed for the risk from interest rate changes.

In accordance with IFRS 7, exchange rate risks are also presented using sensitivity analyses if the Group is exposed to risk variables as at the reporting date from the use of non-functional currencies in which Group companies enter into financial instruments. This likewise was not the case either in the previous year or as at 31 December 2018, so no sensitivity analysis was performed for the risk from exchange rate changes.

(13) Contingent assets and liabilities and other financial obligations

As at 31 December 2018, there were unrecognised liabilities from contingencies in the amount of € 601 thousand (previous year: € 601 thousand) for guarantee liabilities.

The carrying amount of the financial assets furnished as collateral totalled € 16 thousand as at 31 December 2018 (previous year: € 14 thousand). This chiefly relates to security deposits.

Other financial obligations were entirely attributable to obligations from operating leases. For more information, please refer to note 2.

Notes to the consolidated statement of comprehensive income

(14) Sales

€ thousand	2017	2018
Breakdown of sales by segment		
ecotel Business Customers	47,620	48,148
ecotel Wholesale	55,778	32,888
easybell	15,234	15,937
nacamar	1,992	1,884
	120,624	**98,857**
Germany	69,667	69,369
International	50,957	29,488
	120,624	**98,857**

In the 2018 financial year, sales of € 948 thousand were recognised that had previously been included in the contract liability balance. Sales are broken down into German and international sales based on the customer location. The sales revenue includes lease income of € 0.3 million from hardware rental.

(15) Other operating income

Other operating income amounted to € 305 thousand in the 2018 financial year (previous year: € 279 thousand). It included income from receipts of impaired trade receivables of € 2 thousand (previous year: € 14 thousand) and reversals of impairment losses on trade receivables of € 19 thousand (previous year: € 1 thousand).

(16) Cost of materials

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

(17) Staff costs

€ thousand	2017	2018
Wages and salaries	11,517	12,338
Social security contributions	1,888	2,023
Thereof expenses for pensions and other benefits	898	951
	13,405	**14,361**

For all employees of Group companies in Germany, there is a defined contribution pension plan within the framework of German pension insurance, in which the employer must make contributions at a currently applicable rate of 9.3% (employer portion). There are no other pension plans.

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

Employees	2017	2018
Salaried employees	231	247

(18) Depreciation, amortisation and impairment losses

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

As in the previous year, the impairment tests performed did not result in any impairment losses on the goodwill of the cash-generating units in the 2018 financial year.

(19) Other operating expenses

Other operating expenses totalled € 10,962 thousand in the 2018 financial year (previous year: € 10,538 thousand). Partner and dealer commissions amounted to € 3,669 thousand in 2018 (previous year: € 3,627 thousand). Rents, leases and occupancy costs amounted to € 759 thousand in 2018 (previous year: € 675 thousand). The lease instalment for vehicles amounted to € 241 thousand (previous year: € 233 thousand), while the change in impairment on receivables and bed debt losses amounted to € 151 thousand (previous year: € 226 thousand).

(20) Net finance costs

€ thousand	2017	2018
Interest income		
Other interest and similar income	0	1
Interest income from long-term financial assets	-	-
	0	**1**
Interest expense		
Interest expense from loan liabilities	-175	-224
Other interest and similar expenses	-16	-4
	-191	**-228**
Net interest income	**-191**	**-228**
Other financial expenses and income		
Income from reversals of impairment losses on non-current financial assets	-	-
Net income from companies accounted for using the equity method	215	152
Other financial expenses	0	-49
Net finance costs	**23**	**-125**

Since 1 January 2018, the capital market management costs previously reported under financial expenses have been reported under other operating expenses and the description “financial expenses” in the consolidated statement of comprehensive income has now been changed to “interest expenses”. The previous year’s figures have been adjusted accordingly to provide better comparability.

(21) Income tax expense

€ thousand	2017	2018
Current income taxes	-794	-817
Deferred income taxes	41	175
	-753	-642

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

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

€ thousand	2017	2018
Earnings before taxes	2,115	2,027
Group tax rate	**31.0%**	**31.0%**
Expected tax expense	-656	-628
Differences from tax rates deviating from the Group tax rate	47	47
Tax effect from changes in permanent differences	-	-
Tax effect from tax-exempt income/expenses from profit distributions	-27	-27
Tax increases due to expenses that are not deductible for tax purposes	-48	-15
Taxes for previous years	-146	-4
Net income from equity investments	67	47
Other tax effects	11	-62
Tax expense according to income statement (expense -/income +)	-753	-642
Effective tax rate in %	**35.6%**	**31.7%**

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

The deferred taxes are attributable to the following items:

€ thousand	2017 Assets	2017 Liabilities	2018 Assets	2018 Liabilities
Property, plant and equipment/intangible assets	326	1,021	246	1,093
Capitalised contract costs, contrast assets, contract liabilities (IFRS 15)	-	-	-	344
Non-financial assets	-	124	-	-
Trade receivables	-	24	-	0
Deferred taxes on loss carryforwards	334	-	740	-
Netting, assets/liabilities	-326	-326	-246	-246
	334	**843**	**740**	**1,191**

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

(22) Allocation of net profit to minority interests

The share of net profit attributable to non-controlling shareholders amounts to € 935 thousand (previous year: € 896 thousand) and relates to the pro rata annual results of easybell GmbH (€ 643 thousand; previous year: € 570 thousand), sparcall GmbH (€ 196 thousand; previous year: € 185 thousand), carrier-services.de GmbH (€ 76 thousand; previous year: € 106 thousand) and init.voice GmbH (€ 21 thousand; previous year: € 35 thousand).

(23) Earnings per share

The number of ecotel communication ag shares outstanding as at 31 December 2018 was 3,510,000 (previous year: 3,510,000). The shares are issued as no-par-value shares with a pro-rata amount of the share capital of € 1.00.

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

Dilution of the earnings per share may occur if the average number of shares is increased by including the issue of potential shares from options and convertible financial instruments. As in the previous year, there were no such dilutive financial instruments as at 31 December 2018, meaning that basic and diluted earnings are identical.

	2017	2018
Attributable consolidated net income for the year (in €)	465,730.66	450,560.50
Weighted average number of shares	3,510,000	3,510,000
Basic earnings per share (in €)	0.13	0.13
Diluted earnings per share (in €)	0.13	0.13

Notes to the consolidated statement of cash flows

(24) Consolidated statement of cash flows

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

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

Effective cash flows are allocated to ecotel's long-term and short-term loans. There were no non-cash transactions in 2018.

	Long-term loans	Current loans	Total
1/1/2018	3,859	1,308	5,168
Borrowings	1,800	-	1,800
Repayment	-	-1,308	-1,308
Reclassification	-1,609	1,609	0
31/12/2018	4,050	1,609	5,659

The following effective cash flows arose in the previous year:

	Long-term loans	Current loans	Total
1/1/2017	2,168	1,796	3,964
Borrowings	3,000	-	3,000
Repayment	-	-1,796	-1,796
Reclassification	-1,308	1,308	0
31/12/017	3,859	1,308	5,168

Other notes

(25) Appropriation of net profit

In accordance with section 58 (2) of the German Stock Corporation Act (AktG), the relevant basis for ecotel's appropriation of net profit is the annual financial statements of ecotel communication ag, which are prepared in line with the provisions of German commercial law. The annual financial statements of ecotel communication ag show an unappropriated surplus of € 500 thousand (previous year: € 1,334 thousand). In the 2018 financial year, ecotel communication ag distributed a dividend of € 0.13 per eligible share for the 2017 financial year. A total of € 466 thousand was distributed to the shareholders.

(26) Related party disclosures

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

€ thousand	Volume of services performed by ecotel		Volume of services utilised by ecotel	
	2017	2018	2017	2018
mvneco GmbH				
– Trade receivables/payables	32	35	120	66

As at 31 December 2018, there were receivables from mvneco GmbH in the amount of € 3 thousand (previous year: € 4 thousand) and trade payables to mvneco GmbH in the amount of € 8 thousand (previous year: € 16 thousand).

The ecotel Group had service relationships with the following related persons (or their companies) in 2018:

€ thousand	Volume of services performed by ecotel		Volume of services utilised by ecotel	
	2017	2018	2017	2018
MPC Service GmbH				
– Trade receivables/payables	3	3	351	344

Agreement with MPC Service GmbH

A commercial agency agreement is in place between MPC Service GmbH and ecotel. Under this agreement, MPC Service GmbH receives an acquisition commission and a product-based commission for monthly incoming orders based on the monthly sales of all customers acquired through MPC Service GmbH. The Supervisory Board member Mirko Mach is a managing director and partner of MPC Service GmbH. As at the reporting date, there were receivables from MPC Service GmbH in the amount of € 0 thousand (previous year: € 0 thousand) and liabilities of € 31 thousand (previous year: € 35 thousand).

(27) 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 ecotel's segments.

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

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

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

In the 2018 financial year, there was one international carrier with which the Wholesale segment generated a sales volume of more than 10% of consolidated sales (€ 16.4 million). The Group's highest international sales in 2018 were generated in Switzerland (previous year: Switzerland and Italy). In the previous year, more than 10% of consolidated sales were generated with three international carriers (previous year: € 13.5 million € 13.1 million and € 22.9 million).

€ thousand	ecotel Business Customers		ecotel Wholesale		easybell		nacamar		Cross-segment consolidation		group	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
External sales	47,620	48,148	55,778	32,888	15,234	15,937	1,992	1,884	-	-	120,624	98,857
Intersegment sales	-	-	1,031	3,624	354	583	-	-	-1,385	-4,207	0	0
Gross profit	22,693	23,626	382	418	5,857	6,869	945	1,006	-	-	29,876	31,918
EBITDA	3,688	3,890	-81	66	3,045	3,349	205	229	-	-	6,858	7,534
Depreciation and amortisation	-4,099	-4,573	-	-	-444	-615	-106	-102	-	-	-4,649	-5,290
Unscheduled impairment	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	-527	-773	-81	66	2,602	2,733	98	127	-	-	2,209	2,153
Net finance costs											23	-125
Profit from ordinary activities											2,115	2,027
Income tax expense											-753	-642
Net profit											1,362	1,385
Consolidated net profit											466	451
Minority interests											896	935

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

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

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

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

Total remuneration in € thousand	Peter Zils 2017	Peter Zils 2018	Achim Theis 2017	Achim Theis 2018
Fixed remuneration	330	345	220	250
Fringe benefits	23	23	17	17
One-year var. remuneration	13	53	59	45
Multi-year var. remuneration	-	-	-	
Total remuneration	**366**	**421**	**296**	**312**

The performance-based variable remuneration is tied to a sustainable business development over a three-year period. In addition to fixed remuneration and fringe benefits, the Management Board is entitled to securely earned variable remuneration of € 98 thousand for the 2018 financial year (previous year: € 72 thousand). After deducting the remuneration components already paid, corresponding liabilities were recognised. The remuneration consists entirely of short-term benefits. Remuneration for the 2018 financial year thus amounted to € 733 thousand (previous year: € 662 thousand).

The table below shows the remuneration of the Supervisory Board:

Supervisory Board remuneration in thousand €	2017	2018
Dr Norbert Bensel (Chairman of the Supervisory Board)	24	24
Mirko Mach (Deputy Chairman of the Supervisory Board)	19	19
Dr Thorsten Reinhard	14	13
Brigitte Holzer	14	13
Sascha Magsamen	14	14
Tim Schulte Havermann	14	13
Total	**99**	**96**

Since September 2016, ecotel has also included two authorised signatories among its key management personnel in accordance with IAS 24 in addition to the Management Board and Supervisory Board members. The total remuneration for all key management personnel thus amounts to € 1,236 thousand (previous year: € 1,160 thousand) and is all short-term. € 29 thousand of this was attributable to contributions to retirement provisions in the reporting period. For further information on the remuneration of the Management Board and the Supervisory Board, please refer to the statements in the group management report.

(30) Auditor's fees

In the 2018 financial year, the expensed fee for the auditor of the annual and consolidated financial statements of ecotel ag for auditing services amounted to € 127 thousand and comprises the fees for the statutory audit of the annual and consolidated financial statements of the company and its consolidated subsidiaries, audit support in connection with the implementation of new financial reporting requirements, and the review of the services-related internal control system. As in the previous year, no expenses were recognised for the auditor for other assurance services, tax consulting services or other services.

(31) Events after the reporting period

No significant changes occurred between the end of the financial year and the preparation of the consolidated financial statements on 8 March 2019. The economic environment did not change to the extent that it would have had a significant impact on ecotel's operations and the sector situation was no different from how it was as at 31 December 2018.

(32) Exemption from disclosure

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

Düsseldorf, 8 March 2019
The Management Board

Peter Zils *Achim Theis*

Independent auditor’s report

To ecotel communication ag, Düsseldorf

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

Audit Opinions

We have audited the Consolidated Financial Statements of ecotel communication ag, Düsseldorf, and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as at 31 December 2018 as well as the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the financial year from 1 January to 31 December 2018, and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition, we have audited the Group Management Report of ecotel communication ag, Düsseldorf, for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have neither audited the Statement of Corporate Governance nor the Corporate Governance Report (including the statement pursuant to section 161 of the German Public Limited Companies Act (AktG [Aktiengesetz])) referenced in section VIII of the Group Management Report.

In our opinion, based on the knowledge obtained in the audit,

– the accompanying Consolidated Financial Statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315e para. 1 of the German Commercial Code (HGB [Handelsgesetzbuch]) and, in compliance with these requirements, give a true and fair view of the assets, the liabilities and the financial po-sition of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
– the accompanying Group Management Report as a whole provides an appropriate view of the Group’s position. In all material respects, this Group Management Report is consistent with the Consolidated Financial Statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the Group Management Report does not cover the content of the unaudited parts of the Group Management Report listed above.

Pursuant to section 322 para. 3 sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the Consolidated Financial Statements and of the Group Management Report.

Basis for the Audit Opinions

We conducted our audit of the Consolidated Financial Statements and of the Group Management Report in accordance with section 317 HGB and the EU Audit Regulation (No. 537/2014, hereinafter referred as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the German Institute of Public Auditor (IDW [Institut der Wirtschaftsprüfer]). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our Auditor's Report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other professional responsibilities as applicable in Germany in accordance with these requirements. In addition, in accordance with Article 10 para. 2 lit. (f) of the EU Audit Regulation, we declare that we have not provided any nonaudit services prohibited under Article 5 para. 1 of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our Audit Opinions on the Consolidated Financial Statements and on the Group Management Report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole and in forming our audit opinion thereon. We do not provide a separate audit opinion on these matters.

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

– allocation of revenue to the correct periods

a) The Risks for the Financial Statements

The Consolidated Financial Statements disclose revenues amounting to EUR 98.9 million, EUR 48.1 million of which relate to the Business Customers segment. Revenue is generally recognized as of the date on which the service has been rendered or the asset has been delivered. To allocate revenue to the correct periods, revenue from monthly base fees for voice connections and data services from services already invoiced but not yet rendered is deferred to the relevant periods. The Company determines these relevant revenue groups based on implemented system generated reports drawn directly from the billing system and recognizes the amounts in the Financial Statements on a monthly basis.

Furthermore, the Financial Year 2018 was the first in which the new accounting standard IFRS 15 was applied. Transition to the new accounting policies required adjustments to the process of recognizing and allocating revenues. The effect on equity resulting from initial application of IFRS 15 according to the modified retrospective method as at 1 January 2018 amounted to EUR 0.3 million and mainly results from the initial recognition of costs to obtain a contract, contract assets and contract liabilities.

Disclosures relating to the specifics of proper allocation of revenues are included in the section "Accounting Principles" of the Notes to the Consolidated Financial Statements. The Group's disclosures on the effects of initially applying IFRS 15 are contained in the section "Accounting Principles" of the

Notes to the Consolidated Financial Statements as well. In addition, sections "II. Economic Report" and "IV. Forecast and Report on Opportunities and Risks" of the Group Management Report contain further explanations on the effects from transition to the new accounting policy.

Due to the materiality of the deferred revenues on a monthly basis as well as the firsttime adoption of IFRS 15 a higher risk of misperiodisation of revenues exists as of the balance sheet date. For this reason, we consider this matter to be a key audit matter for the financial year.

b) Audit Approach and Conclusions

During our audit we initially assessed the appropriateness and the effectiveness of the processes and controls over financial reporting for revenue recognition and periodization implemented by the Company. Based on that, we conducted substantive procedures regarding the proper periodization of revenues as of the balance sheet date. In doing so, we did not only perform analytical assessment of the monthly deferrals over the course of the year, but also evaluations based on samples as to whether the accounting documents recorded the revenues in the proper period.

In addition, we assessed the appropriateness of the initial application of IFRS 15 on the basis of the design of the processes for the identification of performance obligations, by means of an inspection of selected customer contracts as well as an analysis and evaluation of the proper identification of performance obligations and the type of revenue recognition (as related to points or periods of time).

We were able to satisfy ourselves of the fact that the implemented accounting systems and processes as well as the relevant internal controls are appropriate, and that the revenue deferral was sufficiently documented and substantiated by the legal representatives of the Company to ensure proper periodisation of revenues within the reporting period covered.

Other Information

The Legal Representatives are responsible for the other information. The other information comprises the

- Unaudited content of those parts of the Group Management Report listed in the section "Audit Opinions" above,
- The confirmation pursuant to section 297 para. 2 sentence 4 HGB regarding the Consolidated Financial Statements and the confirmation pursuant to section 315 para. 1 sentence 5 HGB regarding the Group Management Report and
- The remaining parts of the Annual Report with the exception of the audited Consolidated Financial Statements and our Auditor's Report.

Our Audit Opinions on the Consolidated Financial Statements and the Group Management Report do not cover the other information and, consequently, we neither issue an opinion nor do we express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements and the Group Management Report, our responsibility is to read the other information and, in doing so, consider whether the other information

– is materially inconsistent with the Consolidated Financial Statements, the audited parts of the Group Management Report or our knowledge obtained in the audit or
– otherwise appears to be materially misstated.

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

Responsibilities of the Legal Representatives and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Legal Representatives are responsible for the preparation of the Consolidated Financial Statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e para. 1 HGB and that the Consolidated Financial Statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Legal Representatives are responsible for such internal controls as they have determined necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Furthermore, the Legal Representatives are responsible for the preparation of the Group Management Report which, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the Consolidated Financial Statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Legal Representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group Management Report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group Management Report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the Consolidated Financial Statements and of the Group Management Report.

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

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group Management Report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the Consolidated Financial Statements and the knowledge obtained in the audit, complies with the

German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an Auditor's Report that includes our Audit Opinions on the Consolidated Financial Statements and on the Group Management Report.

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

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

– Identify and assess the risks of material misstatement of the Consolidated Financial Statements and of the Group Management Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our Audit Opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
– Obtain an understanding of internal control relevant to the audit of the Consoli-dated Financial Statements and of arrangements and measures (systems) relevant to the audit of the Group Management Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
– Evaluate the appropriateness of accounting policies used by the Legal Representatives and the reasonableness of estimates made by the Legal Representatives and related disclosures.
– Conclude on the appropriateness of the Legal Representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the Auditor's Report to the related disclosures in the Consolidated Financial Statements and in the Group Management Report or, if such disclosures are inadequate, to modify our respective Audit Opinions. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
– Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements present the underlying transactions and events in a manner that the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e para. 1 HGB.
– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the Consolidated Financial Statements and on the Group Management Report. We are responsible for the direction, supervision and performance of the Group Audit. We remain solely responsible for our Audit Opinions.

– Evaluate the consistency of the Group Management Report with the Consolidated Financial Statements, its conformity with German law, and the view of the Group’s position it provides.
– Perform audit procedures on the prospective information presented by the Legal Representatives in the Group Management Report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Legal Representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate Audit Opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as Group Auditor by the Annual General Meeting on 20 July 2018. We were engaged by the Supervisory Board on 9 August 2018. We have been the Group Auditor of ecotel communication ag, Düsseldorf, the since the financial year 2018.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor [Wirtschaftsprüfer] responsible for the engagement is Mr. Constantin Mundt.

Düsseldorf, 8 March 2019

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

sgd. Christoph Couhorn
Public Auditor

sgd. Constantin Mundt
Public Auditor

Index

Financial calendar

9 May 2019	Publication of quarterly financial report (Q1)
12 July 2019	Annual General Meeting
9 August 2019	Publication of half-year financial report
12 November 2019	Publication of quarterly report (Q3)

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