1&1 DRILLISCH

Interim Statement
Q1 2018

DATA & FACTS

Selected Performance Indicators	Q1 2018	Q1 2017	Change	Q4 2017
PROFIT (IN €M)				
Revenue	904.3	624.2	44.9%	820.3
EBITDA	165.5	106.7	55.1%	151.3
EBITDA margin in % of revenue	18.31%	17.10%		18.44%
EBIT	127.0	103.6	22.5%	111.0
EBIT margin in % of revenue	14.04%	16.60%		13.53%
EBT	127.0	98.3	29.2%	110.1
EBT margin in % of revenue	14.04%	15.75%		13.43%
Earnings per share (in €)	0.48	0.60	-19.9%	0.26
CASH FLOW (IN €M)				
Net payments of operating activity from the ongoing division	-27.6	19.0	-245.1%	-5.4
Net payments and incoming payments from investments from the ongoing division	-10.2	-4.1	149.3%	-15.9
Free cash flow	-29.5	14.9	-297.6%	-12.3
STAFF (INCL. MANAGEMENT BOARD)				
Total per end of March	3,143	2,442	28.7%	3,428
thereof in Germany	3,143	2,442	28.7%	3,428
thereof abroad	0	0	0.0%	0
CUSTOMER CONTRACTS CURRENT PRODUCT LINES (IN MILLIONS)				
Access, contracts	12.91	8.72	4.19	12.64
thereof Mobile Internet	8.54	4.45	4.09	8.30
thereof DSL/VDSL	4.37	4.27	0.10	4.34

	31/03/2018	31/12/2017	Change
BALANCE SHEET (IN €M)			
Short-term assets	814.8	656.6	24.1%
Long-term asset	4,475.7	4,079.2	9.7%
Shareholders' equity	4,261.2	3,805.1	12.0%
Balance sheet total	5,290.6	4,735.7	11.7%
Equity ratio	80.54%	80.35%	

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LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,

1&1 Drillisch AG continued its course of profitable growth in Q1 2018, just as in the past. Once again, we were able to improve the number of customer contracts, revenues and our operating profit figures. Parallel to these accomplishments, we have continued to invest in new customer acquisition and the strengthening of our existing customer relationships.

Before we go into the details of our operations, we would like to give you an overview of the status of integration of 1&1 Telecommunication SE that was acquired last year:

» We have successfully completed the bundling of the hardware procurement and initiated the merger process for logistics.

» We are progressing on schedule in the optimisation of the mobile advance service procurement to secure more efficient utilisation of the capacities provided under the MBA MVNO contract with Telefónica.

» Since the beginning of 2018, we have been addressing new target groups with our discount brands by introducing lower-priced smartphone offers (low one-time payment on conclusion of the contract and return in the form of higher rate prices during the contract term).

» We have once again significantly improved as well the attractiveness of the smartphone offers at our leading brand 1&1 for both new and existing customers.

» We began DSL marketing for existing Drillisch customers last year. Our exploitation of the cross-selling potential from the merger is improving from month to month.

Thanks to the positioning of our brands and products in the mobile internet and landline sectors, we can count ourselves among the leading providers offering comprehensive services and outstanding value for money in Germany.

We expect our customers' expectations and demands on their internet access to continue to increase in future as well and want to keep pace with this trend by offering powerful telecommunications infrastructures:

» Thanks to our MBA MVNO agreement with Telefónica Germany, our mobile products are always state of the art in terms of network technology.

» Moreover, we have access to the second-largest optical fibre network in Germany; it is operated by 1&1 Versatel, our affiliate in the United Internet corporate group, and is constantly being expanded. In combination with network advance services from Deutsche Telekom, Vodafone and the large municipal networks, we reach a major part of the German population with our portfolio of competitive DSL products and cloud-based IPTV.

LETTER FROM THE MANAGEMENT BOARD

Now for the operating side of the business:

Our additional smartphone investments of about €300 million in 2018 represent our continued trust in high selling power and profitable growth. These investments will be amortised by customers over the minimum contractual terms in the form of higher package prices – in our business with both new and existing customers. Owing to the disclosures in the balance sheet in accordance with IFRS 15 that are now mandatory and require the distribution of such investments over the term of the customer contracts, however, our earnings indicators will not be adversely affected. We have provided detailed information about the impact of the application of IFRS 15 in the section describing development in the “Access” segment on pages 9 to 10 of this quarterly release.

During the first three months of 2018, we were able to increase the number of customers in the current product lines over the closing quarter of 2017 by 270 thousand to 12.91 million subscribers (Q4 2017: 12.64 million). Of this rise, customer contracts in the mobile internet sector increased by 240 thousand to 8.54 million (Q4 2017: 8.30 million) and the DSL contracts increased by 30 thousand to 4.37 million (Q4 2017: 4.34 million). Revenues increased by €84.0 million (10.2%) to €904.3 million (IFRS 15) (Q4 2017: €820.3 million, IAS 18).

Consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation) rose in the first three months by €14.2 million (9.4%) to €165.5 million (IFRS 15) (Q4 2017: €151.3 million, IAS 18). These figures are evidence that we are continuing our course of growth.

In view of these figures, we can confirm our forecasts for the year 2018 as a whole and have no reason to adjust our expectation for revenue in the Group to grow to €3.7 billion and the EBITDA to grow to €750 million. At the same time, we expect the number of our customer contracts subject to charge to increase organically by about 1.2 million contracts during the full year.

We are in an excellent position to take the next steps in our Company’s development and we are looking ahead into the future with confidence. Finally, we want to take this opportunity to thank our employees for their ongoing commitment and their tremendous willingness to perform. In addition, we want to express our gratitude 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, 09 May 2018

QUARTERLY RELEASE PER 31 MARCH 2018

QUARTERLY RELEASE PER Q1 2018

Extraordinary General Meeting on 12 January 2018

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. Moreover, 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.

In addition, new Approved Capital 2018 and new Contingent Capital 2018 was approved during the Extraordinary General Meeting on 12 January 2018.

First-time Application of IFRS 15

In May 2014, the International Accounting Standards Board (IASB) promulgated the standard IFRS 15 “Revenue from Contracts with Customers”. Application is mandatory for reporting periods starting on 1 January 2018 and later and is therefore applicable for the first time to this quarterly release on Q1 2018. The new standard provides a uniform, five-step model based on certain principles that is to be used for the calculation and recognition of revenue and that is to be applied to all contracts with customers. It supersedes in particular the previous standards IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

1&1 Drillisch has exercised the option in favour of the modified retrospective transition method, i.e. the figures of the previous year have not been adjusted within the scope of this quarterly release. The changeover effects were recognised as non-operating results in equity per 1 January 2018.

The application of IFRS 15 has significant effects on the assets and liabilities, financial position and earnings of 1&1 Drillisch. The new regulations impact especially the following circumstances:

» While previously sales revenues for hardware (e.g. mobile phones) within the framework of a multiple-component transaction (e.g. mobile services contract plus mobile phone) were realised as sales revenue solely in the amount of payment billed monthly to the customer, IFRS 15 requires 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 revenue for the hardware allocated on this basis is recognised in full upon delivery to the customer. Since the allocated share of revenue as a rule exceeds the charges billed to the customers in the first month, the new regulations lead to the revenue realisation being brought forward to the periods in which the utilised hardware also becomes effective for expenditures.

» Moreover, IFRS 15 requires the capitalisation of contract costs. If and when certain prerequisites are met, the costs for the contract acquisition (e.g. sales commissions) as well as fulfilment of the contract (e.g. activation fees) must be capitalised and amortised over the estimated useful life.

QUARTERLY RELEASE PER Q1 2018

In the comments on the course of business and the Group's position, the most important effects from the changeover to IFRS are reported specifically to ensure the comparability of the revenue and profit indicators pursuant to IFRS 15 in Q1 2018 with the revenue and profit indicators pursuant to IAS 18 of the previous periods.

COURSE OF BUSINESS

Beginning in Q1 2018, 1&1 Drillisch discloses solely the number of customer contracts from "current product lines". This classification includes those mobile internet contracts and DSL/VDSL contracts (DSL full-service packages) at 1&1 Drillisch that are at the focus of marketing activities.

The number of these contracts, which are subject to charge, rose in Q1 2018 by 0.27 million to 12.91 million contracts. In the mobile internet business, it was possible to acquire 0.24 million customer contracts, raising the number of contracts to 8.54 million. The number of DSL full-service contracts (ULL = unbundled local loop) rose as well by thirty thousand contracts to 4.37 million.

Development of contracts during the first 3 months of 2018 (in millions)

	31/03/2018	31/12/2017	Change
Total contracts	12.91	12.64	+0.27
thereof mobile internet	8.54	8.30	+0.24
thereof DSL full-service packages (ULL)	4.37	4.34	+0.03

The Group's operating business activities take place primarily in the reporting segment "Access". The segment reporting is aligned with the internal organisation and reporting structure.

In the segment "Miscellaneous", revenues are generated from the portfolio of tailored software solutions and maintenance and support services.

COURSE OF BUSINESS

Development in the segment “Access”

In the segment “Access”, revenues from the offered access services to telecommunication networks, one-time activation fees and the sale of devices and accessories are generated. 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 their products and services do not differ significantly.

During Q1 2018, 1&1 Drillisch invested heavily in the acquisition of new customers and in the retention of current customer relationships. One of the focal points was on the marketing of mobile internet contracts and the related hardware. Two changes appear in comparison with the same quarter of the previous year. One is that the first-time application of the IFRS 15 regulations (Revenue from Contracts with Customers) led to sales revenues from so-called multiple-component transactions. The other is that costs of contract renewals are no longer recognised directly in expenses, but are instead capitalised and transferred proportionately to expenses over the average duration of the customers’ contracts.

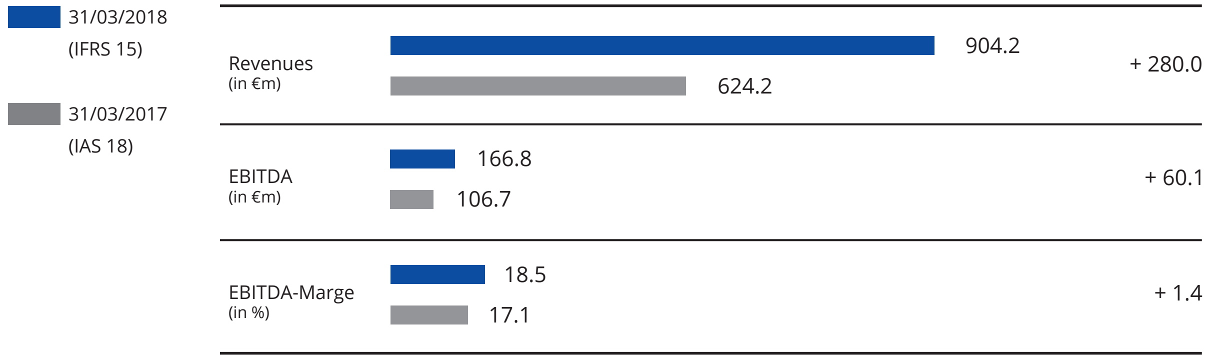
Revenue in the segment “Access” increased in comparison with Q1 2017 – also a consequence of the merger with Drillisch in September 2017 – by €280.0 million (44.9%) to €904.2 million (IFRS 15) (previous year: €624.2 million, IAS 18). The rise in revenue includes on balance €79.8 million from the first-time application of IFRS 15 (Revenue from Contracts with Customers). These regulations affect mainly sales revenues in the reporting period for hardware deliveries within the framework of a multiple-component transaction. In the previous year, sales revenues for hardware deliveries were recognised solely in the amount of the charges billed to the customers. As part of the transition in the accounting from IAS 18 to IFRS 15, the sales revenues from multiple-component transactions from previous periods that are to be given consideration pro rata temporis were recognised per 1 January 2018 as non-operating results in equity. The resultant contract asset will be reversed as operating results in the following periods, leading to a corresponding reduction in the sales revenues.

In the segment “Access”, the cost of materials rose underproportionately to the rise in revenue by €206.5 million to €624.2 million (previous year: €417.7 million). In Q1 2018, customer acquisition costs (e.g. sales commissions) and costs of contract fulfilment (e.g. activation fees) for mobile and DSL products were no longer recognised directly as expenses as was the case in the same quarter of the previous year. Analogously to the procedure followed for sales revenues, customer acquisition and contract fulfilment costs from previous years were recognised per 1 January 2018 pro rata temporis as non-operating results in equity and now result in a corresponding increase in the cost of materials.

The segment EBITDA rose by 56.3% from €106.7 million in the previous year to €166.8 million. This includes on balance €89.8 million from the first-time application of the IFRS 15 regulations as well as one-off effects from expenditures in the amount of €5.0 million incurred as part of integration projects.

COURSE OF BUSINESS

Major revenue and profit indicators in the segment "Access"



SITUATION IN THE GROUP

Earnings position

Growth in Q1 2018 was driven above all by the contract customer business in the segment "Access". In this core business, the number of customer contracts subject to charge for the current product lines was increased by 0.27 million contracts to 12.91 million.

Sales revenues rose in the first three months of 2018 by 44.9% from €624.2 million (IAS 18) in the previous year to €904.3 million (IFRS 15). The positive revenue development results primarily from the continuing increase in the number of customer contracts and the related monthly income as well as the early revenue realisation related to the application of IFRS 15 and from the inclusion of Drillisch in the consolidated interim financial statements.

In contrast to the same quarter of the previous year, contract acquisition and contract fulfilment costs are no longer posted directly as expenses, but are recognised pro rata temporis as expenses over the average duration of the customer contracts.

Cost of sales rose in the first three months of 2018 by €225.4 million (53,3%) to €648.1 million (previous year: €422.7 million). As a consequence of the rise in the low-margin hardware sales and additional negative effects on revenue from the reversal of the hardware sales from previous periods recognised as non-operating results at the beginning of the year pursuant to the application of IFRS 15, the gross margin fell from 32.3% in the previous year to 28.3%. Gross profit rose by €54.7 million from €201.4 million in the previous year to €256.2 million.

Distribution costs rose from €85.1 million in the previous year to €97.3 million in the first three months of 2018. The increase in distribution costs results mainly from the significant rise in depreciation on intangible assets that were identified in the course of

SITUATION IN THE GROUP

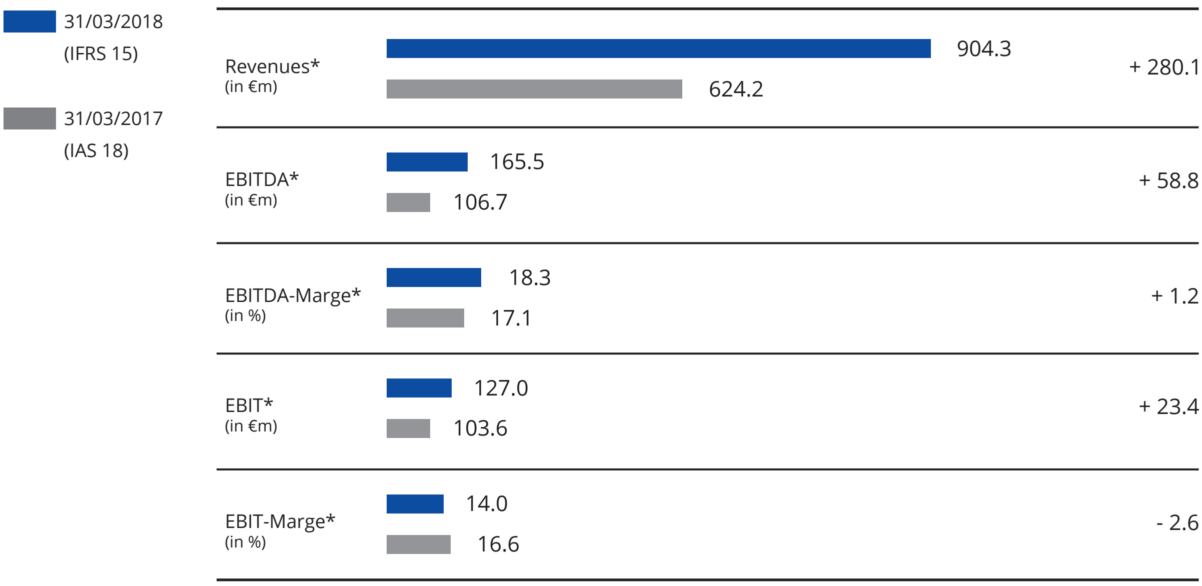
the provisional purchase price allocation related to the acquisition of Drillisch in 2017. In relation to revenue, distribution costs amount to 10.8% in the first three months of 2018 (previous year: 13.6%). Administration costs increased, also a consequence of the inclusion of Drillisch, from €16.2 million in the previous year (2.6% of revenue) to €21.8 million (2.4% of revenues).

The EBITDA from continued operation in the first three months of 2018 amounted to €165.5 million (IFRS 15) (previous year: €106.7 million). This includes one-off effects from expenses related to integration projects in the amount of €5.0 million.

Earnings before taxes (EBT) rose by 29.2% from €98.3 million (IAS 18) to €127.0 million (IFRS 15). Tax expenses in in the first three months of 2018 amounted to €42.3 million (previous year: €28.3 million).

Consolidated profit from continued operation rose from €70.0 million (IAS 18) in the previous year to €84.7 million (IFRS 15) in the first three months of 2018. A consolidated result of €0.0 comes from the discontinued operation (previous year: €-4.4 million, IAS 18). The result from the discontinued operation in the previous year was essentially the consequence of the sale of Versatel Group. The consolidated profit and consolidated comprehensive results in the first three months of 2018 amounted to €84.7 million (IFRS 15) (previous year: €65.6 million, IAS 18).

Major revenue and profit indicators



*In previous year from continued operation

SITUATION IN THE GROUP

Financial position

Cash flow from operating activities declined from €73.5 million in Q1 2017 to €30.5 million in Q1 2018. The change in the amount of €43.0 million reflects the high investments made in Q1 2018 in customer growth and retention of existing customers; these investments will lead to higher revenue from customer contracts in subsequent periods. In contrast to the same quarter of the previous year, investments (such as in rate plans with hardware) are no longer recognised directly as expenses; instead, they result in outflows of cash that are contrasted by inflows of cash in the subsequent periods.

Net incoming payments of operating activity from continued operation in Q1 2018 amounted to €-27.6 million (Q1 2017: €19.0 million). Besides the aforementioned negative influencing factors in cash flow from operating activities, advance payments for purchased services that will not be recognised as operating expenses until later periods and the increase in inventories led to outflows of funds that will to a major extent be reversed in the following periods.

Cash flow from investments from continued operation shows total net outgoing payments of €10.2 million during the reporting period (previous year: outgoing payments of €4.1 million). Payments of €2.9 million (previous year: payments of €4.6 million) and incoming payments of €1.0 million resulted from investments in tangible and intangible assets. Moreover, a retroactive outflow of funds in the amount of €8.3 million (Q1 2017: €0.0) occurred with respect to yourfone Shop GmbH, which was deconsolidated per 31 December 2017.

Free cash flow from continued operation, defined as net incoming payments from operating activities from continued operation less investments in tangible and intangible assets plus incoming payments from disposals of intangible and tangible assets, amounted to €-29.5 million in Q1 2018 (Q1 2017: €14.9 million). The outflows in the first quarter are essentially a product of investments in operating activities that will be reversed or amortised in the following periods.

Payments effected for the short-term investment of free cash at United Internet in the amount of €76 million (Q1 2017: €0.0), which may be recalled on short notice if necessary, were the major factor affecting cash flow from the financing sector from continued operation in Q1 2018.

Cash and cash equivalents per 31 March 2018 amounted to €35.7 million in comparison with €149.7 million per 31 December 2017.

SITUATION IN THE GROUP

Assets and liabilities

The balance sheet total increased from €4,735.7 million per 31 December 2017 to €5,290.6 million per 31 March 2018. The first-time application of the IFRS 15 regulations in Q1 2018 results in long- and short-term assets in the amount of €699.0 million (31 December 2017: €0.00) and long- and short-term liabilities in the amount of €274.0 million (31 December 2017: €0.0) comprising items from previous periods that are to be recognised as non-operating results and the adjustments of the current period effective on earnings.

Short-term assets rose from €656.6 million per 31 December 2017 to €814.8 million per 31 March 2018. The cash holdings disclosed in the short-term assets declined from €149.7 million to €35.7 million. The change results essentially from the investments in smartphones made in Q1 2018 (which will be amortised over the contractual terms of the customers) and from the investment of cash at United Internet AG. Trade accounts receivable increased from €182.6 million to €193.8 million. Receivables due from affiliated companies in the amount of €80.6 million (previous year: €168.3 million) are primarily related to the receivables due from United Internet AG from cash invested with the company on the closing date. Per 31 December 2017, receivables due from affiliated companies in the amount of €158 million arose from the sale of Versatel Group that was realised in the first quarter. Prepaid expenses rose from €15.1 million to €25.9 million as a consequence of the closing date and the expansion of business activities. The item contract asset in the amount of €292.9 million (31 December 2017: €0.0) includes short-term receivables due from customers related to early revenue realisation from Q1 2018 because of the application of IFRS 15; the revenue had been recognised as non-operating results at the beginning of the year and has been carried forward effective on earnings since then. The items costs for contract acquisition and contract fulfilment include the short-term expenditures recognised as non-operating results at the beginning of the year and carried forward effective on earnings since then related to customer acquisition and costs of contract fulfilment during the term of the contracts. Other financial assets declined from €80.1 million per 31 December 2017 to €18.7 million per 31 March 2018. In the previous year, these assets included mainly reimbursement claims against Deutsche Telekom for DSL connection fees paid in advance in previous years. The other non-financial assets increased from €14.4 million to €50.2 million and concern primarily income tax claims.

Long-term assets rose from €4,079.2 million per 31 December 2017 to €4,475.7 million per 31 March 2018. The increase of €396.6 million results basically here as well from the first-time application of IFRS regulations during Q1 2018. Intangible assets declined as planned from €901.4 million per 31 December 2017 to 850.7 million per 31 March 2018 and include primarily the assets determined as part of the provisional purchase price allocation less the related depreciation. The long-term prepaid expenses increased from €79.4 million per 31 December 2017 to €135.1 million and comprise basically advance payments made pursuant to long-term purchase contracts. The items contract assets and costs of contract acquisition and contract fulfilment include receivables due from customers from Q1 2018 related to the early revenue realisation from the application of IFRS 15 or the long-term share of expenditures related to customer acquisition and from advance service contracts.

SITUATION IN THE GROUP

Short-term liabilities decreased from €675.2 million per 31 December 2017 to €537.3 million per 31 March 2018. The short-term trade accounts payable in the amount of €229.9 million remained virtually constant (31 December 2017: €229.5 million). Liabilities due to affiliated companies declined from €221.9 million per 31 December 2017 to €44.1 million. In the previous year, they basically concerned 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. The contract liabilities include short-term liabilities from reimbursement obligations of one-time fees for revoked contracts and deferred income from one-time fees that were recognised as non-operating results at the beginning of the year pursuant to the application of IFRS 15 and that have since then been carried forward effective on earnings. Income tax liabilities rose from €47.0 million per 31 December 2017 to €80.0 million per 31 March 2018. This was primarily caused by the significant increase in profit before taxes.

Long-term liabilities rose from €255.4 million per 31 December 2017 to €492.1 million per 31 March 2018. Causes included in particular the creation and updating of deferred tax liabilities related to the initial application of the IFRS 15 regulations in the amount of €180.1 million (31 December 2017: €0.0) and the increase in Other provisions from €3.5 million per 31 December 2017 to €65.9 million per 31 March 2018. The increase in Other provisions results from the initial recognition of provisions for termination charges related to IFRS 15 accounting. Contract liabilities include long-term liabilities from reimbursement obligations for one-time fees for revoked contracts and deferred income from one-time fees related to the application of IFRS 15.

The equity in the Group rose from €3,805.1 million per 31 December 2017 to €4,261.2 million per 31 March 2018. 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. Cumulative consolidated profit rose by €456.1 million from €1,163.6 million per 31 December 2017 to €1,619.7 million per 31 March 2018. The change in the amount of €371.5 million reflects the adjustments recognised as non-operating results from the application of the modified retrospective transition method related to the initial application of IFRS per 1 January 2018. The equity ratio rose accordingly from 80.4% to 80.5%.

REPORT ON RISKS AND OPPORTUNITIES

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.

General statement from the Management Board regarding the Group's risks and opportunities position

The assessment of the overall risks situation is the result of a consolidated consideration of all major risk areas and specific risks, taking into account interdependencies. Risks threatening the existence of 1&1 Drillisch Group from either specific risk positions or the overall risk situation were not discernible during the reporting period and at the point in time of preparation of this quarterly release.

We expect positive margin contributions from price adjustment negotiations currently going on with a supplier of advance services. In all other respect, the risks and opportunities have not changed since 31 December 2017.

FORECAST REPORT

Forecast for fiscal year 2018

The Management Board has targeted a significant increase in clientele by 1.2 million customer contracts and a related continuation of the positive development of gross profit in operating business and a substantial rise in revenue to €3.7 billion for 2018 as a whole. For 2018, the Management Board expects an increase in adjusted EBITDA to €750 million.

Future-oriented statements and forecasts

This quarterly release contains future-oriented statements that are based on the current expectations, assumptions and forecasts of the 1&1 Drillisch AG Management Board and the information available to the Board at this time. The future-oriented statements are subject to various risks and uncertainties and are based on expectations, assumptions and forecasts that may possibly prove in future to be false. Drillisch does not guarantee that the future-oriented statements will prove to be true, and it neither assumes any obligation nor has the intention to adjust or update any future-oriented statements made in this quarterly release.

EXPLANATORY COMMENTS ON THE QUARTERLY RELEASE

Information about the Company

1&1 Drillisch Aktiengesellschaft, Maintal ("1&1 Drillisch AG" or, 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 Telekom Deutschland and 1&1 Versatel GmbH. These DSL connections are combined with additional services, including (among others) applications for home networks, online storage, telephony, video on demand or IPTV.

The address and registered office of 1&1 Drillisch AG as the parent company of the Group is Wilhelm-Röntgen-Strasse 1–5, 63477 Maintal, Germany. The Company is registered at Hanau Local Court under HRB 7384.

Major accounting, valuation and consolidation principles

The quarterly release from 1&1 Drillisch AG per 31 March 2018 was prepared, just as the consolidated annual financial statements per 31 December 2017, in compliance with the International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU).

The quarterly release does not represent an interim report within the sense of IAS 34. The accounting and valuation principles applied in the quarterly release are consistent with the methods applied per 31 December 2017 with the exception of the standards whose application has newly been mandated and must be viewed in the context of the consolidated annual financial statements per 31 December 2017.

Application of assumptions and estimates

During preparation of the quarterly release, 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 lead to results that in future require substantial adjustments in the book value of the relevant assets or liabilities.

EXPLANATORY COMMENTS ON THE QUARTERLY RELEASE

Use of financial performance indicators relevant for business

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

The performance indicators used by 1&1 Drillisch have been adjusted for 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 Company. 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.

Miscellaneous

All of the subsidiaries are included in the consolidated financial statements. The group of consolidated companies has essentially remained unchanged over the consolidated annual financial statements per 31 December 2017.

No enterprises have been acquired or sold during the reporting period 2018.

The quarterly release has not been audited pursuant to Section 317 HGB [German Commercial Code] or subjected to a review by an independent accountant.

CONSOLIDATED FINANCIAL STATEMENTS PER 31 MARCH 2018

CONSOLIDATED BALANCE SHEET

Per 31 March 2018

	31/03/2018 €k	31/12/2017 €k
ASSETS		
Short-term assets		
Cash and cash equivalents	35,721	149,681
Trade accounts receivable	193,840	182,620
Receivables due from associated companies	80,648	168,261
Inventories	94,444	46,467
Prepaid expenses	25,891	15,052
Contract assets	292,861	0
Contract initiation costs	12,668	0
Contract fulfilment costs	9,831	0
Other financial assets	18,705	80,120
Other non-financial assets	50,227	14,352
	814,836	**656,552**
Long-term assets		
Other financial assets	6,076	6,095
Tangible assets	13,790	14,702
Intangible assets	850,660	901,414
Goodwill	2,932,943	2,932,943
Contract assets	117,604	0
Contract initiation costs	144,840	0
Contract fulfilment costs	121,164	0
Prepaid expenses	135,079	79,414
Deferred tax assets	153,578	144,586
	4,475,734	**4,079,155**
TOTAL ASSETS	**5,290,570**	**4,735,708**

CONSOLIDATED BALANCE SHEET

Per 31 March 2018

	31/03/2018 €k	31/12/2017 €k
LIABILITIES AND EQUITY		
Liabilities		
Short-term debt		
Trade accounts payable	229,948	229,549
Payments received on account	5,623	5,976
Liabilities due to associated companies	44,137	221,861
Income tax liabilities	80,012	47,046
Deferred income	20,861	48,394
Contract liabilities	24,005	0
Other provisions	51,539	52,958
Other financial liabilities	52,890	45,704
Other non-financial liabilities	28,239	23,755
	537,254	**675,244**
Long-term debt		
Deferred tax liabilities	413,128	245,506
Contract liabilities	6,804	0
Other provisions	65,940	3,541
Other financial liabilities	6,208	6,338
	492,080	**255,384**
TOTAL LIABILITIES	**1,029,334**	**930,628**
Equity		
Share capital	194,441	194,441
Capital reserves	2,447,085	2,447,085
Cumulative consolidated results	1,619,710	1,163,554
TOTAL EQUITY	**4,261,236**	**3,805,080**
TOTAL LIABILITIES AND EQUITY	**5,290,570**	**4,735,708**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

from 1 January to 31 March 2018

	2018 January - March €k	2017 January - March €k
Sales	904,281	624,193
Cost of sales	-648,104	-422,749
GROSS PROFIT FROM TURNOVER	**256,177**	**201,444**
Distribution costs	-97,259	-85,149
Administration costs	-21,756	-16,223
Other operating expenses	-20,806	-7,201
Other operating income	10,628	10,752
RESULTS FROM OPERATING ACTIVITIES	**126,984**	**103,623**
Financing expenditures	-140	-5,444
Financial income	162	153
RESULTS BEFORE TAXES	**127,006**	**98,332**
Tax expenses	-42,321	-28,339
CONSOLIDATED RESULTS (FROM CONTINUED OPERATION)	**84,685**	**69,993**
Results after taxes from discontinued operation	0	-4,360
CONSOLIDATED RESULTS (FROM DISCONTINUED OPERATION)	**84,685**	**65,633**
Thereof attributable to		
- Non-controlling interests	0	10,469
- Shareholders of 1&1 Drillisch AG	**84,685**	**55,164**
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	**84,685**	**65,633**
Thereof attributable to		
- Non-controlling interests	0	10,469
- Shareholders of 1&1 Drillisch AG	**84,685**	**55,164**
Profit per share of the shareholders of 1&1 Drillisch AG (in €)		
- undiluted	0,48	0.60
- diluted	0,48	0.60

CONSOLIDATED CASH FLOW STATEMENT

from 1 January to 31 March 2018

	2018 January - March €k	2017 January - March €k
Results from operating activities		
Consolidated profit	84,685	65,633
Consolidated results from discontinued operation	0	-4,360
Consolidated results from continued operation	84,685	69,993
Allowances for transfer of consolidated results to incoming and outgoing payments		
Depreciation on intangible and tangible assets	9,957	3,085
Depreciation on assets capitalised within the framework of corporate acquisitions	28,594	0
Changes in the adjustment items for deferred tax assets	-3,015	378
Correction profit/loss from the sale of tangible assets	49	0
Effects non-effective on payment from IFRS 15 accounting	-89,767	0
Other items not affecting payments	26	0
CASH FLOW FROM OPERATING ACTIVITIES	**30,529**	**73,456**
Changes in assets and liabilities		
Change in receivables and other assets	18,133	-13,609
Change in inventories	-47,977	-2,180
Change in deferred expenditures	-66,504	7,164
Change in trade accounts payable	1,698	-39,710
Change in payments on account	-352	-1
Change in other provisions	9,901	73
Change in income tax debt	32,967	27,725
Change in other liabilities	6,338	4,333
Change in receivables due from/liabilities due to associated companies	-14,148	-35,680
Change in deferred earnings	1,793	-2,535
CHANGES IN ASSETS AND LIABILITIES, TOTAL	**-58,151**	**-54,420**
Net outflow/inflow of funds from operating activities (before capital gains tax payments)	**-27,622**	**19,036**
Net outflow/inflow of funds from operating activity from the continued operation	**-27,622**	**19,036**
Net inflow of funds from operating activity from the discontinued operation	**0**	**31,113**
Net outflow/inflow of funds from operating activities	**-27,622**	**50,149**

CONSOLIDATED CASH FLOW STATEMENT

from 1 January to 31 March 2018

	2018 January - March €k	2017 January - March €k
CASH FLOW FROM INVESTMENTS		
Investments in intangible and tangible assets	-2,876	-4,617
Payments from disposal of intangible and tangible assets	966	523
Outgoing payment from disposal of financial assets	-8,300	0
Reimbursements from other financial assets	3	0
Net outflow of funds in investment sector continued operation	**-10,207**	**-4,094**
Net outflow of funds in investment sector discontinued operation	**0**	**-30,075**
Net outflow of funds in investment sector	**-10,207**	**-34,169**
CASH FLOW FROM FINANCING SECTOR		
Payments from the assumption of losses by United Internet AG	0	12,498
In-/outflow of funds from changes in the cash pool balances with associated companies	0	172,549
Repayment of finance leasing liabilities	-131	0
Repayment of loans from associated companies	0	-200,000
Outgoing payments for the grant of loans to associated companies	-100,000	0
Incoming payments from associated companies in repayment of loans	24,000	0
Net outflow of funds in financing sector continued operation	**-76,131**	**-14,953**
Net outflow of funds in financing sector discontinued operation	**0**	**0**
Net outflow of funds in financing sector	**-76,131**	**-14,953**
Net decrease/increase in cash and cash equivaltens	-113,960	1,026
Cash and cash equivalents at beginning of fiscal year	149,681	4,562
Cash and cash equivalents at end of reporting period	**35,721**	**5,588**
less cash and cash equivalents of discontinued operation at end of reporting period	0	-4,708
Cash and cash equivalents at end of reporting period	**35,721**	**880**

CONSOLIDATED CHANGE IN EQUITY STATEMENT

in Fiscal Year 2018 and 2017

	Share capital		Capital reserves	Cumulative consolidated results	Equity attributable to the 1&1 Drillisch AG shareholders	Non-controlling interests	Total equity
	Denomination	€k	€k	€k	€k	€k	€k
Per 1 January 2017	**121,000**	**121**	**-1,067,670**	**615,289**	**-452,260**	**39,441**	**-412,819**
Consolidated profit				55,164	55,164	10,469	65,633
Total Results				**55,164**	**55,164**	**10,469**	**65,633**
Per 31 March 2017	**121,000**	**121**	**-1,067,670**	**670,453**	**-397,096**	**49,910**	**-347,186**
Per 1 January 2018	**176,764,649**	**194,441**	**2,447,085**	**1,163,554**	**3,805,080**	**0**	**3,805,080**
Consolidated profit				84,685	84,685	0	84,685
Total Results				**84,685**	**84,685**	**0**	**84,685**
Effect on capital from IFRS 15			0	371,471	371,471	0	371,471
PER 31 MARCH 2018	**176,764,649**	**194,441**	**2,447,085**	**1,619,710**	**4,261,236**	**0**	**4,261,236**

SEGMENT REPORTING

31/03/2018	Access €k	Miscellaneous €k	Consolidation / Holding €k	Total €k
Revenues with third parties	904,157	124	0	904,281
Intercompany revenues	0	2,844	-2,844	0
SEGMENT REVENUES	**904,157**	**2,968**	**-2,844**	**904,281**
Cost of materials external third parties	-624,187	10	0	-624,177
Cost of materials from intercompany relationships	0	-3	3	0
COST OF MATERIALS FOR SEGMENT	**-624,187**	**7**	**3**	**-624,177**
GROSS PROFIT FOR SEGMENT	**279,970**	**2,975**	**-2,841**	**280,104**
SEGMENT EBITDA	**166,821**	**770**	**-2,056**	**165,535**

31/03/2017	Access €k	Miscellaneous €k	Consolidation / Holding €k	Total €k
Revenues with third parties	624,193	0	0	624,193
Intercompany revenues	0	0	0	0
SEGMENT REVENUES	**624,193**	**0**	**0**	**624,193**
Cost of materials external third parties	-417,659	0	0	-417,659
Cost of materials from intercompany relationships	0	0	0	0
COST OF MATERIALS FOR SEGMENT	**-417,659**	**0**	**0**	**-417,659**
GROSS PROFIT FOR SEGMENT	**206,534**	**0**	**0**	**206,534**
SEGMENT EBITDA	**106,708**	**0**	**0**	**106,708**

OTHER

FINANCIAL CALENDAR*

Wednesday, 09 May 2018	Quarterly Statement Q1 2018
Thursday, 17 May 2018	Annual General Meeting, Frankfurt
Thursday, 09 August 2018	6-Month Report 2018, Press and Analyst Meeting
Tuesday, 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 report.

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LEGAL INFORMATION

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- André Driesen
- Martin Witt

Supervisory Board:

- Michael Scheeren (Chairman)
- Kai-Uwe Ricke (Deputy Chairman)
- Claudia Borgas-Herold
- Vlasios Choulidis
- Kurt Dobitsch
- Norbert Lang

Information:
Owing to technical reasons during calculation, rounding-off differences in comparison with the mathematically exact values (monetary units, percentages etc.) may occur in the tables and references.
This quarterly release is available in German and English. Both versions are also available for downloading from the internet at www.1und1-drillisch.de. In case of doubt, the German version is authoritative.

Disclaimer:
This quarterly release contains future-oriented statements that reflect the current views and opinions of the 1&1 Drillisch AG Management Board concerning future events. These future-oriented statements are based on our currently valid planning, estimates and expectations. Future-oriented statements are valid solely with respect to circumstances at the time the statements are made. These statements are dependent on risks and contingencies as well as other factors that are in many cases beyond the control of 1&1 Drillisch AG and that may lead to substantial aberrations in the actual results from these statements. These risks and contingencies as well as other factors are described in detail in our risk reports that are part of the quarterly releases from 1&1 Drillisch AG. 1&1 Drillisch AG does not intend to update any such predictive statements.

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