ANNUAL REPORT
2017

DATA & FACTS

Selected Performance Indicators	2017	2016	Change
PROFIT (IN €M)			
Revenue	2,812.3	2,430.1	15.7%
EBITDA	504.0	387.9	29.9%
EBITDA margin in % of revenue	17.92%	15.96%	
EBITDA (adjusted) *	532.2	387.9	37.2%
EBITDA margin in % of revenue (adjusted)*	18.92%	15.96%	
EBIT	439.9	379.3	16.0%
EBIT margin in % of revenue	15.64%	15.61%	
EBIT (adjusted)*	468.1	379.3	23.4%
EBIT margin in % of revenue (adjusted)*	16.65%	15.61%	
EBT	431.3	354.6	21.6%
EBT margin in % of revenue	15.34%	14.59%	
Earnings per share (in €)	2.28	2.08	10.1%
CASH FLOW (IN €M)			
Net payments of operating activity from the ongoing division	294.1	65.4	349.6%
Net payments and incoming payments from investments from the ongoing division	9.3	-26.1	
Free cash flow	278.6	39.1	612.3%

	31/12/2017	31/12/2016	Change
BALANCE SHEET (IN €M)			
Short-term assets	656.6	263.5	149.1%
Long-term asset	4,079.2	1,579.7	158.2%
Shareholders' equity	3,805.1	-412.8	
Balance sheet total	4,735.7	1,843.3	156.9%
Equity ratio	80.35%	-22.40%	
STAFF (INCL. MANAGEMENT BOARD)			
Total per end of December	3,194	3,454	-7.5%
thereof in Germany	3,194	3,454	-7.5%
CUSTOMER CONTRACTS (IN MILLIONS)			
Current Product Lines			
Access, contracts	12.64	8.54	4.10
thereof Mobile Internet	8.30	4.31	3.99
thereof DSL/VDSL	4.34	4.23	0.11

* Adjusted for one-off expenses totalling €28.2m related primarily to the sale of the yourfone Shop GmbH and the restructuring of the retail trade per the end of 2017.

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HIGHLIGHTS 2017

01/17

» Allnet-Flats with LTE + EU-Option from €9.99 (PremiumSIM)

03/17

» Publication of the Annual Report 2016

» Allnet-Flats including EU usage from €7.99 (yourfone)

05/17

» Annual General Meeting

» Announcement of the 1&1 transaction

» Registration of first capital increase

07/17

» Extraordinary General Meeting: 97.85% of the attending capital approved the 1&1 transaction

» Marketing start of DSL products

09/17

» Closing of 1&1 transaction (Registration of Capital Increase II in the commer-cial register)

10/17

» Martin Witt appointed to the Management Board

11/17

» 1&1 launches new mobile product portfolio (LTE products with up to 225 Mbit/s)

12/17

» Sale of the yourfone shops

» Vlasios Choulidis retired from management board

LETTER FROM THE MANAGEMENT BOARD

Dear Sir or Madam,

1&1 Drillisch AG can look back on a highly eventful and successful fiscal year 2017. We were able to improve yet again the number of customer contracts, the revenues and the profit figures and achieved our forecast. Parallel to these accomplishments, we have continued to invest in new customer acquisition and the expansion of existing customer relationships.

Along with our operating success, we created a new fourth powerhouse on the German telecommunications market with the successful conclusion of the complete transaction. Under the umbrella of United Internet AG, 1&1 Drillisch is a powerful full-service telecommunications provider that has every possibility to take advantage of any and all opportunities for growth.

The 1&1 Drillisch AG shareholders were strongly positive as they accompanied this development over two extraordinary general meetings in July 2017 and January 2018.

We convened an Extraordinary General Meeting on 25 July 2017 and asked our shareholders to approve the complete acquisition of 1&1 Telecommunication SE (1&1). A huge majority of 97.85% of the shareholders approved the non-cash capital increase of approximately 107 million shares to 177 million shares required for this transaction.

On 12 January 2018, we convened another Extraordinary General Meeting of the shareholders and, among other points, requested approval for the change in the name of Drillisch AG to 1&1 Drillisch AG as an outward sign of the coalescence of two successful companies. The shareholders adopted this resolution by a majority of 99.99%.

Before we go into the details of the operating business, we would like to supplement the information from the 9-month report with a summary of the substantial accounting effects that the successful conclusion of the transaction with United Internet AG has had on our figures for fiscal year 2017.

In accordance with the IFRS (cf. IFRS 3, 6 in conjunction with IFRS 3B19), the acquisition of the shares of 1&1 stock by the former Drillisch AG ("Drillisch") is to be classified as a reverse acquisition. In the accounting, it is assumed that 1&1, the economic acquiree, has acquired the shares of Drillisch stock. Consequently, the previous Drillisch Group as the acquired company is included in the consolidated financial statements only proportionately for the period from the moment at which control is obtained. In this Annual Report, the business of the former Drillisch companies is disclosed for four months only. The business of 1&1, on the other hand, is disclosed as the values for the full year. The consequence is that there is no longer any comparability of the balance sheet and comprehensive income statement of previous Drillisch financial statements, and in future the accounting principles of 1&1 must be applied. The date of the registration of Capital Increase II in the Commercial Register, 8 September 2017, is simultaneously the acquisition date.

LETTER FROM THE MANAGEMENT BOARD

Today's 1&1 Drillisch enterprise and its brands are among the leading integrated providers in Germany. Our products are positioned to address specific target groups on the market with the premium brand 1&1 and the proven multiple-brand strategy of Drillisch Online. Customers select the product that best suits their personal needs, including comprehensive services and the best value for money on Germany's largest mobile phone network.

Within this new affiliation, we have in addition access to the "internet factory" under the umbrella of United Internet, and we will enhance and develop further the successful SIM-only products by the addition of attractive devices, applications we have ourselves developed and services of the corporate group. In future, 1&1 Drillisch will offer to its customers attractive bundled products comprised of mobile and landline services in combination with additional content such as home networks in addition to mobile-only and DSL-only or IPTV products. By employing this marketing approach, we will develop new customer and product segments and will hold to our course of profitable growth. In future, customer demands on the performance capability of internet connections will continue to rise, and we will be able to satisfy these demands with our access to the best possible infrastructure. Thanks to our MBA MVNO agreement with Telefónica Germany, our mobile products are always state of the art in terms of network technology. And now, in combination with 1&1, we have access to Germany's second-largest optic fibre network, which is operated by the affiliate 1&1 Versatel and is constantly being expanded.

Now for the operating business itself:

During fiscal year 2017, we were again able to grow significantly over the same period of the previous year in a market environment that remains intensely competitive.

Along with the generally positive development of our clientele for the current product lines, which rose in comparison with the closing date of the previous year across all customer groups by 4.10 million (48.0%) to 12.64 million subscribers (2016: 8.54 million), the customer contracts in the mobile internet business increased by 3.99 million – 3.35 million of them from the initial inclusion of Drillisch – to 8.30 million (2016: 4.31 million). Revenues invreased by €382.2 million (15.7%) to €2,812.3 million (2016: €2,430.1 million).

Despite the investments in customer growth, the adjusted EBITDA from ongoing activities (earnings before interest, taxes, depreciation and amortisation from ongoing activities) increased by €144.3 million (37.2%) to €532.2 million (2016: €387.9 million). The adjusted EBITDA margin from ongoing activities rose by 2.9 percentage points to 18.9% (2016: 16.0%). Depreciation and amortisation rose by €55.5 million to €64.1 million in fiscal year 2017 (2016: €8.6 million). The rise in depreciation and amortisation was caused (among other factors) by the intangible assets identified during the purchase price allocation after the acquisition of Drillisch in fiscal year 2017; these assets will be depreciated over the terms of their usual useful life of between 2 and 13 years. The initial consolidation of Drillisch at the beginning of September 2017 resulted in depreciation and amortisation pro rata temporis since that time in the amount of €38.8 million (previous year: €0.0). The adjusted EBIT from the ongoing activities (earnings

LETTER FROM THE MANAGEMENT BOARD

before interest and taxes from the ongoing activities) increased by 23.4 % to €468.1 million (2016: €379.3 million). The adjusted EBIT margin from ongoing activities rose to 16.7% (2016: 15.6%).

We want our shareholders to participate as well in our strong operating profit and will propose a dividend for the past fiscal year 2017 in the amount of €1.60 per share (previous year: €1.80) to the Annual General Meeting that will be held in May. Compared to the previous year, the total disbursement of €98.6 million in May 2017 will rise to €282.8 million. The reason for this strong increase is that the number of shares has in the meantime more or less trebled to about 177 million shares because of the two capital increases occurring during the transaction.

We want to give our shareholders an appropriate share of the Company's success in the future as well and distribute a dividend of approximately 80% of operating profit (future dividend should always correspond to about 80%) unless funds are required for further company development.

We are in an excellent position to take the next steps in our Company's development, and we are looking ahead to the future with confidence. In concrete terms, we expect an increase in the number of customer contracts subject to charge of about 1.2 million and in revenue to about €3.7 billion (2017: €2.8 billion) in 2018. The adjusted EBITDA has been targeted to rise to about €750 million (2017: €532.2 million). Moreover, we would like to increase substantially the use of smartphones at reduced prices (mostly without an initial additional payment) for all of the major brands. This goal includes both new and current customers. The expected additional investments in hardware totalling about €300 million will be refinanced by higher mobile service rates within the contractual minimum terms. The accounting in accordance with IFRS 15 means that there will not be any negative effects on profits.

In conclusion, we would like to take this opportunity to thank our employees expressly and warmly for their continued commitment and their high readiness to perform because dependable collaboration in a spirit of trust is very important for our commercial success. But we are also just as deeply grateful to our shareholders, customers and business partners for the trust they have placed in us.

Best regards from Maintal,

Ralph Dommermuth André Driesen Martin Witt

Maintal, March 2018

MANAGEMENT

RALPH DOMMERMUTH
CEO (since 1 January 2018)

In 1988, Ralph Dommermuth, born in 1963, founded 1&1 EDV Marketing GmbH, the company that was to grow into what is today United Internet AG. His initial business was the provision of systematised marketing services to small software providers. He later developed additional marketing services for large customers such as IBM, Compaq and Deutsche Telekom. When acceptance of the internet began to accelerate, Ralph Dommermuth gradually cut back on these marketing services for third parties and began to build up his own internet services and direct customer relationships. In 1998, the trained banker managed the IPO of 1&1, which was the first internet company on the Frankfurt stock exchange. In 2000, Ralph Dommermuth restructured 1&1 into United Internet AG and developed the company into one of the leading internet specialists in Europe. Mr Dommermuth has also been Chief Executive Officer of 1&1 Drillisch AG since 1 January 2018.

ANDRÉ DRIESEN
CFO (since 1 April 2015)

André Driesen, born in 1969, has been a member of the 1&1 Drillisch AG Management Board since 1 April 2015; in his position as chief financial officer, he is responsible for the departments Finance, Corporate Controlling and Accounting, Investor Relations, Legal, Corporate Governance, Compliance and Risk Management. Among his other previous positions, Mr Driesen was employed at BDO AG Wirtschaftsprüfungsgesellschaft and Böhler Uddeholm Deutschland GmbH before joining the department Finance and Controlling at VICTORVOX AG (as it was then called) at the end of 2000. VICTORVOX was acquired by Drillisch AG in 2003. At Drillisch, Mr Driesen was most recently Prokurist [holder of full commercial power of representation] and Divisional Director Finance before being appointed to the Management Board.

MARTIN WITT
COO (since 1 October 2017)

The Supervisory Board appointed Mr Martin Witt, born in 1955, to the 1&1 Drillisch AG Management Board as of 1 October 2017. As COO, Martin Witt is in charge of the divisions Product Marketing and Carrier Management, Customer Care and Technology. In addition to his work on the Management Board as COO of 1&1 Drillisch AG, he is personally the Director Product Marketing and Carrier Management. Martin Witt was elected to the Executive Committee in 2013 and to the office of president of VATM (Verband der Anbieter von Telekommunikations- und Mehrwertdiensten e. V. [Association of Telecommunications and Added-Value Services Providers) on 1 October 2014. Martin Witt has been Vice-Chairman of the European Competitive Telecommunications Association (ECTA) since January 2016.

REPORT OF THE SUPERVISORY BOARD

Supervisory Board Members in Fiscal Year 2017:

» **Michael Scheeren (since 16 October 2017),**
Supervisory Board Chairperson (since 13 November 2017)

» **Kai-Uwe Ricke (since 16 October 2017),**
Supervisory Board Deputy Chairperson (since 13 November 2017)

» **Kurt Dobitsch**
(since 16 October 2017)

» **Norbert Lang**
(since 12 November 2015)

» **Marc Brucherseifer**
(until 31 December 2017)

» **Dr Horst Lennertz**
(until 31 December 2017)

» **Dr Susanne Rückert**
(until 10 October 2017)

» **Frank A Rothauge**
(until 13 October 2017)

» **Dr Bernd H Schmidt**
(until 29 May 2017)

The Supervisory Board of 1&1 Drillisch AG fulfilled the duties and responsibilities assigned to it by legal statutes, the Company Charter and rules of procedure, regularly advised the Management Board in its leadership of the Company and monitored its management of the Company's business. The Supervisory Board was at all times able to determine the legality, expediency and correctness of the Management Board's work. The Supervisory Board was directly involved in all decisions that were of fundamental significance for the Company. The Management Board regularly instructed the Supervisory Board, in writing as well as orally, comprehensively and contemporaneously, including between meetings, regarding all relevant questions of strategy and the related opportunities and risks, corporate planning, development and course of business, planned and ongoing investments, the Group's position, including risks and risk management, and compliance. The Company's strategic orientation is determined by Management and Supervisory Boards in joint consultation. The Management Board submitted a comprehensive report on the course of business, including revenue development and profitability, the Company's position and its business policies to the Supervisory Board at quarterly intervals. It included as well information about any aberration in the course of business from planning. The Management Board's reports satisfied the requirements of legal statutes, good corporate governance and the instructions issued to it by the Supervisory Board with respect to both subject matter and scope. The reports were made available to all Supervisory Board members. The Supervisory Board reviewed the reports submitted by the Management Board and all other information with respect to plausibility; the materials were the subject of intensive discussions, critical examination and in-depth questions. The Supervisory Board gave its consent to specific business transactions if and when this was required by legal statutes, Company Charter or rules of procedure for the Management Board.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board regularly received reports from the Management Board concerning the internal controlling system and the Group-wide risk management that had been set up by the Management Board. Based on its reviews, the Supervisory Board has come to the conclusion that the internal controlling system, the Group-wide risk management and the internal auditing system are effective and functional.

Supervisory Board activities, meetings

A total of sixteen meetings of the full Supervisory Board were held during the reporting period 2017. The members attended twelve meetings (on 22 March 2017, 30 March 2017, 26 April 2017, 8 May 2017, 10 May 2017, 18 May 2017, 2 June 2017, 7 June 2017, 25 July 2017, 9 August 2017, 29 September 2017 and 13 November 2017) and four meetings were held in the form of phone conferences (on 3 May 2017, 11 May 2017, 12 June 2017 and 23 June 2017).

In addition to the regular reporting required by legal statutes, the following subjects in particular were discussed and reviewed intensively:

- The annual and consolidated annual financial statements per 31 December 2016
- The Supervisory Board's report to the Annual General Meeting for fiscal year 2016, the updating of the Declaration of Conformity pursuant to the German Corporate Governance Codex, the Declaration on Corporate Management and the corporate governance report
- The announcement, the agenda and proposals for the adoption of resolutions for the ordinary Annual General Meeting 2017
- The adoption of the resolution regarding the Management Board's proposed allocation of profits
- The proposal to the Annual General Meeting for the disbursement of dividends
- Audit schedules and the quarterly reports from Internal Audit
- Monitoring of the effectiveness of the implemented compliance system
- Quarterly reports on risk management and risk management strategy
- Corporate development during the year
- Planning and investment projects of the corporate group for fiscal year 2017
- Revenue and profit budget 2017 of the Company
- Review of the acquisition agreed with United Internet AG of 1&1 Telecommunication SE against the issue of 117,000,000 new shares to United Internet AG
- Utilization of the approved capital 2014/I (non-cash capital increase) for the issue of 9,062,169 new shares to United Internet AG against contribution of approximately 7.75% of the shares in 1&1 Telecommunication SE

REPORT OF THE SUPERVISORY BOARD

» Convocation, agenda and proposed resolutions for the extraordinary General Meeting on 25 July 2017 (non-cash capital increase) for the issue of 107,937,831 new shares to United Internet AG against contribution of approximately 92.25% of the shares in 1&1 Telecommunication SE

» Review of the takeover offer from United Internet AG and the issue of the joint reasoned statement with Management Board

» The personnel changes on Management Board and Supervisory Board related to the transaction with United Internet AG regarding the acquisition of 1&1 Telecommunication SE

» Convocation, agenda and proposed resolutions for the Extraordinary General Meeting on 12 January 2018, in particular the change in the name of the Company to "1&1 Drillisch Aktiengesellschaft"

Furthermore, the Supervisory Board maintained a total of three committees in the reporting period 2017: the Audit Committee, the Personnel Committee and the Nominating Committee.

The Supervisory Board's Personnel Committee, whose members were Mr Marc Brucherseifer (until 31 December 2017; until 13 November 2017 as committee chairperson), Dr Susanne Rückert (until 10 October 2017; as deputy chairperson), Dr Horst Lennertz (until 31 December 2017) and Mr Scheeren (from 13 November 2017; committee chairperson), held one meeting attended by its members in fiscal year 2017 on 28 August 2017. The major topic of the meeting was the discussion and appraisal of the Management Board's work and its membership as well as the long-term succession planning for the Management Board, taking into account the manager planning of the Company.

The Supervisory Board's Audit Committee, whose members were Mr Frank Rothauge (until 13 October 2017; as committee chairperson), Dr Bernd H Schmidt (until 29 May 2017), Dr Horst Lennertz (until 31 December 2017) and Mr Norbert Lang (from 29 September 2017, from 13 October 2017 as committee chairperson), held a total of five meetings attended by its members (on 14 March 2017, 18 May 2017, 25 July 2017, 9 August 2017 and 8 November 2017) and one meeting in the form of a telephone conference (on 7 March 2017) during the reporting period. The Audit Committee monitored the accounting and the accounting process, the effectiveness of the internal controlling system (with particular focus on the potential for improvement) and the effectiveness of the risk management system and the compliance system implemented in the Company; the work was done in accordance with a previously determined schedule for the year's meetings. The major focus of the Audit Committee's activities concerned the audit of the annual financial statements 2016 and review of the consolidated semi-annual results, whereby the Audit Committee reviewed the independence of the auditor and considered its ancillary services, submitted a recommendation as a nomination for the (repeated) appointment of the auditor for 2017, deliberated on the auditing focal points for the audit of the annual financial statements 2017, the fee agreements for the audit 2017, the announcement of a new tender for the engagement of the auditor for 2018 and other points.

REPORT OF THE SUPERVISORY BOARD

The Nominating Committee, whose members were Mr Marc Brucherseifer (until 31 December 2017; until 13 November 2017 as committee chairperson), Dr Susanne Rückert, Mr Norbert Lang (both until 10 October 2017), Mr Frank Rothauge (until 13 October 2017), Dr Bernd H Schmidt (until 29 May 2017), Dr Lennertz (until 31 December 2017), Mr Michael Scheeren (from 17 October 2017; from 13 November 2017 as committee chairperson) and Mr Kurt Dobitsch and Mr Kai-Uwe Ricke (both from 17 October 2017), met once during the reporting period (on 29 September 2017) and once again on 13 November 2017; its business was the discussion of the candidate nominations (also in accordance with the business combination agreement of 12 May 2017).

In its meeting on 21 March 2018, the Supervisory Board decided not to set up any committees in future, but to perform all of its duties and responsibilities as a full body. This will give all Supervisory Board members the opportunity to participate in any and all Supervisory Board topics at peer level.

Personnel changes on the Management Board and Supervisory Board

Mr Martin Witt was appointed to the Management Board of the Company per 1 October 2017. Current members of the Management Board are Messrs Ralph Dommermuth (CEO since 1 January 2018), André Driesen and Martin Witt. Mr Vlasios Choulidis stepped down from the Management Board per 31 December 2017. The women's quota on the Management Board was unchanged during the reporting period and remains at 0%.

Pursuant to an order of the Hanau Local Court on 16 October 2017, Messrs Kurt Dobitsch, Michael Scheeren and Kai-Uwe Ricke were appointed to be members of the Company's Supervisory Board, replacing the departing Supervisory Board members Dr Bernd H Schmidt, Dr Susanne Rückert and Mr Frank Rothauge. The General Meeting of 12 January 2018 elected Dr Claudia Borgas-Herold and Mr Vlasios Choulidis to serve the remaining terms of the Supervisory Board members Marc Brucherseifer and Horst Lennertz (Dr.-Ing.) who had stepped down per 31 December 2017; their terms will end upon the conclusion of the General Meeting that adopts a resolution discharging the Supervisory Board members for fiscal year 2017.

Pursuant to these changes, the Supervisory Board in fiscal year 2017 consisted primarily, and currently consists in accordance with Section 96 (1), Section 101 (1) AktG [Germany Company Law] and Section 10 (1) of the Company Charter, of six members and corresponds in its competence profile to its previous and current objective; in particular, at least two independent Supervisory Board members were represented by Mr Norbert Lang and Dr Horst Lennertz in fiscal year 2017 and currently by Dr Claudia Borgas-Herold and Mr Norbert Lang. The women's quota on the Supervisory Board in fiscal year 2017 was 16.66% until the resignation of Dr Susanne Rückert; since the appointment of Dr Claudia Borgas-Herold, the women's quota on the Supervisory Board has once again been 16.66%. The Supervisory Board was chaired during reporting period 2017 by Mr Marc Brucherseifer (until 13 November 2017); deputy chair of the Supervisory Board was Dr Susanne Rückert. Since 13 November 2017, Mr Michael Scheeren has served as Supervisory Board chairperson, and Mr Kai-Uwe Ricke has been deputy chairperson.

REPORT OF THE SUPERVISORY BOARD

Corporate Governance

None of the Supervisory Board members participated in fewer than half of the Supervisory Board meetings during the reporting period. With the exception of the Supervisory Board meeting on 22 March 2017, when Supervisory Board member Horst Lennertz was absent with a valid excuse, and the meeting on 13 November 2017, when Supervisory Board member Kurtz Dobitsch was absent with a valid excuse, all Supervisory Board members attended all 16 Supervisory Board meetings. All of the committee members participated in all of their committee meetings.

The Supervisory Board regularly reviewed critically the efficiency of its work, namely, the availability of the Supervisory Board members, the frequency of its meetings and the preparation and conduct of the meetings and their minutes. The Supervisory Board concluded that its performance is efficient.

The Supervisory Board did not conduct any investor meetings during the reporting period.

Supervisory Board members Michael Scheeren, Kurtz Dobitsch and Kai-Uwe Ricke are simultaneously members of the United Internet AG Supervisory Board. A conflict of interest requiring attention has not arisen for any of the Supervisory Board members. If it becomes necessary, the Supervisory Board members will consult the Supervisory Board chairperson about the handling of any conflicts of interest that arise.

Management Board and Supervisory Board report on corporate governance pursuant to Clause 3.10 of the German Corporate Governance Codex within the context of the Declaration on Corporate Management. Management Board and Supervisory Board submitted a joint Declaration of Conformity pursuant to Section 161 AktG during the reporting period, most recently on 21 March 2017, showing that the Company is in compliance with most of the recommendations of German Corporate Governance Codex. The declarations and related explanatory comments are permanently available to the shareholders on the Company's internet site. In all other respects, reference is made here to the remarks in the corporate governance report included in the Annual Report 2017.

Discussion of annual and consolidated annual financial statements 2017

The annual financial statements and the consolidated annual financial statements per 31 December 2017, the management reports for the stock corporation and Group for fiscal year 2017 (each including the explanatory report on the disclosures pursuant to Section 289a (1) and Section 315 (2a) HGB [German Commercial Code]) submitted in good time by the Management Board and the accounting and risk management system were audited by BDO Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the accounting firm elected by the Annual General Meeting on 18 May 2017 for this task, and an unqualified auditor's opinion was issued to the documents.

REPORT OF THE SUPERVISORY BOARD

The separate and consolidated annual financial statements, the management report and the consolidated management report and the related audit reports from the auditor were submitted to all of the Supervisory Board members. Focal points of the engagement of the auditors were in particular the key audit matters (KAM), which included the following points (among others): for the consolidated annual financial statements, the realisation of earnings the business combination and the goodwill impairment test and, for the annual financial statements of Drillisch AG, the acquisition of the holdings in 1&1 Telecommunication SE, recoverability tests of the holdings and the exercise of the conversion rights for the bond.

The concluding documents were subsequently examined and discussed during a meeting of the Audit Committee on 15 March 2018 in the presence of the auditor. At that time, the auditor reported on the most significant results of his audit, explained the results and gave detailed answers to questions posed by the members of the Audit Committee. Subject matter of this discussion included in particular the results of the audit regarding the defined focal points of the audit and the accounting process. The internal controlling system, the risk report and the risk management were discussed in detail with the auditor during the meeting of the Audit Committee on 15 March 2018. Regarding the system for the early detection of threats, the auditor determined that the Management Board had implemented the measures required pursuant to Section 91 (2) AktG, in particular with respect to the implementation of a monitoring system, in an appropriate manner and that the monitoring system was suitable to detect in good time developments which could jeopardise the continued existence of the Company. Following its own audit, the Supervisory Board agreed with the audit results reached by the auditor and, after considering the final results of its own audit, which were prepared by the Supervisory Board Audit Committee, does not raise any objections. In a resolution adopted during its meeting on 21 March 2018, the Supervisory Board approved the annual financial statements and consolidated annual financial statements 2017. The annual financial statements have thus been adopted pursuant to Section 172 AktG. In its meeting on 21 March 2018, the Supervisory Board reviewed and adopted the non-financial declaration ("Sustainability Report 2017") that had been prepared for the first time.

During the Supervisory Board meeting on 21 March 2018, Management Board and Supervisory Board adopted a joint resolution proposing to the Annual General Meeting the disbursement of a dividend in the amount of €1.60 per share. The dividend proposal is in harmony with the Company's previous dividend strategy of giving shareholders the highest possible share of business profits. The Company's position, specifically its financing and capital structure, was discussed and reviewed at that time.

REPORT OF THE SUPERVISORY BOARD

Review of the Management Board's report on relationships to affiliated companies

The Management Board submitted the report it had prepared on the relationships to affiliated companies (Dependency Report) to the Supervisory Board in good time.

The Management Board's report on the relationships to affiliated companies was the subject of the audit by the auditor. The following auditor's opinion was issued in this context:

Following our conscientious audit and assessment, we hereby confirm that:

1. The factual contents of the report are correct;
2. The performance of the Company was not unreasonably high in view of the legal transactions described in the report;
3. No circumstances indicate an assessment differing essentially from that of the Management Board for the actions described in the report.

The auditor submitted the audit report to the Supervisory Board. The Supervisory Board reviewed the Management Board's Dependency Report and the audit report. The final review by the Supervisory Board took place during the Supervisory Board meeting on 21 March 2018. The auditor attended the meeting and reported on his audit of the Dependency Report and his key audit results, explained his audit report and answered questions from the Supervisory Board members. Following the conclusive results of the audit, the Supervisory Board accepted the Management Board's Dependency Report and audit report and did not have any objections to the Management Board's explanations at the conclusion of the report concerning the relationships to affiliated companies.

The Supervisory Board wishes to express its thanks to the members of the Management Board and to all of the Company's associates for their successful work for, and commitment to, 1&1 Drillisch Group in the past fiscal year as in the years before. Our special thanks go to our customers and shareholders for the trust they have placed in the Company.

Maintal, 21 March 2018

On behalf of the Supervisory Board
Michael Scheeren

DECLARATION ON CORPORATE MANAGEMENT/ CORPORATE GOVERNANCE REPORT

The term "corporate governance" refers to responsible, effective corporate management aimed at securing long-term added value. Efficient cooperation between management and supervisory boards, respect for shareholders' interests, openness and transparency of corporate communications are major aspects of good corporate governance, which has always enjoyed a position of high priority at our Company and is a major factor for a company's success.

In the following declaration, Management and Supervisory Boards jointly report on the corporate governance of the Company in accordance with Clause 3.10 of the German Corporate Governance Codex (DCGK) as well as in accordance with Section 289f HGB [German Commercial Code] regarding corporate management.

Declaration of Conformity pursuant to Section 161 AktG [Germany Company Law]

The most recent Declaration of Conformity issued by the Management Board and Supervisory Board on 21 March 2018, which has been made permanently accessible on the internet at the site www.1und1-drillisch.de (to be found there under the section "Corporate Governance", subsection "Declaration of Conformity"), reads as follows:

1&1 Drillisch Aktiengesellschaft

Declaration of the Management Board and Supervisory Board of 1&1 Drillisch AG regarding the recommendations of the "Government Commission German Corporate Governance Codex" pursuant to Section 161 AktG

Management Board and Supervisory Board of 1&1 Drillisch Aktiengesellschaft hereby declare that the Company has acted, and continues to act, in conformity with the recommendations of the "Government Commission German Corporate Governance Codex" announced by the Federal Ministry of Justice in the official section of the Federal Gazette, subject to the following exceptions. For the period since the issue of the last Declaration of Conformity, this Declaration is based on the previous version of the Codex of 5 May 2015 when referring to the time from 21 March 2017 to 23 April 2017. This Declaration is based on the new version of the Codex of 7 February 2017 when referring to the period since 24 April 2017.

Clause 3.8 (2) and (3) (previous and new versions)
Agreement of an excess for Supervisory Board members in a D&O insurance policy for the Supervisory Board

A liability insurance policy covering pecuniary loss along with an excess of loss agreement which does not include an excess has been concluded for the Supervisory Board.

The Management and Supervisory Boards of the Company do not believe that the motivation and sense of responsibility of the officers and directors would be enhanced by the agreement of an excess. Equally, the Management and Supervisory Boards of the Company fear that there is a risk that the agreement of an excess for negligent actions and the related liability risks would counteract the efforts of the Company to obtain the services of highly qualified persons to serve on the Supervisory Board. This is the reason for the basic decision not to agree to an excess.

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Clause 4.1.3 third sentence (new version)
Whistleblowing possibility for the employees of the Company

The Company has not implemented any special whistleblowing system for employees. In view of the statutory regulation of Section 612a BGB [German Civil Code] regarding the labour law prohibition of any retribution, the Company does not see any need to set up additional protection mechanisms for whistleblowers. The statutory prohibition of any retribution forbids penalising any employee for appropriately and legally exercising his/her rights. In view of the open, solution-oriented culture of communication in the enterprise, the Company does not believe there is any practical need for a complicated whistleblowing system.

Clause 5.3 (previous and new versions)
Formation of committees

As of the issue of this Declaration, the Supervisory Board has followed the recommendations of the Codex for the formation of committees found in Clause 5.3; in future, however, the Supervisory Board will no longer form any committees, but will perform all duties and responsibilities as a full body. The Supervisory Board believes that it can best serve the enterprise if all Supervisory Board members have the opportunity to participate in all subjects concerning the Supervisory Board. Moreover, efficient discussions and intensive exchange of opinions in a meeting of all members is possible even for a Supervisory Board comprising six members. In consequence, the Supervisory Board does not see any necessity for the formation of committees to increase the efficiency of its work.

Clause 5.4.6 (1) second sentence (previous and new versions)
Inclusion of the membership on committees in determining the compensation paid to Supervisory Board members and inclusion of deputy chairpersonship of the Supervisory Board in determining the compensation paid to Supervisory Board members

In accordance with Section 14 of the Company Charter, an attendance fee is paid to Supervisory Board members for their activities on committees; the amount of the fee is dependent on the function of the specific member on the relevant committee. The Supervisory Board of the Company is of the opinion that this compensation system gives due regard to the chairmanship of and membership on the committees within the sense of the Codex. The special compensation for attendance at committee meetings simultaneously takes the committee membership into account. But since the possibility that other opinions will be held in this respect cannot be excluded, a deviation from the aforementioned recommendation of the Codex regarding the inclusion of membership on committees in determining the compensation paid to Supervisory Board members is hereby declared for the past as a precautionary measure. The dissolution of the committees in future also means that this deviation from Clause 5.4.6 (1) second sentence of the Codex – declared as a precautionary measure – is no longer necessary

The recommendation for inclusion of the deputy chairpersonship on the Supervisory Board in determining the compensation paid to Supervisory Board members was followed in the past; pursuant to Section 14 of the Company Charter of the Company as most recently revised, the deputy chairperson of the Supervisory Board receives annual fixed compensation that is higher than that of an ordinary Supervisory Board member. Management is now planning to propose to this year's Annual General Meeting a revision of the provision in the Company Charter regarding Supervisory Board compensa-

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tion that would pay higher annual fixed compensation solely to the Supervisory Board chairperson, but not to the Board's deputy chairperson. Subject to the approval of the General Meeting and the entry into effect of this amendment of the Company Charter, this Codex recommendation will no longer be followed in future. The new regulation is also regarded to be appropriate in view of the duties and responsibilities related to the position because the deputy chairperson of the Supervisory Board does not at this time perform any additional duties or responsibilities that would place a heavier burden on him/her than on ordinary Supervisory Board members.

Maintal, 21 March 2018

On behalf of the Supervisory Board	The Management Board		
Michael Scheeren	Ralph Dommermuth	André Driesen	Martin Witt

Targets for the composition of the Supervisory Board/competence profile for the full body

In accordance with Clause 5.4.1 of the German Corporate Governance Codex, the Supervisory Board of the Company has declared the following targets for its composition – including certain competence requirements for the body as a whole – which were taken into account during the election of the entire Supervisory Board by the Annual General Meeting 2013, during the by-election of a Supervisory Board member by the ordinary Annual General Meeting 2016 and during the most recently held by-election of two Supervisory Board members by the extraordinary General Meeting on 12 January 2018:

- The Supervisory Board should include at least two industry representatives from the sectors telecommunications, media and/or IT. At this time, all Supervisory Board members have pertinent knowledge of the industry and the competence that is required;
- The Supervisory Board should have at least one member with international experience (e.g. in the sector financial engineering, telecommunications, M&A). All members of the Supervisory Board have experience and competencies in these areas and meet all of these target requirements;
- No more than two former members of the Management Board should belong to the Supervisory Board. This target criterion is also met because only Mr Vlasios Choulidis was active as a Management Board member and CEO before his election to the Supervisory Board. Furthermore, the Supervisory Board members should reveal immediately to the Supervisory Board any conflicts of interest which have currently arisen and, in the event of a permanent conflict of interest, resign their position on the Supervisory Board. No conflicts of interest of this nature arose during the reporting period;

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» The Supervisory Board should have at least two members who do not have a personal or commercial relationship to the Company, its officers and directors, a controlling shareholder or a company affiliated with the latter which can lead to a major conflict of interest which is not only temporary. In the estimation of the Supervisory Board, at least two members are independent, namely, Dr Claudia Borgas-Herold and Mr Norbert Lang;

» Supervisory Board members should resign from the Supervisory Board upon conclusion of the Annual General Meeting following their 75th birthday. This target criterion is also observed;

» At least one member of the Supervisory Board should be a woman. This target criterion is fulfilled by the membership of Dr Claudia Borgas-Herold on the Supervisory Board.

Furthermore, the Supervisory Board has established a general limit for the total length of membership on the Supervisory Board pursuant to Clause 5.4.1 of the German Corporate Governance Codex; at this time, the maximum period of 25 years has been implemented.

During the reporting period as in the past, the Supervisory Board has reflected on the aforementioned targets for its composition, given special regard to them with respect to the competence profile for the body as a whole and remains committed to them. The composition of the Supervisory Board is in line with the defined targets and the competence profile.

The Supervisory Board's nominations of candidates for election to the Supervisory Board, while taking these goals into account and seeking to fulfil the competence profile for the body as a whole, will continue to be oriented to the welfare of the Company.

In setting targets for the proportion of women on the Supervisory Board and Management Board pursuant to Section 111 (5) first sentence AktG in fiscal year 2017, the Supervisory Board remained committed to a target for the proportion of women on the Supervisory Board of 16.66% and for the proportion of women on the Management Board of 0% and set for itself 30 June 2022 as a new deadline for the achievement of these targets. Independently of these decisions, the selection of the potential members of the Boards, while taking these targets for the proportion of women into account, should always be based on the individual competence profiles of the candidates; nevertheless, the Supervisory Board will strive to give preference to women candidates whenever the qualifications of multiple candidates are equivalent.

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Working methods of Management Board and Supervisory Board

The corporate management is based on close, constructive cooperation in a spirit of trust between Management and Supervisory Boards as well as on detailed and constant flow of information – this is in line with the common understanding of good corporate governance held by Management and Supervisory Boards at the Company.

The current Management Board has three members. Following the completion of the step-by-step acquisition of 1&1 Telecommunication SE by the Company, Mr Vlasios Choulidis announced in September 2017 that he would be leaving the Management Board of our Company, effective per 31 December 2017. Mr Martin Witt was appointed as member of the Management Board of the Company, effective per 1 October 2017. Mr Ralph Dommermuth was appointed as CEO, effective per 1 January 2018. The Company and United Internet AG agreed to these changes on the Management Board in their basic agreement (Business Combination Agreement) of 12 May 2017. The current members of the Management Board are shown in the consolidated notes (page 145 and 146 of the Annual Report 2017). In fiscal year 2017, the Management Board once again set target values for the proportion of women in the two management levels below the Management Board in accordance with Section 76 (4) first sentence AktG and decided that the proportion of women in these two management levels below the Management Board should be 5.3%; this target has also been achieved. Currently, the proportion of women in the two management levels below the Management Board comes to 6.3% in total. Independently of these targets, selection of executives should always be based on the individual competence profiles of the candidates; nevertheless, the Management Board will strive to give preference to women candidates whenever the qualifications of multiple candidates are equivalent.

The Management Board manages the Company on its own responsibility and defines, in consultation with the Supervisory Board, the strategic direction of the Group. The distribution of authority on the Management Board is regulated in rules of procedure. Fundamentally, each member of the Management Board manages the Company on his sole authority within the framework of the business units assigned to him by the rules of procedure. Measures of special significance or which involve unusual risks always require the prior agreement of the full Management Board. The rules of procedure contain in addition a catalogue of the major transactions and events which require approval by the Supervisory Board. The Management Board regularly and contemporaneously notifies the Supervisory Board, in written and oral form, about the course of business, the position and profitability of the Group, the planned business policies and other fundamental issues of corporate planning as well as about transactions which may be of major significance for the profitability or liquidity of the Group. Moreover, the Management Board reports to the chairperson of the Supervisory Board as required by other important events.

Legal provisions stipulate that the Supervisory Board must have six members. The current members of the Supervisory Board are shown in the consolidated notes (page 142, item 47 of the Annual Report 2017). One of the six Supervisory Board members was elected by the Company's Annual General Meeting on 19 May 2016, namely, Mr. Norbert Lang; he was elected to serve the remaining term of the Supervisory Board member Johann Weindl (elected by the Company's Annual General Meeting on 16 May

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2013), who had resigned his position on the Board. Messrs Michael Scheeren, Kai-Uwe Ricke and Kurt Dobitsch were appointed to the Company's Supervisory Board by order of Hanau Local Court of 16 October 2017 as a consequence of the resignation of the Supervisory Board members Dr Bernd H Schmidt, Dr Susanne Rückert and Mr Frank A Rothauge, who had been elected by the Annual General Meeting on 16 May 2013. Dr Claudia Borgas-Herold and Mr Vlasios Choulidis were elected to the Company's Supervisory Board by the Extraordinary General Meeting on 12 January 2018 to serve the remaining terms of the departing Supervisory Board members Marc Brucherseifer and Horst Lennertz (Dr.-Ing.). The composition of the Supervisory Board takes into account the ownership structure.

The term of office of all of the elected Supervisory Board members will end upon the adjournment of the ordinary Annual General Meeting which adopts a resolution discharging the Supervisory Board members for fiscal year 2017. The Board has, in its appraisal, an appropriate number of members who are independent within the sense of Clause 5.4.2 of the German Corporate Governance Codex, i.e. who do not have any commercial or personal relationship to the Company, its officers and directors, a controlling shareholder or a company affiliated with the latter. In this sense, the Supervisory Board regards Dr. Claudia Borgas-Herold and Mr. Norbert Lang to be independent, meaning that a minimum of two of its members are independent.

The Supervisory Board carries out its duties as a supervisory body both by monitoring the Management Board and by advising the latter's members in the conduct of business. The Supervisory Board meets at least twice in every calendar half-year. It is quorate if and when announcements have been properly sent to all of the members and a minimum of three members participate in the adoption of resolutions. Unless otherwise provided by law or Company Charter, the Supervisory Board's decisions are adopted by simple majority vote. The Supervisory Board's working methods are regulated in detail in rules of procedure adopted by the Supervisory Board. The Supervisory Board reports on the Board's work in a separate Supervisory Board report. This report is printed on pages 9 to 15 of the Annual Report for fiscal year 2017. The names, professions and domiciles of the current Supervisory Board members and their membership on other supervisory boards formed in accordance with legal requirements and on comparable domestic and foreign governing bodies of commercial enterprises are listed on page 142, item 47 of the consolidated notes; the information can also be found in the CVs published on the Company's internet site.

Working methods and composition of the committees

The Supervisory Board formed three committees in fiscal year 2017, namely, a Nominating Committee, an Audit Committee and a Personnel Committee. The Audit Committee was governed by its own rules of procedure. Moreover, unless otherwise mandated by legal provisions, the provisions of the Company Charter applicable to the Supervisory Board as well as the Supervisory Board's rules of procedure applied mutatis mutandis to this and to all other committees.

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During its balance sheet meeting on 21 March 2018, the Supervisory Board decided to dissolve all of its committees so that in future all Supervisory Board members have the opportunity to participate in any and all Supervisory Board topics at peer level. In future, the Supervisory Board will be performing all of its duties and responsibilities as a full body.

Until its dissolution in March 2018, the Nominating Committee comprised all of the members of the Supervisory Board, was chaired by the Supervisory Board chairperson, and was responsible for proposing suitable candidates to the Supervisory Board for the latter's election proposals to the Annual General Meeting.

Members of the Audit Committee in fiscal year 2017 were Mr Rothauge (member and chairperson until 13 October 2017), Mr Lang (member from 29 September 2017 and chairperson from 13 October 2017), Dr Lennertz (until 31 December 2017) and Dr Schmidt (until 29 May 2017); its tasks concerned in particular the monitoring of the accounting process; the effectiveness of the internal controlling system, the internal risk management system and internal revision system; and the final audit. The chairperson of the Audit Committee was independent and, owing to his previous professional activities, was also qualified as an authority in the field of accounting. Most recently (until its dissolution in March 2018), the members of the Audit Committee were Mr Lang (chairperson), Mr Scheeren and Mr Dobitsch.

Members of the Personnel Committee in fiscal year 2017 were Mr Brucherseifer (chairperson until 13 November 2017 and member until 31 December 2017), Mr Scheeren (member and chairperson from 13 November 2017), Dr Rückert (until 10 October 2017) and Dr Lennertz (until 31 December 2017). The Personnel Committee was concerned with the affairs of the Management Board, including the terms and conditions of the employment contracts of its members. The compensation for the Management Board members is – and always has been – determined by the full Supervisory Board as required by statutory provisions.

Since there are three members of the Management Board, it has not formed any committees.

Information regarding relevant corporate management practices within the sense of Section 289f (2) no. 2 HGB – risk management/compliance – diversity concept

If the Company's success is to be assured over the long term, it is essential to identify and analyse the risks of business actions effectively and to eliminate or restrict their effects by means of the appropriate steering mechanisms. The Company’s risk management system ensures the responsible handling of these risks. It is especially designed with the aim of recognising risks early, then assessing and controlling them. The system is subject to constant further development and adapted to changing circumstances. As necessary, the Management Board regularly reports to the Supervisory Board regarding current risks and the measures initiated to handle them. The effectiveness of the

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internal controlling system and of the risk management system – as well as the internal risk reporting – was previously monitored by the Supervisory Board’s Audit Committee. In future, the Supervisory Board will be performing these duties and responsibilities as a full body.

The major features of the internal controlling and risk management system with regard to the accounting process are described in detail in the management report pursuant to Section 289 (4) HGB and in the consolidated management report (page 50 of the Annual Report 2017) pursuant to Section 315 (4) HGB. The Management Board also reports in detail in this document on current risks and their development.

Compliance is an important element of the management and corporate culture at 1&1 Drillisch Group. For the Company, compliance encompasses the totality of all measures and actions aimed at ensuring conformity with legal statutes and regulations as well as with the Company’s own in-house standards, principles and rules. In the eyes of the Company, conduct that is legally and ethically beyond reproach lays the groundwork for all long-term company success. To this end, the Management Board has implemented a compliance management system that begins with, and builds on, a central compliance directive. The compliance directive applies to all of the officers, directors and employees of the corporate group and ensures that the values system is consistently and continuously practised across the full breadth of the Company.

Key elements of the compliance directive concern a fair, respectful and trustworthy approach when dealing with colleagues and business partners as well as the conduct displayed toward competitors. Bribery and corruption are not tolerated at the Company; the compliance directive unambiguously embodies this attitude through appropriate prohibitions and instructions. Violations of compliance requirements are unacceptable for us. We rigorously follow up on any indications of violations and obtain clarification of the root causes. Whenever any violations are determined, they are immediately rectified and, if necessary, strictly sanctioned as appropriate.

Diversity aspects are always given consideration when appointing the members of the Management Board and the Supervisory Board. The Company regards diversity as more than simply a desirable element; it is decisive for the success of the Company. Accordingly, the Company pursues overall a corporate culture of appreciation in which individual differences with respect to culture, nationality, sex, age group and religion are desired, and equal opportunity – without regard for age, disabilities, ethnic-cultural origin, sex, religion and philosophy or sexual identity – is encouraged.

The strengths of individuals – meaning everything that makes the individual employees unique and distinctive within the Company – have made it at all possible for the Company to become what it is today. A workforce comprising personalities from across all walks of life offers ideal general conditions for creativity and productivity – and for employee satisfaction as well. The resulting potential for ideas and innovation strengthens the Company's competitiveness and enhances its chances on the markets of the future. In keeping with this thought, a field of activity and function should be found in which the potential and talents of each and every individual can be exploited to the fullest, and not only for every employee; diversity in terms of age, sex or professional experience, for example, should also be taken into consideration during the appointment of Management and Supervisory Board members – in the Company's own interest as well.

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Owing to the size of its workforce and the open and trusting atmosphere, however, the Company does not pursue a concrete diversity concept going beyond this. The encouragement of diversity cannot be realised by a standard solution such as would be implemented by a concept of this type. The selection and appointment of persons to governing body positions should be based on objective factors such as qualifications and professional suitability and in line with the individual competence profile of the potential executives, whereby the Company strives to give priority to women candidates whenever the qualifications of multiple candidates are equivalent.

Compensation of Management Board and Supervisory Board

The compensation paid to members of the Management and Supervisory Boards is commensurate with their tasks and the responsibility which has been assigned to them. The compensation system and the compensation paid to Management Board and Supervisory Board in fiscal year 2017 are shown in the management report and notes and in the consolidated management report on pages 59 until 62 of the Annual Report 2017 (compensation report) and in the consolidated notes on page 142, item 47 of the Annual Report.

Reportable transactions with financial instruments and holdings of officers and directors

Officers and directors of the Company in their role as persons who exercise management functions as well as persons in close relationship to these people are obligated to disclose to the Company (and to BaFin [German Federal Financial Supervisory Authority]) their own transactions with stock or debt securities of the Company or any financial instruments related thereto if and when the total amount of the transactions carried out by a person obligated to reporting amounts to or exceeds a total of €5,000 within one calendar year.

Maintal, 21 March 2018

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FUNDAMENTALS OF THE COMPANY AND THE GROUP

1. General Information About the Company and Group

1.1. Business model

Group structure

1&1 Drillisch AG, Maintal (along with its subsidiaries: "1&1 Drillisch"), is a telecommunications provider that operates solely and exclusively in Germany. The Group, a leading German internet specialist and virtual mobile network operator with guaranteed access to a specific share of the network capacity of Telefónica in Germany (so-called mobile bitstream access mobile virtual network operator = MBA MVNO), offers mobile network-based internet access products. These products are supplemented by fast DSL connections that 1&1 Drillisch procures as advance service from network operators, especially from 1&1 Versatel GmbH. These DSL connections are combined with additional services, including (among others) applications for home networks, online storage, video on demand or IPTV.

1&1 Drillisch – sole MBA MVNO on the German mobile market

Pursuant to the MBA MVNO agreement concluded with Telefónica in June 2014, Telefónica grants to 1&1 Drillisch via its wholly-owned subsidiary Drillisch Online AG (as the only competitor on the German mobile market) access to up to 30% of the utilised network capacity of Telefónica in the mobile network of Telefónica and E-Plus that is controlled after the merger of the two companies. This right applies to all future as well as current technologies. At the same time, Drillisch obtains access rights to the so-called "Golden Grid Network" of Telefónica that has been created by the merger. This means access to the enhanced footprint of the mobile network of Telefónica, including all necessary technical specifications and the technical capability to reduce speed and restrict transport in the event of excessive data utilisation by end customers.

In accordance with the concluded agreement, there are also the following options: (1) becoming a so-called full MVNO in the mobile network of Telefónica, that is, a mobile provider that operates its own full core network and uses solely the access network of Telefónica ("Full MVNO"), and/or (2) becoming a licensed mobile network operator ("MNO").

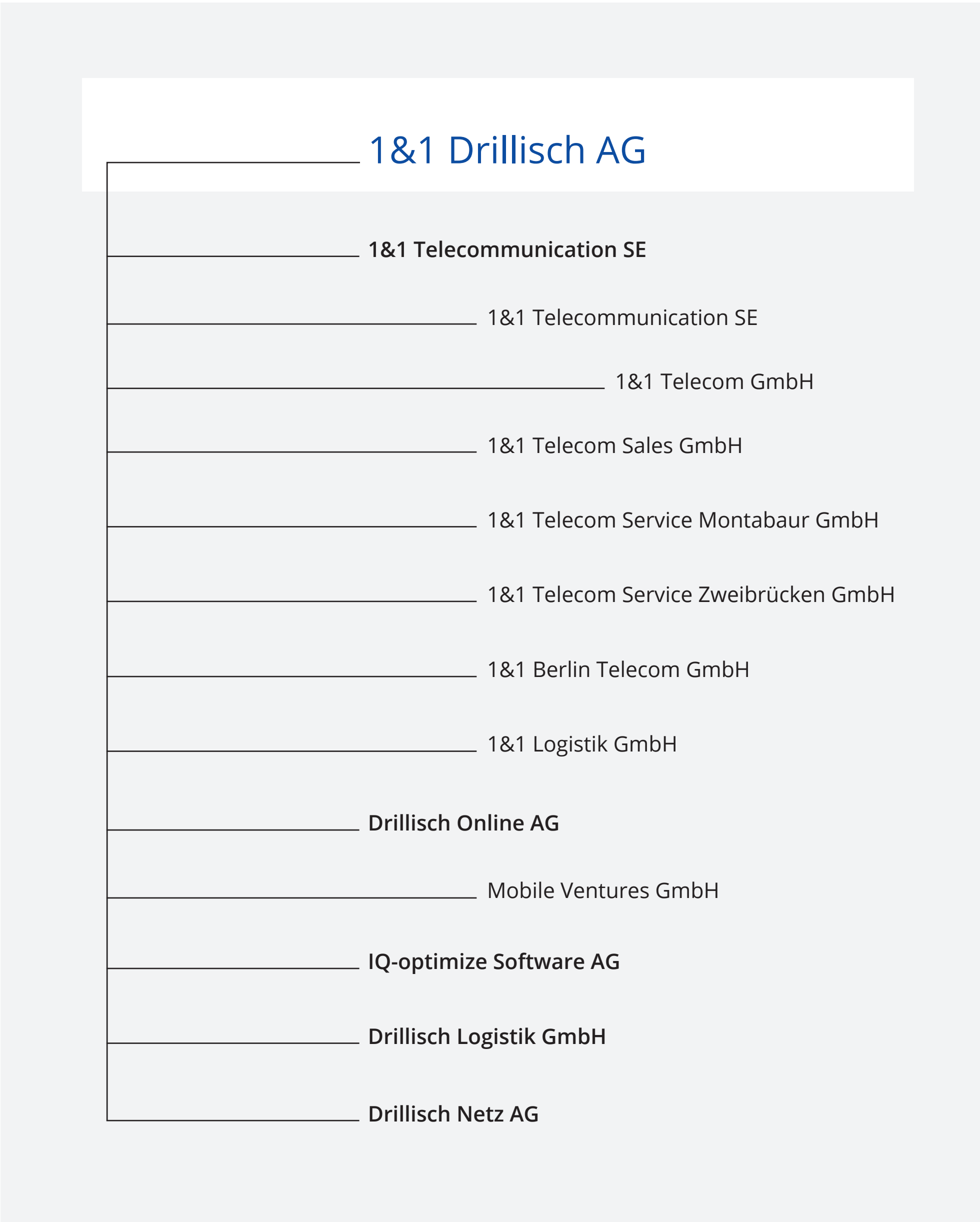
1&1 Drillisch AG Is the Group's holding

Within 1&1 Drillisch Group, 1&1 Drillisch AG, the parent company, concentrates on the holding tasks such as management, finances and accounting, controlling, cash management, human resources, risk management, corporate communications and investor relations along with the definition, management and monitoring of the global corporate strategy.

The operating business in the segment "Access" is essentially handled by 1&1 Telecommunication SE (in particular, by 1&1 Telecom GmbH) and by Drillisch Online AG.

FUNDAMENTALS OF THE COMPANY AND THE GROUP

Organisation Chart of 1&1 Drillisch AG



FUNDAMENTALS OF THE COMPANY AND THE GROUP

Change in the Group structure

Acquisition of 1&1 Telecommunication SE

On 12 May 2017, 1&1 Drillisch AG (still operating at that time under the name Drillisch Aktiengesellschaft) and United Internet AG ("United Internet") concluded a business combination agreement regulating 1&1 Drillisch AG's step-by-step acquisition of 1&1 Telecommunication SE ("1&1").

As part of the total transaction, 1&1 was in legal terms bought out by 1&1 Drillisch AG; this move created a strong full-service telecommunications provider with significant potential for synergy and growth under the umbrella of United Internet.

The first step was the acquisition by 1&1 Drillisch AG on 16 May 2017 of about 7.75% of 1&1 in the form of a capital increase against non-cash contributions. United Internet AG received in return 9.1 million new shares of 1&1 Drillisch AG stock, increasing United Internet's holding in 1&1 Drillisch AG from 20.08% to just over 30%.

Upon exceeding the holding threshold of 30%, United Internet published a voluntary, public takeover offer to 1&1 Drillisch AG shareholders parallel to the transaction. In response to the voluntary, public takeover offer of €50 in cash for each share of 1&1 Drillisch AG stock published on 26 May 2017, a total of 1,224,157 shares of 1&1 Drillisch AG stock, corresponding to 1.78% of the outstanding shares at the time, was tendered to United Internet as of the expiration of the extended acceptance deadline on 12 July 2017. 1&1 Drillisch AG's Management and Supervisory Boards did not issue a concrete recommendation for action to the 1&1 Drillisch AG shareholders, but advocated the transaction as a whole.

During an Extraordinary General Meeting of 1&1 Drillisch AG held on 25 July 2017, the shareholders, by a vote of 97.85% of the valid votes cast, approved a further increase in the share capital from €70,209,499.80 to €188,941,113.90 against contribution of all shares of the 1&1 stock not yet held by 1&1 Drillisch in the form of a non-cash capital increase.

As of the registration of the non-cash capital increase in the Commercial Register on 8 September 2017, 1&1 Drillisch AG acquired the remaining share of about 92.25% in 1&1. Since that date, 1&1 has been a wholly-owned subsidiary of 1&1 Drillisch AG. As of the successful completion of this transaction as a whole, 1&1 Drillisch has become the new fourth major power on the German telecommunications market.

In contrast to the transaction described above, which in legal terms saw 1&1 Drillisch AG (the legal acquirer) acquiring the shares in 1&1 Telecommunication SE as part of the non-cash capital increase, the IFRS accounting (cf. IFRS 3.6 in conjunction with IFRS 3.B19) applies an economic method for identification of the acquirer. Following the IFRS provisions leads to the classification of the acquisition of the shares of 1&1 stock by 1&1 Drillisch AG as a reverse acquisition.

In the accounting, it is assumed that 1&1 as the economic acquiree has acquired the shares of 1&1 Drillisch AG stock. The calculation of the goodwill and the hidden reserves as well as hidden liabilities that must be reversed in the process of the purchase price allocation and the accounting principles that are to be applied as of the point in the time of the acquisition are based on the perspective of the economic acquiree. The consequence is that there is no longer any comparability of the balance sheet and com-

FUNDAMENTALS OF THE COMPANY AND THE GROUP

prehensive income statement of previous 1&1 Drillisch financial statements because, for one, the figures of 1&1 must be given as the comparable figures of the previous year and, for another, the comprehensive income statement must be prepared according to the cost-of-sales method and the accounting principles must be applied. The date of registration of the Capital Increase II in the Commercial Register is deemed the point in time of the acquisition, i.e. the time at which the economic acquiree obtains control over the acquired company; in the present case, that date is 8 September 2017. The inclusion of 1&1 Drillisch AG as the acquired company in the consolidated financial statements is therefore only proportional for the time period from the moment control was gained. 1&1 Drillisch AG is therefore considered only for about four months in the comprehensive income statement and the capital flow statement of the consolidated annual financial statements per 31 December 2017.

Sale of Versatel Group

In May 2017, 1&1 Telecommunication SE sold its holding in Versatel Telecommunication GmbH to United Internet Service Holding GmbH. Within the framework of this transaction, the private customer business previously conducted by 1&1 Versatel Deutschland GmbH was contributed to 1&1 Telecommunication SE. The Versatel Group, however, will continue to perform indefinitely advance services based on its optic fibre network.

Merger of subsidiaries

With the merger of the previously independently operating subsidiaries yourfone AG ("yourfone"), Maintal, and GTCom GmbH, Düsseldorf, and yourfone Retail AG, Düsseldorf, completed at the end of June 2017 and the end of December 2017, 1&1 Drillisch bundled competencies as well as it further optimised its processes and structures.

Sale of yourfone Shop GmbH

Drillisch Online AG, a wholly-owned subsidiary of 1&1 Drillisch AG, sold yourfone Shop GmbH and its approximately 100 shops to aptus 1206. GmbH, Berlin, effective per 31 December 2017. An extensive distribution cooperation agreement for the marketing of telecommunications products was concluded simultaneously with the sale.

Business activities

Contracts subject to charge with 12.64 million subscribers make 1&1 Drillisch one of the leading providers of DSL and mobile services products in Germany.

Segment "Access"

The Group's landline and mobile access and products subject to charge, including the related applications (such as home networks, online storage, telephony, video on demand or IPTV), are grouped together in the segment "Access."

In the segment "Access," 1&1 Drillisch operates exclusively in Germany. The Company uses the landline network of the affiliate 1&1 Versatel GmbH, Berlin ("1&1 Versatel"), a member company of the United Internet AG, and the access right to the Telefónica mobile network; in addition, it purchases standardised network services from various providers of advance services. These services are combined with devices, own developments of applications and services to create a distinctive portfolio that sets the Company apart from its competitors.

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The Access products are marketed via (for example) the well-known brands 1&1, smart-mobil.de or yourfone, which are employed to address comprehensively the market and specific target groups.

Major locations

LOCATION	MAJOR ACTIVITIES	COMPANY
Maintal	Headquarters, holdings, IR, PR, finance, financial controlling, risk management, legal affairs, compliance, HR	1&1 Drillisch AG
	IT	IQ-optimize Software AG
	Accounting, marketing, sales, customer service	Drillisch Online AG
Krefeld	Marketing, sales, logistics, customer service, financial controlling	Drillisch Online AG
Munich	Marketing, sales, logistics, sales controlling	Drillisch Online AG
Montabaur	Finance, PR, marketing, sales, logistics, customer service	1&1*
Karlsruhe	Development, product management, data centre operation, marketing, sales, purchasing, customer service	1&1*
Zweibrücken	Customer service	1&1*

* 1&1 Telecomunication SE or one of its subisdiaries

In fiscal year 2017, an average of 2,860 (previous year: 3,397 including Versatel) persons, including the three Management Board members of 1&1 Drillisch AG, were employed at 1&1 Drillisch Group. The change over the previous year is primarily a consequence of the spin-off of the Versatel Group in 2017.

1.2 Strategy

The 1&1 Drillisch business model is based primarily on customer contracts characterised by fixed monthly payments. Contracts without fixed terms are also marketed, although to a lesser degree. A business model of this type secures stable and plannable revenues and cash flows, provides protection from economic fluctuations and opens up financial manoeuvring room so that opportunities arising in new business fields and on new markets can be exploited, either organically or through takeovers and investments in holdings.

A large number of customer relationships also helps the Company to take advantage of so-called scaling effects: the greater the demand for the products, the higher the profit. These profits can in turn be invested in new customers, new developments and new business fields.

FUNDAMENTALS OF THE COMPANY AND THE GROUP

From today's perspective, the German market for mobile internet and fast broadband connections will continue to grow in the coming years. Thanks to its clear positioning on these markets, 1&1 Drillisch, operating under the umbrella of United Internet Group, is strategically well placed to exploit the expected market potential.

Owing to its many years of experience as a telecommunications provider; its competence in software development and data centre operation, marketing, sales and customer care; the solid and well-known brands (such as 1&1, smartmobil.de and yourfone); and the existing customer relationships, the Company has secured an outstanding position for itself.

1&1 Drillisch will continue in future to invest heavily in new customers and new products as it takes advantage of this position to ensure continued and sustainable growth.

While not neglecting organic growth, 1&1 Drillisch continuously examines as well possible corporate takeovers, holdings and cooperative ventures as further methods for the expansion of market position, competencies and product portfolios.

Thanks to its plannable and high free cash flow, 1&1 Drillisch has at its disposal the resources to fund activities itself and good access to debt capital markets.

Additional information about opportunities and objectives can be found under "Risks, Opportunities and Forecast Report" at item 3.

1.3 Steering systems

The internal steering systems support management in the steering and monitoring of the Group and the segments. Among other elements, the system includes budgetary and as-is calculations and is based on the Group's strategic planning that is revised annually. Factors given particular consideration are market developments, technological developments and trends, their impact on the Company's own products and services and the financial opportunities available to the Group. The goal of the corporate steering activities is to continue the development of 1&1 Drillisch and its subsidiaries continuously and sustainably.

Group reporting encompasses monthly income statements along with quarterly IFRS reports of all consolidated subsidiaries and presents the assets and liabilities, the financial position and the earnings of the Group and the business units. Financial reporting is supplemented by further detailed information necessary for the assessment and steering of operating business.

The key steering indicators are described in the section "Segment reporting" found under point 6 of the consolidated notes.

The reports on the major risks to the Company that are prepared monthly are another component of the steering system.

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These reports are discussed during the meetings of Management and Supervisory Boards and serve as fundamental pillars for analyses and decisions.

The key performance indicators are the adjusted consolidated EBITDA based on IFRS (earnings before interest, taxes, depreciation and amortisation, adjusted for extraordinary and one-off factors) and gross profit. Moreover, actions of Company management include consideration of non-financial indicators, in particular the number of and growth in contracts. Use and definition of relevant financial performance indicators can be found under point 2.2.

Point 2.2 “Course of business” in the section “Actual and Projected Course of Business” and point 2.3 “Position of the Group” present a comparison between the steering indicators designated in the forecast with the as-is values of these performance indicators.

1.4 Focal points 2017

Open access platform

Operating appropriately to its position as a leading DSL and mobile services provider in Germany, 1&1 developed an open access platform as early as two years ago. This platform links the optic fibre networks of regional providers with the network by 1&1 Versatel GmbH and makes it possible for 1&1 to market these connections from the position of a nationwide provider. The network of 1&1 Versatel GmbH has a length of about 44,000 kilometres is offering full-area coverage. Following the tie-in with wilhelm.tel from North Germany as the first partner in 2016, another three optic fibre providers joined the 1&1 platform in 2017: M-net (Munich), R-KOM (Regensburg) and NetCologne (Cologne). The Open Access platform intends to recruit additional partners in future. The use of a standardised interface (S/PRI 4.0) and the advancing development of the platform’s technological performance capability has made it possible to lower the expenditures for the linking of further carriers and their optic fibre building connections even further. Thanks to the recruited cooperation partners and further development of the product portfolio, an increasing number of private customers is profiting from modern optic fibre connections. Moreover, this also ensures 1&1’s future access to the best possible infrastructures.

Layer 2 bitstream access

In January 2017, 1&1 and 1&1 Versatel began the construction of the Layer 2 platform that will in future make it possible to procure high-speed VDSL at better terms and conditions from Deutsche Telekom and simultaneously to increase its own added value significantly. For this purpose, 1&1 Versatel has expended its network and connected so-called BNGs (coupling points for Layer 2) with optic fibre. This was and is an important step in development for the mining of commercial synergies from the use of its own optic fibre network and the expansion of its own product portfolio, secure for the future, by turning into an independent network operator.

FUNDAMENTALS OF THE COMPANY AND THE GROUP

As of the end of 2017, more than 700,000 customers had successfully been migrated to the new platform. This was made possible by 1&1 Versatel's development of BNGs. Within a year's time, 1&1 has become the biggest Layer 2 taker in Germany and has the biggest Layer 2 net amongst the alternative carriers.

Continuing to expand optic fibre in successive steps will drive full-area coverage with the Layer 2 platform further.

„1&1 Digital-TV"

During fiscal year 2017, 1&1 together with 1&1 Versatel and with the IPTV specialist Zattoo acting as the technical service provider, realised "1&1 Digital-TV" on its own. Along with the technical platform and application work, licence agreements for content and functions had to be negotiated and agreed with more than 25 partners. The licences are held by 1&1, guaranteeing complete control over programming and pricing and consequently maximum flexibility when responding to market circumstances.

"1&1 Digital-TV", launched in December 2017, offers users the opportunity to receive television programming over the 1&1 broadband network. Viewing of the programmes is possible either via the 1&1 TV box or via Wi-Fi on a tablet or smartphone (Android/iOS). Moreover, native apps for Fire TV and Apple TV are available. In offering this product, 1&1 strengthens its position as a full-service provider that offers all services from a single source to its customers. "1&1 Digital-TV" can be added as an option subject to charge to all VDSL connections.

The basic package offers up to three TV streams that can be used simultaneously and contains about 90 freely receivable channels. The public-law broadcasters in HD are also part of the package. Upon request, customers can book additionally HD TV for all private broadcasters. Furthermore, many TV packages for various genres and specific countries are available.

"1&1 Digital-TV" is the first fully cloud-based TV service offered by a landline network provider on the German market. Convenient functions such as record, pause, instant restart and catch-up are realised completely in the cloud, making it possible to program recordings at home or on the smartphone while on the go. The recordings are stored in a personal cloud and can be retrieved per DSL within the private home network.

If viewers want to watch a programme that has already started from the beginning, they can simply use the instant restart function to go back to the start. Additionally, EPG (Electronic Program Guide) is also where the catch-up function is found, allowing fast access to programme broadcasts that are past. Selected content can be viewed retroactively up to seven days after the initial broadcast.

1&1 Control Center and 1&1 Control Center App

The trend to digitalisation continues unabated, and the number of customers who manage their contracts themselves, either online or by app, is rising steadily. The aim of the 1&1 Control Center is consequently to cover four different areas of customer service: self-care, customer care, help and cross- plus upselling. For instance, customers can view their data and call minute utilisation and invoices, change their payment methods

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and rate plans and take advantage of special offers in the integrated customer shop. Using the same site, they can contact Customer Service by phone call, call back, email or chat or use the smart search function to achieve their objective.

In 2017, changes in the Control Center included in particular modifications in accordance with new regulatory requirements. Besides improvements in reliability and data security, there were modifications in the itemised bills and the integration of the EU Roaming Regulation. Furthermore, the user-friendliness of the app was improved by the implementation of a substantially more intuitive design and enhanced by the addition of new functions such as the push notification alerting users to new invoices, which can also be used as a new communication and distribution channel. Customers can also voluntarily provide their traffic and use data, thereby contributing to further improvements in the products. Overall, these measures also significantly increased sales performance without raising advertising expenditures.

Moreover, DSL customers can at any time use the app to measure the quality of their broadband connections and to optimise their Wi-Fi at home. The objective is to make adequate bandwidth for the use of applications such as “1&1 Digital-TV” on various devices available in all rooms of the flat or house.

2. Business Report

2.1. General economic and industry-related conditions

Development of the overall economy

The International Monetary Fund (IMF) projected economic growth of 2.5% for Germany in 2017 in its World Economic Outlook (Update). This is 0.6 percentage points more than in the previous year (1.9%) and 1.0 percentage points more than in the original expectations (1.5%) in the January outlook 2017. The IMF’s calculations for Germany coincide with the provisional calculations from the Federal Statistical Office (Destatis), which forecast growth in gross domestic product (GDP) of 2.5% (price- and calendar-adjusted). Expenditures for private consumption in particular contributed to this growth, but government spending was also important.

Changes in growth forecasts during the year in 2017

	January forecast	April forecast	July forecast	October forecast	**Actual 2017**	Deviation from January forecast
World	3.4 %	3.5 %	3.5 %	3.6 %	3.7 %	+ 0.3 percentage points
Germany	1.5 %	1.6 %	1.8 %	2.0 %	2.5 %	+ 1.0 percentage points

Source: International Monetary Fund, World Economic Outlook (Update), January 2018

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Multi-period overview: development of GDP

	2013	2014	2015	2016	2017	Change over previous year
World	3.3 %	3.4 %	3.2 %	3.2 %	3.7 %	+ 0.5 percentage points
Germany	0.2 %	1.6 %	1.5 %	1.9 %	2.5 %	+ 0.6 percentage points

Source: International Monetary Fund, World Economic Outlook (Update), January 2018

Multi-period overview: development of price- and calendar-adjusted GDP in Germany

	2013	2014	2015	2016	2017	Change over previous year
GDP	0.6 %	1.9 %	1.5 %	1.9 %	2.5 %	+ 0.6 percentage points

Source: Federal Statistical Office, January 2018

Development of the industry/core markets

During Bitkom’s annual press conference on 14 February 2018, the industry association projected that the ITC market in Germany would grow by 2.2% to €161.3 billion in 2017. The market for information technology will again display the fastest growth and highest market volume, posting revenue of €86.2 billion and growth of 3.9%. Especially high demand was also recorded in 2017 by the providers of software (+6.3%), IT hardware (+4.2%) and IT services (+2.3%). In comparison with the previous year, the telecommunications market stabilised and recorded a slight increase of 0.1% to €65.7 billion. Devices (+4.7%) and telecommunications infrastructure (+0.5%) contributed to the plus while telecommunications services receded (-1.0%). After a phase of several weaker years, the market for the entertainment electronics industry posted a positive development and again increased revenues, growing by 2.6% to €9.4 billion.

The most important ITC markets for the 1&1 Drillisch business model are in particular the German broadband and the German mobile internet market in the segment “Access” that is financed primarily by subscriptions.

(Landline) broadband market in Germany

The demand for new landline-based broadband connections in Germany has slowed down since 2008 because household coverage is already extensive and because of the strong trend in the direction of mobile internet use. An expected plus of 1.0 million new lines in 2017, raising the total to 33.0 million, means that the number of new activations remained substantially below that of record years and is even lower than the same period of the previous year (previous year: 1.3 million new activations). This was the conclusion reached by the Association of the Providers of Telecommunications and Added-value Services (VATM) and Dialog Consult in their joint “TK-Marktanalyse Deutschland 2017” (18 October 2017). Of the growth described above, the connections relevant for 1&1 Drillisch in the two technology sectors DSL and FTTB/FTTH (fibre to the building/fibre to the home) rose by 0.5 million to 24.6 million and by 0.1 million to 0.8 million, respectively. The number of cable connections rose by 0.4 million to 7.6 million. About 0.1 million connections were operated via satellite/powerline (no change).

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According to the study “German Entertainment and Media Outlook 2017–2021” (October 2017), PricewaterhouseCoopers (PwC) expects a rise of 1.1% to about €8.06 billion in the revenues realised overall from landline-based broadband connections for 2017.

According to a projection from Dialog Consult/VATM, the average consumption of data volume developed much more strongly than the number of newly activated connections and the revenues realised from broadband connections, rising by 33.2% to 79.0 GB (per connection and month) – an indicator of the continuing rise in the use of IPTV or cloud applications, etc. The demand for high-speed broadband connections developed at a correspondingly high rate. The number of activated broadband connections with speeds of at least 50 MBit/s rose by 4.4 percentage points from 23.8% in the previous year to 28.2% in 2017.

Market Figures: Broadband-Access (Landline) in Germany

	2017	2016	Change
Broadband revenues (in € billion)	8.06	7.97	+ 1.1 %

Source: PricewaterhouseCoopers, October 2017

Mobile internet market in Germany

According to estimates from Dialog Consult/VATM, the number of active SIM cards on the German mobile market rose by 5.2 million to 135.0 million in 2017.

Mobile revenues, on the other hand – a consequence in part of the loss of roaming fees within the EU (middle of 2017) – declined by 1.9% to €26.2 billion. Revenue from the sales of devices and content declined by 5.4% to €3.5 billion and revenues from voice services and connections fell by 13.6% to €9.5 billion. Revenues from data services (including text messages), in contrast, rose by 10.0% to €13.2 billion. The aforementioned revenue figures also include interconnection, wholesale and device revenues in addition to the end customer revenues. According to calculations from PricewaterhouseCoopers, end customer-only revenues from mobile data services – the primary market of 1&1 Drillisch – increased by 6.6% to €7.77 billion in 2017, moving ever closer to the level of revenues in landline business.

The forecast by Dialog Consult/VATM showed that the average consumption of data volume (per line and month) increased even more significantly by 43.8% to 850 MB, an indication of the increasing use of mobile data services.

Market performance indicators: mobile internet (mobile services) in Germany

	2017	2016	Change
Mobile internet revenues (in € billion)	7.77	7.29	+ 6.6 %

Source: PricewaterhouseCoopers, October 2017

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General legal conditions/Major events

The general legal conditions for 1&1 Drillisch's business operations remained essentially constant in fiscal year 2017 (with the exception of the entry into force of the EU Roaming Regulation in the middle of 2017), so there was no major impact on business development within 1&1 Drillisch Group.

With the exception of the sale of Versatel Telecommunication GmbH and the acquisition of Drillisch AG, there were no major events in fiscal year 2017 that had a decisive impact on the course of business.

2.2. Course of business

Use and definition of financial performance indicators relevant for business

Financial performance indicators such as EBITDA, EBITDA margin, EBIT, EBIT margin or free cash flow are used in addition to the disclosures required by the International Financial Reporting Standards (IFRS) in the Group's annual and interim financial statements to ensure a clear and transparent presentation of 1&1 Drillisch's business development.

These performance indicators as used at 1&1 Drillisch are defined as shown below:

- EBIT: the EBIT (earnings before interest and taxes) shows the results of operating activities disclosed in the comprehensive income statement.
- EBIT margin: the EBIT margin is the ratio of EBIT to revenue.
- EBITDA: the EBITDA (earnings before interest, taxes, depreciation and amortisation) is calculated as the EBIT/results of operating activities plus the write-offs on intangible and tangible assets (items disclosed in the cash flow statement) and write-offs on assets capitalised during the acquisition of companies.
- EBITDA margin: the EBITDA margin is the ratio of EBITDA to revenue.
- Free cash flow: the free cash flow is calculated as the net payments from operating activities (from the items disclosed in the capital flow statement) less investments in intangible and fixed assets plus payments from the disposal of intangible and tangible assets.

The above-mentioned performance indicators are adjusted for special factors/special effects to the extent this is necessary for a clear and transparent presentation. As a rule, the special effects are related solely to those effects that, because of their nature, frequency and/or scope, are capable of negatively affecting the meaningfulness of the financial performance indicators for the financial and income development of the Group. All special effects are pointed out and explained in the relevant chapter of the financial statements for the purpose of the rollover to the unadjusted financial performance indicators.

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Segment development

Segment “Access”

The Group’s landline and mobile access products subject to charge, including the related applications (such as home networks, online storage, telephony, video on demand or IPTV), are grouped together in the segment “Access.”

1&1 Drillisch operates exclusively in Germany and is one of the country’s leading providers. The Company uses the landline network of the affiliate 1&1 Versatel GmbH, Berlin (“1&1 Versatel”), a member company of the United Internet Group, and the access right to the Telefónica network; in addition, it purchases additional network services from various providers of advance services. These services are combined with devices, own developments of applications and services to create a distinctive portfolio that sets the Company apart from its competitors.

The Access products are marketed via (for example) the well-known brands 1&1, smartmobil.de or yourfone, which are employed to address comprehensively the market and specific target groups.

Drillisch 1&1 again invested heavily in new customer relationships in fiscal year 2017. Subsequent to the initial consolidation of Drillisch (since September 2017), 1&1 Drillisch has concentrated on the current product lines with a monthly basic charge within the scope of its reporting on contracts. They include, for one, the 1&1 mobile internet contracts and the former Drillisch MVNO budget contracts (compiled under mobile internet) and, for another, the 1&1 DSL/VDSL contracts (DSL full-service packages). Mobile rate plans without a monthly basic charge and mobile/DSL legacy rate plans are reported solely for information purposes during a transition period. They include on the one hand the volume and MSP rate plans (mobile service provider rate plans) of former Drillisch and on the other hand the discontinued product lines T-DSL/R-DSL of 1&1.

The number of contracts in the segment “Access” rose in the current product lines in fiscal year 2017 – also a consequence of the consolidation of Drillisch – by 4.10 million contracts to 12.64 million. In the mobile internet business, it was possible to acquire 3.99 million customer contracts (thereof 3.35 million from the Drillisch acquisition), raising the number of contracts to 8.30 million. The number of DSL full-service contracts (ULL = unbundled local loop) rose by 110,000 contracts to 4.34 million.

Development of Access contracts in fiscal year 2017 (in millions)

	31/12/2017	31/12/2016	Change
Access, total contracts	12.64	8.54	+ 4.10
thereof mobile internet	8.30	4.31	+ 3.99
thereof DSL full-service packages (ULL)	4.34	4.23	+ 0.11

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Development of Access contracts in Q4 2017 (in millions)

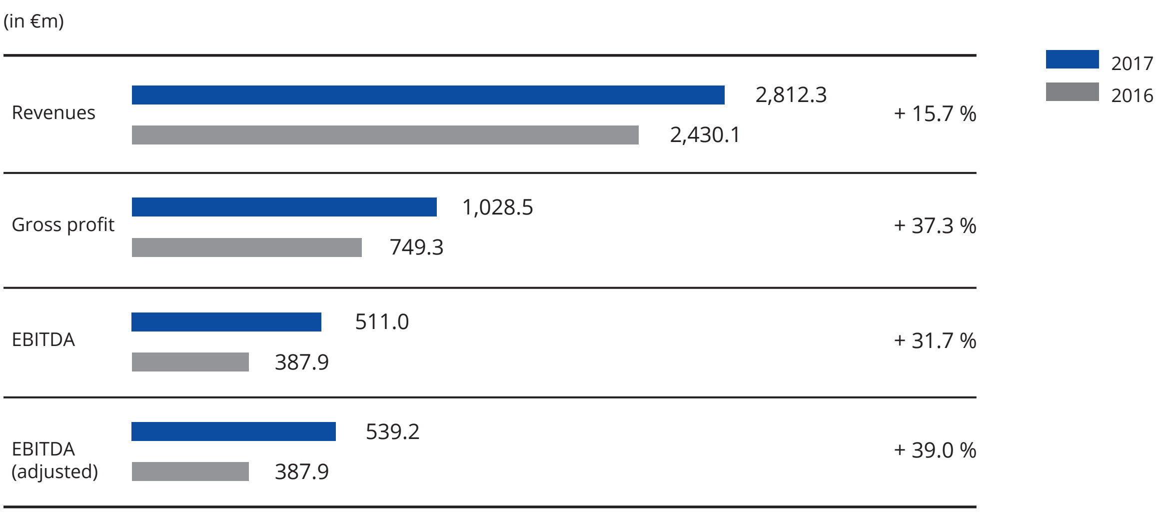
	31/12/2017	30/09/2017	Change
Access, total contracts	12.64	12.39	+ 0.25
thereof mobile internet	8.30	8.06	+ 0.24
thereof DSL full-service packages (ULL)	4.34	4.33	+ 0.01

In addition to the aforementioned customer contracts in the current product lines, 1&1 Drillisch holds another 0.47 million contracts without a monthly basic charge and service provider contracts (volume rate plans/MSP rate plans) in the segment "Access" and 0.11 million DSL contracts in the discontinued product lines T-DSL/R-DSL.

Revenue in the segment "Access" rose in fiscal year 2017 by 15.7% from €2,430.1 million in the previous year to €2,812.3 million. This figure includes €221.0 million from the first-time inclusion of Drillisch in the segment Access.

The segment EBITDA rose by 31.7% from €387.9 million in the previous year to €511.0 million. Adjusted for one-off expenses primarily in the amount of €15.0 million (previous year: €0.0) related to the sale of yourfone Shop GmbH and in the amount of €11.9 million (previous year: €0.0) related to the restructuring of retail trade, the segment EBITDA came to €539.2 million (previous year: €387.9 million). The EBITDA margin rose from 16.0% in the previous year to 18.1% in fiscal year 2017. The adjusted EBITDA margin came to 19.1% (previous year: 16.0%).

Major revenue and profit indicators in the segment "Access"



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Segment „Miccellaneous“

The segment Miscellaneous comprises all the activities related to the offering of custom software solutions, maintenance and support services and (to a small extent) mobile services as well.

2.3. Position of the Group

Earnings position in the Group

Consolidated revenues of 1&1 Drillisch Group rose by 15.7% from €2,430.1 million in the previous year to €2,812.3 million in fiscal year 2017. This figure includes €221.1 million from the first-time inclusion of the former Drillisch AG and its subsidiaries ("Drillisch").

The revenues from access services, essentially the income from the provision of access to a telecommunications network and its billing on the basis of the current customer relationships, rose by €338.2 million (14.6%) in fiscal year 2017 to €2,661.8 million (previous year: €2,323.6 million). This figure includes €185.3 million from the first-time inclusion of Drillisch in the consolidated annual financial statements.

The weak margin Other sales revenues, which essentially comprise revenues from the sale of hardware, rose in comparison with the previous year by €44.0 million to €150.5 million (previous year: €106.5 million). This figure includes €35.7 million from the first-time inclusion of Drillisch in the consolidated annual financial statements.

1&1 Drillisch invested heavily in customer growth once again in fiscal year 2017 and was able to increase further the number of customer contracts subject to charge by a total of 4.10 million (thereof 3.35 million customer contracts subject to charge from the first-time inclusion of Drillisch at the beginning of September 2017) to 12.64 million. In addition to the aforementioned customer contracts in the current product lines, 1&1 Drillisch holds another 0.47 million contracts without a monthly basic charge and legacy service provider contracts (volume rate plans/MSP rate plans) in the segment "Access" and 0.11 million DSL contracts in the discontinued product lines T-DSL/R-DSL.

All customer acquisition costs as well as the costs for converting resale DSL lines to DSL full-service packages and upgrades to VDSL lines were as before posted directly as expenses.

Cost of sales increased underproportionately to the increase in revenue from €1,698.7 million (69.9% of revenues) in the previous year to €1,887.7 million (67.1% of revenues). The gross margin improved accordingly from 30.1% in the previous year to 32.9% in 2017.

Distribution expenses amounted to €393.7 million, corresponding to 14.0% of revenues (previous year: €294.3 million, corresponding to 12.1% of revenues). This rise is basically a consequence of the initial inclusion of Drillisch in the consolidated annual financial statements.

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Administration costs rose primarily because of a consequence of higher personnel expenses and because of the first-time inclusion of Drillisch in the consolidated annual financial statements, from €61.6 million (2.5% of revenues) in the previous year to €74.4 million (2.6% of revenues) in 2017.

The EBITDA from the ongoing division in fiscal year 2017 amounted to €504.0 million (previous year: €387.9 million). Adjusted for the aforementioned one-off special effects, the adjusted EBITDA from the ongoing division came to €532.2 million (previous year: €387.9 million).

The EBITDA margin improved from 16.0% in the previous year to 17.9% in fiscal year 2017. The adjusted EBITDA margin came to 18.9% (previous year: 16.0%).

Depreciation and amortisation rose by €55.5 million from €8.6 million in fiscal year 2016 to €64.1 million in fiscal year 2017. The rise in depreciation and amortisation was caused (among other factors) by the intangible assets identified during the purchase price allocation after the acquisition of Drillisch in fiscal year 2017; these assets will be depreciated over the terms of their usual useful life of between 2 and 13 years. The initial consolidation of Drillisch at the beginning of September 2017 resulted in depreciation and amortisation pro rata temporis since that time in the amount of €38.8 million (previous year: €0.0).

The EBIT from the ongoing division (earnings before interest and taxes from the ongoing division) amounted to €439.9 million (previous year: €379.3 million) and adjusted for the aforementioned one-off special effects, to €468.1 million (previous year: €379.3 million). The EBIT margin amounted to 15.6% (previous year: 15.6%) and adjusted to 16.6% (previous year: 15.6%).

The interest result amounted to €-8.6 million (previous year: €-24.7 million). In the previous year, the interest result was strongly affected by the high financing expenditures caused by the acquisition of Versatel Group, which was sold in 2017.

Taxes on income rose by €9.3 million to €121.0 million (previous year: €111.7 million). Above all, profits from the sale of Versatel Group and losses from the sale of yourfone Shop GmbH that are not recognisable for tax purposes have the effect of reducing and increasing (respectively) the actual tax expenses in the fiscal year. Further details can also be found in the transition statement of the expenses for taxes on income in the consolidated notes on page 113 of this Annual Report.

Consolidated profit from the ongoing division amounted to €310.4 million (previous year: €242.9 million). Consolidated profit from discontinued divisions amounted to €170.9 million (previous year: €0.5 million) and includes, in addition to the profit generated by Versatel Group (which was sold in fiscal year 2017), the profit resulting from the sale itself. The consolidated total profit per 31 December 2017 amounted to €481.3 million (previous year: €243.4 million). The undiluted profit per share from the ongoing division came to €2.28 (previous year: €2.08).

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Financial position in the Group

Thanks to the positive profit development, cash flow from operating activity rose significantly from €246.8 million in the previous year to €370.1 million in fiscal year 2017.

Net payments of operating activity from, in fiscal year 2017, the ongoing division amounted to €294.1 million (previous year: €65.4 million). Tax back payments and advance payments for purchased services that will not be recognised as effective expenses until later periods led to cash outflows in the previous year that had negative impacts on operating cash flow.

Cash flow from investments from the ongoing division shows net incoming payments of €9.3 million during the reporting period (previous year: outgoing payments of €26.1 million). Incoming payments from the initial consolidation of Drillisch resulting from the reverse acquisition in the amount of €33.1 million (previous year: €0.0) reflect the level of cash at Drillisch at the time of the initial consolidation. Payments of €15.6 million (previous year: payments of €26.9 million) were effected for investments in tangible and intangible assets. In addition, the deconsolidation of yourfone Shop GmbH led to an outflow of funds of €4.9 million (previous year: €0.0).

The free cash flow from the ongoing division, defined as net incoming payments from operating activity in the ongoing division less investments in intangible and tangible assets plus incoming payments from the disposal of intangible and tangible assets, rose from €39.1 million in fiscal year 2016 to €278.6 million in fiscal year 2017.

Decisive factors affecting cash flow from financing activity from the ongoing division in fiscal year 2017 were payments related to the repayment of loans in the amount of €250.0 million (previous year: €0.0), payments from the Dissolution/change of the cash pooling with United Internet AG in the amount of €91.8 million (previous year: €64.9 million) and received payments from the assumption of deficits by United Internet AG in the amount of €12.5 million (previous year: €8.7 million).

Cash and cash equivalents per 31 December 2017 amounted to €149.7 million in comparison with €4.6 million on the closing date of the previous year. Furthermore, there were unused credit lines in the amount of €100.00 million from a syndicate loan per 31 December 2017.

Assets and liabilities in the Group

The balance sheet total in the Group rose from €1,843.3 million per 31 December 2016 to €4,735.7 million per 31 December 2017.

Short-term assets rose from €263.5 million per 31 December 2016 to €656.6 million per 31 December 2017. The cash holdings disclosed in the short-term assets rose from €4.6 million to €149.7 million. Trade accounts receivable increased from €152.2 million to €182.6 million. The substantial increase in receivables due from affiliated companies to €168.3 million (previous year: €4.1 million) is primarily related to the receivables due

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from United Internet Services Holding GmbH from the sale of Versatel Group (€158 million). Deferred expenses decreased from €47.7 million per 31 December 2016 to €15.1 million per 31 December 2017. In the previous year, this item included deferred expenses from advance payments for DLS connections to Deutsche Telekom. As of the sale of Versatel Group in fiscal year 2017, these services are now procured directly from Versatel Group and no longer from Deutsche Telekom. In relation to this, other financial assets increased from €7.4 million to €80.1 million. They include about €66 million in reimbursement claims against Deutsche Telekom for DSL connection fees paid in advance in previous years.

Long-term assets rose in total from €1,579.7 million per 31 December 2016 to €4,079.2 million per 31 December 2017. The change results in part from Drillisch assets identified during the preliminary purchase price allocation. Another factor is that Versatel Group, sold in fiscal year 2017, was still included in the assets per 31 December 2016. Goodwill rose by €2,426.4 million from €506.5 million per 31 December 2016 to €2,932.9 million per 31 December 2017. The change results essentially from the Drillisch goodwill identified during the preliminary purchase price allocation. In the previous year, this item also included the goodwill of Versatel Telecommunications GmbH. Intangible assets increased by €658.2 million from €243.2 million to €901.4 million. The rise results essentially from the intangible assets clientele, brands and software in the amount of €776.8 million per 31 December 2017 identified during the purchase price allocation. The sale of Versatel Group had the contrary effect here. Tangible assets declined from €555.2 million in the previous year to €14.7 million per 31 December 2017 and include primarily fixtures, fittings and equipment. In the previous year, Versatel's telecommunications equipment and network infrastructure were disclosed in this item. Long-term trade receivables in the previous year comprised receivables of Versatel Group from finance leasing relationships. The deferred expenses, which result essentially from advance payments made as part of long-term purchase agreements, declined from €122.2 million in the previous year to €79.4 million per 31 December 2017.

Short-term liabilities decreased from €1,046.7 million per 31 December 2016 to €675.2 million per 31 December 2017. The short-term trade accounts payable fell from €295.5 million to €229.5 million. Tax owed on income increased, primarily because of the significant increase in consolidated profit from the ongoing division, from €12.0 million to €47.0 million. Liabilities due to affiliated companies declined by €372.9 million from €594.8 million to €221.9 million. They basically concern €160.8 million in liabilities from a call option for the remaining 15% of the shares in 1&1 Telecom Holding GmbH; the option was exercised in January 2018. Last year, the liabilities due to affiliated companies comprised primarily short-term liabilities related to the cash pooling with United Internet AG. Other financial liabilities decreased by a total of €15.4 million from €61.1 million to €45.7 million. Liabilities from finance leasing relationships declined by €15.8 million to €0.5 million per 31 December 2017 (previous year: €16.3 million). These items in the previous year were largely leasing liabilities of Versatel Group. The liabilities for utilisation rights of €10.0 million (previous year: €0.0) concern liabilities owed to Telefónica from the acquisition in 2016 of the brand name right for utilisation of the brand name Telefónica. Liabilities related to bonds in the amount of €3.1 million come from the remaining liabilities from the convertible bond issued by the former Drillisch AG in December 2013.

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Long-term liabilities decreased from €1,209.3 million per 31 December 2016 to €255.4 million per 31 December 2017. The most important cause for this was the decline in long-term liabilities due to affiliated companies from €1,004.0 million to €0.0 per 31 December 2017. This figure from the previous year was related to liabilities due to United Internet AG from the financing of the acquisition of Versatel Group. Deferred tax liabilities rose by €202.3 million from €43.2 million per 31 December 2016 to €245.5 million per 31 December 2017. The increase results largely from the deferred taxes on the assets identified during the preliminary purchase price allocation that are to be disclosed as liabilities. The decline in the other, long-term financial liabilities results from the decline in the long-term liabilities from finance leasing that in the previous year resulted primarily from Versatel Group. The deferred income resulted in the previous year primarily from the DSL business of Versatel Group. The other long-term provisions in the amount of €3.5 million (previous year: €40.5 million) are mainly related to personnel provisions. In the previous year, the other long-term provisions included provisions for deconstruction activities and litigation risks related essentially to Versatel Group.

The equity in the Group rose from €-412.8 million per 31 December 2016 to €3,805.1 million per 31 December 2017. The cause of this substantial increase was mostly in the consolidation effects related to the recognition of the reverse acquisition. The Company's share capital in the amount of €194.4 million is distributed in 176,764,649 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10 and is the equivalent of the share capital of 1&1 Drillisch AG. The equity ratio rose accordingly from -22.4% to 80.4%.

The negative equity of 1&1 per 31 December 2016 resulted from reorganisation actions taken within the framework of the evolvement of the corporate structure of United Internet Group in the period between 2014 and 2016; the goal of these measures was the separation of the business activities of the United Internet Group into the divisions Access, Hosting, Portal and Corporate.

At that time, disbursements and/or profit transfers from companies included in the consolidation to companies outside of the consolidation of a partial group were disclosed without impact on income as withdrawals from equity. Contributions from companies outside of the group of consolidated companies to companies in the consolidated group of a partial group were recognised as contributions to equity.

General statement from the Management Board regarding the Group’s economic position

General economic conditions in Germany have developed within the expected range. The German ITC market in fiscal year 2017 developed parallel to the German economy as a whole and its growth of 1.9% also matched original expectations.

Although industry development overall is characterised by keen competition, 1&1 Drillisch succeeded once again in continuing its dynamic development in fiscal year 2017, recording growth of 4.1 million customer contracts (3.35 million thereof from the acquisition of 1&1 Drillisch) to 12.64 million contracts, revenue growth of 15.7% to €2.812 billion and an increase in adjusted EBITDA from the ongoing division of 37.20% to €532.2 million.

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This successful corporate development – especially in comparison with economic and industry trends – documents the advantages of the 1&1 Drillisch business model that is primarily based on electronic subscriptions and with contracts subject to charge. This ensures stable and plannable revenues and cash flows, provides protection from economic fluctuations and opens up financial manoeuvring room for the acquisition of new customers, the expansion of customer relationships and the exploitation of opportunities in new business fields or on new markets, whether organically or through participating interests and acquisitions.

Accordingly, the Company invested heavily in the acquisition and expansion of customer relationships and new products once again in fiscal year 2017, thus laying the foundation for future growth.

Overall, the Management Board regards 1&1 Drillisch Group to be in an excellent position for its continued corporate development per the closing date of fiscal year 2017 as well as at the point in time of preparation of this management report. The Board has a positive assessment of the assets and liabilities, the financial position and earnings – subject to the reservation of unforeseen special effects – and is optimistic in its outlook for the future.

2.4 Principles and objectives of the financial and capital management

The financing of the Group is handled centrally by the parent company 1&1 Drillisch AG. The top priority of the financial management at 1&1 Drillisch is to secure the Company's liquidity at all times. Liquidity reserves are always maintained in such an amount that any and all payment obligations can be met on time. Liquidity is secured on the basis of detailed financial planning. Business operations are financed from cash flow and free cash. The Company strives to develop further and to optimise the financial management continuously. As a general principle, the company law provisions form the framework of capital management in 1&1 Drillisch Group. In cases in which contractual provisions must be observed, equity is managed additionally in accordance with the principles defined in these provisions. In cases in which no special provisions need be observed, the equity being managed is the equity as disclosed in the balance sheet. Otherwise, the equity from the balance sheet is adjusted according to the contractual requirements. During the reporting period, the Company complied with both company law and contractual provisions at all times.

2.5 Major non-financial performance indicators

According to 1&1 Drillisch's perception of itself, entrepreneurial activities go beyond the straightforward pursuit and achievement of economic targets to encompass as well an obligation and responsibility to society and the environment. 1&1 Drillisch fulfils this responsibility in various ways. The most important aspects are summarised in the following sections.

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In addition to the development in the number of subscribers explained in the business report, the non-financial performance indicators described below along with efficient, value-oriented corporate management are major factors contributing to 1&1 Drillisch's success.

Sustainable business policies: 1&1 Drillisch is committed to sustainable business policies. This sustainability is demonstrated especially by high investments in customer relationships, service quality, customer loyalty and customer satisfaction, in the quality of products and networks and in security and data protection – and consequently in sustainable growth.

Customer growth: 1&1 Drillisch invested heavily in customer growth once again in fiscal year 2017 and was able to increase further the number of customer contracts subject to charge by a total of 4.10 million (thereof 3.35 million customer contracts subject to charge from the first-time inclusion of 1&1 Drillisch at the beginning of September 2017) to 12.64 million.

In addition to the aforementioned customer contracts in the current product lines, 1&1 Drillisch holds another 0.47 million contracts without a monthly basic charge and service provider contracts (volume rate plans/MSP rate plans) in the segment "Access" and 0.11 million DSL contracts in the discontinued product lines T-DSL/R-DSL.

In total, 1&1 Drillisch manages about 13.2 million customer accounts.

Quality of the products: There has been a targeted investment in the level of service quality (which impacts customer loyalty and customer satisfaction) as well since the start of the DSL quality campaign in 2009 with the introduction of the so-called 1&1 Principle in 2012.

The 1&1 Principle gives customers five clear, product-specific performance promises. They include, for instance, a one-month test phase and a high-availability expert hotline, delivery of smartphones and DSL modems within one workday and an on-site replacement of defective devices on the next workday.

The excellent results from the hotline test in 2017 are proof that the investments in service quality make an impact.

As in previous years, the magazine CHIP, in collaboration with the market research experts from Statista, tested customer hotlines of companies in various industries during a major hotline test (results published in November 2017). The Statista interviewers pretended to be potential new customers and conducted 8,689 test conversations with a total of 141 companies from 12 industries. The test included the categories Availability, Waiting Time, Service and Transparency. Maximum score in each of the categories as well as in the overall rating was 100 points. During this test, the 1&1 service hotline took first place out of a total of 16 tested providers in the sector "Mobile Services." The 1&1 service hotline scored 95.1 points, giving it an overall rating of "Excellent". Moreover, the 1&1 service hotline took first place out of a total of 12 tested providers in the category "Landline and Internet" as well. In this category, the 1&1 service hotline scored 97.3 points, again receiving an overall rating of "Excellent". It even scored the maximum of 100 points in the categories Availability and Waiting Time.

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Besides winning the above-mentioned test, the 1&1 service hotline took first prize in the connect hotline test. In its issue 09/2017, Europe's largest professional journal for telecommunications tested broadband providers in Germany in the categories "Quality", "Availability" and "Friendliness". Scoring 429 out of a maximum of 500 points in the overall rating, the 1&1 service hotline was rated "Excellent" and was the winner of the test.

For the Kundenbarometer Mobilfunk 2017, a study conducted by the Institute for Telecommunications (FiFT), a total of 1,374 selected customers from a total of eleven mobile services providers were questioned in an online survey about the major categories Customer Service, Rate Structure and Billing, Network and Brand/Provider. 1&1 was once again this year awarded the rating "Excellent" and was the best mobile services provider from the customer viewpoint. 1&1 customers are therefore satisfied with the reliability, customer service and innovation. Eight of ten customers were also satisfied with the value for money in the category Rate Structure and Billing and confirm the brand 1&1 a good image.

Network quality: At the network quality level, the 1&1 brand was once again able to take first place in all of Germany in the highly respected landline test of the professional journal connect (published in July 2017). 1&1 was the only nationwide provider to score the overall rating "Excellent" and placed ahead of competitors such as Deutsche Telekom, O2 and Vodafone, which at a time all received a rating of "Good".

connect conducts this test annually and in 2017 tested the categories "Voice", "Data", "Web Services" and "Web TV" on test connections from seven well-known providers.

1&1 utilises the optic fibre network of 1&1 Versatel for the realisation of DSL full-service packages. 1&1 cooperates with other telecommunications companies in locations where this network is not yet available. 1&1 provides telephony services via its Voice-over-IP (VoIP) platform that has given reliable service for 10 years and has been steadily developed further.

Excellent voice performance in landline networks was once again a convincing factor in the test. During the test, 1&1 achieved the best connection establishment times to its own network and very fast connection times for phone calls to other all-IP networks. 1&1 posted especially good results in the categories "Data" and "Video" with "excellent response times and upload transmission rates, above all in the highest bandwidth class." Moreover, the test revealed that 1&1 offers the best performance for "Web Services" in comparison with its competitors and turned in a convincing performance for "Web TV" as well. The results are also exciting for gamers: 1&1 posts the fastest gaming pings.

This year, the landline test was conducted in three bandwidth classes for the first time. connect took this step so that it could model the actual distribution on the market more exactly. Class 1 included connections with up to 20 Mbit/s (downstream), Class 2 lines with 25 to 50 Mbit/s and Class 3 connections with 100 Mbit/s and higher.

The landline test was conducted by zafaco GmbH on behalf of the magazine connect. According to connect, about 1.8 million measurements were taken at 92 test connections of all of the involved providers at 45 sites across Germany over a period of four weeks. The test connections automatically initiated voice and data transmissions.

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Knowledge of the markets: Thanks to 1&1 Drillisch's many years of operation on the telecommunications market, the Company has established a position of trust among customers and network providers. This is what enables 1&1 Drillisch to recognise upcoming trends in good time and to utilise them to raise value. Realising innovative marketing ideas and alternative distribution solutions has repeatedly led to 1&1 Drillisch's success in offering at an early stage products that meet the needs of the customers. One important objective is increasing the subscriber base with long-term value by securing a greater market share.

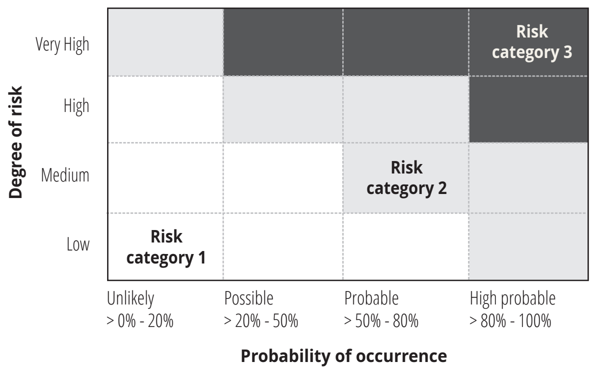
Efficiency of business processes: 1&1 Drillisch works constantly on the improvement of efficiency in business processes, efforts which have led to permanent increases in productivity.

3. Risks, Opportunities and Forecast Report

1&1 Drillisch Group pursues policies of risk and opportunity that are oriented o the objective of maintaining and raising sustainably the Company's value by taking advantage of opportunities and by recognising and managing risks at an early stage. The risk and opportunity management as practised ensures that 1&1 Drillisch can carry out its business operations in a controlled corporate environment.

The risk and opportunity management regulates the responsible handling of uncertainties that are always a part of entrepreneurial activities.

Risk Assessment Matrix



RISK REPORT

3.1 Risk Report

Risk management

The risk management system is an integral component of corporate policy aimed at early exploitation of opportunities as well as the detection and limitation of risks. 1&1 Drillisch operates a risk management system throughout the Group that includes continuous observation to ensure early recognition and the standardised recording, assessment, control and monitoring of risks. The objective is to obtain information about negative developments and the related financial effects as early as possible so that appropriate counter-measures can be initiated. The management of the company results and company value makes use of the instruments of risk management. They can become a strategic success factor for corporate management – for 1&1 Drillisch itself as well as for the subsidiaries.

If the Company is to be consistently successful in the conflict between opportunities for profit and the threat of loss, risks must be taken into consideration during the decision-making process systematically and in accordance with standards which are uniform throughout the Group. Risk management includes the definition of risk fields, the recording of risks and the communication of risks by the operating units, the assignment of responsibilities and tasks and the documentation of these steps. The concrete implementation of the procedures which have been issued is secured by a monitoring system. The 1&1 Drillisch risk management process utilises the following building blocks for the exploitation of opportunities without delay and the early discovery of risks:

» The internal controlling system

» The daily, weekly and monthly management reporting, especially in the areas financial controlling, cash management and the operating business segments

» The continuous monitoring of the market

» The quarterly risk inventory

The coordination of risk management is handled at the group level by Group Controlling and Legal. Based on monthly close-outs, the regular comparison of budget and as-is figures as well as market analyses and market observations, opportunities and risks from operating and strategic areas can be recognised early and incorporated into the risk portfolio by implementation of suitable measures. Lines of responsibility and accountability are clearly regulated at 1&1 Drillisch and are based on the corporate structure of 1&1 Drillisch Group. Risk management includes the securing of risks outside of the Group as well. Adequate insurance policies, provided that they are regarded as being economically justifiable, have been concluded to cover incidents of loss and liability risks arising in the course of daily business. Risks are assessed as far as possible by determining the probability of their occurrence and possible impact on earnings and assets. The probability of occurrence and the impact are classified and assessed appropriately. The assessment of the degree of the risk and the possible financial impact are based on the criteria low, medium, high and very high; the assessment of the probability of occurrence is classified according to unlikely, possible, probable and highly probable.

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The Management Board and Supervisory Board are regularly provided with reports on the risk situation and the effectiveness of the risk management system with all of its controlling functions. The results are discussed by both the Management Board and Supervisory Board.

3.2. Description of the major features of the internal controlling and risk management system with respect to the accounting process (Section 315 (2) HGB [Commercial Code])

The internal controlling system in 1&1 Drillisch Group includes all of the principles, procedures and measures needed to secure the effectiveness, correctness and economic efficiency of the accounting and to assure compliance with the pertinent legal requirements. Besides the manual process controls in the form of the "two sets of eyes principle", automatic IT process checks also form a major part of the integrated controlling measures. The risk management system in 1&1 Drillisch Group as a component of the internal controlling system is oriented, with respect to the accounting, to the risk of incorrect representation in the bookkeeping and the external reporting. A "monitoring system for the early recognition of risks threatening the Company's existence" has been set up in 1&1 Drillisch Group to ensure the systematic early detection of risks throughout the Group so that, going beyond the scope originally required by statutory provisions, other risks as well as those threatening the existence of the enterprise are detected early, controlled and monitored. In accordance with Section 317 (4) HGB, the auditor appraises the functional capability of the system for the early detection of risks, which is adapted without delay to any and all changes in the environment. The bookkeeping software from the manufacturers Sage and SAP is used for the posting of accounting items in 1&1 Drillisch Group while the consolidation software from the manufacturer Infor Global Solutions is used at the group level.

Risks related to accounting can arise from the conclusion of unusual or complex transactions, for example. Moreover, business transactions that are not handled as a matter of routine are vulnerable to latent risk. The measures of the internal controlling system oriented to the correctness of the accounting ensure that all of the business transactions are recorded completely and contemporaneously in conformity with legal and statutory requirements. Furthermore, it is assured that assets and debts are correctly recognised, measured and disclosed in the annual financial statements. The controlling activities include the analysis of material circumstances and developments, for example, using special indicator systems. The organisational separation of administrative, executive, billing and approval functions significantly reduce vulnerability to fraud. The internal controlling system also assures the representation of changes in the economic or legal environment of 1&1 Drillisch Group and ensures the application of any new or amended legal provisions for the accounting.

In addition to the internal controlling system, the auditor and other auditing bodies are indirectly incorporated into the controlling environment of 1&1 Drillisch Group by means of auditing activities independent of processes. The audits of the separate and consolidated annual financial statements by the auditor are especially important as major monitoring measures with respect to the accounting process.

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3.3. Market-related risks

The major cross-segment risks related to the market are as follows:

» 1&1 Drillisch operates in a market environment which is by and large saturated and consequently highly competitive. Substantial increases in overall revenues cannot be expected on the German telecommunications market in 2018.

» 1&1 Drillisch may possibly not be successful in acquiring and maintaining a satisfactory share of this market.

» The broad availability of low-cost rates and products may cause the prices which can be charged for telecommunications services to decline.

» A decline in prices on the market for telecommunications services or further reductions in the termination charges could result in falling revenues and income.

» The expenditures required to acquire new customers and retain the loyalty of current customers are comparatively high, especially in the segment of fixed-term contracts. These expenditures may continue to rise in the future.

» 1&1 Drillisch is subject to regulatory restraints in its business activities. These general conditions may change and could impact business. Decisions of the Federal Network Agency and the Federal Cartel Office can influence the structure of internet access rates. Price increases by the network and grid operators from which 1&1 Drillisch procures advance services for its own customers could have negative effects on the profitability of the rate plans. Equally, there is the possibility that a lack of regulation will cause the market environment for 1&1 Drillisch to worsen. 1&1 Drillisch counters the regulation risk, which has a tendency to rise, through its collaboration with multiple advance services partners and proactive association work.

» The EU General Data Protection Regulation (EU GDPR) was adopted by the EU Parliament on 14 April 2016 and published in the Official Journal of the European Union on 4 May 2016. The new rules will enter into force in May 2018 and include (among other provisions) an increase in the penalties for breaches of obligations, a new regulation of the requirements concerning declarations of consent and new notification obligations to government agencies and data subjects in the event of a loss of data.

» Mobile services providers are dependent on network operators in offering their products and services because they do not have their own network.

The occurrence of one of these risks would have corresponding effects on the assets and liabilities, the financial position and earnings. From today's perspective, the Management Board does not consider the risks to be existential threats because the risks described above are currently located in a low to medium range.

RISK REPORT

3.4. Company-specific risks

The effects of the risks described below could have a low to major impact, depending on the probability of occurrence of each specific risk.

The major cross-segment risks specific to 1&1 Drillisch are as follows:

» The net financial debt of 1&1 Drillisch could increase, e.g. as a consequence of the takeover of companies, leading to a worsening of the financial results and the equity ratio. This could have a long-term effect on the Company's ability to disburse dividends and to take out new loans.

» 1&1 Drillisch utilises in part credit lines with variable interest rates for short-term financial dispositions. The variable interest rates are oriented to financial indicators agreed in advance and other factors. An increase in the agreed basic interest rate or changes in the financial indicators could have a negative impact on earnings.

» The maintenance of the functional capability and the regular evolvement of the software systems used by the Company, which it has in part developed itself, for the administration of the customers and the billing of performed services, is of decisive importance for the success of 1&1 Drillisch. Software errors can cause disruptions in the program execution, in extreme cases causing a permanent failure of the software and the loss of data, and prevent the Company from developing and offering new mobile products within a short period of time.

» 1&1 Drillisch is continuing to follow a course of growth on the German telecommunications market. This increasingly confronts the Company with new kinds of challenges related to various legal requirements and the social expectations of customers and employees. Corporate success is also dependent on exact knowledge and consideration of the special features of the factions involved in both internal processes such as the conduct of large projects crossing divisional boundaries and in customer communications.

» A major factor for continuing the success of 1&1 Drillisch is the development of new and continuously improved products and services so that the number of customer contracts will continue to rise and customer loyalty is strengthened. The risk here is that the introduction of new developments to the market will be too late or that the target group will not accept them. 1&1 Drillisch counters these risks by closely monitoring the market and competition and by responding to customer feedback at all stages of product development.

» 1&1 Drillisch stores its customers' data on servers in certified data centres operated by the Company itself and in leased facilities. The data are handled in conformity with extensive legal requirements. The Company is aware of its immense responsibility and places a high value on data protection, paying especially close attention to ensuring customers' privacy. Nevertheless, the possibility that data protection regulations will be violated because of human error or technical weak points or other factors can never be completely excluded. The Company continually invests in the improvement of its data protection standards by employing the latest technologies, constantly reviewing data protection and other legal requirements, conducting an extensive training programme on data protection laws for employees and integrating privacy aspects and requirements in product development at the earliest possible stage.

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- 1&1 Drillisch is currently involved in various litigation and arbitration proceedings that result from normal business activities. By their nature, the results of legal disputes are uncertain and therefore represent a risk. To the extent that the amount of the obligation can be reliably estimated, the risks from the legal disputes have been given due consideration in the provisions.
- Ordering and delivery processes at 1&1 Drillisch – as is true of many large companies in mass market business – are largely automated so that dynamic customer growth can be handled effectively and services and products can be provided as quickly as possible, all in the interest of our customers. Automated processes of this type are by their nature vulnerable to fraudulent activities. For instance, 1&1 Drillisch could suffer losses from fraudulent use of SIM cards, e.g. as a consequence of massive call diversions or roaming calls.
- 1&1 Drillisch is highly dependent on the Management Board members and on employees in key positions.
- There is a fundamental possibility that there will be changes for assessment periods that have not been finally reviewed resulting in tax back payments or changes in the accumulated deficits carried forward if and when tax authorities, in the course of their tax audits, should decide on different interpretations of tax statutes or deviating measurements of the circumstances on which the assessments are based. This is also true of types of expenditures that have in part never been audited, especially because they are usually not the subject of an audit by tax authorities. In addition, changes in court decisions or in the interpretation of legal statutes can lead to retroactive corrections of tax types and subsequently to tax risks.

Furthermore, the following major risks specific to 1&1 Drillisch exist for the segment Access:

- 1&1 Drillisch does not operate its own networks. It is therefore dependent for its range of services on the network access guaranteed by Telefónica, including the provision of any and all present and future mobile service technologies which are available. Whenever accounts are activated in another network, 1&1 Drillisch is also dependent on the provision of all of the necessary advance services.
- Another point is that 1&1 Drillisch is also dependent on the network access made available by the landline network operators, including the provision of available technologies.
- 1&1 Drillisch is vulnerable to the risk that contract customers will not meet their payment obligations.
- Owing to the future obligation to take over at least 20% of the present and future network capacity of Telefónica for new customers as well as additional defined capacity for existing customers, there is a risk that 1&1 Drillisch may not be able to utilise fully the purchased volume in future. Unused capacities can cause expenses that are not covered by direct income or rebates.

The resulting risks for all segments and for the segment Access are not deemed existential by 1&1 Drillisch because the risks described above are located in the low to medium range (risk assessment 1 and 2).

OPPORTUNITIES REPORT

3.5. Opportunities report

Opportunities management

The opportunities management is rooted in the strategic planning and related actions for the development of products and their positioning in the various target groups, countries and on the different markets during the product lifecycle.

The Group Management Board and the operating management level in each of the business segments are directly responsible for the early and continuous identification, assessment and management of opportunities.

The 1&1 Drillisch AG management concerns itself intensely with detailed analyses, models and scenarios related to current and future industry and technology trends, products, markets/market potential and competitors in the Company's environment. The potential of the opportunities identified during such strategic analyses are evaluated subsequently in the context of the critical success factors and of the existing general conditions and possibilities for 1&1 Drillisch AG, discussed among Management Board, Supervisory Board and the operational executives during the planning meetings, then embodied in concrete actions, targets and milestones.

Progress and success of the actions are continuously monitored by the operational executives and by the managing directors and executive officers of the Company.

Opportunities for 1&1 Drillisch

1&1 Drillisch's stable business model, which is largely unaffected by economic fluctuations, secures plannable revenues and cash flows, thereby opening up the financial flexibility necessary to take advantage of opportunities in new business fields and on new markets, whether organically or through participations and corporate takeovers.

Despite the uncertain general economic conditions, 1&1 Drillisch expects a positive development on the markets that are of major importance for the Company. 1&1 Drillisch is one of the leading market players on these markets. Thanks to its highly competitive Access products, the strong and specialised brands, the high selling power and the current business relationships with millions of private and business customers (potential for cross- and upselling), 1&1 Drillisch is in a strong position to secure its share of the expected market growth.

1&1 Drillisch sees the following significant company-specific opportunities across all segments:

» 1&1 Drillisch is today one of the leading companies on the German telecommunications market. By building on its available technological know-how, the high quality of products and services, the brand awareness of the Group's brand names such as 1&1, smartmobil.de or yourfone, the business relationships with millions of customers and the strength of customer loyalty, 1&1 Drillisch believes that its chances to expand its current market shares are good.

OPPORTUNITIES REPORT

- » The core competencies at 1&1 Drillisch also include the ability to recognise customer wishes, trends and the related new markets at an early stage. The breadth of the added-value chain (from product development and data centre operation to effective marketing and effective sales to active customer support) often make it possible for 1&1 Drillisch to introduce innovations on the market faster than others and to market them intensely because of the high cash generation in the existing business fields.
- » The design of its own rate plans gives Drillisch the opportunity to respond quickly and flexibly to changes on the market. This situation repeatedly creates opportunities to exploit or realise this competitive advantage to increase earnings.
- » 1&1 Drillisch now has the opportunity to improve its market position as well as its business volume significantly in the years to come on the basis of all products and technologies available on the Telefónica network at present and in future.
- » Unrestricted access to LTE as well as to even more sophisticated future technologies guarantees 1&1 Drillisch the long-term flexibility it needs to be absolutely independent in the design of new products, thus allowing fair competition on equal footing with the three remaining German network operators.
- » The basic term of the MBA agreement with Telefónica of 5 years (until the middle of 2020) and the option to extend this term twice to a total of 15 years offer to 1&1 Drillisch the opportunity for continuing long-term, successful corporate development as well as a high degree of planning security.
- » In addition, the agreement concluded with Telefónica gives 1&1 Drillisch the opportunity to become a full MVNO on the Telefónica mobile network or even to become a licensed mobile network operator. The latter can initially and with technical support from Telefónica ("national roaming") be limited to specific regions in Germany.
- » As it is a member company of the United Internet Group, 1&1 Drillisch has access to the 1&1 Versatel telecommunications network. This network's length of more than 44,000 km makes it the second-largest optic fibre network in Germany. 1&1 Versatel's own network infrastructure it has made available gives 1&1 Drillisch the chance to deepen further the foundation of its own added value and to procure from United Internet Group DSL advance services within the Group.
- » The increase in data traffic and the related demand for fast and powerful network access offer 1&1 Drillisch the opportunity to continue to influence and guide the market proactively with its flexible rate plan concepts.
- » The growing prevalence of applications such as music streaming, online games or film and video streaming will continue to produce high demand for data rate plans in future as well.
- » The good operating results and the related cash flow will also provide opportunities in future to disburse attractive dividends and, if necessary, to obtain loans with good terms and conditions.
- » The utilisation and steady further development of software systems developed by the Company itself for the management of customers and billing of performed services mean far-reaching independence from any third-party services. The related efficiency, speed and flexibility give 1&1 Drillisch a competitive advantage over other companies.

FORECAST REPORT

3.6. Summary of opportunity and risk position

There were some changes in the opportunities and risks of ongoing business operations in 2017 in comparison with the previous year because of the acquisition of 1&1 Drillisch AG. The opportunities and risks described here are the major opportunities and risks which have been identified at this time. The possibility that additional major opportunities and risks that at this time have not been recognised by management exist or that the probability of the occurrence of such opportunities and risks has been wrongly assessed as negligible cannot be excluded. Adequate precautions have been taken to counter any probable risks. There are at this time no known risks which would threaten the Company's existence.

3.7. Forecast report

This report contains certain statements oriented to the future which are based on the current assumptions and projections of the Company's management. Various risks, uncertainties and other factors, both known and unknown, can cause the actual results, financial position, development or performance of the Company to deviate substantially from the assessment shown here.

Economic expectations

In its World Economic Outlook of January 2018, the International Monetary Fund (IMF) updated its projections for the development of global economies in 2018 and 2019. In these updates, the IMF shows a rather more optimistic outlook for the world economy than was the case in previous forecasts.

Following economic growth of 2.5% in 2017, the IMF expects growth of 2.3% in 2018 and 2.0% in 2019 for Germany, in each case 0.5 percentage points higher than in the previous forecasts.

Market/industry expectations

According to figures from the industry association Bitkom released during its annual press conference on 14 February 2018, revenues on the German ITC market will rise by 1.7% to €164.0 billion in 2018.

Growth on the telecommunications market is expected to remain moderate. Revenues will presumably rise by 0.4% (previous year: 0.1%) to €65.9 billion. TC devices are expected to increase by 1.3% (previous year: 4.7%) to €10.7 billion, of which €10.1 billion will be attributable to smartphones. Business with telecommunications infrastructure is projected to grow by 1.4% (previous year +0.5%) to €6.7 billion. A plus of 0.1% (previous year: -1.0%) to €48.5 billion is expected for telecommunications services. Revenues

FORECAST REPORT

realised from voice services will presumably display strongly declining developments in the sectors landline (-8.5%) and mobile (-8.3%). On the other hand, business with mobile services is expected to continue to grow (+6.0%).

In particular, the German broadband and mobile internet market in the segment “Access”, financed primarily by subscriptions, is of special interest to 1&1 Drillisch.

(Landline) broadband market in Germany

In view of the comparatively high household coverage at present and the trend to mobile internet use, experts expect growth to remain only moderate on the German (landline-based) broadband market.

According to the study “German Entertainment and Media Outlook 2017–2021”, PricewaterhouseCoopers expects an increase in revenues realised from landline-based broadband connections of no more than 1.1% to €8.15 billion for 2018.

Market forecast: broadband access (landline) in Germany (in € billion)

	2018e	2017	Change
Revenues	8.15	8.06	+ 1.1%

Source: PricewaterhouseCoopers, October 2017

Mobile internet market in Germany

In contrast, all experts are predicting that growth on the mobile internet market will remain substantial. Following market growth by 6.6% to €7.77 billion in 2017, PricewaterhouseCoopers is projecting growth in 2018 as well of 5.8% to €8.22 billion for mobile data services.

This growth is being fed above all by the low level of prices (attractive to consumers) and the boom in smartphones and tablet PCs with their related applications (apps).

Market forecast: mobile internet (mobile services) in Germany (in € billion)

	2018e	2017	Change
Revenues	8.22	7.77	+ 5.8%

Source: PricewaterhouseCoopers, October 2017

FORECAST REPORT

Forecast for fiscal year 2018

The 1&1 Drillisch Management Board expects the telecommunications and IT markets in Germany to remain important innovation drivers for the German economy. However, there will presumably not be any significant growth in revenues in the telecommunications industry because, although use is on the rise, price sensitivity will remain at the same level. Data communications will remain the most important growth segment in telecommunications. Network quality and the availability of fast data connections continue to gain in importance for consumers. Simplicity in making phone calls and surfing with excellent quality and at fair prices will remain the focus of interest for mobile services customers.

The virtually full-area availability of fast mobile internet access, the continuing growth in popularity of powerful smartphones and of services such as cloud applications, streaming services for photos or music, "near-field" and "machine-to-machine communication" along with the spread of LTE give rise to the expectation that growth rates in the use of mobile data communications will continue to be high. The greatest revenue growth and growth potential are predicted for this segment of the mobile services market. 1&1 Drillisch intends to make use of its customer-friendly portfolio to profit from this development.

In view of the comparatively high household coverage at present and the trend to mobile internet use, the Management Board expects growth to remain only moderate on the German (landline-based) broadband market.

Overall, 1&1 Drillisch is aiming to increase significantly its mobile internet clientele by approximately 1.2 million customer contracts, continuing the positive development in gross profit of its operating business and achieving revenue growth to approximately €3.7 billion. The Management Board expects an increase in adjusted EBITDA to approximately €750 million for 2018.

General statement from the Management Board on presumable development

The 1&1 Drillisch AG Management Board is optimistic in its outlook for the future. Thanks to a business model that is based for the most part on electronic subscriptions, 1&1 Drillisch views its position as by and large stable and secure from economic fluctuations. 1&1 Drillisch AG's acquisition of 1&1 Telecommunication SE created a strong fourth player on the German telecommunications market under the umbrella of United Internet AG.

1&1 Drillisch will continue to pursue this sustainable business policy in the coming years.

Marketing and sales will focus in particular on the marketing of mobile internet products in fiscal year 2018. 1&1 Drillisch intends to claim its share of market growth and continue to grow. The Company wants to take advantage of its good position for DSL products and grow in this sector as well.

Following the successful start to the year as well as at the later point in time of the preparation of this management report, the Management Board believes that the Company is well on its way to realising the projections explained in greater detail in the above section "Forecast for Fiscal Year 2018"

COMPENSATION REPORT

4. Compensation Report

The structure of the compensation system for the Management Board is determined by the Supervisory Board. The criteria for the reasonableness of the compensation include in particular the duties and responsibilities of each of the Management Board members; their personal performance; the performance of the Management Board as a whole; and the economic position, success and future prospects of the Company, taking into account its comparative environment. The compensation for the Management Board members comprises short-term components and factors with long-term incentive components. The short-term components consist of elements not contingent on success and merit-based elements. The elements not contingent on success comprise fixed compensation as well as payment in kind and other benefits. The fixed compensation as basic compensation not contingent on success is paid monthly as a salary and reviewed annually. In addition, the Management Board members receive other benefits, in particular allowances for health and long-term care insurance, as well as payments in kind comprising essentially the use of a company vehicle. The Management Board's compensation always includes variable merit-based compensation elements. These elements are redefined every year by the Supervisory Board on the basis of targets.

Wanting to establish a long-term incentive component, the Supervisory Board in 2016 concluded a "long-term incentive bonus" (LTI) agreement for a period of three years with the Management Board member Vlasios Choulidis and in 2015 a "bonus 2015–2017" agreement with the Management Board member André Driesen for a period of three years. The parameter for determining success is the consolidated EBITDA. In the event of a premature termination of the service relationship within the agreed period, the Management Board members receive a defined amount dependent on the time of their departure.

A compensation component with the effect of a long-term incentive exists for the Management Board member Martin Witt in the form of a participation programme based on virtual share options (SAR). The exercise threshold of the programme is 120% of the exercise price. The payment of the growth in value is limited to 100% of the stock exchange price of United Internet AG determined at the time the virtual options were granted.

The agreements with the Management Board have been concluded for terms until 31 March 2021 (Mr André Driesen with 1&1 Drillisch AG) and until 30 June 2019 (Mr Martin Witt with 1&1 Telecommunication SE). Mr Vlasios Choulidis prematurely stepped down from the Management Board per 31 December 2017. Mr Vlasios Choulidis' Management Board contract did not contain any express settlement commitment in the event of a premature termination of the service relationship with the exception of the following regulation. In the event of a change in the 1&1 Drillisch shareholder structure of more than 30% (change of control), a part of the compensation not based on success and of the merit-based compensation of the Board member Vlasios Choulidis would be deemed earned. Mr Vlasios Choulidis received a retention bonus for every fiscal year between 2016 and 2018 in which he was active on behalf of the Company pursuant to his appointment and service agreement over the entire period. The Management Board members receive compensation in the amount of €18k (previous year: €39k) for their supervisory board activities on behalf of various subsidiaries. The Management Board members did not receive any loans or advance payments in the reporting period. No pension commitments have been made to the Management Board.

COMPENSATION REPORT

Compensation for the members of the Company's Management Board comprises the following elements:

Paid compensation (in €k)				Vlasios Choulidis CEO				André Driesen Chief				Martin Witt* Chief
	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)
Fixed compensation	700	700	700	700	400	400	400	400	0	300	300	300
Fringe benefits	20	20	20	20	12	12	12	12	0	13	13	13
TOTAL	**720**	**720**	**720**	**720**	**412**	**412**	**412**	**412**	**0**	**313**	**313**	**313**
One-year variable compensation	800	900	0	900	240	350	0	350	0	200	0	200
Multiannual variable compensation												
- LTI 2011 - 2015	0	0	0	0	0	0	0	0	0	0	0	0
- LTI 2016 - 2018	1,080	1,562	592	1,562	0	0	0	0	0	0	0	0
- Bonus 2015 - 2017	0	0	0	0	100	100	0	100	0	0	0	0
- Retention bonus	400	400	0	400	0	0	0	0	0	0	0	0
- Change of Control	0	1,507	0	1,507	0	0	0	0	0	0	0	0
TOTAL	**2,280**	**4,369**	**592**	**4,369**	**340**	**450**	**0**	**450**	**0**	**200**	**0**	**200**
Pension expenses	2	1	1	1	2	1	1	1	0	0	0	0
TOTAL COMPENSATION	**3,002**	**5,090**	**1,313**	**5,090**	**754**	**863**	**413**	**863**	**0**	**513**	**313**	**513**

*Martin Witt, although Management Board member of 1&1 Drillisch AG, receives his compensation from 1&1 Telecommunication SE.

COMPENSATION REPORT

Payments (in €k)	Vlasios Choulidis CEO				André Driesen Chief				Martin Witt* Chief			
	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)
Fixed compensation	700	700	700	700	400	400	400	400	0	300	300	300
Fringe benefits	20	20	20	20	12	12	12	12	0	13	13	13
TOTAL	**720**	**720**	**720**	**720**	**412**	**412**	**412**	**412**	**0**	**313**	**313**	**313**
One-year variable compensation	800	900	0	900	240	350	0	350	0	200	0	200
Multiannual variable compensation												
- LTI 2011 - 2015	2,220	0	0	0	0	0	0	0	0	0	0	0
- LTI 2016 - 2018	0	0	0	0	0	0	0	0	0	0	0	0
- Bonus 2015 - 2017	0	0	0	0	0	0	0	0	0	0	0	0
- Retention bonus	0	400	0	400	0	0	0	0	0	0	0	0
- Change of Control	0	1,507	0	1,507	0	0	0	0	0	0	0	0
SAR Programme A2011	0	0	0	0	0	0	0	0	0	0	0	0
SAR Programme F2012	0	0	0	0	0	0	0	0	0	200	0	200
SAR Programme H2012	0	0	0	0	0	0	0	0	0	402	0	402
SAR Programme M2014	0	0	0	0	0	0	0	0	0	1,714	0	1,714
TOTAL	**3,020**	**2,807**	**0**	**2,807**	**240**	**350**	**0**	**350**	**0**	**2,516**	**0**	**2,516**
Pension expenses	2	1	1	1	2	1	1	1	0	0	0	0
TOTAL COMPENSATION	**3,742**	**3,528**	**721**	**3,528**	**654**	**763**	**413**	**763**	**0**	**2,829**	**313**	**2,829**

* Martin Witt, although Management Board member of 1&1 Drillisch AG, receives his compensation from 1&1 Telecommunication SE.

COMPENSATION REPORT

A contribution of €230k for the Management Board member Vlasios Choulidis was paid as deferred compensation into a pension fund in fiscal year 2017.

The multiannual compensation refers to a long-term incentive component which will be paid out in fiscal year 2018.

The compensation system for the 1&1 Drillisch AG Supervisory Board adopted by the Annual General Meeting 2013 provides for fixed compensation for an ordinary Supervisory Board member in the amount of €25,000 for each full fiscal year, for the Supervisory Board deputy chairperson and the chairperson of the Audit Committee in the amount of €37,500 each for each full fiscal year and for the Supervisory Board chairperson in the amount of €50,000 for each full fiscal year. If and when a Supervisory Board member exercises multiple functions, solely the highest amount of fixed compensation will accrue. Supervisory Board members who belong to the Supervisory Board or serve as chairperson or deputy chairperson of the Supervisory Board or as chairperson of the Audit Committee for only part of the fiscal year receive the fixed compensation on a pro rata temporis basis, rounded up to full months. Moreover, an attendance fee of €2,000 is paid per meeting and Supervisory Board member for each personal and physical participation in a physical meeting of the Supervisory Board and as a member of its committees. The attendance fee for the Supervisory Board chairperson and for a chairperson of a committee is €3,000 each. If a number of meetings are held on one day, only the two highest attendance fees are paid. Supervisory Board members who did not belong to the Supervisory Board during the full fiscal year receive pro rata temporis compensation according to the duration of their membership on the Supervisory Board. One-quarter of the fixed compensation is payable upon the expiration of each and every quarter. The attendance fees as accrued are payable upon the expiration of each and every quarter. The Supervisory Board members are also reimbursed for all of their expenses and for any turnover tax which must be paid on their compensation and expenses. In its own interest, the Company provides reasonable insurance at its own expense to the members of the Supervisory Board to cover the exercise of their activities as Supervisory Board.

The Supervisory Board compensation breaks down as follows:

Supervisory Board Compensation (in €k)	**2017**	2016
Michael Scheeren	12.4	0.0
Kai-Uwe Ricke	9.8	0.0
Kurt Dobitsch	5.2	0.0
Marc Brucherseifer	92.0	74.0
Susanne Rückert	55.2	53.5
Norbert Lang	53.0	37.0
Horst Lennertz	61.0	49.0
Frank Rothauge	61.7	63.5
Bernd H Schmidt	24.5	47.0
	374.8	**324.0**

SUPPLEMENTAL INFORMATION IN ACCORDANCE WITH SECTION 315A HGB

5. Supplementary Information

5.1. Supplementary information in accordance with Section 315 (4) HGB (information relevant for acquisitions)

The subscribed capital amounts to €194,441,113.90 and is distributed in 176,764,649 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10. Each share is the equivalent of one vote. The securitisation of the stock is excluded. In accordance with Sections 84 and 85 AktG in conjunction with Section 7 of the Company Charter, the Management Board is appointed and recalled by the Supervisory Board. Any amendments to the Company Charter must be adopted in conformity with legal statutes (Sections 179 et seqq. AktG) by the General Meeting. Moreover, the Supervisory Board is authorised to amend the Company Charter provided that such amendments affect only the wording. Per 31 December 2017, United Internet AG, Montabaur, held 67.06% and United Internet Investments Holding GmbH held 6.23% of the shares of 1&1 Drillisch AG. The 1&1 Drillisch AG shares issued to United Internet in accordance with the business combination agreement concluded between United Internet AG and 1&1 Drillisch AG (CI I and CI II) are subject to a retention period of nine months, beginning in each case on the day of the registration of the capital increase in the Commercial Register, during which United Internet covenanted neither to sell nor to encumber nor to assign to other parties the shares.

Approved Capital I

The Annual General Meeting of 21 May 2014 authorised the Management Board, subject to the approval of the Supervisory Board, to increase the Company's share capital by as much as €23,403,166.60 by a single or multiple issue of new no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2019 (Approved Capital). Thois approved capital was utilised in part by capital increases in May/June 2015 and in May 2017 and currently amounts to €11,701,583.30.

The authorisation granted to the Management Board increase the share capital, to the extent it had not yet been exercised, was revoked by the Extraordinary General Meeting on 12 January 2018.

Approved Capital II

The Management Board is authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital by as much as €5,850,791.65 by a single or multiple issue of new no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2020 (Approved Capital II).

The authorisation granted to the Management Board increase the share capital, to the extent it had not yet been exercised, was revoked by the Extraordinary General Meeting on 12 January 2018.

SUPPLEMENTAL INFORMATION IN ACCORDANCE WITH SECTION 315A HGB

Approved Capital 2018

The Extraordinary General Meeting of 12 January 2018 authorised the Management Board, subject to the approval of the Supervisory Board, to increase the Company's share capital by as much in total as €97,220,556.40 by a single or multiple issue of new shares against cash contributions and/or contributions in kind before the lapse of 11 January 2023 (Approved Capital 2018).

In the event of cash contributions, the new shares issued by the Management Board may, subject to the consent of the Supervisory Board, also be taken over by one or more banks or other companies fulfilling the prerequisites of Section 186 (5) first sentence AktG, subject to the obligation to offer them for subscription solely and exclusively to the shareholders (indirect subscription right). As a matter of principle, a subscription right is to be granted to the shareholders. However, the Management Board is authorised, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights:

» So that fractional amounts are excluded from the subscription right;

» If the capital increase is achieved by cash contributions and the issue price of the new shares is not significantly lower than that of the shares already traded on the exchange at the time of the final determination of the issue price, which should take place as contemporaneously as possible with the placement of the shares. The number of shares issued subject to exclusion of the subscription pursuant to Section 186 (3) fourth sentence AktG may not exceed 10% of the share capital, neither at the point in time at which this authorisation becomes effective nor at the point in time that it is exercised. Any shares that are issued or that are to be issued pursuant to options or convertible bonds must be attributed to this figure to the extent that the bonds are issued during the term of this authorisation in application mutatis mutandis of Section 186 (3) fourth sentence AktG in exclusion of subscription rights; moreover, any shares that are issued or sold during the term of this authorisation in direct application or application mutatis mutandis of Section 186 (3) fourth sentence AktG must be attributed to this figure;

» To the extent required to ensure that a subscription right can be granted to holders or creditors of option and/or conversion rights or of equivalent option and/or conversion obligations from bonds that have been or are issued by the Company and/or by companies dependent on the Company or in which the Company holds a majority interest, either directly or indirectly, equivalent to the subscription right to which such holders or creditors would be entitled after exercise of their option and/or conversion right or after fulfilment of the option and/or conversion obligation;

» If the capital increase against contributions in kind is carried out for the purpose of issuing shares within the framework of corporate mergers or of acquiring companies or parts of companies, holdings in companies or other assets;

» So that new shares up to a proportionate amount of the share capital totalling €9,722,055.20 may be issued as staff shares to employees of the Company or of affiliated companies within the sense of Section 15 et seqq. AktG.

SUPPLEMENTAL INFORMATION IN ACCORDANCE WITH SECTION 315A HGB

Furthermore, the Management Board is authorised, subject to the consent of the Supervisory Board, to determine the further content of the stock rights and the terms and conditions of the issue of the shares. The Supervisory Board is authorised to amend the current version of the Company Charter in accordance with the specific utilisation of the Approved Capital 2018 or after the expiration of the authorisation.

Contingent Capital 2013

The authorisation granted to the Management Board during the Annual General Meeting of 16 May 2013 to issue option and/or convertible bonds with a total nominal value not to exceed €100.0m was exercised in full (contingent capital 2013). In December 2013, 1&1 Drillisch AG issued a non-subordinated convertible bond with a total volume of €100.0m and a term of five years. The term of the bond ends on 12 December 2018. The Contingent Capital 2013 was utilised in full in fiscal year 2017 by the issue of a total of 5,000,000 shares.

Contingent Capital 2015

There has been a contingent increase in capital of up to €17,600,000.00 by the issue of up to 16,000,000 no-par value bearer shares with profit entitlement from the beginning of the fiscal year of their issue. The contingent capital increase serves the purpose of granting shares to the holders or creditors of option bonds, convertible bonds, profit-sharing rights and/or income bonds or combinations of these instruments that, pursuant to the authorisation of agenda item 10 of the Annual General Meeting of 21 May 2015, are issued against cash by the Company or by a company in which the Company, directly or indirectly, holds a majority interest and that grant a conversion or option right to no-par bearer shares of the Company or that determine a conversion/option obligation. The contingent capital increase is to be carried out solely to the extent that the option and/or conversion rights from the debenture bonds are exercised or that option/conversion obligations from the debenture bonds are fulfilled, and provided that cash compensation is not paid or that treasury stock or stock from another listed company is not utilised for this purpose. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the details of the conduct of the contingent capital increase (Contingent Capital 2015).

During the General Meeting of 12 January 2018, the existing authorisation granted by the Annual General Meeting of 21 May 2015 for the issue of option bonds, convertible bonds, profit sharing rights and/or income bonds or combinations of these instruments in a total nominal value of no more than €750,000,000.00 (which had not been utilised) along with the Contingent Capital 2015 in the amount of €17,600,000.00 created for their satisfaction was revoked.

Contingent Capital 2018

The share capital has been contingently raised by up to €96,800,000.00 by the issue of up to 88,000,000 new no-par shares issued to the bearer (Contingent Capital 2018). The contingent capital increase will be carried out solely to the extent that the holders or creditors of option and/or convertible bonds, profit sharing rights and/or income bonds (or combinations of these instruments) that include option and/or conversion rights and/or option and/or conversion obligations or tender rights of the Company and that

SUPPLEMENTAL INFORMATION IN ACCORDANCE WITH SECTION 315A HGB

are issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, pursuant to the authorisation resolution of the General Meeting of 12 January 2018, by no later than 11 January 2023, exercise their option or conversion rights pursuant to these bonds or fulfil their obligation to exercise the option or for conversion; or, to the extent the Company exercises an option, to grant no-par shares of the Company in lieu of the payment of a cash amount that is due and to the extent that no cash compensation is granted or that own shares or shares of another company listed on the stock exchange are not used to satisfy the claims. The new shares will be issued in each case at the option or conversion price to be determined in accordance with the authorisation resolution stipulated above. The new shares participate in profits as of the beginning of the fiscal year in which they are issued; to the extent legally permissible, the Management Board, subject to the Supervisory Board's consent, may also determine the participation in profits for a previously expired fiscal year for new shares in abrogation of this provision and of Section 60 (2) AktG. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the details of the conduct of the contingent capital increase.

Treasury stock

Per the closing date 31 December 2017, 1&1 Drillisch AG did not hold any shares of its own stock.

The Annual General Meeting on 21 May 2015 adopted a resolution authorising the 1&1 Drillisch AG Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2015 on or before 20 May 2020 (including the use of derivatives).

The granted authorisation for the acquisition and utilisation of treasury stock was revoked by the General Meeting of 12 January 2018 and superseded by the new authorisation below:

The Company is authorised to acquire shares of the Company's own stock in an amount totalling no more than 10% of the share capital at the time of the adoption of the resolution or – if this value is lower – at the time of the exercise of the authorisation; this authorisation expires on 11 January 2023. Any shares acquired pursuant to this authorisation, together with any other treasury stock in the Company's possession or attributable to the Company pursuant to Sections 71a et seqq. AktG, may not exceed at any time a value in excess of 10% of the share capital.

The authorisation may be exercised in one full amount or in partial amounts, once or on multiple occasions, in pursuit of one or multiple objectives, directly by the Company or also by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, or by third parties instructed by the Company or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest.

At the option of the Management Board, the shares may be acquired on the stock exchange or on the basis of a public purchase offer or by means of a public invitation to submit offers to sell.

SUPPLEMENTAL INFORMATION IN ACCORDANCE WITH SECTION 315A HGB

The Management Board is authorised, subject to the Supervisory Board's consent, to sell any Company shares acquired pursuant to this authorisation on the stock exchange or by offer to all shareholders in the ratio of their holdings. Moreover, Company shares acquired pursuant to this authorisation may be used for any and all other legally permissible purposes, including in particular, but not limited to, the following purposes:

» The shares may be sold to third parties against cash payment at a price that does not fall significantly short of the stock exchange price of shares of an equivalent nature at the point in time of the sale. In this case, the number of shares to be sold may not exceed in total 10% of the share capital at the time of the adoption of the resolution by today's General Meeting or – if this amount is lower – 10% of the share capital at the time of the sale of the Company's shares. Any shares issued or sold in application, whether direct or mutatis mutandis, of Section 186 (3) fourth sentence AktG during the term of this authorisation must be attributed to this limitation of 10% of the share capital. Furthermore, any shares that must be issued to satisfy option and/or convertible bonds must be attributed to this limit of 10% of the share capital, provided that the bonds have been issued during the term of this authorisation in application mutatis mutandis of Section 186 (3) fourth sentence AktG and excluding the subscription right.

» The shares may be used for the fulfilment of obligations pursuant to bonds with option and/or conversion right or option and/or conversion obligation issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest,

» The shares may be issued against assets, including claims against the Company, in particular, but not solely, in relation to the acquisition of companies, holdings in companies or parts of companies, or corporate mergers.

» The shares may be used in relation to stock-based compensation or employee stock option programmes of the Company or of its affiliates and may be offered and transferred to persons who are or were in an employment relationship with the Company or one of its affiliates as well as to directors and officers of the Company's affiliates.

» The shares may be redeemed without requiring any additional General Meeting resolution for the redemption or the execution of the redemption. The Management Board may determine that the share capital will be decreased during the redemption; in this case, the Management Board is authorised to reduce the share capital by the proportionate amount of share capital attributable to the redeemed shares and to adjust the information regarding the number of shares and the share capital in the Company Charter. The Management Board may also determine that the share capital will remain unchanged by the redemption and that instead the share of the other shares in the share capital is increased by the redemption pursuant to Section 8 (3) AktG. The Management Board is authorised is this case as well to adjust the information regarding the number of shares in the Company Charter.

» The Supervisory Board is authorised to assign treasury stock acquired pursuant to this authorisation to the members the Company's Management Board in fulfilment of applicable compensation agreements.

SUPPLEMENTAL INFORMATION IN ACCORDANCE WITH SECTION 315A HGB

The subscription right of the shareholders is excluded to the extent that treasury stock is utilised in accordance with the authorisations described above. Furthermore, the Management Board, subject to the Supervisory Board's consent, is authorised, in the event of the sale of acquired treasury stock based on an offer to the shareholders, to grant to the holders or creditors of bonds with option and/or conversion rights or corresponding option and/or conversion obligations issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, a subscription right to the shares in the scope to which they would be entitled after exercise of the option or conversion right or fulfilment of the option or conversion obligation; the shareholders' subscription right is excluded in the same scope.

5.2. Declaration on Corporate Management pursuant to Section 289a HGB

1&1 Drillisch has published the Declaration on Corporate Management pursuant to Section 289a HGB [Commercial Code], which also contains the Declaration of Conformity pursuant to Section 161 AktG, on the Company's internet site at https://www.1und1-drillisch.de/corporate-governance > Declaration of Conformity. Moreover, Management Board and Supervisory Board describe in detail the principles of good, value-oriented corporate management in full awareness of responsibility as pursued at 1&1 Drillisch in the corporate governance report in the Annual Report and on the Company's internet site. In addition, the working methods of the Management Board and Supervisory Board as well as the composition and working methods of the committees are described.

5.3. Non-financial declaration pursuant to Section 289b HGB

The Company's declaration pursuant to Section 289b HGB is published in compliance with statutory deadlines on the internet site of 1&1 Drillisch at https://www.1und1-drillisch.de/corporate-governance > Sustainability Report.

DEPENDENCY REPORT , IMPORTANT EVENTS AFTER THE END OF THE FISCAL YEAR

6. Dependency Report

Pursuant to Section 312 AktG, the Management Board declares: that the Company received consideration for each and every legal transaction and action listed in the Report on Relations to Affiliated Companies; that in view of the circumstances known to the Company at the time the transactions were carried out or the actions were executed or not executed, the consideration was reasonable; and that the Company was not disadvantaged because the actions were executed or not executed.

7. Important events after the end of the fiscal year

No important events occurred after the balance sheet date.

Maintal, 20 March 2018

The Management Board

Ralph Dommermuth André Driesen Martin Witt

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CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

for the period: 1 January - 31 December 2017

	Remarks	2017 €k	2016 €k
Sales	6	2,812,313	2,430,058
Cost of sales	7, 12, 13	-1,887,695	-1,698,676
GROSS PROFIT FROM TURNOVER		**924,619**	**731,383**
Distribution costs	8, 12, 13	-393,728	-294,299
Administration costs	9, 12, 13	-74,407	-61,566
Other operating expenses	10	-45,066	-19,169
Other operating income	11	28,486	22,975
RESULTS FROM OPERATING ACTIVITIES		**439,903**	**379,324**
Financing expenditures	14	-9,519	-24,931
Financial income	15	946	188
RESULTS BEFORE TAXES		**431,330**	**354,581**
Tax expenses	16	-120,959	-111,685
CONSOLIDATED RESULTS (FROM CONTINUED OPERATION)		**310,372**	**242,896**
Results after taxes from discontinued operation	4	170,931	462
CONSOLIDATED RESULTS (FROM DISCONTINUED OPERATION)		**481,302**	**243,357**
Thereof attributable to			
- Non-controlling interests		16,623	39,285
- Shareholders of 1&1 Drillisch AG		**464,679**	**204,072**
Categories that may subsequently be reclassified in the profit and loss account		0	0
Categories that will not subsequently be reclassified in the profit and loss account		0	0
TOTAL CONSOLIDATED RESULTS		**481,302**	**243,357**
Thereof attributable to			
- Non-controlling interests		16,623	39,285
- Shareholders of 1&1 Drillisch AG		**464,679**	**204,072**
Profit per share of the shareholders of 1&1 Drillisch AG (in €)			
- undiluted	53	2.28	2.08
- diluted	53	2.28	2.08

CONSOLIDATED BALANCE SHEET

for the period: 31 December 2017

	Remarks	31/12/2017 €k	31/12/2016 €k
ASSETS			
Short-term assets			
Cash and cash equivalents	17	149,681	4,562
Trade accounts receivable	18	182,620	152,232
Receivables due from associated companies	19	168,261	4,099
Inventories	20	46,467	39,286
Prepaid expenses	21	15,052	47,662
Other financial assets	22	80,120	7,415
Other non-financial assets	23	14,352	8,279
		656,552	**263,535**
Long-term assets			
Other financial assets	24	6,095	5,091
Tangible assets	25	14,702	555,220
Intangible assets	26, 27	901,414	243,173
Goodwill	27	2,932,943	506,482
Trade accounts receivable	28	0	55,841
Prepaid expenses	29	79,414	122,248
Deferred tax assets	16	144,586	91,669
		4,079,155	**1,579,724**
TOTAL ASSETS		**4,735,708**	**1,843,259**

	Remarks	31/12/2017 €k	31/12/2016 €k
LIABILITIES AND EQUITY			
Liabilities			
Short-term debt			
Trade accounts payable	30, 40	229,549	295,492
Bank loans and overdrafts	32, 40	0	1
Payments on account	33, 40	5,976	4,164
Liabilities due to affiliated companies	31, 40	221,861	594,798
Income tax liabilities	34, 40	47,046	12,020
Deferred income	35, 40	48,394	63,661
Other provisions	36, 40	52,958	11,183
Other financial liabilities	37, 40	45,704	61,146
Other non-financial liabilities	38, 40	23,755	4,264
		675,244	**1,046,729**
Long-term debt			
Deferred tax liabilities	14	245,506	43,190
Trade accounts payable	30, 40	0	9,285
Liabilities due to affiliated companies	31, 40	0	1,003,963
Deferred income	35, 40	0	26,254
Other provisions	36, 40	3,541	40,450
Other financial liabilities	39, 40	6,338	86,207
		255,384	**1,209,349**
TOTAL LIABILITIES		**930,628**	**2,256,078**
Equity			
Share capital	42	194,441	121
Capital reserves	43	2,447,085	-1,067,670
Cumulative consolidated results		1,163,554	615,289
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY		**3,805,080**	**-452,260**
Non-controlling interests	45	0	39,441
TOTAL EQUITY		**3,805,080**	**-412,819**
TOTAL LIABILITIES AND EQUITY		**4,735,708**	**1,843,259**

CONSOLIDATED CASH FLOW STATEMENT

for the period: 1 January - 31 December 2017

	Remarks	2017 €k	2016 €k
RESULTS FROM OPERATING ACTIVITIES	51		
Consolidated results		481,302	243,357
Consolidated results from discontinued operation		170,931	461
Consolidated results from continued operation		310,372	242,896
Allowances for transfer of consolidated results to incoming and outgoing payments			
Depreciation on intangible and tangible assets	12	24,320	8,610
Depreciation on assets capitalised within the framework of corporate acquisitions	12	39,768	0
Changes in the adjustment items for deferred tax assets	16	-19,303	-4,481
Correction profit/loss from the sale of tangible assets		551	-189
Results from deconsolidation	51	13,989	0
Other items not affecting payments		441	-79
CASH FLOW FROM OPERATING ACTIVITIES		**370,138**	**246,757**
Changes in assets and liabilities			
Change in receivables and other assets		-71,408	154
Change in inventories		-816	2,733
Change in deferred expenditures		53,999	-40,501
Change in trade accounts payable		-75,046	-33,787
Change in payments on account		-167	-30
Change in other provisions		13,593	-4,119
Change in income tax debt		26,010	-92,336
Change in other liabilities		13,752	1,287
Change in receivables due from/liabilities due to associated companies		-35,446	-18,917
Change in deferred earnings		-483	4,181
CHANGES IN ASSETS AND LIABILITIES, TOTAL		**-76,012**	**-181,335**
Net inflow of funds from operating activities (before capital gains tax payments)		**294,126**	**65,422**
Net inflow of funds from operating activity from the continued operation		**294,126**	**65,422**
Net inflow of funds from operating activity from the discontinued operation		**53,484**	**145,404**
Net inflow of funds from operating activities		**347,610**	**210,826**

	Remarks	2017 €k	2016 €k
CASH FLOW FROM INVESTMENTS	51		
Investments in intangible and tangible assets		-15,556	-26,919
Payments for acquisitions less acquired cash		-264	0
Payments from disposal of intangible and tangible assets		0	606
Acquisition of shares in affiliated companies less cash received		553	0
Investments in other financial assets		0	-49
Incoming payments from the initial consolidation of Drillisch related to the reverse acquisition		33,125	0
Disposal from deconsolidation		-8,539	0
Reimbursements from other financial assets		-51	215
Net in-/outflow of funds in the investment sector continued operation		**9,268**	**-26,147**
Net outflow of funds in investment sector discontinued operation		**-58,648**	**-107,017**
Net outflow of funds in investment sector		**-49,380**	**-133,164**
CASH FLOW FROM INVESTMENTS	51		
Payments from the assumption of losses by United Internet AG		12,498	8,715
Other payments/contributions to equity		0	222
In-/outflow of funds from changes in the cash pool balances with associated companies	47	91,843	-64,862
Repayment of finance leasing liabilities		-347	0
Outgoing payments for amortisation of financial loans	32	-50,000	0
Repayment of loans from associated companies		-200,000	0
Net outflow of funds in financing sector continued operation		**-146,006**	**-55,925**
Net outflow of funds in financing sector discontinued operation		**-7,105**	**-18,178**
Net outflow of funds in financing sector discontinued operation		**-153,111**	**-74,103**
Net increase in cash and cash equivalents		145,119	3,559
Cash and cash equivalents at beginning of fiscal year		4,562	1,003
Cash and cash equivalents at end of reporting period		**149,681**	**4,562**
less cash and cash equivalents of discontinued operation at end of reporting period		0	-3,669
Cash and cash equivalents at end of reporting period		**149,681**	**893**

CONSOLIDATED CHANGE IN EQUITY STATEMENT

in fiscal year 2017 and 2016

	Share capital		Capital reserves
Remarks	**42**		**43**
	Denomination	€k	€k
Per 1 January 2016	**121,000**	**121**	**-1,058,956**
Appropriation of earnings 2015	0	0	-8,714
Consolidated results	0	0	0
Total Results			**-8,714**
Contribution from assumption of loss	0	0	0
Other contributions	0	0	0
Per 31 December 2016	**121,000**	**121**	**-1,067,670**
Per 1 January 2017	**121,000**	**121**	**-1,067,670**
Consolidated results	0	0	0
Total Results			**0**
Total withdrawals/contributions	0	0	360,710
Issue of own stock	176,643,649	194,320	0
Change in holding ratios	0	0	-99,755
Corporate merger	0	0	3,253,893
Other transactions with equity investors	0	0	-93
PER 31 DECEMBER 2017	**176,764,649**	**194,441**	**2,447,085**

	Cumulative consolidated results	Equity attributable to the 1&1 Drillisch AG shareholders	Non-controlling interests	Total equity
			45	
	€k	€k	€k	€k
	389,284	**-669,551**	**-65**	**-669,616**
	8,714	0	0	0
	206,054	206,054	39,285	245,339
	214,768	**206,054**	**39,285**	**245,339**
	11,237	11,237	0	11,237
	0	0	222	222
	615,289	**-452,260**	**39,442**	**-412,818**
	615,983	**-452,260**	**39,442**	**-412,818**
	464,679	464,679	16,623	481,302
	464,679	**464,679**	**16,623**	**481,302**
	83,586	444,296	0	444,296
	0	194,320	0	194,320
	0	-99,755	-56,065	-155,820
	0	3,253,893	0	3,253,893
	0	-93	0	-93
	1,163,554	**3,805,080**	**0**	**3,805,080**

CONSOLIDATED NOTES

1. General information about the Company and the annual financial statements

1&1 Drillisch AG (hereinafter also known as “1&1 Drillisch Group” or the “Company”) is a telecommunications provider operating exclusively in Germany. The Group, a leading German internet specialist and virtual mobile network operator with guaranteed access to a specific share of the network capacity of Telefónica in Germany (so-called mobile bitstream access mobile virtual network operator = MBA MVNO), offers landline and mobile network-based internet access products in the business division Access. They include, among others, landline and mobile access products subject to charge, including the related applications such as home networks, online storage, telephony, video on demand or IPTV.

Company headquarters are at Wilhelm-Röntgen Strasse 1–5 in 63477 Maintal, Germany, and the Company is registered under the number HRB 7384 at Local Court Hanau.

The consolidated annual financial statements of 1&1 Drillisch AG have been prepared in accordance with the International Financial Reporting Standards (IFRS) as they are applicable in the European Union (EU) and with the commercial law provisions that must be observed in supplement pursuant to Section 315e (1) HGB [German Commercial Code].

1&1 Drillisch is included in the consolidated annual financial statements of United Internet AG, Montabaur.

The euro is the currency of the reporting. The figures in the notes are shown as designated in each specific case in euros (€), thousand euros (€k) or million euros (€m). The annual financial statements are prepared applying the principle of cost of acquisition. Exceptions to this principle are derivative financial instruments and financial assets available for sale, which are measured at fair value.

The balance sheet date is 31 December 2017.

The consolidated annual financial statements were prepared by the Company’s Management Board per 20 March 2018 and subsequently submitted to the Supervisory Board. The consolidated annual financial statements were presented to the Supervisory Board for approval on 21 March 2018. Until the consolidated annual financial statements have been approved and released for publication by the Supervisory Board, it is theoretically possible that changes will be made. The Management Board, however, is assuming that the consolidated annual financial statements will be approved in their current form. They will be published on 22 March 2018.

CONSOLIDATED NOTES

Shareholdings of 1&1 Drillisch AG in accordance with Section 313 (2) HGB

The Group includes per 31 December 2017 the following companies in which 1&1 Drillisch AG directly or indirectly holds a majority interest.

Name and registered office of the company	Capital share %
Drillisch Online AG, Maintal	100
IQ-optimize Software AG, Maintal	100
Drillisch Netz AG, Düsseldorf	100
Drillisch Logistik GmbH, Münster (previously The Phone House Deutschland GmbH, Münster)	100
1&1 Telecommunication SE, Montabaur	100
Mobile Ventures GmbH, Maintal[1]	100
1&1 Telecom Holding GmbH, Montabaur[2]	85
1&1 Telecom Sales GmbH, Montabaur[3]	100
1&1 Telecom Service Montabaur GmbH, Montabaur[3]	100
1&1 Telecom Service Zweibrücken GmbH, Zweibrücken[3]	100
1&1 Berlin Telecom Service GmbH, Berlin[3]	100
1&1 Logistik GmbH, Montabaur[3]	100
1&1 Telecom GmbH, Montabaur[4]	85

1 Wholly-owned subsidiary of Drillisch Online AG
2 85% subsidiary of 1&1 Telecommunication SE
3 Wholly-owned subsidiary of 1&1 Telecommunication SE
4 Wholly-owned subsidiary of 1&1 Telecom Holding GmbH

Moreover, the Company has holdings, either direct or indirect, in the following companies; they are not included in the consolidated annual financial statements because of their minor significance.

Name and registered office of the company	Capital share %
POSpulse GmbH, Berlin	11
PipesBox GmbH, Rostock	3
Blitz 17-665 SE, Munich	100
Blitz 17-666 SE, Munich	100
High-Tech Gründerfonds III GmbH & Co. KG, Bonn	1

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Acquisition of 1&1 Telecommunication SE

On 12 May 2017, 1&1 Drillisch AG (still operating at that time under the name "Drillisch Aktiengesellschaft") and United Internet AG, Montabaur ("United Internet"), concluded a business combination agreement regulating 1&1 Drillisch AG's step-by-step acquisition of 1&1 Telecommunication SE, Montabaur ("1&1").

During the execution of this total transaction, 1&1 Telecommunication SE was in legal terms bought out by 1&1 Drillisch AG; this move created a strong full-service telecommunications provider with significant potential for synergy and growth under the umbrella of United Internet.

The first step was the acquisition by 1&1 Drillisch AG on 16 May 2017 of about 7.75% of 1&1 in the form of a capital increase against non-cash contributions. United Internet AG received 9.1 million new shares of 1&1 Drillisch AG stock, increasing United Internet's holding in 1&1 Drillisch AG from 20.08% to just over 30%.

Upon exceeding the holding threshold of 30%, United Internet published a voluntary, public takeover offer to 1&1 Drillisch AG shareholders parallel to the transaction. In response to the voluntary, public takeover offer of €50 in cash for each share of 1&1 Drillisch AG stock published on 26 May 2017, a total of 1,224,157 shares of 1&1 Drillisch AG stock, corresponding to 1.78% of the outstanding shares at the time, was tendered to United Internet as of the expiration of the extended acceptance deadline on 12 July 2017. 1&1 Drillisch AG's Management and Supervisory Boards refrained from issuing a concrete recommendation for action to the 1&1 Drillisch AG shareholders, but advocated the transaction as a whole.

During an Extraordinary General Meeting of 1&1 Drillisch AG held on 25 July 2017, the shareholders, by a vote of 97.85% of the valid votes cast, approved an increase in the share capital from €70,209,499.80 to €188,941,113.90 against contribution of all shares of the 1&1 stock not yet held by 1&1 Drillisch AG in the form of a non-cash capital increase.

As of the registration of the non-cash capital increase in the Commercial Register on 8 September 2017, 1&1 Drillisch AG acquired the remaining share of about 92.25% in 1&1. Since that date, 1&1 has been a wholly-owned subsidiary of 1&1 Drillisch AG. As of the successful completion of this transaction as a whole, 1&1 Drillisch has become the new fourth major power on the German telecommunications market.

In contrast to the transaction described above, which in legal terms saw 1&1 Drillisch AG (the legal acquirer) acquiring the shares in 1&1 as part of the non-cash capital increase, the IFRS accounting (cf. IFRS 3.6 in conjunction with IFRS 3.B19) applies an economic method for identification of the acquirer. Following the IFRS provisions leads to the classification of the acquisition of the shares of 1&1 stock by 1&1 Drillisch AG as a reverse acquisition.

In the accounting, it is assumed that 1&1 as the economic acquiree has acquired the shares of 1&1 Drillisch AG stock. The calculation of the goodwill and the hidden reserves as well as hidden liabilities that must be reversed in the process of the purchase price allocation and the accounting principles that are to be applied as of the point in the time of the acquisition are based on the perspective of the economic acquiree. The consequence is that there is no longer any comparability of the balance sheet and comprehensive income statement of previous 1&1 Drillisch financial statements because, for one, the figures of 1&1 must be given as the comparable figures of the previous

CONSOLIDATED NOTES

year and, for another, the comprehensive income statement must be prepared according to the cost-of-sales method and the accounting principles of 1&1 must be applied. The date of registration of the Capital Increase II in the Commercial Register is deemed the point in time of the acquisition, i.e. the time at which the economic acquiree obtains control over the acquired company; in the present case, that date is 8 September 2017. The inclusion of 1&1 Drillisch AG as the acquired company in the consolidated financial statements is therefore only proportional for the time period from the moment control was gained. 1&1 Drillisch AG is therefore considered only for about four months in the comprehensive income statement and the capital flow statement of the consolidated annual financial statements per 31 December 2017.

2. Accounting and valuation principles

This section begins with a description of all of the accounting principles that have been applied uniformly to the periods covered in these annual financial statements. Following these remarks, the accounting standards applied for the first time in these annual financial statements as well as the recently issued accounting standards that have not yet been applied will be explained.

2.1 Explanatory comments on major accounting and valuation methods

Consolidation principles

The consolidated annual financial statements include 1&1 Drillisch AG and all of the subsidiaries it controls (majority interests). In accordance with IFRS 10, an investor has control of a company when he has the power to make decisions, is vulnerable to variable returns or is entitled to rights related to the returns and he is in a position to influence the variable returns as a consequence of his power to make decisions. The annual financial statements of the subsidiaries are prepared per the same balance sheet date and in application of uniform accounting and valuation methods as the financial statements of the parent company.

All in-group balances, transactions, income, expenses and profit and loss from intercompany transactions contained in the book value of assets are eliminated completely.

Subsidiaries are fully consolidated as of the point in time of their acquisition, i.e. from the point in time at which the Group gains control. The inclusion in the consolidated annual financial statements ends as soon as the control by the parent company ceases to exist.

With the loss of the controlling influence, a profit or loss from the departure of the subsidiary is recognised in the consolidated comprehensive income statement in the amount of the difference between (i) the income from the sale of the subsidiary, the fair value of any retained shares, the book value of the uncontrolled shares and the cumulative amounts of the other consolidated results attributable to the subsidiary and (ii) the book value of the departing net assets of the subsidiary.

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Revenue realisation

Income is recognised when it is probable that the economic benefits will accrue to the Group and the amount of the income can be reliably determined. Income is measured at the fair value of the received consideration. Turnover tax or other levies are not included in the measurement. Moreover, the income realisation presumes that the reporting criteria listed below have been met.

Specifically, revenues are realised according to the following viewpoints:

Sales revenues comprise essentially revenues from the provision of access to a telecommunications network and the billing of these services on the basis of the existing customer relationships (sales revenues from access services) and sales revenues from the sale of hardware (Other sales revenues).

The Company realises revenues primarily from the provision of the aforementioned access products and from services such as internet and mobile telephony and, to a small degree, Other sales revenues. The service revenues take the form of fixed monthly basic fees and variable additional utilisation charges for certain services (e.g. for foreign and mobile connections that are not covered by a flat rate).

The revenues are realised in line with the performance of services that, as a rule, correspond to the collection of the monthly amounts (utilisation charges and basic fees) paid by customers less credit notes and adjustments related to price discounts. Sales revenues from the sale of hardware are realised upon the passing of risk in the amount billed to the customers. Advance payments made by customers are shown as deferred income in the balance sheet. Moreover, revenues are generated for the brokerage of mobile services rate plans to other providers and from the receipt of promotion rebates.

Sales revenues also include income from various telecommunications products for business and wholesale customers. Besides the provision of traditional landline connections (DSL and IDSN), the telecommunications services include broadband services, network solutions as telecommunications infrastructure (so-called leased lines) or VPN, added-value services, interconnection and IP services. Certain products are made available on the basis of leasing agreements. If all of the significant opportunities and risks from a leasing agreement are transferred to the lessee, the present value of the minimum leasing payments from the commercial sale are realised as sales revenues concurrently with the start of the lease; in the following periods, the finance leasing receivables are realised as interest income for the subsequent accounting. The leased assets are derecognised through the cost of sales. Activation charges are distributed as accruals over the term of the contract.

In addition, income from services and allocations for United Internet AG and group companies belonging to United Internet Group that are not members of the group of consolidated companies of 1&1 Drillisch AG Group are realised as soon as the service has been performed.

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Disclosure of capital gains and losses from the sale of associated companies

Regular revaluation and measurement, especially of shares in associated companies and the sale of any held shares, are disclosed in the financial results (to the extent that there are any effects on operating results); see here as well the explanatory comments on the financial results.

Profits from the sale of these shares are always disclosed under other operating income, losses from the sale under the other operating expenses.

Foreign currency translation

The consolidated annual financial statements are prepared in euros, the Company's functional and presentation currency. Each of the companies within the Group determines its own functional currency. The items of the separate financial statements of each company are recognised in this functional currency.

Transactions in foreign currencies are initially translated into the functional currency at the applicable spot rate in effect on the day of the business transaction.

Monetary assets and liabilities in foreign currencies are translated into the functional currency on every closing date at the exchange rate on the closing date.

Non-monetary items that have been measured at historical cost of acquisition or manufacture in a foreign currency are translated at the exchange rate on the day of the business transaction. Non-monetary items that are measured at their fair value in a foreign currency are translated at the exchange rate that was effective at the point in time of the determination of the fair value.

Discontinued operations

A discontinued operation is a business operation that either has been designated for sale or has already been sold and can consequently, from the operating perspective, clearly be set apart (in the finance reporting as well) from the other operating activities. Moreover, the discontinued operation must represent a separate significant branch of business or a certain geographic business operation of the group. No further scheduled write-offs are taken on long-term assets that have been marked for sale, either singly or collectively in a disposal group, or that belong to a discontinued operation. They are disclosed at the lower of book value and fair value less any costs of selling that are incurred. If this value is lower than the book value, there is a write-down. The result from the valuation of operations marked for sale as well as profits and losses from the sale of discontinued operations plus the profit or loss from ordinary business activities of these operations are shown separately in the consolidated profit and loss account as profit or loss from discontinued operations. The values in the profit and loss account of the previous year are adjusted accordingly. The pertinent assets and liabilities are disclosed in a separate balance sheet item. The payment flows of discontinued operations are disclosed separately in the cash flow statement and the values of the previous year are adjusted accordingly. In contrast, there is no adjustment of the previous year's balance sheet.

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Tangible assets

Tangible assets are always recognised at their cost of acquisition or manufacture less cumulative scheduled depreciation and cumulative impairment losses.

A tangible asset is derecognised either upon its disposal or when no further commercial benefits are expected from the continued use or sale of the asset. The profit or loss from the disposal of the assets is recognised in operating results in the profit and loss account.

The residual values, useful life and depreciation methods are reviewed and, as appropriate, adjusted at the end of every fiscal year.

Tangible fixed assets are written off over the presumed useful commercial life by the straight-line method.

The assumed useful life for assets is shown in the following overview:

	Useful life in years
Tenant installations	Up to 10
Motor vehicles	5 to 6
Other equipment, fixtures, fittings and equipment	3 to 19
Office furnishings	Up to 13
Servers	3 to 5

The applicable residual useful life for the tangible fixed assets acquired during the corporate acquisition is determined above all on the basis of the aforementioned useful life and the part of the useful life that had passed at the time of the acquisition.

The conduct of impairment tests and the recognition of impairment losses and value recoveries correspond to the procedure for intangible assets with a limited useful life (see below).

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred unless they are related to the production or acquisition of a “qualifying asset”. There were no borrowing costs requiring capitalisation during the reporting period and in the previous year.

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Corporate mergers and goodwill

Corporate mergers are disclosed in the balance sheet in accordance with the purchase method. This includes the recognition of all identifiable assets and liabilities of the acquired business operation at the fair value.

If the initial disclosure in the balance sheet of a corporate merger has not been concluded at the end of a reporting period, provisional amounts are recognised for the items related to the disclosure. If new information becomes known within the valuation period of no more than one year from the point in time of the acquisition that illuminates the relationships at the point in time of the acquisition, the provisionally recognised amounts are corrected and additional assets or liabilities are recognised.

The initial recognition of goodwill from corporate mergers is measured at cost of acquisition calculated as the cost of acquisition of the corporate acquisition in excess of the fair value of the acquired identifiable assets, liabilities and contingent liabilities. After the initial recognition, goodwill is measured at the cost of acquisition less cumulative impairment losses. Goodwill is reviewed for impairment losses at least once a year or whenever circumstances or changes in circumstances indicate that the book value may have declined.

To determine whether there has been an impairment loss, the goodwill acquired during a corporate merger must be allocated from the day of the takeover to each of the cash-generating units in the corporate group that will benefit from the synergies of the merger. This requirement is independent of whether other assets or liabilities of the corporate group have previously been allocated to these units.

The required impairment loss is calculated by comparing the realisable amount of the cash-generating units to which the goodwill is related with their book value. The realisable amount of an asset or of a cash-generating unit is the higher of the fair value of an asset or a cash-generating unit less cost of selling and the utilisation value. The utilisation value is calculated by discounting the expected future cash flow, based on a discount rate before taxes that reflects current market expectations regarding the interest effect and the specific risks of the asset, to its present value. A suitable assessment model is used to determine the fair value less selling costs. It is based on a DCF model, valuation multipliers, stock prices of subsidiaries traded on stock exchanges or other indicators for a fair value that are available. If the book value of an asset or a cash-generating unit exceeds the realisable amount, the asset or cash-generating unit is regarded as impaired and written down to the realisable amount. An impairment loss recognised for goodwill may not be recovered in following reporting periods. The Group conducts the annual review of the goodwill for recoverability on the balance sheet date.

Intangible assets

Singly acquired intangible assets are measured at cost of acquisition at the time of their initial recognition. The cost of acquisition of intangible assets acquired as part of a corporate merger corresponds to their fair value at the time of the acquisition. In the following periods, intangible assets are presented at cost of acquisition less cumulative depreciation and cumulative impairment losses. Costs for self-produced intangible assets (with the exception of development costs that can be capitalised) are recognised as operating results in the period in which they are incurred.

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A distinction is made between intangible assets with a limited useful life and such assets with an indeterminate useful life.

Intangible assets with a limited useful life are depreciated by the straight-line method over the commercial useful life and reviewed for a possible impairment loss whenever there are indications that the intangible asset may have lost value. The procedure for the recoverability test is the same as for the recoverability test for goodwill. Depreciation on intangible assets with a limited useful life is recognised in the profit and loss account under the expense category corresponding to the function of the intangible asset in the company.

Intangible assets with an indeterminate useful life are not depreciated according to a schedule, but are reviewed for recoverability at least once a year on the balance sheet date at the level of the specific asset or at the level of the cash-generating unit. The procedure is the same as for the recoverability test for goodwill.

The assumed useful life for assets is shown in the following overview:

	Useful life in years
Trademark rights	Indeterminate
Clientele	4 to 25
Licences and other rights	2 to 15
Software	2 to 5

In addition, there is a review on every balance sheet date to determine whether there are any indications that a previously recognised impairment loss no longer exists or has diminished. If there are any such indications, the Company makes an estimate of the realisable amount. A previously recognised impairment loss is reversed solely if there has been a change in the estimates used in the calculation of the realisable amount since the recognition of the last impairment loss. If this is the case, the book value of the asset is written up to its realisable amount. This amount, however, may not exceed the book value that would result after consideration of the write-offs if no impairment losses for the assets had been recognised in previous years.

Measurement of the fair value

Some assets and liabilities are measured at the fair value at the time of the initial recognition or during the subsequent valuation.

The fair value is the price that would be paid during an orderly business transaction between market participants on the measurement date for the sale of an asset or the transfer of a debt. It is assumed for the valuation of the fair value that the business transaction during which the asset is sold or the liability is transferred is conducted either:

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- On the active market for the asset or liability; or
- On the most advantageous market for the asset or liability if an active market does not exist.

The corporation must have access to the active market or to the most advantageous market.

The fair value of an asset or a liability is measured on the basis of the assumptions that the market participants would use as the basis for pricing the asset or liability. It is assumed here that the market participants are acting in their best economic interests.

When measuring the fair value of a non-financial asset, the ability of the market participant to generate an economic benefit from the highest and best use of the asset or from its sale to another market participant who finds the highest and best use for the asset is taken into account.

The Group applies measurement techniques appropriate to the specific circumstances and for which adequate data for measurement of the fair value are available. The use of decisive, observable input factors must be kept as high as possible and the use of unobservable input factors must be kept as low as possible during this process.

All assets and liabilities for which the fair value is determined or disclosed in the financial statements are classified according to the fair value hierarchy shown below, based on the input parameters for the lowest level that is authoritative overall for the measurement of the fair value:

- **Level 1** – Prices (non-adjusted) quoted on active markets for identical assets or liabilities
- **Level 2** – Valuation procedures during which the input parameters of the lowest level that is authoritative overall for the measurement of the fair value can be observed on the market directly or indirectly
- **Level 3** – aluation procedures during which the input parameters of the lowest level that is authoritative overall for the measurement of the fair value cannot be observed on the market

In the case of assets and liabilities that are recognised on a recurring basis in the financial statements, the Group determines whether there have been any reclassifications between the levels of the hierarchy by reviewing the classification (based on the input parameters of the lowest level that is authoritative overall for the measurement at fair value) at the end of each reporting period.

The Group has defined groups of assets and liabilities based on their type, their features and their risks as well as on the levels of the fair value hierarchy described above so that the disclosure requirements concerning the fair value can be met.

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Leases

The question of whether an agreement contains a lease relationship is answered on the basis of the economic content of the agreement at the time of the conclusion of this agreement and requires an estimation of whether the fulfilment of the contractual agreement is dependent on the use of a specific asset or specific assets and whether the agreement grants a right to the utilisation of the asset.

Finance leasing agreements, which essentially entail the transfer of all opportunities and risks related to ownership of the object of the lease to the Group, lead to capitalisation of the object of the lease at the point in time at which the term of the leasing agreement commences. The object of the lease is recognised at its fair value or at the present value of the minimum leasing payment, if this value is lower. Leasing payments are divided into finance expenses and the repayment part of the remaining debt in such a way that a constant interest rate on the remaining leasing debt remains in effect over the term of the leasing agreement. Finance expenses are recognised in operating results.

If the transfer of ownership to the Group at the end of the term of the leasing agreement is not adequately secured, the capitalised objects of the lease are written off in full over the shorter of the two periods of expected useful life and term of the leasing agreement.

Leasing payments for operating leasing agreements are recognised linearly as expenses in the profit and loss account over the term of the leasing agreement.

Financial instruments – financial assets

The Group’s financial assets include cash and short-term deposits, trade accounts receivable, receivables from loans granted and other receivables.

Financial assets are measured at their fair value for initial recognition. In the case of other financial instruments that are classified in operating results as measured at the fair value, transaction costs that are directly attributable to the acquisition of the asset are taken into account as well.

Financial assets are classified in the valuation categories

» Loans and receivables and

» Financial assets available for sale

at the point in time of their initial recognition.

All purchases and sales of financial assets usual on the market are recognised in the balance sheet on the day of trade, i.e. the day on which the Company assumes the obligation to purchase the asset.

Purchases and sales usual on the market are purchases or sales of financial assets that prescribe the delivery of the assets within a period of time determined by market regulations or conventions.

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Loans and receivables are non-derivative financial assets with fixed or definable payments that are not quoted on an active market. After their initial recognition, loans and receivables are measured at cost of acquisition carried forward determined by use of the effective interest rate method less valuation allowances for impairment losses. Profits and losses are recognised in the results for the period if the loans and receivables are derecognised or impaired and within the scope of amortisation.

Financial assets available for sale are non-derivative financial assets classified as available for sale and not classified in any other category. After their initial recognition, financial assets held for sale are measured at their fair value, provided there are no significant uncertainties about the estimation in determining their value. Profits or losses that are not realised are recognised directly in equity in the revaluation reserve. Impairment losses are recognised in operating results in the period results. Upon disposal of the financial assets available for sale, the cumulative profit or loss previously recognised in equity is transferred as operating results to the profit and loss account. If the fair value of financial assets available for sale cannot be determined reliably, they are measured at cost of acquisition costs carried forward. To the extent they were previously classified as financial assets to be measured at their fair value in operating results, they are reclassified accordingly if significant uncertainties about the estimation arise. The fair value at this time represents the cost of acquisition under the new valuation category.

Impairment loss of financial assets

The Company determines on every balance sheet date whether there has been an impairment loss of a financial asset or group of financial assets.

If there is an objective indication that an impairment loss of financial assets disclosed in the balance sheet at cost of acquisition carried forward has occurred, the amount of the loss corresponds to the difference between the book value of the asset and the present value of the expected future cash flow (with the exception of future expected loan defaults that have not yet occurred), discounted at the original effective interest rate of the financial asset (i.e. at the effective interest rate determined at the initial recognition). Valuation allowances on trade receivables are created on the basis of experience values by classification of the receivables according to age and on the basis of other information regarding the recoverability of customer-specific receivables. The impairment loss is recognised in the operating results. If the amount of the valuation allowance declines in one of the following reporting periods and if this decline can objectively be attributed to a circumstance occurring after the recognition of the impairment loss, the previously recognised valuation allowance is reversed. The amount of the value recovery is limited to the cost of acquisition carried forward at the time of the value recovery and is recognised in operating results.

If the value of a financial asset available for sale is impaired, an amount recognised in equity as the difference between the cost of acquisition (less any repayments and amortisation) and the current fair value of this asset is transferred to the profit and loss account.

To determine whether there has been an impairment loss that is to be recognised in operating results, information about detrimental changes in the technological, market-related, economic or legal environment is considered. A significant or longer-lasting decline in the fair value of a held equity instrument below its cost of acquisition is also an objective indication of an impairment loss.

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Impairment losses of equity instruments recognised in operating results may not be reversed in operating results, but are transferred from equity as operating results to the profit and loss account as soon as the equity instrument is sold.

Value recoveries for debt instruments classified as available for sale are recognised in operating results if the rise in the fair value of the instrument results objectively from an event that occurred after the recognition in operating results of the impairment loss.

Financial instruments – financial liabilities

The Group's financial liabilities include primarily trade accounts payable, loans and overdrafts and liabilities from finance leasing and derivative financial liabilities.

Financial liabilities are measured at initial recognition at the fair value of the received consideration less the transaction costs related to the borrowing. Liabilities from finance leasing are disclosed in the initial recognition at the present value of the minimum leasing payments.

After the initial recognition, they are measured by application of the effective interest rate method at cost of acquisition carried forward.

Inventories

Inventories are measured at the lower of cost of acquisition or manufacture and net selling value. The net selling value is the estimated income from the sale less the estimated required selling costs. Adequate valuation allowances for surplus stocks are taken in consideration of inventory risks.

The measurement is based, among other factors, on marketability discounts dependent on time. Both the amount and the distribution of the discounts over time represent the best possible estimate of the net selling value and are consequently subject to estimate uncertainties. If there are indications of a decline in the net selling income, the inventory stocks are corrected by appropriate impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in banks, other money investments, cheques and cash on hand.

Provisions

A provision is created if the Group has a current (legal or factual) obligation arising from a past event, the outflow of resources with economic benefits for fulfilment of the obligation is probable and a reliable estimate of the amount of the obligation is possible. To the extent that the Group expects at least a partial reimbursement for a provision recognised in the liabilities of the balance sheet (e.g. from an insurance policy), the

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reimbursement is recognised as a separate asset, provided that the inflow of the reimbursement is virtually certain. The expense from the creation of a provision less the reimbursement is disclosed in the profit and loss account. If a significant interest effect results from the discounting, provisions are discounted at an interest rate before taxes that (if required in the specific case) reflects the risks specific to the debt. In the event of a discount, the increase in the provisions required by the passing of time is recognised as financial expenses.

Share-based payment

The Group's employees receive in part stock-based compensation as remuneration for the work they have done in the form of equity instruments and in the form of the granting of appreciation rights that may, at the Company's option, be settled in cash or by the issue of equity instruments. Since none of the agreements for 1&1 Drillisch Group currently contain an obligation for cash settlement, all of the stock-based compensation transactions are disclosed in the balance sheet as transactions with a settlement using equity instruments.

From the perspective of the group 1&1 Drillisch AG, the stock-based compensation is to be presented as share-based payment with cash settlement ("cash-settled"). The provisions for both programmes are calculated as of the pertinent valuation closing date by multiplying the number of granted commitments from the SAR or MAP programme at the fair value on the valuation closing date, taking into account the share that has previously been earned by the employee. The valuation date is the equivalent of the relevant closing date. The fair value is calculated on the basis of financial mathematical models or option price models. Major parameters include in particular the stock price on the valuation closing date, the exercise price, the presumable term of the option, volatility, exercise behaviour and dividend rights.

Earnings per share

The "undiluted" earnings per share (basic earnings per share) are calculated by dividing the results attributable to the holders of registered shares by the average number of shares, weighted for the time period.

In accordance with IFRS 3.B26, the average number of issued shares for the period prior to the acquisition closing date is calculated by multiplying the weighted average number of shares of the legally acquired company by the exchange ratio and adding the weighted average number of shares of the legal acquirer for the period after the acquisition date.

The average number of issued shares of the comparison period is determined pursuant to IFRS 3.B27 by multiplying the weighted average number of shares of the legally acquired company by the exchange ratio.

The diluted earnings per share are calculated in accordance with IAS 33.30 et seqq. by dividing the consolidated results from continuing business operations, adjusted for the after-tax effects of any expenses and income related to potential ordinary shares recognised in the period, by the weighted average number of shares outstanding plus the weighted number of shares which would be issued on the conversion of all dilutive potential shares into ordinary shares.

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Financial income

Interest income is recognised when the interest arises (using the effective interest rate, i.e. the calculation interest rate at which the estimated future payment inflows over the expected term of the financial instrument are discounted to the net book value of the financial asset).

Actual and deferred taxes

The tax expenses of a period are comprised of actual taxes and deferred taxes. Taxes are recognised in the profit and loss account unless they are related to transactions that are recognised in other results or directly in equity. In these cases, the taxes are recognised accordingly in other results or directly in equity.

Actual taxes are measured in the amount of an expected reimbursement from the tax authorities or an expected payment to the tax authorities. The calculation of the amount is based on the tax rates and tax laws applicable on the balance sheet date.

Deferred taxes are created, applying the liabilities method, on any temporary differences between the valuation of an asset or a debt in the balance sheet and the tax valuation existing on the balance sheet date.

Deferred tax liabilities are recognised for any and all taxable temporary differences with the following exceptions:

» Deferred tax liabilities from the initial disclosure of goodwill or an asset or a liability related to a business incident that is not a corporate merger and that does not have any effect on the period result in accordance with IFRS or on the taxable profit at the point in time of the business incident; and

» Deferred tax liabilities from taxable temporary differences related to holdings in subsidiaries, associated companies and shares in joint ventures if the temporal course of the reversal of the temporary differences can be steered and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all temporary deductible differences, tax-related accumulated deficits carried forward that have not yet been utilised and tax credit notes that have not yet been utilised to the extent that it is likely that taxable income against which the deductible temporary differences and the tax-related accumulated deficits carried forward and tax credit notes that have not been utilised can be applied will be available, subject to these exceptions:

» Deferred tax assets from deductible temporary differences arising from the initial disclosure of an asset or a liability related to a business incident that is not a corporate merger and that does not have any effect on the period result in accordance with IFRS or on the taxable profit at the point in time of the business incident; and

» Deferred tax assets from taxable temporary differences related to holdings in subsidiaries, associated companies and shares in joint ventures if it is probable that the temporary differences will not reverse in the foreseeable future and there will not be sufficient taxable income against which the temporary differences can be utilised.

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The book value of the deferred tax assets is reviewed on every balance sheet date and reduced by the amount for which sufficient taxable profit against which the deferred tax assets can be utilised, at least in part, is no longer likely to be available. Deferred tax assets that have not been recognised are reviewed on every balance sheet date and recognised in the amount to which it has become likely that a future taxable profit will make the realisation of the deferred asset possible.

The deferred tax assets and liabilities are measured at a tax rate which is expected to apply to the period in which an asset is realized or a liability is settled. The calculation of the amount is based on the tax rates (and tax laws) applicable on the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset against each other if the Company has an actionable claim to offsetting of the actual tax reimbursement claims against actual tax liabilities and they are related to taxes on income of the same tax subject that have been levied by the same tax authority.

Long-term incentive components

The variable compensation for Management Board members and other executive employees contains a long-term incentive component that will not be paid until fiscal years 2018, 2019 and 2020. A provision has been created on the basis of the fair value.

Factoring

Receivables from the provision of mobile devices provided to customers as part of a mobile services contract have been sold in part to a bank in the form of a factoring transaction. By taking this step, 1&1 Drillisch secures for itself the cash benefit at the time the contract is concluded. Cash outflows over the term of the contracts are in contrast to this benefit. The sale takes place quarterly. The agreement does not have a definite term, and 1&1 Drillisch can freely decide whether, and in what scope, the nominal volume agreed with the bank will be utilised. The opportunities and risks related to the sold receivables relevant for the assessment of opportunities and risks are transferred in full upon the sale of the receivables to the bank, taking into account a fixed and a variable purchase price discount. 1&1 Drillisch recognises the purchase price payments that are received in its operating cash flow.

Basic accounting principles

The consolidated comprehensive income statement is structured according to the cost-of-sales method. Estimates are required for the preparation of the consolidated annual financial statements. Moreover, the application of the corporation-wide accounting and valuation methods requires assessments by management. Areas in which there is greater freedom for assessments or a higher level of complexity or areas in which assumptions and estimates are of decisive importance for the consolidated annual financial statements are described in Section 3.

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2.2 Effects of new or modified IFRS

In fiscal year 2017, application of the following standards and interpretations as revised or newly published by the IASB was mandatory:

- Annual revision procedures 2014–2016
- Revisions of IAS 12 Income Taxes
- Revisions of IAS 7 Capital Flow Statements

The revised or new standards did not have any significant effects on the consolidated annual financial statements.

2.3 Announced accounting standards that have not yet become effective

In addition to the aforementioned IFRS for which application is mandatory, IASB has announced additional IFRS and IFRIC; some of them have already completed the EU endorsement procedure, but their application does not become mandatory until a later point in time. 1&1 Drillisch AG will presumably not begin application of these standards during preparation of the consolidated annual financial statements until their application becomes mandatory.

Standard		Mandatory application for fiscal years beginning with	adoption by EU Commission
IFRS 2	Share-based Payment	01/01/2018	Yes
IFRS 9	Financial Instruments (standard and further additions)	01/01/2018	Yes
IFRS 15	Revenue from Contracts with Customers	01/01/2018	Yes
IFRS 16	Leases	01/01/2019	Yes
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01/01/2018	No
IAS 40	Investment Property (Amendment)	01/01/2018	No
IFRS 17	Insurance Contracts	01/01/2021	No
IFRIC 23	Uncertainty over Income Tax Treatments	01/01/2019	No
IAS 28	Investments in Associates (Amendment)	01/01/2019	No
Various	Improvement to IFRS 2015-2017	01/01/2019	No
IFRS 10 / IAS 28	Investments in Associates and Joint Ventures	Postponed indefinitely	

In July 2014, the IASB published the final version of IFRS 9 – Financial Instruments, which supersedes IAS 39 – Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 merges the three project phases for disclosure of financial instruments in the balance sheet: “Classification and Measurement”, “Impairment” and “Balance Sheet Disclosure for Hedge Transactions”. IFRS 9 applies for the first time to fiscal years beginning on or after 1 January 2018. With the exception of the disclosure of hedging transactions in the balance sheet, the standard must be applied retroactively; however, the presentation of information for comparison is not required. With only

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a few exceptions, the provisions for disclosure of hedging transactions in the balance sheet are to be applied prospectively. 1&1 Drillisch is currently examining the effects on the presentation of assets and liabilities, the financial position and the earnings or cash flow. The effects on 1&1 Drillisch Group could concern, among other elements, the classification and valuation of financial assets currently available for sale.

IFRS 15 – Revenue from Contracts with Customers provides a standard, five-level model based on principles for the determination and recognition of revenues that is to be applied to all contracts with customers. The new standard supersedes the existing standards IAS 18 – Revenue and IAS 11 – Construction Contracts. Application of IFRS 15 is mandatory for the first time to fiscal years beginning on or after 1 January 2018. The transition to the new standard can be either modified or fully retrospective. 1&1 Drillisch Group will exercise the option right to apply the modified retrospective transition method. The figures from the previous year in the consolidated annual financial statements will not be adjusted for fiscal year 2018. The changeover effects will be recognised as non-operating results in equity per 1 January 2018.

The application of IFRS 15 will have significant effects on the assets and liabilities, financial position and earnings of 1&1 Drillisch Group. The effects concern above all the balance sheet disclosure of so-called multiple-component transactions. While in application of the previous regulations sales revenues for hardware deliveries within the framework of a multiple-component transaction were realised as sales revenue solely in the amount of payment billed to the customer, the new regulations require a breakdown of the total payment from the customer contract on the basis of the relative separate selling prices of the various performance obligations. The share of sales for the hardware allocated on this basis is recognised upon delivery to the customer. Since the share of revenue allocated by this method exceeds the payment billed to the customer as a rule, the new regulations will result in an early realisation of revenue. At the same time, the share of the revenues attributable to the hardware will rise at the cost of the revenue from the performed services. Moreover, the new regulation requires the capitalisation of contract costs. If and when certain prerequisites are met, the costs for the successful fulfilment of the contract (e.g. activation fees) and costs for conclusion of the contract (e.g. sales commissions) must in future be capitalised and amortised over the estimated useful life. The initial application of IFRS 15 per 1 January 2018 results in an increase in group equity of approximately €350-€400m as a consequence of the effects described above.

The accounting standard IFRS 16 –Leases, which contains new regulations for balance sheet disclosure of leases, obligates the lessee to disclose all leasing agreements within the balance sheet in future. In future, there will no longer be any distinction in the balance sheet between leased assets or acquired assets financed by loans. IFRS 16 applies for the first time to fiscal years beginning on or after 1 January 2019. The new regulation will result in an increase of fixed assets (for the utilisation right) in the consolidated balance sheet while at the same time the financial obligations will also rise (because of the payment obligation). As a consequence, every leasing and rental relationship will be presented in the balance sheet. This leads to higher depreciation and interest expenses in the profit and loss account, causing an increase in the EBITDA. Since the financial liabilities increase at the same time, however, the ratio of net financial liabilities to the adjusted EBITDA (relative degree of indebtedness) might change arithmetically although there has been no change economically.

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Leasing agreements or rental contracts with terms of up to 12 months and agreements with a low-value volume are excepted from the obligation for disclosure in the balance sheet.

1&1 Drillisch AG is currently primarily a lessee in the area of operating releases and of finance leases. Operating leases in the Group are related essentially to obligations for rent of buildings, technical equipment and vehicles. In consequence, the impact of IFRS 16 on the presentation of the consolidated annual financial statements of 1&1 Drillisch AG is to be expected largely in the amount of the obligations from the operating leasing agreements and the resulting depreciation and interest effects that will replace today's operating lease expenditures.

No major effects are expected from the other revisions of the IFRS.

3. Significant discretionary decisions and estimates

During preparation of the annual financial statements, management makes discretionary decisions, estimates and assumptions that affect the amounts of the income, expenses, assets and liabilities disclosed on the closing date and the disclosure of contingent liabilities. The uncertainty related to these assumptions and estimates may, however, lead to results that in future require substantial adjustments in the book value of the relevant assets or liabilities.

Estimates and assumptions

The most important assumptions related to the future and other significant sources of estimate uncertainty on the closing date that give rise to substantial risk that a major adjustment in the book values of assets and liabilities will become necessary within the next fiscal year are explained below.

Impairment loss of non-financial assets

The Company reviews the goodwill and other intangible assets with an indeterminate useful life at least once a year as well as any time there are indications of a possible impairment loss. During such a review, the realisable amount of the corresponding cash-generating unit to which the goodwill or the intangible asset is allocated is calculated either as "utilisation value" or as the fair value less selling costs.

Estimating the utilisation value or the fair value less selling costs requires management to estimate the presumable future cash flow of the asset or the cash-generating unit and to select a reasonable discount rate so that the present value of this cash flow can be determined. Additional details, including a sensitivity analysis of the major assumptions, can be found in the notes concerning the "Impairment loss of goodwill and intangible assets with an indeterminate useful life."

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Among the major assumptions made by management regarding the determination of the realisable amount of cash-generating units are assumptions regarding development of revenue, development of margins and the discount interest rate.

Share-based payment

The expenses incurred from the granting of equity instruments to employees are measured in the Group at the fair value of these equity instrument at the time they are granted. A suitable valuation method for the granting of equity instruments must be determined so that the fair value can be estimated; the selection of the method is dependent on the terms and conditions of the agreements. It is also necessary to determine suitable data for use in this valuation method, including in particular the presumed term of the option, volatility, exercise behaviour, dividend returns and the corresponding assumptions.

During the fiscal year, expenses resulting from share-based payment (stock appreciation rights and employee stock ownership programme) were incurred in the amount of €5,946k (previous year: €51k income).

Taxes

There are uncertainties concerning the interpretation of complex tax law provisions as well as the amount and point in time at which taxable events will occur in future. It is possible that deviations between actual events and the assumptions that have been made or future changes in such assumptions will in future require adjustments in the amount of tax income and tax expenses that have been recognised. The Group creates provisions for the possible effects of tax audits based on reasonable estimates.

The amount of such provisions is based on various factors such as experience from previous tax audits and differences in interpretation of tax regulations by the company required to pay tax and the competent tax authority.

Trade accounts receivable

Trade accounts receivable are disclosed in the balance sheet less the valuation allowances that have been taken. Valuation allowances for doubtful receivables are taken on the basis of regular reviews and assessments within the scope of credit monitoring. The assumptions made here about the payment behaviour and the creditworthiness of customers are subject to substantial uncertainties.

The book value of the receivables per 31/12/2017 came to €182,620k (previous year: €208,073k).

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Inventories

Inventories are measured at the lower of cost of acquisition or manufacture and net selling value. The net selling value is the estimated income from the sale less the expected required costs up to the point in time of the sale. The measurement is based, among other factors, on marketability discounts. The amount of the discounts represents the best possible estimate of the net selling value and is consequently subject to estimate uncertainties.

The book values of the inventories on the balance sheet date 31/12/2017 came to €46,467k (previous year: €39,286k).

Tangible and intangible assets

Tangible and intangible assets are measured at cost of acquisition or manufacture at the time of initial recognition. After initial recognition, tangible and intangible assets with a limited useful life are depreciated by the straight-line method over the presumed economic useful life. The presumed useful life is based on experience and is subject to substantial uncertainties, particularly with respect to unforeseen technological development.

The book value of the tangible and intangible assets, excluding goodwill, per 31/12/2017 amounts to €916,117k (previous year: €798,393k).

In the course of the sale of Versatel Group, a revaluation was made of the remaining clientele “mass market” in the continued operation. A remaining useful life of 12 years was determined on the basis of experience values and current forecasts. The adjustment was made prospectively. If the original useful life of 4 years had been retained, depreciation in the fiscal year would have been €7,379k higher.

Disclosure of corporate mergers in the balance sheet

Corporate mergers are disclosed in the balance sheet in accordance with the purchase method. The initial recognition of goodwill from corporate mergers is measured at cost of acquisition that is calculated as the cost of acquisition of the corporate purchase in excess of the fair value of the acquired identifiable assets, liabilities and contingent liabilities. Costs incurred within the framework of the corporate merger are recognised as expenditures and disclosed in other operating expenses.

The determination of the fair value of the acquired assets and liabilities on the acquisition date is subject to significant estimate uncertainties. The identification of intangible assets either relies on independent assessments by external assessors or the fair value is determined internally by application of a suitable assessment technique for the

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specific intangible asset that is normally based on the forecast of the generated cash that is in total expected for the future; which of these methods is used depends on the nature of the intangible asset and the complexity of the calculation of the fair value. These assessments are closely associated with the assumptions and estimates made by management concerning the future development of the assets in each case and the discount interest rate that is to be applied.

The book value of the goodwill per 31/12/2017 amounts to €2,932,943k (previous year: €506,482k).

Provisions

A provision is created if the Group has an obligation (legal or factual) arising from a past event, the outflow of resources with economic benefits for fulfilment of the obligation is probable and a reliable estimate of the amount of the obligation is possible. Estimates of this type are vulnerable to significant uncertainty.

The book value of the other provisions per 31/12/2017 amounts to €56,499k (previous year: €51,633k).

4. Sales and discontinued operations

Within the framework of a structure agreement, Versatel Group was sold to United Internet Service Holding GmbH, effective per 31/05/2017. The background to this structure agreement was the separation of private and business customer business so that share rights could be secured during the merger of 1&1 Telecommunication SE with 1&1 Drillisch AG. Against this setting, the first step was the transfer of the mass market business in the form of outsourcing from 1&1 Versatel Deutschland GmbH (VTD) to Versatel Service Süd GmbH & Co. KG (VTKG). As a consequence of the share purchase and assignment agreement of 30 March 2017, VTKG accrued to 1&1 Telecom GmbH.

The table below presents the major items of the profit and loss account of Versatel Group, disclosed as a discontinued operation, until the point of its deconsolidation.

The classification of the consolidating circumstances was made in accordance with economic criteria.

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Profit and Loss Account - Versatel (Short Form)

	2017 in €k	2016 in €k
Sales	188,885	513,632
Cost of sales	-160,494	-409,594
Distribution costs	-25,724	-66,553
Administration costs	-14,847	-41,108
Other operating expenses	-79	-2,088
Other operating income	206,263	6,103
Profit/loss from operating activities	**194,004**	**392**
Financing expenditures	-1,186	-4,064
Financing income	488	972
Taxes on income	-22,375	3,162
RESULTS FROM DISCONTINUED OPERATION	**170,931**	**462**

Profit in the amount of €205,752k from the sale of the discontinued operation was recognised in the fiscal year.

In fiscal year 2017, 1&1 Drillisch AG realised the following expenses and income with companies of Versatel Group:

	2017 in €k	2016 in €k
Sales	1,046	1,341
Cost of sales/Distribution costs	-9,212	-9,456
Other expenditures	0	-111
Financing expenditures	-39	-121
Financing income	535	1,475

The disposals of assets and liabilities of Versatel Group concerned intangible and tangible assets (€1,149m), other assets (€69m), finance leasing liabilities (€97m), liabilities due to associated companies (€313m) and other liabilities and provisions (€255m).

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5. Corporate mergers

Acquisition of Drillisch Group

The United Internet AG Management Board and the Drillisch AG Management Board, each with the consent of the Supervisory Boards, concluded a basic agreement for the step-by-step acquisition of 1&1 Telecommunication SE by 1&1 Drillisch AG under the umbrella of United Internet on 12 May 2017.

The first step was the contribution by United Internet of 9,372 shares of 1&1 Telecommunication SE stock (corresponding to about 7.75% of the share capital of 1&1 Telecommunication) to Drillisch pursuant to a non-cash capital increase at Drillisch from approved capital excluding subscription rights. In return, United Internet received 9,062,169 new shares of Drillisch stock.

In the second step, the remaining 111,628 shares of 1&1 Telecommunication SE stock held by United Internet (corresponding to approximately 92.25% of the share capital of 1&1 Telecommunication SE) were contributed to Drillisch against the issue of a total of 107,937,831 new shares of Drillisch stock. This step was subject to the approval of the Extraordinary General Meeting of Drillisch held on 25 July 2017. During the aforementioned General Meeting, 97.85% of the represented share capital voted for the proposed non-cash capital increase, achieving the 75% majority required for the approval.

The fair value of the transferred consideration and the net cash outflow breaks down as shown below:

Transferred consideration acquisition 1&1 Drillisch AG	**€k**
Cash purchase price	0
Fair value of the transferred consideration	3,450,213
TRANSFERRED CONSIDERATION	**3,450,213**

Cash flow from investment activities	**€k**
Cash purchase price	3,450,213
Less assumed cash	-33,125
NET OUTFLOW OF CASH	**3,417,088**

The assets and liabilities of 1&1 Drillisch AG were recognised on the basis of a provisional purchase price allocation because not all of the information required for the assessment of specific circumstances was available. Because of the temporal proximity of the corporate acquisition to the preparation date of these consolidated annual financial statements, the purchase price allocation related to the ongoing valuation of assets and the allocation of goodwill to the cash-generating units has not yet been finally concluded. The provisional purchase price allocation results in goodwill in the amount of €2,825m. The fair value of other intangible assets comes to €905.6m. The following overview based on the provisional purchase price allocation shows the recognised assets and liabilities:

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	€k
ASSETS AND LIABILITIES	
Assets	
short-term	
Cash and cash equivalents	33,125
Trade accounts receivable	64,604
Inventories	6,427
Prepaid expenses	0
Other financial assets	27,280
Other non-financial assets	38
long-term	
Trade accounts receivable	0
Other financial assets	1,095
Prepaid expenses	0
Tangible assets	7,532
Intangible assets	905,606
Deferred tax assets	42,536
TOTAL ASSETS	**1,088,243**
Liabilities	
short-term	
Trade accounts payable	79,399
Payments on account	3,267
Income tax liabilities	20,007
Deferred income	0
Other short-term provisions	26,031
Other financial liabilities	22,372
Other non-financial liabilities	0
long-term	
Bank loans and overdrafts	53,116
Trade accounts payable	0
Deferred tax liabilities	255,805
Deferred income	0
Other long-term provisions	1,315
Other financial liabilities	1,439
TOTAL LIABILITIES	**462,751**
TOTAL OF IDENTIFIED NET ASSETS	**625,491**
Provisional goodwill from corporate acquisitionbefore purchase price allocation	**2,824,722**
TRANSFERRED CONSIDERATION	**3,450,213**

CONSOLIDATED NOTES

If 1&1 Drillisch AG had been included in the group of consolidated companies of 1&1 Drillisch Group per 1 January 2017, the sales revenues per 31 December 2017 would have increased by €421.5m and the consolidated profit would have improved by €39.6m.

Explanatory Comments on Comprehensive Income Statement

6. Sales revenues/Segment reporting

Pursuant to IFRS 8, the identification of reportable operating segments is based on the so-called management approach. External reports are prepared on the basis of the internal organisational and management structure of the Group and of the internal financial reporting to the chief operating decision maker. In 1&1 Drillisch Group, the Management Board of 1&1 Drillisch AG is responsible for the assessment and management of the segments' business success.

The corporate management and consolidated reporting concerns the segments "Access" and "Miscellaneous."

In the segment Access, revenues are generated from the offered access services to telecommunication networks, one-time activation fees and the sale of end devices and accessories. Revenues include monthly service fees, charges for special features and connection and roaming charges. Revenues are realised on the basis of utilisation units actually used and contractual fees less any credit notes and adjustments pursuant to reduced prices. The revenues from the sale of hardware and accessories and the related expenditures are realised as soon as the products have been delivered and accepted by the customers. The sub-divisions "Drillisch Online" and "1&1 SE" are grouped together into one reportable segment in the segment "Access" because the products and services within these segments do not differ significantly.

In the segment "Miscellaneous", revenues are generated from the offering of custom software solutions, maintenance and support services and (to a slight extent) the offering of mobile services. Revenues from software solutions and revenues from maintenance and support services are based on contractual provisions.

Management by the 1&1 Drillisch AG Management Board is based primarily on performance indicators. The 1&1 Drillisch AG Management Board measures the success of the segments primarily in terms of sales revenues and the adjusted earnings before interest, taxes and depreciation and amortisation (adjusted EBITDA) determined on the basis of IFRS accounting methods (IFRS as they are to be applied in the EU). Transactions between the segments are charged at market prices.

CONSOLIDATED NOTES

The segment reporting of 1&1 Drillisch for fiscal year 2017 is presented below:

	Access	Miscellaneous	Consolidation	2017 Total
	€k	€k	€k	€k
Revenues with third parties	2,812,249	64	0	2,812,313
Intercompany revenues	116	3,037	-3,153	0
SEGMENT REVENUES	**2,812,365**	**3,101**	**-3,153**	**2,812,313**
Cost of materials external third parties	-1,783,808	-9	0	-1,783,817
Cost of materials from intercompany relationships	-105	-4	109	0
COST OF MATERIALS FOR SEGMENT	**-1,783,912**	**-13**	**109**	**-1,783,817**
GROSS PROFIT FOR SEGMENT	**1,028,452**	**3,088**	**-3,044**	**1,028,496**
SEGMENT EBITDA	**510,956**	**145**	**-7,110**	**503,991**

The segment sales revenues also include certain revenues between the segments, but do not include internal allocations and charged-on costs within the Group. All revenues were realised in Germany.

The segment reporting of 1&1 Drillisch for fiscal year 2016 is presented below:

	Access	Miscellaneous	Consolidation	2016 Total
	€k	€k	€k	€k
Revenues with third parties	2,430,058	0	0	2,430,058
Intercompany revenues	0	0	0	0
SEGMENT REVENUES	**2,430,058**	**0**	**0**	**2,430,058**
Cost of materials external third parties	-1,680,749	0	0	-1,680,749
Cost of materials from intercompany relationships	0	0	0	0
COST OF MATERIALS FOR SEGMENT	**-1,680,749**	**0**	**0**	**-1,680,749**
GROSS PROFIT FOR SEGMENT	**749,309**	**0**	**0**	**749,309**
SEGMENT EBITDA	**387,934**	**0**	**0**	**387,934**

CONSOLIDATED NOTES

The rollover of the total of the segment profits (EBITDA) to the profit before taxes on income is determined as shown below:

	2017 €k	2016 €k
Total segment profits (EBITDA)	503,991	387,934
Depreciation	-64,088	-8,610
Operating result	439,903	379,324
Financial result	-8,573	-24,743
PROFIT BEFORE TAXES ON INCOME	**431,330**	**354,581**

7. Cost of sales

The cost of sales developed as follows:

	2017 €k	2016 €k
Expenditures for purchased services	1,396,991	1,216,774
Expenditures for purchased goods	368,124	381,848
Personnel expenses	53,627	39,054
Depreciation	13,396	2,068
Miscellaneous	55,557	58,932
TOTAL	**1,887,695**	**1,698,676**

Cost of sales declined in relationship to the sales revenues in comparison with the previous year to 67.1% (previous year: 69.9%), causing the gross margin to improve to 32.8% (previous year: 30.1%).

Other cost of sales encompasses primarily costs for data centres and logistics costs.

8. Distribution costs

Distribution costs increased over the previous year from €294,299k (12.1% of revenues) to €393,728k (14.0% of revenues). They include personnel expenses in the amount of €81,185k (previous year: €62,618k), depreciation of €43,457k (previous year: €593k), sales commissions of €86,946k (previous year: €82,127k), rent and ancillary costs of €4,767k (previous year: €0k) and other distribution costs of €177,372k (previous year: €148,962k). The increase in depreciation results primarily from the customer relationships capitalised in the fiscal year. Other distribution costs comprise essentially customer acquisition costs, advertising, customer care and product management.

CONSOLIDATED NOTES

9. Administration costs

Administration costs increased in the fiscal year from €61,566k (2.5% of revenues) to €74,407k (2.6% of revenues). They include personnel expenses in the amount of €28,264k (previous year: €17,746k), depreciation of €7,235k (previous year: €5,950k), purchased services of €9,005k (previous year: €10,595k), incidental costs for money transactions of €7,559k (previous year: €7,255k) and other administration costs of €22,345k (previous year: €20,021k). Other administration costs comprise essentially expenditures for receivables management, rent and legal and professional fees.

10. Other operating expenses

Other operating expenses break down as follows:

	2017 €k	2016 €k
Bad debts	24,985	19,169
Transaction costs	15,143	0
Miscellaneous	4,938	0
TOTAL	**45,066**	**19,169**

Bad debts include expenses from allocations to valuation allowances on trade receivables and expenses from the derecognition of such receivables.

The transaction costs are related to expenses from the deconsolidation of yourfone Shop GmbH, Düsseldorf.

11. Other operating income

Other operating income breaks down as follows:

	2017 €k	2016 €k
Income from dunning charges and return debit notes	20,576	17,025
Damages	4,218	4,153
Rent income	857	185
Income from the reversal of provisions	580	0
Income from payments received for written-off receivables	415	0
Income from translation of foreign currencies	260	83
Other operating income associated companies	42	12
Income from disposal of assets	27	16
Miscellaneous	1,511	1,501
TOTAL	**28,486**	**22,975**

CONSOLIDATED NOTES

Other operating income in the reporting period is primarily related to income from other periods. In the previous year, the item contained basically the income from the sale of receivables in the amount of €1,320k.

12. Depreciation

The development of fixed assets, including depreciation, is presented in the consolidated analysis of fixed assets movement (exhibit to consolidated notes). The consolidated analysis of fixed assets also includes depreciation from the discontinued operation (Versatel) in the amount of €51,317k that is disclosed in the consolidated comprehensive income statement under results of discontinued operation.

Depreciation of intangible and tangible assets breaks down as follows:

	2017 €k	2016 €k
Cost of sales	13,396	2,068
Distribution costs	43,457	593
Administration costs	7,235	5,949
TOTAL	**64,088**	**8,610**

The depreciation also includes the depreciation of the assets capitalised within the framework of corporate acquisitions. The depreciation figures break down among the capitalised assets as shown below:

	2017 €k	2016 €k
Clientele	33,063	0
Licences	5,020	0
Software	1,685	0
TOTAL	**39,768**	**0**

The depreciation is distributed among the assets capitalised among the various business divisions within the framework of corporate acquisitions as follows:

	2017 €k	2016 €k
Cost of sales	6,705	0
Distribution costs	33,063	0
TOTAL	**39,768**	**0**

CONSOLIDATED NOTES

13. Personnel expenses

Personnel expenses are distributed among the business divisions as follows:

	2017 €k	2016 €k
Cost of sales	53,627	39,054
Distribution costs	81,185	62,618
Administration costs	28,264	17,746
TOTAL	**163,076**	**119,418**

Personnel expenses comprise the expenses for wages and salaries in the amount of €141,070k (previous year: €101,602k) and the expenses for social security in the amount of €22,007k (previous year: €17,816k).

As of the balance sheet date 31 December 2017, the number of employees (headcount) was 3,194 (previous year: 3,454, including Versatel), the number of trainees 61 (previous year: 0). The average number of employees during fiscal year 2017 was 2,860 (previous year: 3,397, including Versatel), the average number of trainees was 21 (previous year: 0).

There are contribution-oriented commitments in the Group regarding company pension plans. In the case of the contribution-oriented commitments (defined contribution plans), the Company pays contributions to the government pension insurer pursuant to statutory provisions. There are no further performance obligations for the Company when the contributions have been paid. The ongoing contribution payments are disclosed as expenses in the relevant year. In fiscal year 2017, they totalled €9,819k (previous year: €8,601k) and comprise primarily the contributions paid to the government pension insurer in Germany.

Owing to contribution exemptions, €0k was incurred in contribution payments for related persons.

14. Financing expenditures

The financing expenditures break down as follows:

	2017 €k	2016 €k
Interest and similar expenses associated companies	8,008	24,553
Interest expenses from current accounts	314	0
Interest expenses from compounding long-term provisions	309	262
Guarantee commissions	184	0
Bank fees and commissions	126	0
Interest expenses from tax audits	93	0
Miscellaneous	485	116
TOTAL	**9,519**	**24,931**

CONSOLIDATED NOTES

Interest paid to associated companies concerns primarily interest from loans and cash pool balances with companies of United Internet AG or with group companies that are not included in the consolidation of the Group.

The decline in financing expenditures in comparison with the previous year results primarily from the decline in interest for loans from associated companies.

Reference is made here to the disclosure under point 47 of the notes concerning the interest paid to associated companies.

15. Financial income

The financial income breaks down as follows:

	2017 €k	2016 €k
Interest income from tax audits	607	0
Interest and similar income associated companies	288	108
Miscellaneous	51	80
TOTAL	**946**	**188**

Interest income from associated companies concerns primarily interest from intragroup lending/loans and cash pool interest from companies of United Internet AG or from group companies that are not included in the consolidation of the Group.

Reference is made here to the disclosure under point 47 of the notes concerning the interest income from associated companies.

16. Tax expenses

Tax expenses in the Group break down as follows:

	2017 €k	2016 €k
Current taxes on income	140,261	116,166
Deferred taxes	-19,302	-4,481
DISCLOSED EXPENSES FOR INCOME TAXES	**120,959**	**111,685**

In accordance with German tax laws, taxes on income comprise corporate income tax and trade tax plus the solidarity surcharge.

Trade tax in Germany is levied on the Company’s taxable income, corrected by reductions of certain income that is not subject to trade tax and by additions of certain expenses that are not deductible for trade tax purposes.

CONSOLIDATED NOTES

The effective trade tax rate is dependent on the community where the Company operates. The average trade tax rate in fiscal year 2017 was about 15.47% (previous year: 13.8%). This results in the increase of the Group tax rate for deferred taxes to 31.3% that led to a one-time deferred tax liability of €449k.

Regardless of whether profit is re-invested or distributed, the corporate income tax rate in Germany was unchanged at 15%. In addition, a solidarity surcharge of 5.5% is levied on the corporate income tax that has been determined.

The current taxes on income include tax expenses from other periods in the amount of €2,241k (previous year: €227k).

Deferred tax assets from temporary differences are recognised as long as it is probable that a taxable profit against which the deductible temporary differences can be utilised will be available.

Deferred taxes have been determined from the following items:

	2017		2016	
	Deferred tax assets €k	**Deferred tax liabilities** €k	**Deferred tax assets** €k	**Deferred tax liabilities** €k
Intangible assets	41,485	-243,150	1,712	-59,714
Tangible assets	2	0	6	-48,588
Inventories	48	-233	48	-60
Trade accounts receivable	7,172	0	0	-6,155
Other financial assets – short-term	165	0	51	0
Other financial assets – long-term	752	0	21,199	0
Other assets	3,913	-2,300	713	0
Prepaid expenses	84,561	0	89,736	0
Other equity	0	74	0	0
Other provisions	6,336	0	5,896	0
Other liabilities	385	-130	25,577	-1,397
Deferred income	0	0	0	-1,693
GROSS VALUE	**144,819**	**-245,739**	**144,938**	**-117,607**
Accumulated deficits carried forward relevant for taxes	0	0	21,148	0
Balance	-233	233	-74,417	74,417
CONSOLIDATED BALANCE	**144,586**	**-245,506**	**91,669**	**-43,190**

The net liability position of deferred taxes per the balance sheet date of 31 December 2017 totalled €100,919k (previous year: net asset position €48,479k).

The total amount of the change in the balance of deferred taxes therefore amounts to €149,399k (previous year: €4,481k). The cause of this change is essentially the increase in deferred tax liabilities on intangible assets of €243,150k that were capitalised in the course of corporate acquisitions.

CONSOLIDATED NOTES

The deferred tax liabilities on intangible and tangible assets result essentially from the differing treatment of capitalised intangible assets in the consolidated annual financial statements and in the tax balance sheet within the framework of corporate acquisitions. The deferred tax assets on deferred expenses result largely from the customer acquisition costs shown as prepaid expenses in the tax balance sheet that are collected immediately in operating results for IFRS purposes.

The change in the balance of the deferred taxes in comparison with their status per 31 December 2016 can be determined as shown below:

	2017 €k	2016 €k
Deferred tax income	19,302	4,481
Changes recognised as non-operating	-168,701	0
CHANGE IN THE BALANCE OF DEFERRED TAXES	**-149,399**	**4,481**

The transition from the overall tax rate to the effective tax rate of the ongoing activities is shown in simplified form below:

	2017	2016
Expected tax rate	**30.0%**	**29.6%**
	€k	€k
Profit before income taxes from continued operations	**431,330**	**354,581**
- Tax expenses from application of the income tax rate	127,274	104,885
- Tax rate differences	3,125	2,765
- Elements of results that are not subject to current taxation because of organic unities for tax purposes	0	3,697
- Tax rate changes	449	0
- Actual and deferred taxes previous years	4,002	251
- Employee stock ownership programme	-1,009	1,363
- Non-deductible depreciation on intangible assets for tax purposes	0	-2,922
- Tax effects related to in-group disbursements and sales	2,300	-1
- Losses of the fiscal year relevant for taxes for which no deferred taxes were utilised	4,740	0
- Initial recognition of deferred tax assets	-22,564	0
- Balance of other tax-free income and non-deductible expenses	2,642	1,647
Tax expenses pursuant to comprehensive income statement	**120,959**	**111,685**
Effective tax rate	**28.0%**	**31.5%**

The non-deductible depreciation on intangible assets under tax law results from differences in assets occurring at the time of the initial recognition as non-operating results for which pursuant to IAS 12 no deferred taxes may be created.

The expected tax rate corresponds to the tax rate of the parent company, 1&1 Drillisch AG.

CONSOLIDATED NOTES

Explanatory Comments on the Consolidated Balance Sheet

17. Cash and cash equivalents

Cash and cash equivalents comprise cash in banks, short-term investments, cheques and cash on hand. Interest is paid on credit balances in banks at variable interest rates for credit balances that can be terminated daily.

Short-term deposits are made for varying time periods between one day and 3 months, depending on the Group's need for cash.

The development of cash and cash equivalents can be seen in the consolidated cash flow statement.

There were no restrictions on available credit balances in banks during the reporting period (previous year: €2,764k).

18. Trade accounts receivable

Per the balance sheet date 31 December 2017, net trade accounts receivable amounted to €182,620k (previous year: €208,073k) and break down as follows:

	31/12/2017 €k	31/12/2016 €k
Trade accounts receivable	216,258	218,677
Less		
Valuation allowances	-33,638	-10,604
TRADE ACCOUNTS RECEIVABLE, NET	**182,620**	**208,073**
thereof trade receivables - **short-term**	182,620	152,232
thereof trade receivables - **long-term**	0	55,841

CONSOLIDATED NOTES

Per 31 December 2017, valuation allowances on trade accounts receivable amounted to €33,638 (previous year: €10,604k).

The development of the valuation allowances account is presented below:

	2017 €k	2016 €k
Per 1 January	10,604	11,797
Change in IFRS 5	-2,312	0
Additions from corporate acquisition	26,783	0
Utilisation	-12,874	-8,900
Additions effective for expenses	13,689	8,637
Reversal	-2,252	-929
PER 31 DECEMBER	**33,638**	**10,604**

The additions of valuation allowances effective for expenditures do not include the receivables that were derecognised before the balance sheet date.

As of the balance sheet date, there are no indications that the payment obligations for the receivables for which no valuation allowances have been created will not be fulfilled.

The maximum bad debt loss on the balance sheet date corresponds to the net book value of the above-mentioned trade receivables.

Overdue receivables are reviewed to determine if there is any need for valuation allowances. The determination of the separate valuation allowances is essentially dependent on the age structure of the receivables.

Any and all overdue receivables for which separate valuation allowances have not been created are encompassed in a lump-sum valuation allowance.

Per 31 December, the age structure of the trade receivables, after consideration of the aforementioned valuation allowances corresponds to the following:

	31/12/2017 €k	31/12/2016 €k
Trade accounts receivable, net		
0-5 days	153,575	194,544
6-15 days	3,245	3,218
16-30 days	5,264	4,851
31-180 days	12,028	5,173
181-365 days	7,733	246
> 365 days	775	41
TOTAL	**182,620**	**208,073**

CONSOLIDATED NOTES

19. Receivables due from associated companies

Receivables due from associated companies per the balance sheet date amount to €168,261k (previous year: €4,099k) and are related to member companies of United Internet Group who are not included in the Group's consolidated accounts.

20. Inventories

Inventories comprise the following items:

	31/12/2017 €k	31/12/2016 €k
Merchandise (gross)		
- Mobile services/Mobile internet	37,660	37,021
- Hardware	9,936	4,970
- SIM cards	2,368	0
- IPTV hardware	1,487	4,044
- Miscellaneous	287	759
	51,738	**46,794**
Less		
Valuation allowances	-7,187	-7,508
INVENTORIES, NET	**44,551**	**39,286**
Sale of inventories below cost of sales, cost of sales recognised as cost of materials	368,124	381,848
Valuation allowances applied to mobile services/mobile internet	7,109	7,508
Valuation allowances applied to hardware	44	0
Valuation allowances applied to miscellaneous	34	0
TOTAL	**7,187**	**7,508**
Payments on account	1,916	0
INVENTORIES	**46,467**	**39,286**

The amount of inventories recognised as expenses in fiscal year 2017 amounted to €368,124k (previous year: €381,848k).

21. Short-term deferred expenses

Short-term deferred expenses per 31 December 2017 amount to €15,052k (previous year: €47,662k) and essentially include advance service payments that are deferred on the basis of the underlying contract period and recognised as expenses in the appropriate period.

CONSOLIDATED NOTES

22. Other short-term financial assets

The other short-term financial assets break down as follows:

	31/12/2017 €k	31/12/2016 €k
Receivables due from network operators	67,302	0
Receivables due from distribution partners	5,022	0
Receivables for promotion rebates	4,569	3,329
Creditors with debit balances	1,404	1,275
Miscellaneous	1,823	2,811
TOTAL	**80,120**	**7,415**

23. Other short-term non-financial assets

	31/12/2017 €k	31/12/2016 €k
Corporate income tax	9,792	7,064
Trade tax	4,558	991
Turnover tax	2	223
Other taxes	0	1
TOTAL	**14,352**	**8,279**

24. Other long-term financial assets

The development of the other long-term financial assets can be seen in the following overview:

	31/12/2017 €k	31/12/2016 €k
Receivables from advance service providers	4,173	4,076
Participating interests	1,071	2
Loans to third parties	800	832
Employee loans	52	63
Security deposits	0	118
TOTAL	**6,095**	**5,091**

CONSOLIDATED NOTES

25. Tangible assets

Tangible assets per the balance sheet date break down as follows:

	31/12/2017 €k	31/12/2016 €k
Cost of acquisition		
Operating equipment	24,560	28,866
Land and buildings	695	1,850
Payments on account	346	26,305
Telecommunications systems	0	554,077
Network infrastructure	0	186,685
	25,601	**797,783**
Less		
Accrued depreciation	-10,899	-242,563
TANGIBLE ASSETS, NET	**14,702**	**555,220**

An alternative presentation of the development of tangible assets in fiscal years 2016 and 2017 is shown in the exhibit to the consolidated notes (consolidated analysis of fixed assets movement).

Per the balance sheet date, there were purchase obligations for assets in the fixed assets in the amount of €814k (previous year: €32,555k).

The book value of the operating equipment held as part of finance leasing agreements per 31 December 2017 amounts to €765k (previous year: €96,506k).

26. Intangible assets (excluding goodwill)

Intangible assets without goodwill per 31 December, made up as follows:

	31/12/2017 €k	31/12/2016 €k
Cost of acquisition		
Clientele	792,000	187,100
Trademark	56,300	62,000
Software and licences	150,254	42,395
Miscellaneous	1,528	6,305
	1,000,082	**297,800**
Less		
Accrued depreciation	-98,668	-54,627
INTANGIBLE ASSETS, NET	**901,414**	**243,173**

CONSOLIDATED NOTES

An alternative presentation of the development of intangible assets in fiscal years 2016 and 2017 is shown in the exhibit to the consolidated notes (consolidated analysis of fixed assets movement).

Customer relationships – at cost of acquisition – in the amount of €792,000k (previous year: €187,100k) relate to the clientele capitalised within the framework of corporate acquisitions.

The book values of the intangible assets with an indeterminate useful life (trademark rights) amount to €56,300k (previous year: €62,000k). The useful life of the trademark rights is classified as indeterminate because there are no indications that the inflow of benefits will end in the future.

The recoverability test of the intangible assets with an indeterminate useful life was carried out at the level of the cash-generating units per the balance sheet date. The test did not result in any impairment losses in the fiscal year, just as in the previous year.

The following table gives an overview of the trademark rights attributed to the CGU of 1&1 Drillisch:

	31/12/2017 €k	31/12/2016 €k
yourfone	16,600	0
smartmobil.de	15,000	0
WinSIM	9,800	0
simply	5,200	0
DeutschlandSIM	4,400	0
maXXim	2,700	0
PremiumSIM	2,200	0
BildConnect	200	0
Tecol	200	0
Versatel	0	62,000
TOTAL	**56,300**	**62,000**

27. Goodwill and impairment losses of the goodwill and intangible assets with an indeterminate useful life

The goodwill and intangible assets with an indeterminate useful life are subjected to an impairment test at least once a year. The Company has designated the final quarter of its fiscal year for conduct of the annually required impairment test parallel to the in-company budgetary process.

The goodwill acquired during corporate mergers has been allocated to the cash-generating units for the purpose of the recoverability test.

The impairment losses are always disclosed separately in the comprehensive income statement and in the consolidated analysis of fixed assets movement.

CONSOLIDATED NOTES

The goodwill per 31 December is attributed to the cash-generating units as shown below:

	31/12/2017 €k	31/12/2016 €k
Drillisch*	2,824,722	0
1&1 Telecom	108,221	108,221
Versatel	0	398,261
GOODWILL	**2,932,943**	**506,482**

* Provisional allocation within the framework of the currently provisional purchase price allocation

Goodwill after corporate acquisitions

The book value of the Drillisch goodwill was determined in the course of the provisional purchase price allocation. We refer to the presentation under 5. "Corporate mergers".

The book values of the goodwill of 1&1 Telecom and Versatel according to cash-generating units result exclusively from the acquisition of Versatel Group in 2014. The sale of Versatel Group resulted in the disposal of the allocation share attributed to the CGU Versatel Group.

Scheduled recoverability test per 31 December 2017

The realisable amounts of the cash-generating units are determined on the basis of the calculation of the fair value less costs of the disposal with application of cash flow forecasts. The hierarchy of the fair value less costs of disposal within the sense of IFRS 13 is classified as Level 3 for all impairment tests.

The cash flow forecasts are based on the Company's budgets for fiscal years 2018 to 2021. These planning calculations were extrapolated by management on the basis of external market studies and internal assumptions. Since the expectation at the end of the detailed planning period is that a sustained revenue and result level has not been reached, the detailed planning period has been extended by an interim phase for the years 2022 to 2034 until a sustained revenue and result level is reached. Management assumes an annual increase in cash flow of 0.5% (previous year: 0.5%) for the period of the perpetual annuity. The discount rates after taxes used in the fiscal year for the cash flow forecasts are at 5% (previous year: 5%).

The table below presents the underlying assumptions that were used for the impairment test of the individual cash-generating units to which goodwill has been allocated and for the determination of the fair value less costs of disposal:

CONSOLIDATED NOTES

	Reporting period	Share of goodwill in total	Long-term growth rate	Discount factor after taxes
Drillisch	2017	96.3%	0.5%	5.2%
1&1 Telecom	2017	3.7%	0.5%	5.2%
	2016	21.4%	0.5%	4.9%
Versatel				
	2016	78.6%	0.5%	4.5%

The cash flow forecasts are essentially dependent on the estimates of future sales revenues. The managers of the various cash-generating units expect developments in sales revenues within the planning horizon to differ among the units. The values of the sales revenues over the detailed planning period of the cash-generating units are based on average annual growth rates of sales revenues of up to 12% (previous year: up to 6%).

The fair value less costs of disposal are determined primarily by the present value of the perpetual annuity, which reacts especially sensitively to changes in the assumptions about long-term growth rates and the discount rate. Disposal costs of approximately €14,000k (previous year: 3% of fair value) are assumed for the determination of the fair value less costs of disposal.

The major fundamental assumption for the planning of the cash-generating units is the number of subscribers and the gross profit planning based on this subscriber number, our experience and discounting rates assumed for this purpose. Rising subscriber numbers and increasing gross profits are expected in the coming years.

An impairment loss in goodwill was not required in fiscal year 2017.

Sensitivity of the applied assumptions

The sensitivity of the information concerning an impairment loss in goodwill or the trademark values is dependent on the pertinent cash-generating units.

Within the framework of the sensitivity analyses for cash-generating units to which goodwill or trademark values have been allocated, an increase in the discount rates (after taxes) of 1 percentage point and a decline in the long-term growth rate in the perpetual annuity of 0.25 percentage points was assumed. No changes in the impairment test would arise from these assumptions.

The Company management is of the opinion that none of the fundamentally possible changes in one of the basic assumptions used for determination of the fair value less costs of disposal of a cash-generating unit could, according to reasonable judgement, lead to a book value that is significantly higher than the realisable amount.

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28. Long-term trade receivables

Long-term trade receivables amount to €0k (previous year: €55,841k) per 31 December 2017. The receivables of the previous year resulted from the finance leasing agreements of Versatel Group.

29. Long-term deferred expenses

The long-term deferred expenses result essentially from advance payments made in relation to long-term purchasing agreements and amount to €79,414k per 31 December 2017 (previous year: €122,248k).

30. Trade accounts payable

Trade accounts payable amount to €229,549k (previous year: €304,778k) per the balance sheet date 31 December 2017. Trade accounts payable include all of the liabilities due to suppliers related to the delivery of goods and the performances of services by third parties. Of this figure, liabilities in the amount of €0k (previous year: €9,285k) have a term of more than one year, and the remaining liabilities have a remaining term of up to one year.

31. Long-term and short-term liabilities due to associated companies

Short-term liabilities due to associated companies per the balance sheet date 31 December 2017 amount to €221,861k (previous year: €594,798k) and are related to member companies of United Internet Group that are not included in the Group's consolidated accounts.

Long-term liabilities due to associated companies per the balance sheet date 31 December 2017 amount to €0k (previous year: €1,003,963k); they were related exclusively to United Internet AG in the previous year.

32. Bank loans and overdrafts, debenture bonds and other financial liabilities

a) Bank loans and overdrafts

A revolving loan agreement for a total of €100.0m was agreed between the Commerzbank Aktiengesellschaft, Frankfurt, and the BHF-Bank Aktiengesellschaft, Frankfurt, as the arrangers and 1&1 Drillisch AG on 19 December 2014. In December 2017, the BHF-Bank transferred its syndicate share to the Landesbank Hessen-Thüringen. The interest rate comprises two components: the EURIBOR applicable to the relevant interest period and a margin agreed in the loan agreement. The loan agreement runs until 19 December 2019.

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The applicable margin is oriented to the ratio of consolidated net financial debt to consolidated EBITDA on the basis of the 12 months previous to the relevant quarterly closing date. The minimum margin is 0.85%, which is reached for a ratio of consolidated net financial debt to consolidated EBITDA of less than 0.5 to 1. If this ratio is greater than 2 to 1, the maximum possible margin of 1.1% applies.

The loan is tied to a specific financial indicator (degree of indebtedness); in the event of failure to comply with this indicator, the loan agreement may be terminated. The Company was in compliance with these criteria in fiscal year 2017.

The interest expenses related to the loans totalled €221k in fiscal year 2017 (previous year: €0k).

b) Debenture bonds

In December 2013, 1&1 Drillisch AG issued a non-subordinated convertible bond with a total volume of €100.0m and a term of five years. The convertible bond includes an annual coupon of 0.75%. The bond was issued at 100% of the nominal value and will also be redeemed at 100%. The conversion right was recognised at the time of its emission in the capital reserves at a value of €12.4m. An interest rate of 3.47% was applied for the allocation and led to an initial recognition of the bond of €86.1m. It has been possible to convert the bonds with a nominal value of €100k each into 1&1 Drillisch AG shares since 22 January 2014. In accordance with the terms of the bond, the conversion price per share was adjusted from the original €24.2869 to €18.9772 (until and including 26 June 2017) following the disbursement of cash dividends in the year 2014, 2015, 2016 and May 2017 and to €20.3217 after and excluding 26 June 2017 following the previously announced change in control of 16 May 2017. This corresponds to 5,269.481 shares for each partial bond (until and including 26 June 2017) and 4,920.848 shares for each partial bond (after and excluding 26 June 2017). The term of the bond ends on 12 December 2018. Interest will accrue to the liability for the bond in accordance with the effective interest rate method.

No bonds were repaid during the reporting period. The convertible bond issued in 2013 was converted in the amount of a nominal volume of €96,900k before the corporate merger. This resulted in 5,000,000 new shares, which in 2018 will be entitled to dividends for fiscal year 2017. The subscribed capital increased by €5,500k and the capital reserves increased by €89,549k because of the conversion. Interest and similar expenses in the amount of €0k were incurred in relation to the conversion.

33. Payments on account

Payments on account amount to €5,976k (previous year: €4,164k) per the balance sheet date 31 December 2017. The item contains primarily €2,808k (previous year: €2,876) payments on account received from customers of 1&1 Telecom GmbH.

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34. Income tax liabilities

The income tax liabilities break down as follows:

	31/12/2017 €k	31/12/2016 €k
Trade tax	16,310	6,182
Corporate income tax	12,955	5,838
Capital gains tax	17,781	0
TOTAL	**47,046**	**12,020**

35. Deferred income

Customers make advance payments for certain contracts. These are mainly advance payments for basic and utilisation fees and one-time activation charges.

The advance payments for fees are deferred over the relevant term of the contract and disclosed as revenue in the appropriate period.

36. Other provisions

The development of the provisions is presented below:

	Share-based payment €k	Restruc-turing €k	Litiga-tion risks €k	Dismant-ling €k	Miscel-laneous €k	Total €k
1 JANUARY 2017	**3,989**	**100**	**13,693**	**29,377**	**4,474**	**51,633**
Change in consolida-ted companies	-411	-100	-790	-29,288	14,897	-15,692
Utilisation	3,463	0	732	90	4,510	8,795
Reversal	178	0	580	0	0	758
Allocation	6,694	11,900	7,916	80	3,521	30,111
31 DECEMBER 2017	**6,631**	**11,900**	**19,507**	**79**	**18,382**	**56,499**

Reference is made to the remarks under 41 Share-based payment for information regarding the provision for share-based payment.

Litigation risks comprise various legal disputes in various companies of the Group.

Provisions in the amount of €1,895k (previous year: €17,205k) have a term of one to five years and €1,646k (previous year: €23,245k) have a term of more than five years. The change over the previous year results essentially from the sale of Versatel Group.

CONSOLIDATED NOTES

The provision for dismantling obligations concerns primarily possible obligations to dismantle active telecommunications technology in the rented main distribution frame (MDF) locations.

The other provisions are commission, warranty and contingent loss provisions as well as reimbursement claims

37. Other short-term financial liabilities

The other short-term financial liabilities break down as follows:

	31/12/2017 €k	31/12/2016 €k
Other short-term financial liabilities		
Liabilities from salaries/personnel	19,181	18,462
Liabilities from utilisation rights	10,000	0
Marketing and distribution costs/distribution commissions	6,758	12,066
Debenture bonds	3,077	0
Customers with credit balances	3,062	3,497
Insurance/premiums	1,291	0
Obligations pursuant to finance leasing relationships	529	16,332
Legal and professional fees, closing expenses	327	1,000
Service/maintenance/dismantling obligations	0	5,093
Miscellaneous	1,479	4,696
TOTAL	**45,704**	**61,146**

38. Other short-term non-financial liabilities

The other short-term non-financial liabilities break down as follows:

	31/12/2017 €k	31/12/2016 €k
Other short-term non-financial liabilities		
Turnover tax	20,495	1,592
Income and church tax due	3,260	2,672
TOTAL	**23,755**	**4,264**

CONSOLIDATED NOTES

39. Other long-term financial liabilities

The other long-term financial liabilities break down as follows:

	31/12/2017 €k	31/12/2016 €k
Other long-term financial liabilities		
Liabilities from utilisation rights	5,000	0
Platform dismantling advance service providers	1,058	800
Obligations pursuant to finance leasing relationships	267	82,856
Pension liabilities	0	2,160
Miscellaneous	13	391
TOTAL	**6,338**	**86,207**

40. Maturity structure of the liabilities

The maturity structure of the liabilities is presented below:

	Up to 1 year €k	1 to 5 years €k	More than 5 years €k	Total €k
Trade accounts payable	229,549	0	0	229,549
Liabilities due to associated companies	221,861	0	0	221,861
Other provisions	52,958	1,895	1,646	56,499
Other financial liabilities	45,704	6,338	0	52,042
Deferred income	48,394	0	0	48,394
Income tax liabilities	47,046	0	0	47,046
Other non-financial liabilities	23,755	0	0	23,755
Payments on account	5,976	0	0	5,976
TOTAL	**675,243**	**8,233**	**1,646**	**685,122**

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The liabilities in the previous year displayed the following maturity structure:

	Up to 1 year €k	1 to 5 years €k	More than 5 years €k	Total €k
Trade accounts payable	295,492	9,285	0	304,777
Liabilities due to associated companies	594,798	115,534	888,429	1,598,761
Other provisions	11,183	40,450	0	51,633
Other financial liabilities	44,814	3,352	0	48,166
Deferred income	63,661	20,104	6,149	89,914
Income tax liabilities	12,020	0	0	12,020
Other non-financial liabilities	4,264	0	0	4,264
Payments on account	4,164	0	0	4,164
Liabilities from finance leasing	16,332	47,734	35,122	99,188
Bank loans and overdrafts	1	0	0	1
TOTAL	**1,046,729**	**236,459**	**929,700**	**2,212,888**

41. Share-based payment

There were two different employee stock ownership programmes related to the United Internet AG stock in the reporting year 2017. One model, the so-called stock appreciation rights (SAR), was aimed at the group of executives and executive employees and is based on virtual share options. The second model, the employee stock ownership programme (MAP), was introduced in Q2 2016 for the active core employees of the Group companies in which United Internet AG holds at least 50% of the shares.

Stock appreciation rights (SAR)

Executives of the Group 1&1 Drillisch AG also receive share-based payment as remuneration for the work they have done. The stock is granted in each case by the Group company with which the employment relationship exists. The share-based payment takes the form of the granting of stock appreciation rights (SARs) which may, at the option of United Internet AG, be settled in cash or by the issue of shares of United Internet AG. If the obligations of the group 1&1 Drillisch AG are satisfied through United Internet AG shares that are vested to the employees by United Internet AG, United Internet AG charges the equivalent value to the employer company in each case.

A SAR is defined as the commitment of a company to make a payment to the entitled employees in the amount of the difference between the stock exchange price at the time of the grant (exercise price) and the stock exchange price when the option is exercised. The exercise threshold amounts to 120% of the stock exchange price calculated as the mean value of the closing prices in Xetra trade for the Company's stock on the Frankfurt Stock Exchange during the last 10 days of stock exchange trading before the point in time of the vesting of the option. The payment of the value appreciation for the entitled employees is simultaneously limited to 100% of the determined stock exchange price.

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The option right can be exercised for a partial amount of up to 25% at the earliest upon expiration of 24 months from the point in time of the vesting of the option, for a partial amount totalling up to 50% at the earliest 36 months from the point in time of the vesting of the option, for a partial amount totalling up to 75% at the earliest 48 months from the point in time of the vesting of the option and for the full amount at the earliest upon the expiration of 60 months after the point in time of the vesting of the option.

From the perspective of the Group, the share-based payment is to be presented as share-based payment with cash settlement ("cash-settled"). The obligation of the group 1&1 Drillisch AG is presented as a provision in accordance with the provisions of IFRS 2.

The provision at the pertinent measurement closing date is the result of the multiplication of the number of issued SARs by the fair value on the measurement closing date and at the vesting rate. The valuation date is the equivalent of the relevant closing date. The fair value is calculated on the basis of an option price model.

Using an option price model based on a binomial model in compliance with IFRS 2, the fair value of the vested options was calculated as follows:

	Measurement parameters per 31/12/2017		
Vesting date	18/12/2012	17/03/2014	12/05/2014
Fair value	1,204 €k	1,094 €k	3,420 €k
Average market value per option	16.06 €	21.89 €	22.80 €
Exercise price	16.06 €	32.79 €	31.15 €
Dividend return	1.40 %	1.40 %	1.40 %
Volatility of the stock	22.29 %	22.29 %	22.29 %
Expected term (years)	5	5	5
Risk-free interest	0.00 %	0.00 %	0.00 %

Vesting date	06/04/2017
Fair value	1,352 €k
Average market value per option	13.52 €
Exercise price	41.26 €
Dividend return	1.40 %
Volatility of the stock	22.29 %
Expected term (years)	5
Risk-free interest	0.00 %

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	Measurement parameters per 31/12/2016		
Vesting date	02/07/2012	18/12/2012	17/03/2014
Fair value	192 €k	2,122 €k	391 €k
Average market value per option	12.77 €	14.14 €	5.21 €
Exercise price	13.30 €	16.06 €	32.79 €
Dividend return	1.89 %	1.89 %	1.89 %
Volatility of the stock	28.71%	28.71%	28.71 %
Expected term (years)	5	5	5
Risk-free interest	0.00 %	0.00 %	0.00 %
Vesting date	12/05/2014	12/04/2016	01/06/2016
Fair value	1,380 €k	308 €k	105 €k
Average market value per option	6.13 €	3.07 €	3.51 €
Exercise price	31.15 €	44.06 €	43.45 €
Dividend return	1.89 %	1.89 %	1.89 %
Volatility of the stock	28.71 %	28.71 %	28.71 %
Expected term (years)	5	5	5
Risk-free interest	0.00 %	0.00 %	0.00 %

The volatility assumed for the determination of the fair value was determined on the basis of the historic volatility for the last 18 months before measurement date. The exercise price is calculated on the basis of the average share price of the last 10 days before the vesting date.

In fiscal year 2017, the total expenditures from the employee stock ownership programme came to €5,390k (previous year: €516k income). The previously recognised cumulative expenditure per 31 December 2017 for SARs exercised in the fiscal year and for SARs not yet exercised on the balance sheet date comes to €10,534k (previous year: €7,261k). Expenditures for future years will amount to €1,721k (previous year: €1,075k).

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The changes in the vested or outstanding virtual share options can be seen in the following table:

	Number	Average exercise price (€)
OUTSTANDING ON 1 JANUARY 2016	**665,000**	**24.46**
Exercised	-10,000	12.12
Exercised	-15,000	13.30
Exercised	-75,000	16.06
Exercised	-25,000	32.79
Exercised	-75,000	31.15
New grant	200,000	44.06
Forfeited	-100,000	44.06
New grant	30,000	43.45
OUTSTANDING ON 31 DECEMBER 2016	**595,000**	**34.41**
Exercised	-15,000	13.30
Exercised	-75,000	16.06
Exercised	-25,000	32.79
Exercised	-75,000	31.15
Forfeited	-100,000	44.06
Forfeited	-30,000	43.51
New grant	100,000	41.26
OUTSTANDING ON 31 DECEMBER 2017	**375,000**	**35.87**

The range of the exercise prices for the share options outstanding on the closing date is between €16.06 and €41.26 (previous year: €13.30 and €44.06). There were no exercisable stock options on the balance sheet date.

Per 31 December 2017, the book value of the provisions from share-based payment amounts to €5,350k (previous year: €3,423k).

Employee stock ownership programme:

A new employee stock ownership programme ("MAP") for the active core employees of the Group companies in which United Internet AG holds at least 50% was introduced in Q2 2016. The MAP objectives are to give employees a greater share in the development of United Internet Group and the United Internet AG stock, to foster motivation and dedication of the employees and, in particular, to reward their commitment to United Internet Group, i.e. the continued work of the employees for the corporation (loyalty). The MAP comprises two components.

The first element is that the employees eligible for participation in the programme have the opportunity to purchase a certain number of shares in United Internet AG ("United Internet stock") at reduced prices; these shares must be held for a period of two years (retention period). Upon expiration of the retention period, the participants will be granted additional shares free of charge, presuming that they are still employed by the company. If certain target values are reached, the participating employees will receive additional shares free of charge (performance shares).

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In the 1&1 Drillisch AG division of the Group, 653 employees have accepted the offer and subscribed a total of 64,472 shares of United Internet AG stock. Expenses in the amount of €556k were incurred with respect to the employee stock ownership programme in fiscal year 2017 (previous year: €465k).

The obligation is revaluated at fair value per every balance sheet date. The provisions related to the obligation for the employee stock ownership programme per 31 December 2017 amounted to €1,281k (previous year: €255k).

The recognition in the balance sheet and as operating results of the matching shares is based on the fair value of the United Internet stock. In this setting, the expenses per valuation closing date result on the basis of the stock exchange price of the UI stock per the valuation date less the present value of the expected dividends, taking into account the expired vesting period as well as the expected fluctuation. The matching expense that is recognised in the form of the employment time to be served is calculated on the basis of the following essential valuation parameters: stock exchange price of the United Internet AG share on the valuation date (€57.34), expected dividend return of about 1.4%, discount rate for dividends in 2018: 0.0% p.a. and expected fluctuation of 7% p.a.

Equity

42. Share capital

The fully paid-in share capital in the amount of €194,441,113.90 is distributed in 176,764,649 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10.

Capital Increase I

On 16 May 2017, 1&1 Drillisch AG acquired a holding of about 7.75% in 1&1 in the course of a capital increase against non-cash contributions. United Internet AG received 9,062,169 new shares of Drillisch stock.

Capital Increase II

During an Extraordinary General Meeting on 25 July 2017, the 1&1 Drillisch AG shareholders approved an increase in share capital from €70,209,499.80 to €188,941,113.90 (by the issue of 107,937,831 no-par ordinary shares issued to the bearer) against contribution of all shares in 1&1 Telecommunication SE not yet held by 1&1 Drillisch AG in the form of a non-cash capital increase.

Approved Capital I

Pursuant to a resolution adopted by the Annual General Meeting on 21 May 2014, the Management Board was authorised to increase the Company's share capital by a total of €23,403,166.60 by single or multiple issue of new no-par shares against cash and/or contributions in kind (approved capital) by 20 May 2019, subject to the consent of the Supervisory Board. This approved capital was utilised in part by capital increases in May/June 2015 and in May 2017 and currently amounts to €11,701,583.30.

The authorisation granted to the Management Board increase the share capital, to the extent it had not yet been exercised, was revoked by the Extraordinary General Meeting on 12 January 2018.

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Approved Capital II

The Management Board was authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital by as much as €5,850,791.65 by a single or multiple issue of new no-par shares against cash contributions and/or contributions in kind before the lapse of 20 May 2020 (Approved Capital II).

The authorisation granted to the Management Board increase the share capital, to the extent it had not yet been exercised, was revoked by the Extraordinary General Meeting on 12 January 2018.

Approved Capital 2018

Pursuant to a resolution adopted by the Extraordinary General Meeting on 12 January 2018, the Management Board was authorised, subject to the consent of the Supervisory Board, to increase the Company's share capital by a total of €97,220,556.40 by single or multiple issue of new no-par shares against cash and/or contributions in kind (Approved Capital 2018) by 11 January 2023.

In the event of cash contributions, the new shares issued by the Management Board may, subject to the consent of the Supervisory Board, also be taken over by one or more banks or other companies fulfilling the prerequisites of Section 186 (5) first sentence AktG, subject to the obligation to offer them for subscription solely and exclusively to the shareholders (indirect subscription right). As a matter of principle, a subscription right is to be granted to the shareholders. However, the Management Board is authorised, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights:

- So that fractional amounts are excluded from the subscription right;
- If the capital increase is achieved by cash contributions and the issue price of the new shares is not significantly lower than that of the shares already traded on the exchange at the time of the final determination of the issue price, which should take place as contemporaneously as possible with the placement of the shares. The number of shares issued subject to exclusion of the subscription pursuant to Section 186 (3) fourth sentence AktG may not exceed 10% of the share capital, neither at the point in time at which this authorisation becomes effective nor at the point in time that it is exercised. Any shares that are issued or that are to be issued pursuant to options or convertible bonds must be attributed to this figure to the extent that the bonds are issued during the term of this authorisation in application mutatis mutandis of Section 186 (3) fourth sentence AktG in exclusion of subscription rights; moreover, any shares that are issued or sold during the term of this authorisation in direct application or application mutatis mutandis of Section 186 (3) fourth sentence AktG must be attributed to this figure;
- To the extent required to ensure that a subscription right can be granted to holders or creditors of option and/or conversion rights or of equivalent option and/or conversion obligations from bonds that have been or are issued by the Company and/or by companies dependent on the Company or in which the Company holds a majority interest, either directly or indirectly, equivalent to the subscription right to which such holders or creditors would be entitled after exercise of their option and/or conversion right or after fulfilment of the option and/or conversion obligation;

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- If the capital increase against contributions in kind is carried out for the purpose of issuing shares within the framework of corporate mergers or of acquiring companies or parts of companies, holdings in companies or other assets;
- So that new shares up to a proportionate amount of the share capital totalling €9,722,055.20 may be issued as staff shares to employees of the Company or of affiliated companies within the sense of Section 15 et seqq. AktG.

Furthermore, the Management Board is authorised, subject to the consent of the Supervisory Board, to determine the further content of the stock rights and the terms and conditions of the issue of the shares. The Supervisory Board is authorised to amend the current version of the Company Charter in accordance with the specific utilisation of the Approved Capital 2018 or after the expiration of the authorisation.

Contingent Capital 2013

The authorisation granted to the Management Board during the Annual General Meeting of 16 May 2013 to issue option and/or convertible bonds with a total nominal value not to exceed €100.0m was exercised in full (Contingent Capital 2013). In December 2013, 1&1 Drillisch AG issued a non-subordinated convertible bond with a total volume of €100.0m and a term of five years. The term of the bond ends on 12 December 2018. The Contingent Capital 2013 was utilised in full in fiscal year 2017 by the issue of a total of 5,000,000 shares.

Contingent Capital 2015

There has been a contingent increase in capital of up to €17,600,000.00 by the issue of up to 16,000,000 no-par value shares issued to the bearer with profit entitlement from the beginning of the fiscal year of their issue. The contingent capital increase serves the purpose of granting shares to the holders or creditors of option bonds, convertible bonds, stock ownership rights and/or income bonds or combinations of these instruments that, pursuant to the authorisation of agenda item 10 of the Annual General Meeting of 21 May 2015, are issued against cash by the Company or by a company in which the Company, directly or indirectly, holds a majority interest and that grant a conversion or option right to no-par bearer shares of the Company or that determine a conversion/option obligation. The contingent capital increase is to be carried out solely to the extent that the option and/or conversion rights from the debenture bonds are exercised or that option/conversion obligations from the debenture bonds are fulfilled, and provided that cash compensation is not paid or that treasury stock or stock from another listed company is not utilised for this purpose. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the details of the conduct of the contingent capital increase (Contingent Capital 2015).

During the General Meeting of 12 January 2018, the existing authorisation granted by the Annual General Meeting of 21 May 2015 for the issue of option bonds, convertible bonds, profit sharing rights and/or income bonds or combinations of these instruments in a total nominal value of no more than €750,000,000.00 (which had not been utilised) along with the Contingent Capital 2015 in the amount of €17,600,000.00 created for their satisfaction was revoked.

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Contingent Capital 2018

The share capital has been contingently raised by up to €96,800,000.00 by the issue of up to 88,000,000 new no-par shares issued to the bearer (Contingent Capital 2018). The contingent capital increase will be carried out solely to the extent that the holders or creditors of option and/or convertible bonds, profit sharing rights and/or income bonds (or combinations of these instruments) that include option and/or conversion rights and/or option and/or conversion obligations or tender rights of the Company and that are issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, pursuant to the authorisation resolution of the General Meeting of 12 January 2018, by no later than 11 January 2023, exercise their option or conversion rights pursuant to these bonds or fulfil their obligation to exercise the option or for conversion; or, to the extent the Company exercises an option, to grant no-par shares of the Company in lieu of the payment of a cash amount that is due and to the extent that no cash compensation is granted or that own shares or shares of another company listed on the stock exchange are not used to satisfy the claims. The new shares will be issued in each case at the option or conversion price to be determined in accordance with the authorisation resolution stipulated above. The new shares participate in profits as of the beginning of the fiscal year in which they are issued; to the extent legally permissible, the Management Board, subject to the Supervisory Board's consent, may also determine the participation in profits for a previously expired fiscal year for new shares in abrogation of this provision and of Section 60 (2) AktG. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the details of the conduct of the contingent capital increase.

43. Capital reserves

The equity in the Group rose from €-1,068k per 31 December 2016 to €2,447k per 31 December 2017. The cause of this substantial increase was mostly in the consolidation effects related to the recognition of the reverse acquisition.

44. Treasury stock

Per the closing date 31 December 2017, 1&1 Drillisch AG did not hold any shares of its own stock.

The Annual General Meeting on 21 May 2015 adopted a resolution authorising the 1&1 Drillisch AG Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2015 on or before 20 May 2020 (including the use of derivatives).

The granted authorisation for the acquisition and utilisation of treasury stock was revoked by the General Meeting of 12 January 2018 and superseded by the new authorisation below.

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The Company is authorised to acquire shares of the Company's own stock in an amount totalling no more than 10% of the share capital at the time of the adoption of the resolution or – if this value is lower – at the time of the exercise of the authorisation; this authorisation expires on 11 January 2023. Any shares acquired pursuant to this authorisation, together with any other treasury stock in the Company's possession or attributable to the Company pursuant to Sections 71a et seqq. AktG, may not exceed at any time a value in excess of 10% of the share capital.

The authorisation may be exercised in one full amount or in partial amounts, once or on multiple occasions, in pursuit of one or multiple objectives, directly by the Company or also by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, or by third parties instructed by the Company or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest.

At the option of the Management Board, the shares may be acquired on the stock exchange or on the basis of a public purchase offer or by means of a public invitation to submit offers to sell.

The Management Board is authorised, subject to the Supervisory Board's consent, to sell any Company shares acquired pursuant to this authorisation on the stock exchange or by offer to all shareholders in the ratio of their holdings. Moreover, Company shares acquired pursuant to this authorisation may be used for any and all other legally permissible purposes, including in particular, but not limited to, the following purposes:

The shares may be sold to third parties against cash payment at a price that does not fall significantly short of the stock exchange price of shares of an equivalent nature at the point in time of the sale. In this case, the number of shares to be sold may not exceed in total 10% of the share capital at the time of the adoption of the resolution by the General Meeting or – if this amount is lower – 10% of the share capital at the time of the sale of the Company's shares. Any shares issued or sold in application, whether direct or mutatis mutandis, of Section 186 (3) fourth sentence AktG during the term of this authorisation must be attributed to this limitation of 10% of the share capital. Furthermore, any shares that must be issued to satisfy option and/or convertible bonds must be attributed to this limit of 10% of the share capital, provided that the bonds have been issued during the term of this authorisation in application mutatis mutandis of Section 186 (3) fourth sentence AktG and excluding the subscription right.

The shares may be used for the fulfilment of obligations pursuant to bonds with option and/or conversion right or option and/or conversion obligation issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest,

The shares may be issued against assets, including claims against the Company, in particular, but not solely, in relation to the acquisition of companies, holdings in companies or parts of companies, or corporate mergers.

The shares may be used in relation to stock-based compensation or employee stock option programmes of the Company or of its affiliates and may be offered and transferred to persons who are or were in an employment relationship with the Company or one of its affiliates as well as to directors and officers of the Company's affiliates.

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The shares may be redeemed without requiring any additional General Meeting resolution for the redemption or the execution of the redemption. The Management Board may determine that the share capital will be decreased during the redemption; in this case, the Management Board is authorised to reduce the share capital by the proportionate amount of share capital attributable to the redeemed shares and to adjust the information regarding the number of shares and the share capital in the Company Charter. The Management Board may also determine that the share capital will remain unchanged by the redemption and that instead the share of the other shares in the share capital is increased by the redemption pursuant to Section 8 (3) AktG. The Management Board is authorised is this case as well to adjust the information regarding the number of shares in the Company Charter.

The Supervisory Board is authorised to assign treasury stock acquired pursuant to this authorisation to the members the Company's Management Board in fulfilment of applicable compensation agreements.

The subscription right of the shareholders is excluded to the extent that treasury stock is utilised in accordance with the authorisations described above. Furthermore, the Management Board, subject to the Supervisory Board's consent, is authorised, in the event of the sale of acquired treasury stock based on an offer to the shareholders, to grant to the holders or creditors of bonds with option and/or conversion rights or corresponding option and/or conversion obligations issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, a subscription right to the shares in the scope to which they would be entitled after exercise of the option or conversion right or fulfilment of the option or conversion obligation; the shareholders' subscription right is excluded in the same scope.

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45. Non-controlling interests

The non-controlling interests per 31 December 2016 concerned in full the shares of 1&1 Telecom Holding GmbH, Montabaur (15%), held by 1&1 Internet SE (associated company outside of 1&1 Drillisch Group) of €39,441k.

On 15 December 2014, the shareholders' meeting of 1&1 Telecom Holding GmbH carried out a cash capital increase. Subsequent to capital increase, 1&1 Telecommunication SE holds 85% and 1&1 Internet SE holds 15% of the shares in 1&1 Telecom Holding GmbH. Upon execution of the capital increase, the shares in 1&1 Telecom Holding GmbH (15%) held by 1&1 Internet SE were posted for the first time as shares of non-controlling shareholders.

Moreover, 1&1 Telecom Service Holding Montabaur GmbH, as an associated company outside of 1&1 Drillisch Group, concluded an option agreement as the option owner (per 27 February 2015) with 1&1 Internet SE as the writer regarding its 15% holding in 1&1 Telecom Holding GmbH. As part of additional reorganisation measures, 1&1 Telecom Service Holding Montabaur GmbH was merged with 1&1 Telecommunication SE, effective upon entry in the Commercial Register on 26 May 2017, so that 1&1 Telecommunication SE has been the new option owner since 26 May 2017.

Since the opportunities typical for the owner were also transferred to 1&1 Drillisch Group upon passing of the option right, the option has been treated as exercised since the point in time of the transfer, 26 May 2017. The non-controlling interests were carried forward until the time of the transfer by the proportionate consolidated profit of €16,623k and subsequently derecognised at their value of €56,065k (see consolidated change in equity statement). In addition, a corresponding purchase price liability was recognised, which is disclosed in the balance sheet at cost of acquisition costs carried forward (€155,820k).

The option for the purchase of the remaining 15% of the shares in 1&1 Telecom Holding GmbH was exercised with legal effect by 1&1 Telecommunication SE on 25 January 2018.

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46. Additional disclosures about the financial instruments

The table below presents the book values and fair values of each category of financial assets and liabilities per 31 December 2017.

	Measure-ment category per IAS 39	Book value per 31/12/2017 €k	Cost of acquisition carried forward €k	Fair value non-operating results €k	Fair value operating results €k	Valuation according to IAS 17 €k	Fair Value per 31/12/2017 €k
Financial assets							
Cash and cash equivalents	LaR	149,681	149,681	0	0	0	149,681
Trade accounts receivable	LaR	182,620	182,620	0	0	0	182,620
Receivables due from associated companies	LaR	168,261	168,261	0	0	0	168,261
Other short-term financial assets	LaR	80,120	80,120	0	0	0	80,120
Other long-term financial assets	LaR/AFS						
- Participating interests	AFS	0	0	1,071	0	0	1,071
- Miscellaneous	LaR	5,024	5,024	0	0	0	5,024
Financial liabilities							
Trade accounts payable	FLAC	-229,549	-229,549	0	0	0	-229,549
Liabilities due to associated companies	FLAC	-221,861	-221,861	0	0	0	-221,861
Other financial liabilities	FLAC	-52,041	-52,041	0	0	0	-52,041
thereof aggregated as per measurement categories:							
- Loans and receivables (LaR)	LaR	585,706	585,706	0	0	0	585,706
- Available-for-sale (AFS)	AFS	0	0	1,071	0	0	1,071
- Financial liabilities measured at amortised cost	FLAC	-503,451	-503,451	0	0	0	-503,451
- Hedging derivatives (HD) (negative market value)	HD	0	0	0	0	0	0

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The table below presents the book values and fair values of each category of financial assets and liabilities per 31 December 2016.

	Measure-ment category per IAS 39	Book value per 31/12/2016 €k	Cost of acquisition carried forward €k	Fair value non-operating results €k	Fair value operating results €k	Valuation according to IAS 17 €k	Fair Value per 31/12/2016 €k
Financial assets							
Cash and cash equivalents	LaR	4,562	4,562	0	0	0	4,562
Trade accounts receivable	LaR / n/a						
- Receivables from finance leasing	n/a	61,775	61,775	0	0	61,775	64,551
- Miscellaneous	LaR	146,298	146,298	0	0	0	146,298
Receivables due from associated companies	LaR	4,099	4,099	0	0	0	4,099
Other short-term financial assets	LaR	7,415	7,415	0	0	0	7,415
Other long-term financial assets	LaR	5,091	5,091	0	0	0	5,091
Participating interests	AFS	0	0	0	0	0	0
Miscellaneous	LaR	0	0	0	0	0	0
Financial liabilities							
Trade accounts payable	FLAC	-304.778	-304,778	0	0	0	-304,778
Liabilities due to associated companies	FLAC	-1.598.762	-1,598,762	0	0	0	-1,598,762
Bank loans and overdrafts	FLAC	-1	-1	0	0	0	-1
Other financial liabilities	FLAC / n/a						
- Liabilities from finance leasing	n/a	-99,188	0	0	0	-99,188	-101,208
- Miscellaneous	FLAC	-48,165	-48,165	0	0	0	-48,165
thereof aggregated as per measurement categories:							
- Loans and receivables (LaR)	LaR	167,466	167,466	0	0	0	167,466
- Available-for-sale (AFS)	AFS	0	0	0	0	0	0
- Financial liabilities measured at amortised cost	FLAC	-1,951,706	-1,951,706	0	0	0	-1,951,706
- Finance leasing	n/a	-37,413	61,775	0	0	-37,413	-36,657

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The following net results were disclosed for the specific categories of financial instruments pursuant to IAS 39 in fiscal year 2017.

2017 Net result according to valuation categories	Measurement categories pursuant to IAS 39	Net profits and losses from subsequent valuation From interest and dividends	Currency translation	Valuation allowance	Net result
	€k	€k	€k	€k	€k
Loans and receivables (LaR)	LaR	946	182	-24,985	-23,856
Financial liabilities measured at amortised cost	FLAC	-9,519	78	0	-9,441
		-8,573	**260**	**-24,985**	**-33,297**

The following net results were disclosed for the specific categories of financial instruments pursuant to IAS 39 in fiscal year 2016.

2016 Net result according to valuation categories	Measurement categories pursuant to IAS 39	Net profits and losses from subsequent valuation From interest and dividends	Currency translation	Valuation allowance	Net result
	€k	€k	€k	€k	€k
Loans and receivables (lar)	lar	188	58	-19,169	-18,923
Financial liabilities measured at amortised cost	flac	-24,931	25	0	-24,906
		-24,743	**83**	**-19,169**	**-43,829**

The fair value of the financial assets and financial liabilities is recognised at the value at which the pertinent instrument could be exchanged in a current transaction (with the exception of forced sale or liquidation) between business partners interested in a contract.

Cash and cash equivalents, trade receivables and other short-term financial assets have by and large short remaining terms; the trade receivables related to finance leasing are an exception. Their book values on the closing date are consequently close to fair value.

Receivables related to finance leasing relationships display slight deviations between book value and fair value in the previous year because of the change in interest rates.

It is assumed for the remaining other long-term assets, which are disclosed in the balance sheet at cost of acquisition carried forward, that their book value is equivalent to fair value.

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Trade accounts payable and short-term liabilities due to associated companies and the other short-term financial liabilities essentially have short remaining terms. The values shown in the balance sheet approximate the fair values. The same is true of short-term bank drafts and loans in the previous year.

It is assumed for long-term liabilities due to associated companies and for other long-term liabilities (with the exception of liabilities related to finance leasing relationships) that their book value is equivalent to the fair value. Long-term liabilities due to associated companies are subject to variable interest rates so changes in the market interest level do not have any major impact on the fair value.

Liabilities related to finance leasing relationships display slight deviations between book value and fair value because of the change in interest rates.

The methods and assumptions applied to the determination of the fair value are shown below:

» Cash and short-term contributions, trade receivables, trade accounts payable and other short-term assets and liabilities come very close to their book value, primarily because of the short terms of these instruments.

» Long-term receivables/loans subject to fixed and variable interest rates are valuated by the Group on the basis of parameters such as interest rates, certain risk factors specific to a country, creditworthiness of individual customers and the risk characteristics of the financed project. Valuation allowances are taken on the basis of this valuation to give consideration to expected losses of these receivables. Per 31 December 2017, as in the previous year, the book values of these receivables less the valuation allowances do not differ significantly from the fair value calculated for them.

» The fair value of unquoted instruments, bank loans and other financial liabilities and of other long-term financial liabilities are estimated by discounting future cash flow in application of interest rates currently available for borrowing at comparable conditions, credit risks and remaining terms. Per 31 December 2017, as in the previous year, the book values of these liabilities do not differ significantly from the fair value calculated for them.

Hierarchy of fair values

The Group uses the following hierarchy for the determination and disclosure of fair values of financial instruments in each valuation method:

Level 1: Quoted prices (unadjusted) on active markets for identical assets or liabilities.

Level 2: Methods during which all input parameters that have significant effect on the recognised fair value are observable, either directly or indirectly.

Level 3: Methods that use input parameters that have significant effect on the recognised fair value and are not based on observable market data.

As in the previous year, there were no assets and liabilities that were measured at fair value for fiscal year 2017.

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47. Related Party Disclosures

Pursuant to IAS 24, persons and companies are regarded as related parties if one of the parties has the possibility to control the other party or to exercise a significant influence. Related parties of the Group include Management and Supervisory Boards of 1&1 Drillisch AG and the group companies of United Internet Group that are not included in the consolidation of the Group. Moreover, participations on which the Group companies can exercise significant influence (associated companies) are classified as related parties. In addition, Mr Ralph Dommermuth as the principal shareholder of United Internet AG is classified as a related party (and the ultimate controlling company within the sense of IAS 24.13).

Supervisory Board

Michael Scheeren,
Supervisory Board Chairperson, Frankfurt am Main (since 16 October 2017)

– Chairperson – (since 13 November 2017)

Seats held on supervisory boards required by law or other supervisory bodies:

- United Internet AG, Montabaur (Supervisory Board Deputy Chairperson)
- United Internet Ventures AG (today: United Internet Investments Holding GmbH), Montabaur (Supervisory Board Chairperson until change in legal form on 1 March 2017)
- 1&1 Internet SE, Montabaur (Supervisory Board Chairperson until 16 March 2017, thereafter Supervisory Board member)
- 1&1 Telecommunication SE, Montabaur (Supervisory Board Chairperson)
- 1&1 Mail & Media Applications SE, Montabaur (Supervisory Board Chairperson until 8 December 2017, thereafter Supervisory Board member)
- 1&1 Internet TopCo SE, Montabaur (from 3 March 2017 until 13 December 2017)
- STRATO AG, Berlin (since 17 May 2017)
- Drillisch Online AG, Maintal (since 17 January 2018)

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Kai-Uwe Ricke,
member of the Administration Board of Delta Partners, Dubai, Stallikon/Switzerland
(since 16 October 2017)

– Deputy Chairperson – (since 13 November 2017)

Seats held on supervisory boards required by law or other supervisory bodies:

» United Internet AG, Montabaur
» United Internet Ventures AG (today: United Internet Investments Holding GmbH), Montabaur (Supervisory Board member until change in legal form on 1 March 2017)
» 1&1 Internet SE, Montabaur
» 1&1 Telecommunication SE, Montabaur
» 1&1 Mail & Media Applications SE, Montabaur (Supervisory Board Deputy Chairperson until 11 December 2017, thereafter Supervisory Board Chairperson)
» 1&1 Internet TopCo SE, Montabaur (from 3 March 2017 until 13 December 2017)
» STRATO AG, Berlin (since 17 May 2017)
» EUN Holdings LLP, Delaware/USA
» Delta Partners, Dubai/Emirate Dubai (Administrative Board Chairperson until 20 July 2017, thereafter Administrative Board member)
» SUSI Partners AG, Zurich/Switzerland (Administration Board Chairperson until 21 May 2017, thereafter Administration Board member)
» Zalando SE, Berlin (until 31 May 2017)
» Virgin Mobile CEE B.V., Amsterdam/The Netherlands
» Cash Credit Limited, Cayman Islands (since 1 November 2017)
» Drillisch Online AG, Maintal (Supervisory Board Chairperson since 1 January 2018)

Kurt Dobitsch,
Supervisory Board Chairperson of United Internet AG, Markt Schwaben
(since 16 October 2017)

Seats held on supervisory boards required by law or other supervisory bodies:

» United Internet AG, Montabaur (Supervisory Board Chairperson)
» Drillisch Online AG, Maintal (Supervisory Board Deputy Chairperson since 23 January 2018)
» 1&1 Internet SE, Montabaur (Supervisory Board Deputy Chairperson until 16 March 2017)
» United Internet Ventures AG (today: United Internet Investments Holding GmbH), Montabaur (Supervisory Board Deputy Chairperson until change in legal form on 1 March 2017)
» 1&1 Telecommunication SE, Montabaur (Supervisory Board Deputy Chairperson)
» 1&1 Mail & Media Applications SE, Montabaur (Supervisory Board member until 11 December 2017, thereafter Supervisory Board Deputy Chairperson)

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- Nemetschek AG, Munich (Supervisory Board Chairperson)
- Bechtle AG, Gaildorf
- Graphisoft S.E., Budapest/Hungary
- Singhammer IT Consulting AG, Munich
- Vectorworks Inc., Columbia/USA

Vlasios Choulidis,
entrepreneur, Gelnhausen
(since 12 January 2018)

Seats held on supervisory boards required by law or other supervisory bodies:

- The Phone House Deutschland GmbH, Münster (Supervisory Board Chairperson until 29 May 2017)
- yourfone AG, Maintal (until 28 July 2017)
- yourfone Retail AG, Düsseldorf (until 13 December 2017)
- Drillisch Online AG, Maintal (Supervisory Board Deputy Chairperson until 23 January 2018, thereafter Supervisory Board member)
- Drillisch Netz AG, Düsseldorf
- 1&1 Telecommunication SE, Montabaur (since 19 January 2018)

Nobert Lang,
merchant, Waldbrunn

Seats held on supervisory boards required by law or other supervisory bodies:

- Rocket Internet SE, Berlin (Supervisory Board Deputy Chairperson)
- 1&1 Telecommunication SE, Montabaur (since 19 January 2018)
- Drillisch Online AG, Maintal (since 17 January 2018)

Dr. Claudia Borgas-Herold,
entrepreneur, Kilchberg/Switzerland
(since 12 January 2018)

Seats held on supervisory boards required by law or other supervisory bodies:

- Drillisch Online AG, Maintal (since 1 January 2018)
- 1&1 Telecommunication SE, Montabaur (since 19 January 2018)

Marc Brucherseifer,
merchant, Frechen
(until 31 December 2017)

– Chairperson – (until 15 October 2017, thereafter Supervisory Board member)

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Dr Susanne Rückert,
lawyer, Düsseldorf
(until 10 October 2017)

– Deputy Chairperson – (until 10 October 2017)

Horst Lennertz, Dr.-Ing.
consultant, Meerbusch (until 31 December 2017)

Frank A Rothauge,
managing partner, Wetzlar
(until 13 October 2017)

Dr Bernd H Schmidt,
CEO, Saarbrücken
(until 29 May 2017)

Seats held on supervisory boards required by law or other supervisory bodies:

» IQ-optimize Software AG, Maintal (Supervisory Board Chairperson until 31 December 2017)

Management Board

Ralph Dommermuth,
CEO, Montabaur
(since 1 January 2018)

Seats held on supervisory boards required by law or other supervisory bodies:

» Versatel Telecommunications GmbH, Düsseldorf, (Advisory Board Chairperson since 15 July 2017)

» 1&1 Internet SE, Montabaur (since 17 March 2017)

» STRATO AG, Berlin (since 3 April 2017)

» 1&1 Internet TopCo SE, Montabaur (from 3 March 2017 until 13 December 2017)

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André Driesen,
Management Board member, Krefeld

Seats held on supervisory boards required by law or other supervisory bodies:

- » The Phone House Deutschland GmbH, Münster (until 29 May 2017)
- » IQ-optimize Software AG, Maintal (Supervisory Board Deputy Chairperson since 17 January 2018)
- » Drillisch Netz AG, Düsseldorf (Supervisory Board Chairperson)
- » yourfone Retail AG, Düsseldorf (Supervisory Board Chairperson, until 13 December 2017)

Martin Witt,
Management Board member, Reichertshausen
(since 1 October 2017)

Seats held on supervisory boards required by law or other supervisory bodies:

- » 1&1 Versatel Deutschland GmbH, Düsseldorf (Advisory Board Chairperson)
- » Versatel Telecommunications GmbH, Düsseldorf
- » IQ-optimize Software AG, Maintal (since 1 January 2018)

Vlasios Choulidis,
1&1 Drillisch AG Management Board member, Gelnhausen
(until 31 December 2017)

Seats held on supervisory boards required by law or other supervisory bodies:

- » The Phone House Deutschland GmbH, Münster (Supervisory Board Chairperson until 29 May 2017)
- » yourfone AG, Maintal (until 28 July 2017)
- » yourfone Retail AG, Düsseldorf (until 13 December 2017)
- » Drillisch Online AG, Maintal (Supervisory Board Deputy Chairperson until 23 January 2018, thereafter Supervisory Board member)
- » Drillisch Netz AG, Düsseldorf
- » 1&1 Telecommunication SE, Montabaur (since 19 January 2018)

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Compensation paid to management in key positions and to the Supervisory Board

Compensation paid to Management Board members in 2017 amounted to €3,661k, thereof €2,070k variable (previous year: €2,029k, thereof €757k variable). The total compensation paid to Management Board members in fiscal year 2017 comprises the pro rata temporis compensation of Management Board members of the economic acquirer (pursuant to IFRS 3. no. 6 in conjunction with IFRS 3B19: 1&1 Telecommunication SE) for the period January to August, inclusive, 2017 and the compensation of the Management Board members of the legal acquirer (pursuant to IFRS 3. no. 6 in conjunction with IFRS 3B19: formerly Drillisch AG) for the period September to December 2017.

Compensation paid to the Supervisory Board in 2017 totalled €270k (previous year: €177k).

The description of the compensation system and the individualised disclosures on the compensation of the officers and directors of 1&1 Drillisch AG (perspective of legal acquirers) is shown in the compensation report that is a component of the consolidated management report.

Directors' Holdings

Management Board members held the following shares in 1&1 Drillisch AG per 31 December 2017: Vlasios Choulidis, 273,333 no-par shares (thereof 65,000 shares via MV Beteligungs GmbH).

Supervisory Board members did not hold any shares in 1&1 Drillisch AG per 31 December 2017; per 31 December 2017, Management and Supervisory Boards held a total of 0.16% of the shares in 1&1 Drillisch AG.

Transactions with associated companies

All of the companies included in the consolidated annual financial statements of United Internet AG that are not included in the consolidation of the group 1&1 Drillisch AG as well as associated companies of United Internet AG have been identified as associated companies of the Group.

Short-term receivables due from associated companies break down as shown below:

	31/12/2017 €k	31/12/2016 €k
United Internet Services Holding GmbH	157,897	0
Subgroup Versatel	6,108	0
1&1 Internet SE	2,692	108
1&1 Mail & Media GmbH	1,185	349
United Internet AG	16	3,341
1&1 Mail & Media Development & Technology GmbH	14	130
Miscellaneous	349	171
TOTAL	**168,261**	**4,099**

The short-term receivables all result from the common cash pool and from trade.

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Of the disclosed receivables, €16k (previous year: €3,341k) are receivables due from United Internet AG (parent company) and the remaining receivables are due from other associated companies.

Receivables due from United Internet Services Holding GmbH in the amount of €157,897k (previous year: €0k) result from the sale of Versatel shares.

Open balances existing at the end of the fiscal year are unsecured, interest-free and will be settled by cash payment. There are no guarantees for receivables due from associated companies. Receivables due from related parties were not value-adjusted in fiscal year 2017. A recoverability test is conducted annually. This includes an assessment of the financial position of the associated company as well as of the development of the market on which it operates. All of the receivables are due within one year, just as in the previous year.

Liabilities due to associated companies break down as shown below:

	31/12/2017 €k	31/12/2016 €k
1&1 Internet SE	160,795	8,077
Subgroup Versatel	26,405	0
1&1 Mail & Media GmbH	23,996	25,274
United Internet Media GmbH	4,755	0
A1 Marketing, Kommunikation und neue Medien GmbH	2,928	1,420
United Internet AG	2,297	1,562,387
United Internet Corporate Services	460	787
Miscellaneous	225	817
TOTAL	**221,861**	**1,598,762**

Liabilities due to associated companies result above all from trade and from cash pool agreements. Open balances existing at the end of the fiscal year are unsecured, interest-free and will be settled by cash payment. There are no guarantees.

Of the disclosed liabilities, €2,297k (previous year: €1,562,387k) comprise liabilities due to the parent company (United Internet AG).

The liabilities are due within one year. In the previous year, long-term liabilities in the amount of €1,003,963k were disclosed; they resulted from a loan from United Internet AG.

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The following table presents the total amount of the transactions with associated companies:

Purchases/services from related parties 2017 €k	Purchases/services to related parties 2017 €k	Purchases/services from related parties 2016 €k	Purchases/services to related parties 2016 €k
140,038	39,110	122,383	19,776

The transactions with associated companies concern primarily issues from internal offsets of performances.

Of the disclosed expenses, €172k (previous year: €338k) are related to the parent company, United Internet AG.

There were no receivables due from or liabilities due to the related parties mentioned below per 31 December 2017.

Baugemeinschaft Maintal, consisting of the shareholders Paschalis Choulidis and Marianne Choulidis, has let office space in Maintal to 1&1 Drillisch Group. The lease runs until 31 December 2020. Rent expenses in the period September 2017 to December 2017 amounted to €169k (previous year: €0k).

The company VPM Immobilien Verwaltungs GmbH, Maintal (shareholders: Vlasios Choulidis, Paschalis Choulidis and Marc Brucherseifer), has let office space in Maintal to 1&1 Drillisch Group. The lease runs until 31 December 2020. Rent expenses in the period September 2017 to December 2017 amounted to €60k (previous year: €0k).

Ms Marianne Choulidis received compensation as an employee of Drillisch Online AG totalling €22k (previous year: €0k) during the period from September 2017 to December 2017.

The company DIaLOGIKa GmbH, Saarbrücken (shareholder Dr Bernd H Schmidt), realised revenues in the amount of €11k (previous year: €0k) with 1&1 Drillisch Group in the period September 2017 to December 2017.

The interest expenses and interest income realised with associated companies in each fiscal year are presented in the table below:

Interest income 2017 €k	Interest and similar expenses 2017 €k	Interest income 2016 €k	Interest and similar expenses 2016 €k
288	8,011	108	24,553

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Interest income and interest expenses are related above all to the interest paid on cash pool balances and on loan relationships with the parent company United Internet AG.

48. Objectives and methods of financial risk management

The system principles of the risk management system at 1&1 Drillisch AG are described in detail in the management report. The essential features of financial policies are defined by the Management Board and monitored by the Supervisory Board. Certain transactions are subject to the prior consent of the Supervisory Board.

The primary financial liabilities used by the Group encompass liabilities due to associated companies, trade accounts payable and other financial liabilities. The Group has at its disposal various financial assets that result immediately from its business activities. They encompass primarily trade receivables and short-term receivables due from associated companies. As of the balance sheet date, the Group has at its disposal exclusively original financial instruments. The goal of the financial risk management is to limit these risks through ongoing operating and finance-oriented activities. The Group is vulnerable in particular to liquidity risks and market risks related to its assets, liabilities and planned transactions; these risks are presented below.

Liquidity risk

The liquidity risk represents the risk that a company will have difficulties fulfilling its payment obligations arising from its financial liabilities. For 1&1 Drillisch, the liquidity risk, unchanged from the previous year, is the fundamental possibility that the companies will be unable to meet their ongoing financial obligations in good time. Along with short-term liquidity outlook, longer-term financial planning is carried out to ensure the solvency and financial flexibility of 1&1 Drillisch Group at all times.

1&1 Drillisch has established standardised processes and systems for the management of its bank accounts and the internal clearing accounts and for the execution of automated payment transactions. In addition to the operating liquidity, the Group maintains additional liquidity reserves that are available on short notice.

There is no significant concentration of liquidity risks in the Company.

The table below shows the maturity structure of the liabilities pursuant to the agreements concluded between the Group and outside third parties or associated companies per 31 December 2017 and 2016. The repayment plus the contractually determined minimum interest payment are shown in the specific year columns within the table.

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	Book value	Cash outflow for repayment and interest in the fiscal year					Total
	31/12/2017	2017	2018	2019	2020	> 2021	
	€k	€k	€k	€k	€k	€k	€k
Liabilities due to associated companies	221,861	221,861					221,861
Trade accounts payable	229,549	229,549					229,549
Other financial liabilities	52,041	45,703	6,338				52,041

	Book value	Cash outflow for repayment and interest in the fiscal year					Total
	31/12/2016	2017	2018	2019	2020	> 2021	
	€k	€k	€k	€k	€k	€k	€k
Liabilities due to associated companies	1,598,761	609,523	115,534	511,791	2,000	408,000	1,646,848
Trade accounts payable	304,777	295,492	1,141	1,092	1,055	5,998	304,778
Other financial liabilities	147,353	61,146	16,164	13,118	10,505	46,816	147,749

Market risk

The market risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate owing to changes in market prices. There are three types of risk in the market risk: interest risk, currency risk and other risks such as the stock price risk. The financial instruments vulnerable to market risk include (among others) interest-bearing loans, deposits, financial assets available for sale and derivative financial instruments.

There are no significant currency risks or other price risks within the Group.

Interest risk

The interest risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate owing to changes in market interest rates.

The Group is fundamentally vulnerable to risks from changes in interest rates. The variable interest rates are based on the EURIBOR. Reference is made here to the remarks under 47. Related Parties Disclosures.

If the EURIBOR had been 1% p.a. higher in fiscal year 2017, interest expenses would have increased by €3.7m (previous year: €11.0m) and the pre-tax results would have changed correspondingly. If the EURIBOR had been 1% p.a. lower, there would have no effects on the interest expenses.

The Group is not vulnerable to any significant interest risks from other circumstances. There are no significant bank loans and overdrafts.

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Risk of default

Trade accounts receivable

Risk of default is the risk that a business partner will not fulfil its obligations related to a financial instrument or customer (framework) agreement and that this leads to a financial loss. The Group is vulnerable to risks of defaults within the framework of its operating business activities (especially trade receivables) and within the framework of its financial activities, including from deposits in banks and financial institutes.

Consequently, an extensive fraud management system that includes a preventive element has been established and is constantly being developed further. Moreover, outstanding payments are continuously monitored on a division basis, i.e. locally. Risks of default are taken into consideration by means of valuation allowances and lump-sum valuation allowances. The calculation is based on historical data from actual incidents. In comparison with the previous year, the Company notes a slight decline in the risk of default.

A pre-contract fraud check is conducted in the 1&1 Drillisch mass customer business and the receivables management is handled by engaging the services of collection agencies. The valuation allowances for overdue receivables are determined essentially in dependency on the age structure of the receivables with differing measurement discounts that are basically derived from the success quota of the collection agencies engaged to collect overdue receivables. All receivables that are overdue by more than 365 days are adjusted with a valuation allowance of 100%.

Regarding the trade receivables, the maximum credit risk consists of the gross amount of the receivable shown in the balance sheet before valuation allowances, but after netting, to the extent there is a counterbalancing situation. Reference is made to the information under 18 of the notes regarding overdue, but not impaired trade receivables.

Receivables due from and loans to associated companies

The receivables due from and loans to associated companies are continually monitored by management. An impairment test is conducted annually. This includes an assessment of the financial position of the associated company as well as of the development of the market on which it operates.

Capital management

1&1 Drillisch AG is not subject to any obligations in the Company Charter or from contractual obligations to maintain capital beyond the regulations of securities law. The financial performance indicators used for the corporate management of the Company are primarily success-oriented. Objectives, methods and processes of capital management are subordinated to the success-oriented financial performance indicators.

The Company may undertake adjustments to the dividend payments to the shareholders or a capital repayment to shareholders, acquire own stock and release it again as needed or issue new shares for the purpose of maintaining or adjusting the capi-

CONSOLIDATED NOTES

tal structure. Reference is made on this subject to the consolidated change in equity statement. No changes were made in the objectives, regulations and methods per 31 December 2017 or per 31 December 2016.

49. Contingencies and other obligations

The litigation consists primarily of various legal disputes involving the Group. Provisions for litigation risks have been created for contingent obligations arising from these disputes (see note disclosure 36).

The Group companies did not submit any guarantees as of the balance sheet date.

Investment expenses required by contractual obligations per the balance sheet date, but that have not yet been incurred, amount to €814k (previous year: €32,555k).

50. Disclosures of leasing obligations, other financial obligations, contingent liabilities and contingent debts

Other financial obligations

The obligations essentially include obligations for rent for buildings, technical equipment and vehicles. As a rule, the agreements contain options for renewals. The terms and conditions of these options for renewables are freely negotiable or identical with the present terms and conditions.

The following minimum leasing payment obligations for the future existed per 31 December:

	31/12/2017 €k	31/12/2016 €k
Up to 1 year	3,300	51,495
1 to 5 years	4,950	45,743
More than 5 years	7,601	15,660
TOTAL	**15,851**	**112,898**

CONSOLIDATED NOTES

During the reporting period, payments from operating leasing in the amount of €3,947k (previous year: €141,716k) were made.

In addition, other financial liabilities are related to the procurements of supplies and services and amount to €8m that will be due in 2018.

1&1 Drillisch has acquired network capacities comprising data volume as well as voice and text message allotments from Telefónica pursuant to binding provisions of the MBA MVNO agreement for the basic term of the agreement (July 2015 to June 2020). The capacity which must be purchased will rise according to a glide path over the basic term of the agreement to 20% of the total capacity of the Telefónica network. Moreover, Drillisch has accepted an obligation to purchase a fixed allotment for existing clientele independently of network utilisation. The payments during the basic term are in the middle hundreds of millions range. An exact amount cannot be specified because the payments are dependent on a number of contractual variables. Among other factors, the payment obligation is dependent on the future actual utilisation of all subscribers on the Telefónica network.

Finance leasing relationships

The payment obligations resulting from finance leasing on the closing date are disclosed as liabilities in the balance sheet in the amount of the present value of future leasing payments. The finance leasing agreements concern above all various fixed assets that were sold and leased back in the course of sale and lease back transactions with GEFA-Leasing GmbH, Wuppertal. In the previous year, the leasing liabilities included rent and lease agreements for passive network infrastructure of Versatel Group.

	2017		2016	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	€k	€k	€k	€k
Finance leasing				
Up to 1 year	560	533	18,199	16,332
1 to 5 years	276	255	52,932	47,734
More than 5 years	0	0	37,895	35,122
TOTAL	**837**	**788**	**109,026**	**99,188**
Less interest			-9,838	0
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	**837**	**788**	**99,188**	**99,188**

Contingent liabilities and contingent debts

There were no such contingent liabilities or contingent debts on the closing date.

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51. Consolidated cash flow statement

The consolidated cash flow statement is presented on the basis of the indirect method.

The net payments from operating activities in fiscal year 2017 include interest paid in the amount of €14,854k (previous year: €26,007k) and interest received in the amount of €704k (previous year: €366k).

Taxes paid for fiscal year 2017 in the amount of €154,123k (previous year: €88,289k) encompass the ongoing corporate income tax, including solidarity surcharge, and ongoing trade tax. Payments for taxes on income amount to €188k (previous year: €546k).

The deconsolidation of the discontinued operation Versatel and the acquisition of Drillisch were treated as non-cash transactions.

The Group lost control over the following assets and liabilities in 2017:

	2017 m€
Long-term assets	1,150
Short-term assets	77
Liabilities from finance leasing	97
Long-term debt	313
Short-term debt	257

The change in the cash pool balances with associated companies are classified in the financing area because of their character.

The composition of the cash corresponds to the item “Cash and cash equivalents” in the balance sheet.

52. Auditor’s fees

In fiscal year 2017, auditor’s fees in the amount of €203k were calculated in the consolidated annual financial statements for the period from September to December 2017. They include €144k for the audit of the annual financial statements, €59k for tax accountant services and €1k for other services.

In addition, auditor’s fees in the amount of €682k, thereof €146k for 2016 (previous year: €752k) were incurred in fiscal year 2017 before the corporate acquisition. They include €452k for the audit of the annual financial statements, thereof €110k for 2016 (previous year: €493k), €11k for other certification services, thereof €11k for 2016 (previous year: €57k), €193k for tax accountant services (previous year: €199k) and €26k for other services, thereof €25k for 2016 (previous year: €3k).

CONSOLIDATED NOTES

53. Profit per share

The undiluted profit per share is calculated in accordance with IAS 33.9 et seqq. by dividing the consolidated profit from continuing business activities by the weighted average of the number of ordinary shares outstanding.

The diluted profit per share is calculated in accordance with IAS 33.30 et seqq. by dividing the consolidated results from ongoing business activities, adjusted for the after-tax effects of any interest recognised in the period related to potential ordinary shares, by the weighted average number of shares outstanding plus the weighted number of shares which would be issued on the conversion of all dilutive potential shares into ordinary shares.

	2017	2016
Consolidated results from ongoing business activities in €k	310,372	242,896
Weighted average less own shares held (number)	135,835	117,007
UNDILUTED CONSOLIDATED PROFIT PER SHARE IN €	**2,28**	**2,08**
Consolidated results from ongoing business activities in €k	310,372	242,896
Net effect from conversion bond in €k	0	0
ADJUSTED CONSOLIDATED RESULTS FROM ONGOING BUSINESS ACTIVITIES IN €K	**310,372**	**242,896**
Weighted average less own shares held (number)	135,835	117,007
Shares from convertible bond to be included as average (number)	0	0
ADJUSTED WEIGHTED AVERAGE LESS OWN SHARES HELD (NUMBER)	**135,835**	**117,007**
DILUTED CONSOLIDATED PROFIT PER SHARE IN €	**2.28**	**2.08**

54. Declaration in accordance with Section 161 AktG

Management Board and Supervisory Board of 1&1 Drillisch AG submitted the declaration required by Section 161 of the German Company Law on 21 March 2017 and made it permanently accessible to shareholders at the Internet address www.1und1-drillisch.de.

CONSOLIDATED NOTES

55. Exemption from the obligation to disclose the annual financial statements pursuant to Section 264, (3) HGB

The following German subsidiaries in the legal form of a stock corporation fulfilled the conditions required pursuant to Section 264 (3) HGB for the exercise of the exemption provision in fiscal year 2017:

- Drillisch Online AG, Maintal
- IQ-optimize Software AG, Maintal
- 1&1 Telecommunication SE, Montabaur
- 1&1 Telecom Holding GmbH, Montabaur
- 1&1 Telecom Sales GmbH, Montabaur
- 1&1 Telecom Service Montabaur GmbH, Montabaur
- 1&1 Telecom Service Zweibrücken GmbH, Zweibrücken
- 1&1 Berlin Telecom Service GmbH, Berlin
- 1&1 Logistik GmbH, Montabaur
- 1&1 Telecom GmbH, Montabaur

CONSOLIDATED NOTES

56. Incidents after the balance sheet date

Pursuant to a resolution adopted by the Extraordinary General Meeting on 12 January 2018, the name of Drillisch Aktiengesellschaft was changed to 1&1 Drillisch Aktiengesellschaft.

The two Supervisory Board members Mr Marc Brucherseifer and Horst Lennertz, Dr.-Ing., withdrew from the 1&1 Drillisch AG Supervisory Board upon expiration of 31 December 2017. Mr Vlasios Choulidis, who withdrew from the Drillisch AG Management Board upon expiration of the year 2017, joined the 1&1 Drillisch AG Supervisory Board pursuant to a resolution adopted by the Extraordinary General Meeting on 12 January 2018. Dr Claudia Borgas-Herold was elected to be a new member of the 1&1 Drillisch AG Supervisory Board at the Extraordinary General Meeting on 12 January 2018.

New approved capital 2018 and contingent capital 2018 was approved during the Extraordinary General Meeting on 12 January 2018.

The option for the acquisition of the remaining 15% of the shares in the subsidiary 1&1 Telecom Holding GmbH, which was fully consolidated per 31 December 2017, by the writer 1&1 Internet SE was exercised with legal effect by the option owner 1&1 Telecommunication SE on 25 January 2018.

Maintal, 20 March 2018

1&1 Drillisch Aktiengesellschaft

Ralph Dommermuth André Driesen Martin Witt

CHANGE IN INTANGIBLE ASSETS AND FIXED ASSETS

CHANGE IN INTANGIBLE ASSETS AND FIXED ASSETS

in fiscal year 2017 and 2016 in €k

2017	**Cost of acquisition and manufacturing**					
	01/01/2017	Additions from corporate acquisition	Additions	Disposals	Transfers	**31/12/2017**
Intangible assets						
Software and licences	42,395	-44,800	162,468	11,169	1,360	150,254
Trademarks	62,000	56,300	0	62,000	0	56,300
Clientele	187,100	741,800	0	136,900	0	792,000
Miscellaneous	6,305	0	1,887	5,789	-875	1,528
Goodwill	506,482	2,824,722	0	398,261	0	2,932,943
Subtotal (I)	**804,282**	**3,578,022**	**164,355**	**614,119**	**485**	**3,933,026**
Tangible assets						
Land and buildings	1,850	0	3,675	4,830	0	695
Telecommunications systems	554,077	0	57,369	611,847	400	0
Network infrastructure	186,685	0	3,054	189,860	121	0
Fixtures, fittings and equipment	28,866	0	12,484	16,802	12	24,560
Payments on account	26,305	0	1,312	26,252	-1,019	346
Subtotal (II)	**797,783**	**0**	**77,894**	**849,590**	**-485**	**25,601**
TOTAL	**1,602,065**	**3,578,022**	**242,249**	**1,463,709**	**0**	**3,958,628**

2016	**Cost of acquisition and manufacturing**					
	01/01/2016	Additions from corporate acquisition	Additions	Disposals	Transfers	**31/12/2016**
Intangible assets						
Software and licences	17,408	0	23,425	1,060	2,623	42,395
Trademarks	62,000	0	0	0	0	62,000
Clientele	187,100	0	0	0	0	187,100
Miscellaneous	3,384	0	5,544	0	-2,623	6,305
Goodwill	506,482	0	0	0	0	506,482
Subtotal (I)	**776,373**	**0**	**28,969**	**1,060**	**0**	**804,282**
Tangible assets						
Land and buildings	1,816	0	33	0	0	1,850
Telecommunications systems	474,050	0	90,842	12,531	1,716	554,077
Network infrastructure	184,133	0	4,261	2,286	577	186,685
Fixtures, fittings and equipment	22,368	0	6,897	610	211	28,866
Payments on account	13,875	0	14,942	8	-2,504	26,305
Subtotal (II)	**696,242**	**0**	**116,975**	**15,434**	**0**	**797,783**
TOTAL	**1,472,616**	**0**	**145,944**	**16,495**	**0**	**1,602,065**

Accrued depreciation					Net book value	
01/01/2017	Additions	Disposals	Transfers	**31/12/2017**	**31/12/2016**	**31/12/2017**
12,511	24,812	4,147	0	33,176	29,885	117,079
0	0	0	0	0	62,000	56,300
40,892	39,591	14,999	0	65,484	146,208	726,516
1,225	171	1,679	292	9	5,080	1,520
0	0	0	0	0	506,482	2,932,943
54,627	**64,574**	**20,825**	**292**	**98,668**	**749,655**	**3,834,358**
409	2,528	2,937	0	1	1,441	694
161,288	31,183	192,471	0	0	392,789	0
63,243	11,397	74,640	0	0	123,442	0
14,710	5,723	9,534	0	10,899	14,156	13,662
2,914	0	2,622	-292	0	23,392	346
242,563	**50,831**	**282,203**	**-292**	**10,899**	**555,220**	**14,702**
297,190	**115,405**	**303,028**	**0**	**109,567**	**1,304,875**	**3,849,060**

Accrued depreciation					Net book value	
01/01/2016	Additions	Disposals	Transfers	**31/12/2016**	**31/12/2015**	**31/12/2016**
5,067	8,401	957	0	12,511	12,341	29,885
0	0	0	0	0	62,000	62,000
22,708	18,184	0	0	40,892	164,392	146,208
793	431	0	0	1,225	2,591	5,080
0	0	0	0	0	506,482	506,482
28,568	**27,016**	**957**	**0**	**54,627**	**747,805**	**749,655**
227	182	0	0	409	1,589	1,441
93,522	74,247	5,457	-1,024	161,288	380,528	392,789
36,261	27,578	597	0	63,243	147,872	123,442
10,496	4,506	292	0	14,710	11,872	14,156
1,746	143	0	1,024	2,914	12,128	23,392
142,253	**106,656**	**6,345**	**0**	**242,563**	**553,990**	**555,220**
170,821	**133,672**	**7,303**	**0**	**297,190**	**1,301,795**	**1,304,875**

AFFIDAVIT BY LEGAL REPRESENTATIVES (BALANCE SHEET OATH)

164 Affidavit by legal representatives (Balance sheet oath)

165 Auditor´s opinion

AFFIDAVIT BY LEGAL REPRESENTATIVES (BALANCE SHEET OATH)

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

Maintal, 20 March 2018

Ralph Dommermuth	André Driesen	Martin Witt

INDEPENDENT AUDITOR'S REPORT

To 1&1 Drillisch Aktiengesellschaft, Maintal

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

AUDIT OPINIONS

We have audited the consolidated financial statements of 1&1 Drillisch Aktiengesellschaft, Maintal, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2017 to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies In addition, we have audited the group management report of 1&1 Drillisch Aktiengesellschaft for the fiscal year from 1 January 2017 to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Miscellaneous Information".

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

» the accompanying consolidated annual 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 (1) HGB [German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group per 31 December 2017 and of its financial performance for the financial year from 1 January 2017 to 31 December 2017, and

» the accompanying group management report as a whole provides an accurate 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 parts of the group management report disclosed under "Miscellaneous Information".

Pursuant to section 322 (3) first sentence 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.

INDEPENDENT AUDITOR'S 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, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with article 10 (2) lit. f) of the EU Audit Regulation, we declare that we have not provided any non-audit services prohibited under article 5 (1) of the EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

We have identified the following circumstances to be especially important issues for the audit:

1. TRANSACTION BETWEEN 1&1 DRILLISCH AG AND UNITED INTERNET AG
2. RECOVERABILITY OF THE GOODWILL
3. REVENUE REALISATION

1. TRANSACTION BETWEEN 1&1 DRILLISCH AG AND UNITED INTERNET AG

Factual Circumstances

In fiscal year 2017, 1&1 Drillisch AG concluded agreements with United Internet AG, Montabaur, concerning the acquisition of 100% of the shares in 1&1 Telecommunication SE. The acquisition of the shares was financed by means of a non-cash contribution through capital increases in the amount of €128.7m. United Internet AG received all of the new shares in 1&1 Drillisch AG and now holds 73.3% of the stock in the Company. The legal representatives of 1&1 Drillisch AG subsequently classified the non-cash

INDEPENDENT AUDITOR'S REPORT

contribution of 1&1 Telecommunication SE as a reverse acquisition pursuant to the commercial perspective required by IFRS 3. This means that for accounting purposes 1&1 Telecommunication SE, not 1&1 Drillisch AG, was designated as the acquirer. As a consequence of the perspective of the commercial acquirer, the comparative figures of the previous year from 1&1 Telecommunication Group are disclosed in the consolidated annual financial statements of 1&1 Drillisch AG. In fiscal year 2017, 1&1 Drillisch AG and its subsidiaries were consolidated for the first time in the consolidated annual financial statements of 1&1 Telecommunication SE as of the point in time of the acquisition. Revenues and expenses as well as other results of 1&1 Drillisch Group are consequently included in the consolidated comprehensive income statement of 1&1 Drillisch AG solely pro rata temporis as of the point in time of the acquisition. For this purpose, it was necessary to change over the comprehensive income statement of 1&1 Drillisch Group to the cost-of-sales method and adapt the accounting and valuation methods to those of 1&1 Telecommunication SE. Adjustment postings were made in shareholders' equity so that the shareholders' equity of the legal acquirer, 1&1 Drillisch AG, was recognised in the consolidated annual financial statements. The costs of acquisition of 1&1 Telecommunication SE were determined at the value that would have resulted if 1&1 Telecommunication SE had also been the legal acquirer and had issued shares. In the course of the purchase price allocation, the hidden reserves and the goodwill of 1&1 Drillisch AG and its subsidiaries were disclosed.

The determination of the acquirer and the appraisal of the question as to whether the transaction was a reverse acquisition are complex and have a major impact on the accounting of the corporate merger. Moreover, the determination of the costs of acquisition and of the attributable fair value in the course of the purchase price allocation includes significant discretionary decisions and estimates. For these reasons, the acquisition of 100% of the shares of 1&1 Telecommunication SE was an especially important focal point of our audit.

The Company's disclosures on the business combination at 1&1 Drillisch AG are included in the sections "General information" (page 82) and "Corporate mergers" (page 103) of the consolidated notes.

Review reaction

Within the scope of our audit, we assessed whether within the framework of the required overall appraisal 1&1 Telecommunication SE is to be viewed as the commercial acquirer and whether the acquisition therefore represents a reverse acquisition. To do so, we appraised the agreements concluded between the parties for the merger that were provided to us, viewed the certified documents of the resolutions on which these agreements were based and the related excerpts from the Commercial Register, assessed the changes in the relative voting rights of United Internet AG in 1&1 Drillisch AG as a consequence of the capital increases and compared the relative sizes of the merging companies. Our review of the accounting focused in particular on determining compliance with the principles of IFRS 3.6 in conjunction with IFRS 3.B19 to B25. We appraised the correct determination of the costs of acquisition of 1&1 Telecommunication SE. In particular, we appraised the arithmetic calculation of the number of shares to be issued and their price at the point in time control was acquired. We consulted in-company specialists during our tracing of the purchase price allocation prepared

INDEPENDENT AUDITOR'S REPORT

by an external assessor. We appraised the applied methods for the identification and measurement of the identifiable assets and liabilities. We discussed the results of the purchase price allocation with the corporate management and compared them with the initial consolidation values disclosed in the consolidated accounting. We used the assessments of the accounting to trace whether the changeover to the cost-of-sales method and other standardisations in the accounting were handled correctly in all significant areas. We traced the adjustment entries for presentation of the equity structure of the legal acquirer through comparison with the equity of 1&1 Drillisch AG and the costs of acquisition calculated during the corporate merger and checked the arithmetic correctness of the change in equity statement. Moreover, we obtained assurance that the transaction is adequately and appropriately described and explained in the consolidated notes.

2. RECOVERABILITY OF THE GOODWILL

Factual Circumstances

Goodwill in the amount of €2,932.9m, corresponding to 62% of the consolidated balance sheet total, is recognised under the item "Intangible assets" of the consolidated annual financial statements of 1&1 Drillisch AG. The goodwill was attributed to the cash-generating units.

Cash-generating units with goodwill are subjected to a recoverability test at least once a year and additionally whenever there are indications for a loss of value of the company. The recoverability test involves the comparison of the book value of a cash-generating unit with its realisable value as determined on the basis of the utilisation value. The calculation of the realisable value is based on an assessment model in accordance with the so-called discounted cash flow method. If the book value of a cash-generating unit is higher than the realisable value, an extraordinary write-off, primarily on the goodwill, in the amount of the difference is taken.

The assessment of the recoverability of the goodwill is complex and involves numerous estimations and discretionary decisions by the legal representatives (above all with respect to the amount of the future cash surpluses), the growth rate for the forecast of the cash flow extending beyond the time period of the detailed planning and the discount interest rate that is to be applied. The significance of the amount of the goodwill for the consolidated annual financial statements of 1&1 Drillisch AG and the significant uncertainty related to the assessment make this an especially important focal point of our audit.

The disclosures from 1&1 Drillisch AG regarding goodwill can be found in the sections "Disclosures of corporate mergers in the balance sheet" (page 100) and "Goodwill and impairment losses of goodwill" (page 119) of the consolidated notes.

Review reaction

Within the scope of our audit, we assessed, in consultation with our assessment specialists, the reasonableness of the major assumptions and discretionary parameters as well as the calculation methods used in the recoverability test. We gained an understanding of the planning system and the planning process as well as of the major assumptions

INDEPENDENT AUDITOR'S REPORT

applied by the legal representatives to their planning. We compared the forecast of the future cash surpluses during the detailed planning period, which is essentially dependent on the estimation of future sales revenues, with the multiple-year planning. We appraised the historical forecasting accuracy on the basis of an analysis of deviations between budget and actual figures in the past, including fiscal year 2017. We traced the assumptions on which the planning is based and the growth rate assumed in forecasting the cash flow beyond the time period of the detailed planning by comparing them with past developments and current market expectations specific to the industry. Moreover, we critically examined the applied discount rates on the basis of the average capital costs of a peer group. Our audit encompassed as well the sensitivity analyses undertaken by 1&1 Drillisch AG. In addition, we conducted our own sensitivity analyses concerning the effects of possible changes in the capital costs and the assumed growth rates.

3. REVENUE REALISATION

Factual Circumstances

Sales revenues of €2,812.3m are recognised in the 1&1 Drillisch AG annual financial statements. This item, significant because of its amount, is vulnerable to a special risk because of the complex, highly automated IT processes necessary for the correct recognition and classification of the revenues. Sales revenues are also vulnerable to a special risk in view of the impact of ongoing changes in price and rate models and the accounting consequences that result. In such a setting, the correct application of the accounting standards becomes a complex issue and is based in part on the estimates and assumptions of the legal representatives.

The information from the Company regarding the special features of the recognition and classification of the sales revenues in the consolidated annual financial statements of 1&1 Drillisch AG is provided in the primarily explanatory comments on the accounting and valuation methods in the section "Revenue realisation" (page 84) and the chapter "Sales revenues/Segment reporting" (page 105) of the consolidated notes.

Review reaction

Within the course of our audit, we assessed the processes and controlling systems for recognition and classification of sales revenues established by the Group. Moreover, we issued instructions to the auditors of partial areas to ensure consistent audit activities throughout the group that would counter the audit risk inherent in this audit area. Our concrete audit method included the audit of controls and substantial audit actions, above all:

» Appraisal of the environment of the IT systems for billing and assessments and of other relevant systems for support in the recognition and classification of sales revenues, including the controls implemented during system changes

» Appraisal of the billing and assessment systems up to the recognition in the general ledger

» Appraisal of the recognition of sales revenues and attribution to the correct period

In addition, we reviewed the accounting consequences of new price and rate plan models.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises:

» The separately published non-financial group statement, which is referred to in section 5.3 of the group management report

» The separately published group corporate governance statement, which is referred to in section 5.2 of the group management report

» The remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report

» The corporate governance report and

» The confirmation pursuant to section 297 (2) fourth sentence HGB regarding the consolidated financial statements and the confirmation pursuant to section 315 (1) fifth sentence HGB regarding the group management report

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

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

» is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

» 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 EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

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

INDEPENDENT AUDITOR'S REPORT

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there are material or legal circumstances that would prohibit doing so.

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

The supervisory board is responsible for overseeing the Group's accounting 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 on the basis of these consolidated financial statements and this group management report.

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

» Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The

INDEPENDENT AUDITOR'S REPORT

risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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 18. Mai 2017. We were engaged by the supervisory board on 31 Mai 2017. We have been the group auditor of 1&1 Drillisch Aktiengesellschaft without interruption since the financial year 2001.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Frank Ahrend.

Düsseldorf, 20 March 2018

BDO AG
Wirtschaftsprüfungsgesellschaft

Marc Fritz Wirtschaftsprüfer	Frank Ahrend Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

INVESTOR RELATIONS CORNER

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INVESTOR RELATIONS, PRICE PERFORMANCE OF THE SHARE

1. Investor Relations

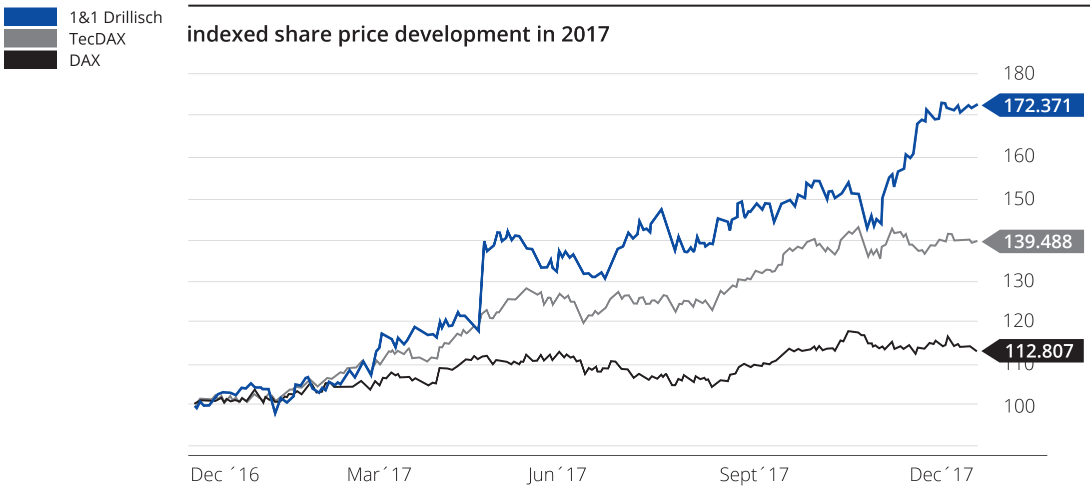
Communications are conducted in conformity with the fair disclosure principle, i.e. all shareholders and interested parties are simultaneously provided with the same type of information about all important developments. The ongoing work can be followed and tracked equally by all investor groups on our investor relations home page where all of our relevant reports can be viewed. Many of the people interested in our Company also take advantage of the opportunity for personal contact via email and/or telephone.

2. Share Price Development in Trading Year 2017

	2016 year end	2017 year end	% change
1&1 Drillisch	€40.895	68.83	+68.3
TecDAX	1,811.72	2,529.04	+39.6
DAX	11,481.06	12,917.64	+12.5

Performance of the 1&1 Drillisch-Share significantly better than DAX and TecDAX*

indexed share price development in 2017



* Indices and the 1&1 Drillisch-Share show a dividend adjusted performace

LATEST RESEARCH NOTES , SHAREHOLDER STRUCTURE

3. Current Analyst Assessments (Last Revised 07 March 2018)

Overall, the capital market views the 1&1 Drillisch stock as promising because of our long-term dividend policy and good strategic positioning on the German mobile network market.

Analyse	Votum	Kursziel	Datum
Macquarie	„Outperform“	€76.00	07 March 2018
Barclays	„Buy“	€75.00	06 March 2018
Lampe	„Buy“	€75.00	14 February 2018
UBS	„Buy“	€77.00	02 February 2018
Hauck	„Sell“	€59.00	17 January 2018
Macquarie	„Outperform“	€76.00	17 January 2018
Citi	„Sell“	€49.00	12 January 2018
Kepler	„Hold“	€74.00	10 January 2018
Warburg	„Buy“	€84.00	08 January 2018

A constantly updated overview of the analysts’ recommendations can be found on the 1&1 Drillisch AG IR home page: www.1und1-drillisch.de → Investor Relations → Analyses

4. Shareholder Structure (as of 31 December 2017)

Executive Board:

0.12 % | V. Choulidis

0.04 % | MV Beteiligungs GmbH

0.16 % | shs. 273,333

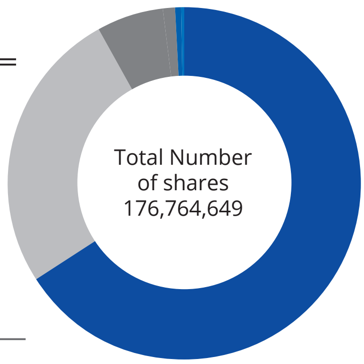
6.23 % | United Internet Investments Holding GmbH

67.06 % | United Internet AG

73.29 % | shs. 129,558,378

Other Shareholders:

26.55 % | shs. 46,932,938



Free Float as per definition of Dt. Boerse AG: 26.55 %

Per voting rights publications

Source: www.1und1-drillisch.de → Investor Relations → Shareholder Structure

OTHER

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GLOSSARY

3G
Abbreviation for the mobile communications standard of the 3rd generation, also known as → UMTS. The analogue A, B and C networks (until the end of 2000) are known as the first generation; the digital GSM standard introduced in 1992 is called the 2nd generation.

4G
The most recent mobile communications standard - successor to → UMTS - is called the 4th generation of mobile communications standard. (See also → LTE)

5G
The 5th generation mobile communications standard, which will be launched as successor to → 4G from 2020 and will enable data transfer rates of up to 10 Gbps.

ADSL (=Asymmetric Digital Subscriber Line)
ADSL is the most common DSL variation in Germany and is commonly called DSL. ADSL is realized over the existing telephone line (subscriber line).

Aktiengesetz (German Company Law)
The German Company Law (Aktiengesetz, AktG) regulates the structure and governing bodies of stock corporations, e.g. Supervisory Board, Management Board and shareholder rights.

Apps
Apps (or mobile apps) is the short form for applications and refers to small software programs for mobile devices, such as → smartphones or → tablet computers. These programs range from the simplest tools and fun applications with just one function right up to entire program packages offering a comprehensive range of functions.

ARPU
(Abbreviation for average revenue per user) Shows the average revenue from each customer.

Cash Flow
Net inflow of all of the cash which results from sales activities and other ongoing activities during a specific period.

Cloud
A network of multiple servers which are globally connected. One of the purposes is to store or manage data. Instead of accessing data and files on a personal computer, content in the cloud can be accessed from any Internet-enabled device. For example, you have mobile access to your data.

Consolidated Cash Flow Statement
The consolidated cash flow statement is the liquidity-oriented part of accounting. It represents a determination of the value of payment flows over the course of a fiscal year, broken down into the categories of current business operations, investment activities and financing activities. Incoming and outgoing payments during the relevant reporting period are compared with one another; on this basis, the changes in cash inventory are determined and explained.

Corporate Governance
Name of guidelines (code of conduct) for good management.

Credit Customer
Customer who has concluded a contract with a rate schedule designed by 1&1 Drillisch and who is billed once a month in the company's own billing system.

DCF
(Abbreviation for discounted cash flow) A DCF analysis is based on the total of all of the cash flows projected for the future and discounts them to the present value.

Debit Customer
Customer who is billed in a network operator system in accordance with a prepaid rate schedule set by the network operator, requiring the prior top-up of the card with credit.

Directors' Dealings
Stock transactions undertaken by the Management Board or Supervisory Board or the relevant report of holdings.

Dividends
The dividend is the profit which is distributed proportionally for each share of stock in the stock corporation. The General Meeting of the stock corporation decides about the amount of the dividend and its distribution.

EBIT
Abbreviation for earnings before interest and taxes.

EBITDA
Abbreviation for earnings before interest, taxes, depreciation and amortisation, the most important performance indicator.

EDGE
(Abbreviation for enhanced data rates for GSM evolution) This special modulation protocol increases the transmission speed in → GSM mobile telephony networks to as much as 473 kbit/s (in comparison: GPRS 171.2 kbit/s).

EPG
Electronic Program Guide

Free Float
Number or proportion of shares which can be freely traded on the stock market rather than being held by strategic investors.

g~paid
Virtual cash card system which makes possible the secure distribution of activation codes for topping up ➔ pre-paid cards (e.g. in wireless networks, for online payment systems).

GPRS
(Abbreviation for general packet radio service) Technology providing higher data transmission rates in GSM networks (up to 171.2 kbit/s).

GSM
(Abbreviation for global system for mobile communications) Pan-European standard in the range of 900 and 1,800 MHz for digital mobile telephone networks.

HSDPA
(Abbreviation for high-speed downlink packet access) This special transmission protocol within the mobile telephone standard ➔ UMTS makes it possible to increase data rates between telecommunications network and end device (downlink) to up to 7.2 Mbit/s.

HSUPA
(Abbreviation for high-speed uplink packet access) This transmission protocol within the mobile telephone standard UMTS makes it possible to increase data rates between end device and telecommunications network (uplink) to up to 5.8 Mbit/s.

IFRS
(Abbreviation for International Financial Reporting Standards) Body of international accounting standards.

IPTV
(Abbreviation for international protocol television) Transmission of television programs via an internet connection.

Issuer
An issuer is the party who issues securities.

LTE
LTE stands for Long Term Evolution and describes the internationally coordinated development of existing wireless communication technology. It offers higher data rates than GSM or UMTS. LTE is classified as the 3rd wireless communication generationwith the chronological name 3.9 G. As with the other wireless communication generations, operation requires a network comprised of base stations that service a specific area and appropriately compatible end appliances. In the frequency ranges that are earmarked in Germany for LTE, the network structure that still has to be established is very similar to the cell structure currently used by the existing wireless communication networks. Therefore, numerous existing wireless communication sites will also be used for LTE technology. (Source: http://emf2.bundesnetzagentur.de/tech_lte.html)

MBA MVNO
(Mobile Bitstream Access Mobile Virtual Network Operator)
A MBA MVNO is a telephone company that is comparable to a MVNO (see MVNO); however, in contrast to a MVNO, it has entered into an obligation to purchase network capacity (percentage share of the utilised network capacity of a network operator). An MBA MVNO operates on equal footing with the network operator and has unlimited access to all current and future technologies.

Mobile Payment
Mobile payment (or m-payment) refers to the initiation, authorization or realisation of payment (on the part of the debtor as a minimum) using a mobile electronic means of communication, e.g. cash card purchase using ➔ g~paid, payment of parking fees using a mobile phone or bank transfers via SMS.

MVNO (Mobile Virtual Network Operator)
Private telephone company without its own wireless network which, on its own behalf and for its own account, sells wireless services, ➔ SIM cards and wireless end devices as well as value-added services (e.g. ➔ SMS, SMS Premium, ➔ MMS). These services are based on standardised, unbundled advance services on the procurement side, allowing a MVNO significantly increased room for manoeuvring in the product and sales areas in comparison with a MSP.

Near field communication (NFC)
Near field communication or NFC is a wireless transmission technology for enabling contactless data exchange between appliances that are just a few centimetres apart. For example, it can be used to provide access to contentor to offer services such as cashless payments or ticketing. (Source: http://www.elektronik-kompendium.de/sites/kom/1107181.htm)

No-frills Provider
These are products which are offered at comparatively low prices, but with very few options or additional features. On the wireless services market, the discounters are frequently referred to as “no-frills providers.”

PIN
(Abbreviation for personal identification number) A number, usually consisting of four digits, saved on a data carrier, entered as verification when the holder uses a machine. The best-known examples are bank debit cards and cash points or ➔ SIM cards in a mobile phone. If no authentication is possible due to multiple incorrect entries, the card will be blocked. Further use is only possible after entering the ➔ PUK

Post-paid
Payment model; the customer does not pay for the services he/she has used until the end of the accounting period, when an invoice is issued.

Pre-paid
Payment model; the customer cannot use the services until a (pre-paid) account has been topped up.

Profit per Share
This figure shows the amount of the realised consolidated profit or deficit which can be appropriated to a single share of stock. The figure is calculated by dividing the results for the year (consolidated profit/deficit) by the weighted average of the number of issued shares.

PUK
(Abbreviation for personal unblocking key) A number, usually consisting of 8 digits, which can be used to unblock a blocked → PIN (also called super PIN).

Roaming
Process allowing telephone calls to be placed using the networks of various network operators, such as international roaming in the pan-European GSM system.

Security Identification Number
The six-place combination of digits and letters used in Germany (WKN) identifies each security uniquely.

SIM
(Abbreviation for subscriber identity module) Chip card which is placed in a mobile telephone or other mobile end device. It identifies the device with the user, verifies his/her identity via a → PIN and authorises the use of the offered services (e.g. mobile telephone services). In addition to network-related data, data such as address book entries or text messages can also be stored on a SIM card.

Smartphone
A mobile phone with more advanced computer functions and connectivity than offered by a standard mobile phone. Equipped with high-resolution touch screen and internet connection via mobile broadband or WLAN, smartphones can display web pages, for example, or receive and send e-mails.

SMS
(Abbreviation for short message service) Digital short message, e.g., texts, graphics sent via a mobile communications end device ("text message").

Stock Index
A stock index provides comprehensive information regarding the development of prices on the stock markets. One example for the German stock market is the Deutsche Aktienindex (DAX); changes in stock prices as well as dividend payments are integrated into the calculation of its values.

Supervisory Board
The Supervisory Board is one of the governing bodies of stock companies; its members are elected by the General Meeting and, depending on the number of employees in the company, by the workforce. It is responsible for monitoring the management of the corporation. The Supervisory Board of a stock corporation consists of a minimum of three members, who may not simultaneously be members of the Management Board.

Tablet-Computer
A tablet computer or tablet PC is a portable flat and particularly lightweight computer that is equipped only with a touch screen, but does not have a mechanical keyboard. As with a → smartphone, it accesses the internet via mobile broadband or wireless LAN. Tablet computers are mainly used for studying media while on the move, as e-readers and for mobile internet access.

TecDAX
Stock index introduced on 24/03/2003 compiling the 30 most important German technology stocks. It is the successor of the Nemax50.

UMTS
(Abbreviation for universal mobile telecommunications system) International mobile telephone standard of the 3rd generation which combines mobile multimedia and telematics services under the frequency range of 2 GHz.

Value-Added Services (VAS)
Services which produce additional value, such as ring tones for mobile phones.

VDSL
(Abbreviation for very high speed digital subscriber line) VDSL is a DSL technique that provides higher data rates over telephone lines such as ADSL.

Video-on-Demand (VoD)
Possibility to download digital videos on demand from an online platform or to watch them directly via streaming.

Wireless Services Discounter (No Frills)
Provider of very low wireless services rates which do not include subsidisation of the device and offer transparent terms and conditions. As a rule, no basic fee, minimum turnover or term of contract.

Wireless Service Provider (WSP)
or Mobile Service Provider (MSP)
Private telephone company without its own wireless network which, on its own behalf and for its own account, sells wireless services, → SIM cards and wireless end devices as well as value-added services (e.g. SMS, SMS Premium, → MMS).

Workflow Management System
Automation of production and business processes using IT systems and special software.

PUBLICATIONS, INFORMATION AND ORDER SERVICE

This Annual Report 2017 is also available in German.

You can view and download our business and quarterly reports, ad-hoc announcements, press releases and other publications about 1&1 Drillisch AG at www.1und1-drillisch.de → Investor Relations.

Please use our online order service on our website
www.1und1-drillisch.de → Order service

Naturally, we would also be happy to send you the desired information by post or by mail. We will be glad to help you with any personal queries by telephone.

FINANCIAL CALENDAR*

12 January 2018	Extraordinary General Meeting
22 March 2018	Annual Report 2017, Press and Analyst Meeting
09 May 2018	Quarterly Statement Q1 2018
17 May 2018	Annual General Meeting, Frankfurt
09 August 2018	6-Month Report 2018, Press and Analyst Meeting
13 November 2018	Quarterly Statement Q3 2018

* These provisional dates are subject to change.

CONTACTS

Our Investor Relations and Press Department will be glad to answer any questions you may have concerning 1&1 Drillisch AG and the Annual Report 2017.

Investor Relations

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E-Mail: ir@1und1-drillisch.de

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LEGAL INFORMATION

1&1 Drillisch AG is a member of the United internet Group

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Deutschland

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E-Mail: ir@1und1-drillisch.de

Commercial Register Entry:

HRB 7384 Hanau
VAT ID No.: DE 812458592
Tax No.: 03522506037
Offenbach City Tax Office

Management Board:

- Ralph Dommermuth
- André Driesen
- Martin Witt

Supervisory Board:

- Michael Scheeren (Chairman)
- Kai-Uwe Ricke (Deputy Chairman)
- Claudia Borgas-Herold
- Vlasios Choulidis
- Kurt Dobitsch
- Norbert Lang

Future-oriented Statements:
This report contains certain statements oriented to the future which are based on the current assumptions and projections of the management of 1&1 Drillisch. Various risks, uncertainties and other factors, both known and unknown, can cause the actual results, financial position, development or performance of the Company to deviate substantially from the assessments shown here. The factors described in our reports to the Frankfurt Stock Exchange are among such factors. The Company does not undertake any obligation to update such future-oriented statements and to adapt them to future events or developments.

BRAND PORTFOLIO OF 1&1 DRILLISCH AG

Additional information as contact details, can be found on the homepage:
https://www.1und1-drillisch.de/contact-us

MEMBER OF united internet

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