1&1 DRILLISCH

ANNUAL REPORT 2018

DATA & FACTS

Selected Performance Indicators	2018	2017	Change	Q4	Q3	Q2	Q1
PROFIT (IN €M)							
Revenue[1]	3,662.5	2,812.3	30.2%	943.1	900.4	914.7	904.3
EBITDA[1]	721.9	504.0	43.2%	197.2	184.7	174.5	165.5
EBITDA margin in % of revenue[1]	19.7%	17.9%		20.9%	20.5%	19.1%	18.3%
EBITDA (adjusted)[1,2]	721.9	532.2	35.6%	197.2	184.7	174.5	165.5
EBITDA margin in % of revenue (adjusted)[1,2]	19.7%	18.9%		20.9%	20.5%	19.1%	18.3%
EBIT[1]	567.2	439.9	28.9%	158.2	146.4	135.7	127.0
EBIT margin in % of revenue[1]	15.5%	15.6%		16.8%	16.3%	14.8%	14.0%
EBIT (adjusted)[1,2]	567.2	468.1	21.2%	158.2	146.4	135.7	127.0
EBIT margin in % of revenue (adjusted)[1,2]	15.5%	16.6%		16.8%	16.3%	14.8%	14.0%
EBT[1]	562.6	431.3	30.4%	154.8	145.3	135.5	127.0
EBT margin in % of revenue[1]	15.4%	15.3%		16.4%	16.1%	14.8%	14.0%
Earnings per share (in €)[1]	2.30	2.28	0.7%	0.71	0.57	0.54	0.48
Earnings per share (in €)[1] without ppa	2.75	2.57	6.9%	0.83	0.68	0.65	0.59
CASH FLOW (IN €M)							
Net payments of operating activity from the ongoing division[1]	155.6	294.1	-47.1%	34.5	76.5	72.2	-27.6
Net payments and incoming payments from investments from the ongoing division[1]	-21.5	9.3	331.2%	-5.9	-2.8	-2.5	-10.2
Free cash flow[1]	142.6	278.6	-48.8%	28.7	73.8	69.7	-29.5

	31/12/2018	31/12/2017	Change	31/12/2018	30/09/2018	30/06/2018	31/03/2018
STAFF (INCL. MANAGEMENT BOARD)							
Total per end of December	3,150	3,194	-1.4%	3,150	3,130	3,145	3,143
CUSTOMER CONTRACTS (IN MILLIONS) **Current Product Lines**							
Access, contracts	13.54	12.57	0.97	13.54	13.26	13.04	12.84
thereof Mobile Internet	9.20	8.30	0.90	9.20	8.93	8.73	8.54
thereof Broadband (ADSL, VDSL, FTTH)[3]	4.34	4.27	0.07	4.34	4.33	4.31	4.30
BALANCE SHEET (IN €M)							
Short-term assets	1,064.6	656.6	62.1%	1,064.6	905.8	784.9	814.8
Long-term asset	4,182.1	4,079.2	2.5%	4,182.1	4,262.6	4,309.4	4,475.7
Shareholders' equity	4,280.1	3,805.1	12.5%	4,280.1	4,175.8	4,074.2	4,261.2
Balance sheet total	5,246.6	4,735.7	10.8%	5,246.6	5,168.5	5,094.3	5,290.6
Equity ratio	81.6%	80.4%		81.6%	80.8%	80.0%	80.5%

(1) In 2017: Without the positive special effects from the sale of Versatel Group

(2) In 2017: 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.

(3) In 2018: Adjusted by about 70,000 broadband connections from discontinued previous business.
The comparative figures of the previous year have been restated appropriately so that the adjustment does not have any impact on the net change.

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LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,

1&1 Drillisch AG can look back on a successful fiscal year 2018. Once again, we were able to increase the number of customer contracts and to improve our profit figures. As in the previous fiscal year, we invested heavily in the expansion of existing customer relationships and in the acquisition of new customers in 2018.

Before we go into details about the operating business, we would like to give you an overview of general business development in the last year.

Besides the success achieved by our operations, 2018 was notable for the preparation of the strategically far-reaching decision to participate in the auction for 5G frequencies. The decision has now been made, and we have been involved in the 5G frequency auction since 19 March 2019, joining the established network operators Telefónica, Deutsche Telekom and Vodafone as the fourth participant. We prepared the decision to establish our own mobile network using technology of the latest generation during intensive talks with regulatory authorities, politicians, specialist consultants and potential partners for the network construction.

The public discussions about possible participation in the frequency auction gave rise in some areas to uncertainties on financial markets in the past year, and we believe this was also reflected in the decline in our stock price. Nevertheless, we are convinced that the commencement of network operations can open numerous additional opportunities for growth to our Company – for instance, by expanding the added-value chain or internalising external costs. Our hope is that this will result in a long-term and sustained reinforcement of our business model.

Following the merger of 1&1 Telecommunication SE with Drillisch AG in autumn 2017, fiscal year 2018 focused on the integration of the various parts of the company and on the harmonisation of processes and working methods. Our goal is to exploit the synergies described during the presentation of the overall transaction and to optimise the efficiency of our organisation as a whole. Our activities included as well a project lasting several months with the objective of revising the brand portfolio and of intensifying the profiles of our different brands. The results of this review have already been implemented in part, e.g. through the new positioning of smartmobil as a SIM-only provider featuring termination notice periods of one day or the relaunch of yourfone as a hardware specialist. 1&1, our best-known and most successful brand, remains our premium product; it offers outstanding and innovative service setting it apart from the competition.

An indication to the outside world of our consolidation was the renaming of our Company as 1&1 Drillisch AG in January 2018. The proposal from Management and Supervisory Boards to take this step was accepted by an overwhelming majority of 99.99% of our shareholders during the extraordinary General Meeting on 12 January 2018.

1&1 Drillisch AG has a strong position on the German telecommunications market. One point is that we pursue a broad marketing approach to reach a large target group; another is that as the only mobile bitstream access mobile virtual network operator (MBA MVNO) we have a special place on the German market.

In addition to mobile- and broadband-only products, we offer to our customers attractive bundled products comprising mobile lines and landlines, supplemented by products such as home networks, online storage, video on demand or IPTV. While 1&1 covers the premium segment, the established Drillisch brands such as smartmobil.de, yourfone or winSIM address above all target groups who are especially sensitive to price.

Development of the market will be extraordinarily dynamic in future, especially in view of the new mobile standard 5G. The demands on the performance capabilities of internet products will continue to rise. We are very well positioned for this development. Thanks to our MBA MVNO agreement with Telefónica Germany, our mobile products are always state of the art in terms of network technology, including 5G. And now we have access to one of Germany's largest optic fibre networks, which is operated by our affiliate 1&1 Versatel and is constantly being expanded.

The recognition of customer desires, trends and new business fields at an early stage and their effective marketing are among the core competencies of 1&1 Drillisch, firmly backed by our more than 25 years of experience in the telecommunications sector. Our strong market position and our pronounced sense of innovation led us to continued growth in 2018. We will continue to build on these strengths in the future and to seek sustained growth.

Now for the operating side of the business:

During fiscal year 2018, we were once again able to grow significantly over the previous year despite operating in a market environment that remains intensely competitive.

We were able to increase our customer base by 7.7% or 970,000 to 13.54 million customers (2017: 12.57 million). Of this number, customer contracts in the mobile internet sector rose by 900,000 to 9.20 million (2017: 8.30 million) and the broadband connections by 70,000 to 4.34 million (2017: 4.27 million).

Our revenue rose in fiscal year 2018 by €850.2 million (30.2%) from €2.812 billion in the previous year (pursuant to IAS 18) to €3.663 billion (pursuant to IFRS 15). From the pro forma perspective (including Drillisch in the entire previous year), revenue rose by 13.3% from €3.234 billion (pursuant to IAS 18) to €3.663 billion (pursuant to IFRS 15). The rise in revenue includes on balance €277.6 million from the first-time application of IFRS 15 (Revenue from Contracts with Customers).

Adjusted consolidated EBITDA (earnings from continued operations before interest, taxes, depreciation and amortisation) rose over the same period by 35.6% from €532.2 million (pursuant to IAS 18) to €721.9 million (pursuant to IFRS 15). The adjusted EBITDA margin from continued operations rose to 19.7% (2017: 18.9%). The total of €268.1 million from the initially positive effects of the first-time application of IFRS 15 contained in the adjusted EBITDA is contrasted by additional investments (above all, from the increased use of smartphones) in approximately the same amount so that the two items virtually balance each other out in the bottom line, and to this extent the figures are comparable with those of the previous year.

From the pro forma perspective (including Drillisch in the entire previous year), adjusted EBITDA rose by 14.3% from €631.7 million (pursuant to IAS 18) to €721.9 million (pursuant to IFRS 15). The EBITDA of fiscal year 2018 contains realised synergies in the amount of about €51.1 million and contrasting one-off expenditures from ongoing integration projects in the amount of €25.1 million.

Adjusted consolidated EBIT from continued operations (earnings from continued operations before interest and taxes) rose by 21.2% from €468.1 million (comparable value of the previous year pursuant to IAS 18) to €567.2 million (pursuant to IFRS 15). The one-offs from integration projects mentioned above are also included in the EBIT. The lower percentage growth in comparison with the EBITDA results essentially from increased write-offs on purchase price allocations (PPA write-offs) pursuant to the merger of 1&1 Telecommunication and Drillisch in 2017.

Profit per share came to €2.30 (2017: €2.28). Excluding PPA write-offs, profit per share amounted to €2.75 (2017: €2.57). The comparison values of fiscal year 2017 contained pro rata temporis PPA write-offs for only four months.

In consideration of the 5G frequency auction that is currently under way and the additional investments that will become necessary in the event of a successful auction, Management Board of 1&1 Drillisch AG has proposed the following two-track dividend proposal (which is in harmony with the dividend policy) for fiscal year 2018 to the Supervisory Board:

» Payment of a dividend in the amount of €0.05 per share in the event that Company acquires frequencies as a result of the 5G frequency auction by 20 May 2019. This proposal is oriented to the minimum dividend required in Section 254 (1) AktG. Assuming 176.2 million shares entitled to dividends, this would result in a total disbursement of €8.8 million for fiscal year 2018.

» Payment of a dividend in the amount €1.80 per share (previous year: €1.60 per share) in the event that Company does not acquire frequencies as a result of the 5G frequency auction by 20 May 2019. Assuming 176.2 million shares entitled to dividends, this would result in a total disbursement of €317.3 million for fiscal year 2018.

Management Board and Supervisory Board will discuss this dividend proposal for fiscal year 2018 in the Supervisory Board meeting on 27 March 2019. The Annual General Meeting of 1&1 Drillisch AG will decide on the resolution proposed jointly by Management Board and Supervisory Board on 21 May 2019.

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. We expect customer growth to remain strong in fiscal year 2019. Revenues are targeted to increase further by about 4% (2018: €3.662 billion). We expect an increase in adjusted EBITDA of about 10% (2018: €721.9 million). Moreover, we would like to continue the use of smartphones at reduced prices (mostly without an initial additional payment) at a high level for all our brands. The Management Board plans to provide more precise figures for the EBITDA forecast after the conclusion of the assessment arbitration relating to the price adjustment negotiations with an advance service provider.

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. In addition, we want to express our sincere gratitude to our shareholders, customers and business partners for the trust they have placed in us.

Best regards from Maintal,

Ralph Dommermuth | Martin Witt | André Driesen

Maintal, March 2019

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.

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.

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.

REPORT OF THE SUPERVISORY BOARD

Supervisory Board Members in Fiscal Year 2018:

» Michael Scheeren (since 16 October 2017)
Supervisory Board Chairman (since 13 November 2017)

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

» Dr Claudia Borgas-Herold
(since 12 January 2018)

» Vlasios Choulidis
(since 12 January 2018)

» Kurt Dobitsch
(since 16 October 2017)

» Norbert Lang
(since 12 November 2015)

TIn fiscal year 2018, the Supervisory Board of 1&1 Drillisch AG fulfilled the duties and responsibilities assigned to it by legal statutes, the articles of association and by-laws 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. The reports 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, by-laws or rules of procedure for the Management 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 five meetings of the full Supervisory Board were held during the reporting period 2018. The members attended five meetings (on 12 January 2018, 8 March 2018, 21 March 2018, 17 May 2018, 7 August 2018), and one meeting of the Audit Committee was held in the form of a telephone conference (15 March 2018).

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

» The separate and the consolidated annual financial statements per 31 December 2017

» Revenue and profit budget 2018 of the Company

» Planning and investment projects of the corporate group for fiscal year 2018

» The Supervisory Board’s report to the Annual General Meeting for fiscal year 2017, 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 extraordinary and ordinary General Meetings 2018

» Selection of the nominations for the auditor for the annual financial statements 2018 and the following years

» 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

» Structural measures within 1&1 Drillisch Group

» Monitoring of the effectiveness of the implemented compliance system

- Quarterly reports on risk management and risk management strategy
- Dependency Report 2017, review and approval of the Dependency Report 2017
- Corporate development during the year
- Review of the independence of Ernst & Young GmbH and the acting persons, including as well the services performed in addition. Agreement with Ernst & Young, the newly elected auditors, regarding the focal points of the audit
- Adoption of a resolution regarding the Sustainability Report

Personnel changes on the Management Board and Supervisory Board

The following changes were made in the membership of the Management Board during fiscal year 2018. Mr Vlasios Choulidis stepped down from the Management Board per 31 December 2017. Mr Ralph Dommermuth was appointed to the Management Board per 1 January 2018 and became Management Board chairman (CEO). Current members of the Management Board are Messrs Ralph Dommermuth (CEO since 1 January 2018), Martin Witt (Deputy Chairperson) and André Driesen.

The following changes were made in the membership of the Supervisory Board during fiscal year 2018. The General Meeting of 12 January 2018 elected Dr Claudia Borgas-Herold and Mr Vlasios Choulidis to serve the remaining terms (ending at the conclusion of the General Meeting that adopted a resolution discharging the Supervisory Board members for fiscal year 2017) of the Supervisory Board members Marc Brucherseifer and Horst Lennertz (Dr.-Ing.) who had stepped down per 31 December 2017. During the ordinary Annual General Meeting of the Company on 17 May 2018, the Supervisory Board as a whole was elected (by separate vote) to be the Supervisory Board of the Company for the period until the conclusion of the Annual General Meeting that adopts a resolution discharging the Supervisory Board members for fiscal year 2022.

In accordance with Section 96 (1), Section 101 (1) AktG [Company Law] and Section 10 (1) of the Company by-laws, the Supervisory Board currently consists of six members and corresponds in its competence profile to its previous and current objective; in particular, the membership of Dr Claudia Borgas-Herold and Mr Norbert Lang satisfies the requirement of a minimum of two independent members on the Board. The proportion of women on the Supervisory Board in fiscal year 2018 came to 16.66%. Supervisory Board chairman in the reporting period 2018 was Mr Michael Scheeren (since 13 November 2017), and Mr Kai-Uwe Ricke was Supervisory Board deputy chairman (since 13 November 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.

Corporate Governance

All members took part in the total of five meetings of the full Board.

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, Kurt 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 necessary, the Supervisory Board members consult the Supervisory Board chairman 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 issued a joint Declaration of Conformity pursuant to Section 161 AktG during the reporting period, most recently on 21 March 2018, 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 2018.

Discussion of separate and consolidated annual financial statements 2018

The separate annual financial statements and the consolidated annual financial statements per 31 December 2018, the management reports for the stock corporation and Group for fiscal year 2018 (each including the explanatory report on the disclosures pursuant to Section 289a (1) and Section 315 (2a) HGB [Commercial Code]) prepared and submitted in good time by the Management Board and the accounting and risk management system were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, the accounting firm elected by the Annual General Meeting on 17 May 2018 for this task, and an unqualified auditor's opinion was issued to the documents.

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 costs of contract acquisition and fulfilment and the goodwill impairment test; for the separate annual financial statements of 1&1 Drillisch AG, the recoverability tests of the holdings.

The concluding documents were examined and discussed during a meeting of the Supervisory Board on 27 March 2019 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 Supervisory Board members. Subject matter of this discussion included in particular the results of the audit regarding the defined key audit matters and the accounting process. The internal controlling system, the risk report and the risk management were discussed in detail with the auditor during the Supervisory Board meeting on 27 March 2019. 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 any developments that might 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, does not raise any objections. In a resolution adopted during its meeting on 27 March 2019, the Supervisory Board approved the separate annual financial statements and consolidated annual financial statements 2018. The separate annual financial statements have thus been adopted pursuant to Section 172 AktG. In its meeting on 27 March 2019, the Supervisory Board reviewed and adopted the non-financial declaration ("Sustainability Report 2018").

On 24 January 2019, 1&1 Drillisch AG announced its intention to submit an application to the Federal Network Agency for participation in the auction for the awarding of mobile network frequencies ("5G Frequency Auction") and, in the event of the successful acquisition of frequencies, to establish and operate a 5G mobile network. The applicant is the wholly-owned group subsidiary of 1&1 Drillisch AG, Drillisch Netz AG. The approval for participation in the auction, which started on 19 March 2019, was issued by the Federal Network Agency on 25 February 2019.

In consideration of the 5G frequency auction that is currently under way and the investments that may possibly become necessary (depending on the outcome), Management Board and Supervisory Board of 1&1 Drillisch AG decided in their meeting on 27 March 2019 to make the following two-track dividend proposal (that is in harmony with the dividend policy) to the Annual General Meeting that will take place on 21 May 2019:

» Payment of a dividend in the amount of €0.05 per share in the event that Drillisch Netz AG acquires frequencies as a result of the 5G frequency auction by 20 May 2019. This proposal is oriented to the minimum dividend required in Section 254 (1) AktG. Assuming 176.2 million shares entitled to dividends, this would result in a total disbursement of €8.8 million for fiscal year 2018.

» Payment of a dividend in the amount of €1.80 per share (previous year: 1.60) in the event that Drillisch Netz AG does not acquire frequencies as a result of the 5G frequency auction by 20 May 2019. Assuming 176.2 million shares entitled to dividends, this would result in a total disbursement of €317.3 million for fiscal year 2018.

The Company's position, specifically its financing and capital structure, was discussed and reviewed at that time.

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) for fiscal year 2018 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 27 March 2019. 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. In accordance with the concluding results of its audit, the Supervisory Board accepts the Management Board's Dependency Report and audit report and does 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, 27 March 2019

On behalf of the Supervisory Board
Michael Scheeren

STATEMENT ON CORPORATE MANAGEMENT/ CORPORATE GOVERNANCE REPORT

The corporate management of 1&1 Drillisch AG, a German stock corporation listed on the stock exchange, is governed first and foremost by German Company Law [Aktiengesetz, AktG] and the provisions of the German Corporate Governance Codex (DCGK) as most recently revised.

The term corporate governance stands for responsible management and control of companies, applied with the aim of creating long-term added value. Efficient cooperation between management and supervisory boards, respect for shareholders' interests and openness and transparency of corporate communications are major aspects of good corporate governance.

The Management Board and Supervisory Board of 1&1 Drillisch AG regard themselves to be bound by the obligation to secure the existence of the Company and sustained value creation by means of corporate management in awareness of their responsibilities and with an orientation to long-term results.

The following report contains the "Declaration on Corporate Management" pursuant to Sections 289–290 HGB [German Commercial Code] and pursuant to Section 315d HGB for the corporate group and the "Corporate Governance Report" pursuant to Clause 3.10 of the German Corporate Governance Codex that have been prepared by Management and Supervisory Boards.

Declaration pursuant to Section 161 AktG regarding observance of the recommendations of the German Corporate Governance Codex

The most recent Declaration of Conformity issued by the Management Board and Supervisory Board on 27 March 2019, 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, since issue of the last Declaration of Conformity of 21 March 2018, has acted, and continues to act, in conformity with the recommendations of the "Government Commission German Corporate Governance Codex" (Codex) as revised on 7 February 2017 and announced by the Federal Ministry of Justice on 24 April 2017 in the official section of the Federal Gazette, subject to the following exceptions.

Clause 3.8 (2) and (3)

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.

Clause 4.1.3 third sentence
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
Formation of committees

The Supervisory Board has not constituted any committees since the issue of the last Declaration of Conformity; instead, it performs 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 matters 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
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

Pursuant to Section 14 of the Company's articles of association only the Supervisory Board chairperson receives a higher annual fixed compensation, but not the Board's deputy chairperson. The regulation is 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. The Supervisory Board has not built any committees and thus a membership in committees is not reflected in the compensation for members of the Supervisory Board.

Maintal, 27 March 2019

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

Management and corporate structure

As appropriate for its legal form, 1&1 Drillisch AG has a two-tier management and supervisory structure in the form of its governing bodies, the Management Board and Supervisory Board. The third governing body is the General Meeting. The governing bodies are obligated to serve the welfare of the Company.

Supervisory Board

Working methods of the Supervisory Board

The Supervisory Board elected by the General Meeting 2018 had 6 members in 2018. As a rule, the term of office of Supervisory Board members is 5 years.

The Supervisory Board maintains regular contact with the Management Board and supervises and advises the Management Board – in accordance with law, articles of association and by-laws, rules of procedure and the recommendations of the German Corporate Governance Codex insofar as deviations in accordance with Section 161 AktG have not been declared – in the management of business operation and the risk and opportunity management of the Company.

The Supervisory Board discusses all questions of strategy and their implementation, the budget, business development, risk position, risk management and compliance relevant for the Company with the Management Board at regular intervals. It discusses the quarterly and semi-annual reports with the Management Board before their publication and adopts the annual budget. It reviews the single and consolidated annual financial statements and approves the financial statements if there are no objections. In performing this review, it takes into account the audit reports of the auditor.

Duties and responsibilities of the Supervisory Board also include the appointment of Management Board members and the determination of the remuneration paid to the Management Board as well as the regular review of the remuneration, taking into consideration the legal provisions in effect at the time and the recommendations of the German Corporate Governance Codex insofar as deviations in accordance with Section 161 AktG have not been declared.

The Supervisory Board regularly conducts an efficiency audit as a self-assessment.

The Supervisory Board members participate in any training and advanced training measures necessary for performance of their duties and responsibilities on their own responsibility and receive appropriate support from the Company in doing so.

As a rule, the Supervisory Board meetings are convened by the chairperson by written announcement at least 14 days in advance.

The points of the agenda are communicated in the convocation announcement. If a point on the agenda has not been properly announced, a resolution on this point may be adopted solely if and when there is no objection from any Supervisory Board member before the adoption of the resolution.

As a rule, resolutions of the Supervisory Board are adopted in meetings. Meetings are chaired by the chairperson of the Supervisory Board. Upon order of the chairperson, resolutions may be adopted outside of meetings by other means (e.g. by telephone or email), provided that no member objects to this procedure.

The Supervisory Board has a quorum 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. A member also participates in the adoption of the resolution if and when he/she abstains from voting.

Unless otherwise mandated by legal statutes, the Supervisory Board adopts resolutions by simple majority vote.

Written minutes are kept of the discussions and resolutions of the Supervisory Board.

The Supervisory Board chairperson is authorised to submit on behalf of the Supervisory Board any declarations of intent required for the execution of the Supervisory Board's resolutions.

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

In accordance with the rules of procedure of the Supervisory Board, nominations for the election of Supervisory Board members must take into account that the Supervisory Board must at all times have members who have the knowledge, skills and professional experience they require for the correct performance of their duties and responsibilities. Among other points, the Company's international activities, potential conflicts of interest and an age limit of 70 for Supervisory Board members should be given consideration.

In accordance with Clause 5.4.1 of the German Corporate Governance Codex, the Company's Supervisory Board has set in addition the following targets for its composition – including specific competence requirements for the full body – that have consistently been observed during the election of Supervisory Board members since the setting of the targets, most recently during the election of the current Supervisory Board members by the Annual General Meeting on 17 May 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;
- he 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 disclose 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;

» 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 that 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 of 25 years for the total length of membership on the Supervisory Board pursuant to Clause 5.4.1 of the German Corporate Governance Codex; the current Supervisory Board is also in compliance with this limit.

During the reporting period as in the past, the Supervisory Board deliberated on the aforementioned targets for its composition, gave special regard to them with respect to the competence profile for the body as a whole and affirmed its commitment 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 2018, 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%. Independently of these decisions, the selection of the potential members of the Boards 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. The set targets have at this time been met.

Unless stub periods are created, the term of office of each Supervisory Board members will end upon the adjournment of the Annual General Meeting that adopts a resolution discharging the Supervisory Board members for fiscal year 2022.

Working methods and composition of the committees

Previous to its balance sheet meeting on 21 March 2018, the Supervisory Board had maintained three committees: namely, a Nominating Committee, an Audit Committee and a Personnel Committee. The Nominating Committee comprised all of the members of the Supervisory Board, was chaired by the Supervisory Board chairperson, and was responsible for proposing to the Supervisory Board suitable candidates for the latter's election proposals to the Annual General Meeting. The Audit Committee was governed by its own rules of procedure. Moreover, unless otherwise mandated by legal provisions, the provisions of the articles of association and by-laws applicable to the Supervisory Board as well as the Supervisory Board’s rules of procedure applied mutatis mutandis to this and to all other Supervisory Board committees.

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 matters at peer level. Since that time, the Supervisory Board has performed all of its duties and responsibilities as a full body.

Management Board

Working methods of the Management Board

The Management Board is the managing body of the corporate group. It comprised 3 persons in fiscal year 2018. The Management Board conducts business operations in accordance with law and the articles of association and by-laws, with the rules of procedure approved by the Supervisory Board and with the applicable recommendations of the German Corporate Governance Codex insofar as deviations in accordance with Section 161 AktG have not been declared.

It is responsible for preparation of the interim and annual financial statements and for the appointments to key personnel positions in the Company.

Decisions of fundamental importance are subject to the agreement of the Supervisory Board. The Management Board reports to the Supervisory Board in accordance with the legal provisions of Section 90 AktG and reports at least once a month to the Supervisory Board chairperson orally and, at the request of the Supervisory Board chairperson, in writing; the report gives an overview of the current status of the report topics deemed relevant pursuant to Section 90 AktG. Accordingly, the chairperson of the Supervisory Board is notified without delay by the chairperson or spokesperson or the chief financial officer of any important events that are of major significance for the assessment of the position and development as well as the management of Company. An important cause includes as well any significant deviation from the budget or other forecasts of the Company. The chairperson or spokesperson of the Management Board or the chief financial officer also notifies the Supervisory Board chairperson, in advance if possible, otherwise without delay, of any and every ad hoc announcement by the Company pursuant to Art. 17 MAR.

The Management Board conducts the Company's operations in joint responsibility in accordance with consistent targets, budgets and guidelines. Regardless of the joint responsibility of the Management Board, each of the Management Board members acts on his or her own responsibility for the division that has been assigned to him or her, but is nevertheless required to subordinate the interests related to the division assigned to him or her to the welfare of the Company as a whole.

The Supervisory Board regulates the allocation of duties and responsibilities within the Management Board at the suggestion of the Management Board in a business allocation plan.

The Management Board members notify one another of important incidents within their business divisions.

Regardless of their responsibilities to their divisions, all Management Board members must at all times track events and information that are decisive for the course of the Company's business so that they are able to ward off imminent harm or to carry out desirable improvements or expedient changes by addressing the Management Board as a whole or by other appropriate means.

The Management Board as a whole makes decisions regarding any and all matters that are of special significance and broad impact for the Company or its subsidiaries and affiliates.

Decisions of the Management Board as a whole are made by simple majority vote. In the event of parity of votes, the Management Board chairperson casts the deciding vote. Management Board decisions are recorded in written minutes of the meetings.

As a rule, the Management Board as a whole meets every two weeks or otherwise whenever necessary.

Each and every Management Board member shall disclose without delay any conflicts of interest to the Supervisory Board.

Current composition of the Management Board

The Management Board of 1&1 Drillisch AG in fiscal year 2018 had the following 3 members:

» Ralph Dommermuth, Management Board chairman
(Management Board member since 1 January 2018)

» Martin Witt, Management Board deputy chairman
(Management Board member since 1 October 2017)

» André Driesen, chief financial officer
(in the Company since 2000 and Management Board member since 1 April 2015)

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 the subject of constant further development and adaptation 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 internal controlling system and of the risk management system – as well as the internal risk reporting – was monitored by the Supervisory Board’s Audit Committee until the balance sheet meeting on 21 March 2018. Since the dissolution of the Audit Committee per 21 March 2018, the Supervisory Board has been performing this task 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 54 of the Annual Report 2018) 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 internal standards, principles and rules. In the opinion 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 throughout the Company.

Key elements of the compliance regulation 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 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 for each and every employee in which the potential and talents of the individual can be exploited to the fullest, and not only for employees; 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.

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 should be 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.

Financial publicity/Transparency

It is the declared objective of 1&1 Drillisch to inform institutional investors, private stockholders, financial analysts, employees and an interested general public about the position of the Company by regularly publishing honest and up-to-date communications that are available simultaneously and equally to all parties.

In keeping with this principle, all significant information such as press releases, ad hoc announcements and other obligatory communications (such as directors' dealings or voting rights notifications) as well as any and all financial reports are made public in conformity with statutory requirements. Moreover, 1&1 Drillisch provides comprehensive information on the Company's website (www.1und1-drillisch.de). Documents and information relating to the Company's General Meetings as well as other commercially relevant information can be found on the site.

1&1 Drillisch reports on its business development as well as its financial and earnings positions to shareholders, analysts and press representatives four times in every fiscal year in accordance with a fixed financial calendar. The financial calendar is published in accordance with legal regulations on the Company's internet site and is updated regularly.

In addition, the Management Board issues ad hoc announcements without delay regarding any circumstances that are not generally known and could have a significant impact on the stock price.

As part of its investor relations programme, management meet regularly with analysts and institutional investors. Moreover, analyst conferences are held for the presentation of the semi-annual and annual figures; investors and analysts can also obtain access to these figures by phone.

Accounting and audit

The Group's accounting is based on the principles of the International Financial Reporting Standards (IFRS, as they are applicable in the EU) while taking into consideration the provisions of Section 315e HGB. The annual financial statements relevant for the disbursement and tax assessments, on the other hand, are prepared in accordance with the provisions of the German Commercial Code (HGB). Single and consolidated annual financial statements are audited by impartial chartered public accountants. The General Meeting adopts a resolution appointing the auditor. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, has been appointed to perform the audit for fiscal year 2018. The Supervisory Board awards the audit engagement, determines the focal points of the audit and the audit fee and reviews the impartiality of the auditor.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft has been the auditor for 1&1 Drillisch AG and the Group since fiscal year 2018. Mr Jens Kemmerich, chartered public accountant, has been in charge of the audit since fiscal year 2018.

Remuneration for Management Board and Supervisory Board

The basic features of the remuneration system for Management and Supervisory Boards are described in the remuneration report pages 69 and 70 (point 5) of the management report. The disclosure of the remuneration paid to the members of Management and Supervisory Boards, itemised and broken down according to components (in accordance with legal statutes and the German Corporate Governance Codex) is included in the remuneration report and also in the consolidated notes on page 175.

Stock option programmes

The basic features of the employee stock option programme are described in the remuneration report (pages 69 and 70, point 5) of the management report. Additional details are included on page 156 et. seqq. under point 45 of the consolidated notes.

CONSOLIDATED MANAGEMENT REPORT

GENERAL INFORMATION ABOUT THE COMPANY AND GROUP

1. General information about the Company and Group

1.1. Business model

The Drillisch group

The 1&1 Drillisch Group with 1&1 Drillisch Aktiengesellschaft, Maintal, as a public traded parent company ("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 landline and mobile network-based internet access products in the business division Access. 1&1 Drillisch, a leading German internet specialist, is able to use the optic fibre network (one of Germany's largest) operated by 1&1 Versatel GmbH, Düsseldorf, an associated company that belongs to the corporate group of United Internet AG. A virtual mobile network operator, 1&1 Drillisch has guaranteed access to a defined share of the mobile network capacity of Telefónica in Germany (so-called mobile bitstream access mobile virtual network operator = MBA MVNO). The Group's business unit Access offers landline- and mobile network-based internet access products. 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.

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 GmbH, Maintal (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, including 5G. At the same time, 1&1 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 is essentially handled by 1&1 Telecommunication SE (in particular, by 1&1 Telecom GmbH) and by Drillisch Online GmbH.

1&1 Drillisch AG is a listed subsidiary of United Internet AG, Montabaur, which is also listed.

1&1 Drillisch AG

- **1&1 Telecommunication SE**
  - 1&1 Telecom Holding GmbH
    - 1&1 Telecom GmbH
  - 1&1 Telecom Sales GmbH
  - 1&1 Telecom Service Montabaur GmbH
  - 1&1 Telecom Service Zweibrücken GmbH
  - 1&1 Berlin Telecom GmbH
  - 1&1 Logistik GmbH
- **Drillisch Online GmbH**
  - Drillisch Netz AG
  - Mobile Ventures GmbH
- **IQ-optimize Software AG**
- **Drillisch Logistik GmbH**

Business activities

Contracts subject to charge with 13.54 million subscribers make 1&1 Drillisch one of the leading providers of broadband and mobile services products in Germany.

Segment "Access"

The Group's mobile access and landline 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 solely in Germany. The Company uses the landline network of the affiliate 1&1 Versatel GmbH, Düsseldorf („1&1 Versatel GmbH"), a member company of United Internet AG, and its access right to the Telefónica network; in addition, it purchases standardised network services from various providers of advance services. Access to the networks is 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 the well-known brand name 1&1 and discount brands such as winSIM, yourfone or smartmobile.de, which are used to address the market comprehensively in orientation to specific target groups.

Segment "Other"

The segment Miscellaneous comprises essentially all the activities related to the offering of custom software solutions and of maintenance and support services. Owing to the minor significance of this segment, no further details will be reported in the following remarks.

Major locations

MAJOR LOCATIONS	MAJOR ACTIVITIES	COMPANY
Maintal	Headquarters, holdings, IR, PR, finance, accounting, financial controlling, risk management, legal matters, compliance, HR	1&1 Drillisch AG
	IT	IQ-optimize Software AG
	Accounting, marketing, sales, customer service	Drillisch Online GmbH
Krefeld	Marketing, sales, logistics, customer service, financial controlling, receivables management and risk management	Drillisch Online GmbH
München	Marketing, sales, logistics; sales controlling	Drillisch Online GmbH
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 subsidiaries

In fiscal year 2018, an average headcount of 3,142 (previous year: 2,860), including the three Management Board members of 1&1 Drillisch AG, was employed at 1&1 Drillisch Group.

1.2 Strategy

The 1&1 Drillisch business model is based primarily on customer contracts characterised by fixed monthly payments and running for contractually fixed terms. 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 acquisitions 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 products and new business fields.

From today's perspective, mobile internet and high-speed broadband connections represent the growth markets of 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.

The Company has established an outstanding position for itself on the basis of its many years of experience as a telecommunications provider; its competence in software development and data centre operation, marketing, sales and customer care; its solid and well-known brands (such as 1&1, smartmobil.de and yourfone); and the existing customer contract relationship with more than 13.5 million subscribers in Germany.

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

While not neglecting organic growth, 1&1 Drillisch continuously examines as well possible corporate acquisitions, 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 4.

1.3 Steering systems

The internal steering systems support management in the steering and monitoring of the Group. 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 AG and its subsidiaries continuously and sustainably.

Group reporting encompasses monthly profit and loss 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" of the consolidated notes.

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

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

As part of the integration of 1&1 Drillisch into 1&1 Drillisch Group, the reporting of the two business segments was consolidated and simplified in fiscal year 2018. Since that time, the reporting to the Chief Operationg Decision Maker (CODM) has been based solely on 1&1 Drillisch Group. Moreover, the management team and processes were standardised in key business units. For instance, hardware purchasing and the supply of products to customers for all the Group's brands are handled by a central unit. Within the procurement of advance services of mobile products, synergies are realised from the better utilisation of network capacities, and the brand portfolio was revised and aligned with Group strategy in fiscal year 2018. Monitoring of goodwill by the CODM has been performed solely at the level of the reporting segment "Access" since fiscal year 2018. In consequence, the two cash-generating units that still existed in the previous year were merged into a single unit.

Point 2.2 "Course of business" in the section "Actual and projected course of business" and point 2.3 "Position of the Group" in the section "General statement on the development of business present a comparison between the steering indicators designated in the forecast with the as-is values of these performance indicators.

1.4. key aspects in product development

Launch of VDSL 250

In 2018, the broadband portfolio of the Consumer Access segment was expanded with the addition of a further speed category. Super vectoring technology allows speeds of up to 250 Mbit/s in Deutsche Telekom's VDSL network infrastructure or via the 1&1 Versatel network. Likewise, 1&1 Drillisch is now in a position to reach this speed in the Open Access model via its cooperation with regional city carriers M-Net, Wilhelm.tel, R-Kom and Com-IN. Further partners are to be integrated shortly.

These constantly new expansion areas are offered to new and existing customers as soon as they have been activated. In order to be able to offer the new speed category, the router portfolio was expanded and made 250 Mbit/s-compatible with the Fritzbox 7590 and 7530 from technology partner AVM.

1&1 Digital TV

Together with 1&1 Versatel and IPTV specialist Zattoo as the technical service provider, 1&1 continued to develop 1&1 Digital TV in the fiscal year 2018. Further investments were made in the stability and quality of the platform in order to optimize this product for the future.

1&1 Digital TV offers users the opportunity to receive television via the 1&1 broadband network. It can be used either via the 1&1 TV Box or via WiFi on a tablet or smartphone (Android/iOS). Native apps are also available for Fire TV and Apple TV. 1&1 Digital TV can be booked as a fee-based option for all VDSL connections. The basic package offers up to 3 TV streams that can be used simultaneously and contains around 90 free-to-air channels. Public broadcasters are already included in HD. On request, HD-TV can be booked for all private channels. A wide range of genre- and country-specific TV packages are also available.

1&1 Digital TV is the first completely cloud-based TV offering of a landline provider in the German market. Convenient features, such as recording, pause, instant restart and catch-up, are completely implemented in the cloud. This makes it possible to program recordings at home or on the go using a smartphone. The recordings are then stored in a personal cloud and can be accessed within the private home network. In addition to cloud-based services such as recording, pause and instant restart, 1&1 Digital TV can also be used on multiple devices.

BUSINESS REPORT

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 no more than 1.5% for Germany in 2018 in its World Economic Outlook (Update). This is 1.0 percentage points lower than in the previous year (2.5%) and even 0.8 percentage points below the original IMF expectations (2.3%). 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) (price- and calendar-adjusted) of 1.5% (previous year: 2.5%) as well. As in the past, private consumption (+1.0%) and government expenditures (+1.1%) contributed especially strongly to this growth. These increases were significantly lower than in past years, however (previous year: 1.8% and 1.6%, respectively).

Changes in growth forecasts during the year in 2018

	January forecast	April forecast	July forecast	October forecast	**Actual 2018**	Deviation from January forecast
World	3.9 %	3.9 %	3.9 %	3.7 %	3.7 %	- 0.2 percentage point
Germany	2.3 %	2.5 %	2.2 %	1.9 %	1.5 %	- 0.8 percentage point

Source: International Monetary Fund, World Economic Outlook (Update), January 2019

Multi-period overview: development of GDP

	2014	2015	2016	2017	**2018**	Change over previous year
World	3.4 %	3.2 %	3.2 %	3.7 %	3.7 %	+ 0.0 percentage points
Germany	1.6 %	1.5 %	1.9 %	2.5 %	1.5 %	-1.0 percentage points

Source: International Monetary Fund, World Economic Outlook (Update), January 2019

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

	2014	2015	2016	2017	**2018**	Change over previous year
BIP	1.9 %	1.5 %	1.9 %	2.5 %	1.5 %	- 1.0 percentage point

Source: Federal Statistical Office, January 2019

Development of the industry / core markets

During Bitkom's annual press conference on 10 January 2019, the industry association projected growth on the German ITC market of 2.0% to €166.0 billion in 2018. At the beginning of 2018, the association had projected growth of 1.7%. The market for information technology again displayed the strongest growth and highest market volume, posting revenues of €89.9 billion and growth of 3.1%. Especially high demand was recorded once again in 2018 by the providers of software (+6.3%), IT services (+2.3%) and IT hardware (+1.5%). For the first time since 2015, the telecommunications market grew and posted a plus of 1.6% to €66.6 billion. Devices (+5.9%), telecommunications infrastructure (+1.3%) and telecommunications services (+0.7%) all increased. The market for entertainment electronics suffered a substantial decline again after its rise in the previous year and lost 5.0%, falling to €9.5 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 1.1 million new lines (3.3%) to 34.3 million in 2018 meant that the number of new activations was significantly below the level of the record years. This was the conclusion reached by the Association of the Providers of Telecommunications and Added-value Services (VATM) and Dialog Consult in their joint 20. TK-Marktanalyse Deutschland 2018 (9 October 2018). Of the growth described above, the lines relevant for 1&1 Drillisch in the two technology sectors DSL and FTTB/FTTH rose by 0.5 million to 25.2 million and by 0.2 million to 1.0 million, respectively. The number of cable connections increased by 0.4 million to 8.1 million. Another 0.1 million connections are operated via satellite/Powerline in Germany (unchanged).

The revenues realised in the landline business remained constant in comparison with the previous year at €32.8 billion. The aforementioned revenue figures also include inter alia advance service, interconnection and device revenues in addition to the end customer revenues.

According to the most recent survey within the scope of the study "German Entertainment and Media Outlook 2017–2021" (October 2017), PricewaterhouseCoopers (PwC) expects a rise of 1.1% to about €8.15 billion in end customer-only revenues realised overall from landline-based broadband connections for 2018.

According to a projection from Dialog Consult/VATM, the average consumption of data volume developed much more strongly than the number of newly activated lines and the revenues realised from broadband connections, rising by 8.2% to 90.0 GB (per connection and month) – an indicator of the continuing rise in the use of IPTV or cloud applications. 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 4.9 percentage points from 28.3% in the previous year to 33.2% in 2018.

Market key data: broadband access (landline) in Germany

	2018	2017	Change
Broadband revenues (in €bn)	8.15	8.06	+ 1.1 %

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2017–2021, 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 only slightly by 0.6 million (0.5%) to 132.9 million in 2018.

The rise in mobile revenues was equally minor, an increase of 0.4% to €26.6 billion. Revenue from the sales of devices and content declined by 13.5% to €3.2 billion and revenues from voice services and connections fell by 3.1% to €9.3 billion. Revenues from data services (including text messages), in contrast, rose by 6.8% to €14.1 billion. This means that the share of revenues from data services increased by 3.2 percentage points to a total of 53.0% (previous year: 49.8%). 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 the use of mobile data services – the primary market of 1&1 Drillisch – increased by 5.8% to €8.22 billion in 2018, overtaking the level of end-customer revenues in landline business.

The forecasts by Dialog Consult/VATM showed that the average consumption of data volume (per connection and month) increased even more significantly by 83.8% to 1.6 GB, an indication of the increasing use of mobile data services.

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

	2018	2017	Change
Mobile internet revenues (in €bn)	8.22	7.77	+ 5.8 %

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2017–2021, October 2017

General legal conditions / Major events

The general legal conditions for 1&1 Drillisch's business operations remained essentially constant in fiscal year 2018 in comparison with fiscal year 2017, so there was no major impact on business development within 1&1 Drillisch Group.

Nor did any significant events with a decisive influence on the course of business occur in fiscal year 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 beginning on 1 January 2018 and later. 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 these annual financial statements. The changeover effects were recognised as non-operating results in equity per 1 January 2018.

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.

» Insofar as the one-off fees charged to the customer upon conclusion of the contract (e.g. provision or activation fees) do not represent a fundamental right (favourable option for contract renewal), they are not recognised as separate performance obligations, but are instead allocated to the identified performance obligations as part of the transaction price and realised appropriately to their service performance. If the customer is granted fundamental rights in the form of options for the use of additional goods or services, they represent an additional performance obligation to which a part of the transaction price is allocated in consideration of the expected utilisation. The corresponding revenue is then recognised when these future goods or services are transferred or when the option expires. If one-off fees qualify as favourable renewal options, revenue is realised to this extent over the expected term of the customer contract.

In addition to the transition effects from the first-time application in the accounting of IFRS 15, the revenue and profit figures are marked by the increased offering of smartphones, as announced, during new customer acquisition and retention measures for existing customers (no or only low one-time payment from customers at the time of the contract conclusion and return via higher rate prices during the term of the contract). Additional reports on the major effects are found in the comments on the course of business and the Group's position so that comparability of the revenue and profit figures in fiscal year 2018 determined in accordance with IFRS 15 with the revenue and profit indicators of the previous year pursuant to IAS 18 is assured.

2.2. Course of business

Use and definition of financial performance indicators relevant for business

Financial performance indicators such as gross profit, gross profit margin, 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:

» Gross profit: gross profit is calculated as the difference between sales and goods and material usage.

» Gross profit margin: the gross profit margin is the ratio of gross profit to revenue.

» 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 tangible 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.

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 in the telecommunications sector. The Company uses the landline network of the affiliate 1&1 Versatel GmbH (1&1 Versatel), a member company of United Internet AG Group, and the access right to the Telefónica network; in addition, it purchases standardised network services from various providers of advance services. Access to the mobile or landline networks is 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 the market comprehensively in orientation to specific target groups.

Drillisch 1&1 again invested heavily in new customer relationships in fiscal year 2018. One of the focal points was on the marketing of mobile internet contracts and the related hardware. Two changes appear in comparison with fiscal year 2017. 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 and of contract fulfilment are no longer recognised directly in expenses, but are instead capitalised and transferred proportionately to expenses over the average duration of the customers’ contracts.

The number of contracts subject to charge in the segment “Access” rose in the current product lines by 0.97 million to 13.54 million contracts in fiscal year 2018. In the mobile internet business, it was possible to acquire 0.90 million customer contracts, raising the number of contracts to 9.20 million. The number of broadband connections rose by seventy thousand contracts to 4.34 million.

Development of Access contracts in fiscal year 2018 (in millions) (1)

	31/12/2018	31/12/2017	Change
Access, total contracts	13.54	12.57	+ 0.97
thereof mobile internet	9.20	8.30	+ 0.90
thereof broadband connections	4.34	4.27	+ 0.07

(1) Following the removal of 0.07 million broadband connections from discontinued previous business per 31 December 2018; comparative figures of the previous year were adjusted accordingly so that the removal did not have any effect on the net change.

Development of Access contracts in Q4 2018 (in millions) (2)

	31/12/2018	30/09/2018	Change
Access, total contracts	13.54	13.26	+ 0.28
thereof mobile internet	9.20	8.93	+ 0.27
thereof broadband connections	4.34	4.33	+ 0.01

(2) Following the removal of 0.07 million broadband connections from discontinued previous business per 31 December 2018; comparative figures of Q3 2018 were adjusted accordingly so that the removal did not have any effect on the net change.

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.

The comparability of the revenue and profit figures of fiscal year 2018 with the figures of the previous year is restricted because 1&1 Drillisch as the acquired company was included in the consolidated annual financial statements of the previous year only proportionately from the point in time of the acquisition (September 2017). Furthermore, the comparability of the revenue and profit figures in fiscal year 2018 and later determined in accordance with IFRS 15 with the revenue and profit figures shown in the balance sheet in accordance with IAS 18 in fiscal year 2017 is limited. The major effects resulting from the change are reported in greater detail in the comments on the course of business and the Group's position.

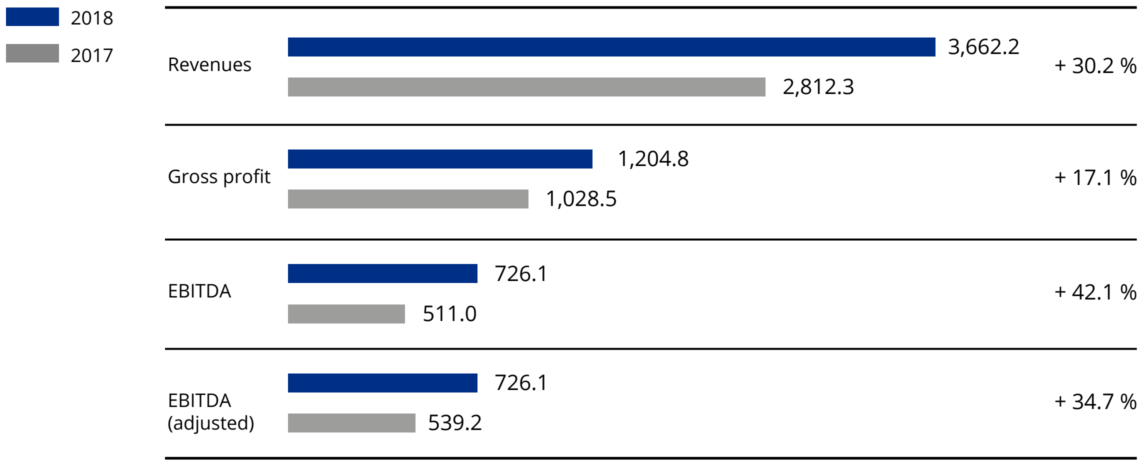
Revenue in the segment "Access" rose in fiscal year 2018 by 30.2% from €2,812.3 million in the previous year to €3,662.2 million.

The segment EBITDA rose by 42.1% from €511.0 million in the previous year to €726.1 million. The segment EBITDA, adjusted for one-off special effects, amounts to €726.1 million (previous year: €539.2 million). The adjustments of the previous year related essentially to one-off expenditures from the sale of yourfone Shop GmbH in the amount of €15.0 million and expenditures relating to the restructuring of the retail trade in the amount of €11.9 million.

The EBITDA margin rose from 18.1% in the previous year to 19.8% in fiscal year 2018. The adjusted EBITDA margin also came to 19.8% (previous year: 19.1%).

Major revenue and profit indicators in the segment "Access"

(in €m)



2.3. Position of the Group

The comparability of the revenue and profit figures of fiscal year 2018 with the figures of the previous year is restricted because Drillisch as the acquired company was included in the consolidated annual financial statements of the previous year only proportionately from the point in time of the acquisition (September 2017). Furthermore, the comparability of the revenue and profit figures in fiscal year 2018 and later determined in accordance with IFRS 15 with the revenue and profit figures shown in the balance sheet in accordance with IAS 18 in fiscal year 2017 is limited. The major effects resulting from the change are reported in greater detail in the comments on the course of business and the Group's position.

Earnings position in the Group

Growth in fiscal year 2018 was driven above all by the contract customer business in the segment "Access". The number of customer contracts subject to charge for current product lines in this segment increased by 0.97 million contracts to 13.54 million.

Consolidated revenues of 1&1 Drillisch Group rose by 30.2% from €2,812.3 million in the previous year to €3,662.5 million in fiscal year 2018.

Fiscal year 2018 saw for the first time (also a consequence of the initial application of IFRS 15) a breakdown of sales into Service sales and Other sales.

The Service sales (i.e. essentially the income related to the billing of current customer relationships) came to €2,882.3 million in fiscal year 2018 and the low-margin Other sales in fiscal year 2018 amounted to €780.2 million, the latter comprise revenues from the realisation of revenue brought forward as a consequence of the application of IFRS 15.

Cost of sales in fiscal year 2018 rose by €668.0 million (35.4%) to €2,555.7 million (previous year: €1,887.7 million). As a consequence of the rise in the low-margin hardware sales and the 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 32.9% in the previous year to 30.2%. Gross profit rose by €182.2 million from €924.6 million in the previous year to €1,106.8 million.

Distribution costs rose on balance from €393.7 million in the previous year to €399.0 million in fiscal year 2018. The slight increase results primarily from two contrary effects. The amortisation of intangible assets that were identified and attributed to the distribution sector as part of the purchase price allocation relating to the acquisition of Drillisch in 2017 rose by €62.2 million from €32.1 million in 2017 to €94.3 million in fiscal year 2018. In the previous year, expenditures from activation charges in the amount of €63.2 million were recognised in the distribution costs while in fiscal year 2018 these expenditures in the amount of €57.3 million are disclosed under cost of sales in the balance sheet in accordance with IFRS 15. In relation to revenue, distribution costs amounted to 10.9% in fiscal year 2018 (previous year: 14.0%).

In contrast to 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.

Administration costs increased from €74.4 million in the previous year (2.7% of revenue) to €104.9 million (2.9% of revenue). The increase resulted from a rise in legal and professional expenses and higher costs for third-party services.

Other operating income rose by €22.9 million (80.5%) from €28.5 million in fiscal year 2017 to €51.4 million in 2018. The change over the previous year results primarily from the circumstance that in the previous year Drillisch was included in the consolidated annual financial statements for a period of only four months.

Other operating expenses in fiscal year 2018 amounted to €1.8 million (previous year: €45.1 million). One of the reasons for the change over the previous year is that as of fiscal year 2018 expenditures from bad debt allowances for trade receivables must be disclosed separately under impairment losses from financial assets in the profit and loss statement. Another is that in the previous year one-off expenditures in the amount of €15.0 million resulted from the sale of yourfone Shop GmbH.

The impairment losses from financial assets of €85.2 million (previous year: €0.0) comprise the expenditures from the bad debt allowances for trade receivables that as of fiscal year 2018 must be disclosed separately in accordance with IFRS 9. In the previous year, this item amounted to €25.0 million and was recognised under Other operating expenses. An adjustment in the values of the previous year with respect to the recognition in the profit and loss statement was not required.

EBITDA from continued operation amounted to €721.9 million (previous year: €504.0 million). This includes on balance €268.1 million from the first-time application of the IFRS 15 regulations, which virtually offsets completely the increased investments in hardware, as well as one-off effects from expenditures in the amount of €25.1 million incurred as part of integration projects.

The EBITDA margin improved from 17.9% in the previous year to 19.7% in fiscal year 2018. The adjusted EBITDA margin came to 19.7% (previous year: 18.9%).

Depreciation and amortisation rose by €90.6 million from €64.1 million in fiscal year 2017 to €154.7 million in 2018. The rise in depreciation and amortisation was caused essentially by the intangible assets identified during the purchase price allocation after the acquisition of Drillisch in fiscal year 2017; these assets will be amortised over the terms of their usual useful life of between 2 and 13 years. The resulting amortisation in 2018 totals €124.4 million (previous year: €38.8 million). The explanation for the change over the previous year is that recognition of this amortisation in fiscal year 2017 was pro rata temporis since the initial inclusion of Drillisch in the statements at the beginning of September 2017.

The EBIT from continued operation (earnings before interest and taxes from continued operation) amounted to €567.2 million (previous year: €439.9 million). The EBIT margin came to 15.5% (previous year: 15.6%).

The interest result amounted to €-4.7 million (previous year: €-8.6 million).

Taxes on income rose by €35.6 million to €156.5 million (previous year: €121.0 million). This increase of €35.6 million (29.4%) results essentially from the significant increase in profit before taxes by €131.3 million (30.4%) to €562.6 million (previous year: €431.3 million).

Consolidated profit from continued operation rose from €310.4 million in the previous year to €406.0 million in fiscal year 2018. In the previous year, consolidated profit of €170.9 million from discontinued operation resulted from the sale of the Versatel Group. The Other income in the amount of €0.7 million (previous year €0.0) includes the income from categories that are not subsequently reclassified in the profit and loss account and results from the first-time application of the IFRS 9 regulations in the context of the measurement of financial assets. In this case, changes in the fair market value of these financial assets are recognised as non-operating items in other equity. Total consolidated results result amounted to €405.3 million (previous year: €481.3 million).

Profit per share in fiscal year 2018 came to €2.30 (previous year from continued operation: €2.28). The calculation of the profit per share for the comparable figure of the previous year was based on 176,540,249 shares (previous year: 135,834,752 shares). The calculation of the profit per share took into account the weighted average of the number of shares outstanding in each year. Excluding the effects of the PPA write-offs, the profit per share in fiscal year 2018 amounted to €2.75 (previous year from continued operation: €2.57). The comparison values of the previous year contained pro rata temporis PPA write-offs for only four month.

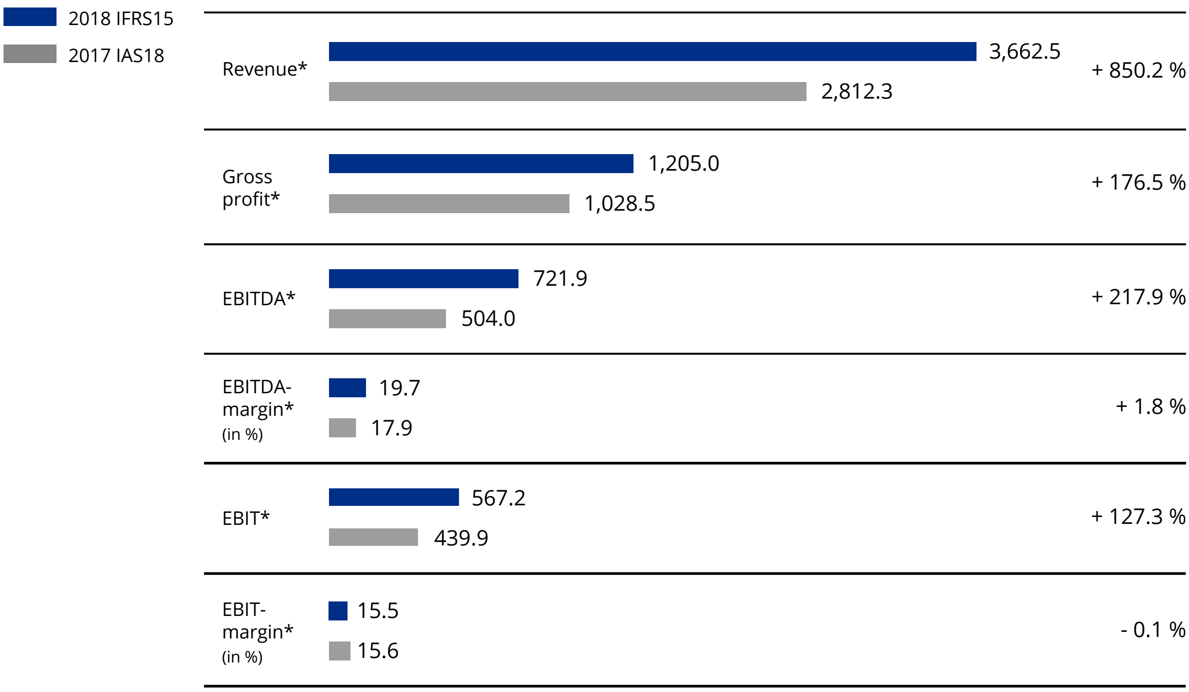
General statement on business development

Just as in the past, 1&1 Drillisch continued to develop dynamically in fiscal year 2018, posting growth of about 1.0 million customer contracts to a total of 13.54 million, revenue growth of 30.2% to €3.7 billion and an EBITDA increase of 43.2% to €721.9 million, and was able to surpass the positive developments of the economy and industry. At the same time, the milestones reached in fiscal year 2018 with regard to customer contracts, revenue and profit indicators meant that the original forecast for growth in customer contracts of 1.2 million as amended to 1.0 million during the year in August 2018 was also achieved. Gross profit underwent a correspondingly positive development in fiscal year 2018. Because the price adjustment negotiations with an advance service provider had not been concluded at the time of the preparation of this report, the positive profit contributions expected from the results of these negotiations cannot be posted until fiscal year 2019, leading to a slight deviation from the forecast EBITDA target (€750 million) for 2018.

The financial position of 1&1 Drillisch AG remained positive in fiscal year 2018 as well. Despite substantial increase in investments in customer growth, free cash flow amounted to €132.6 million (previous year: €278.6 million). Above all, high hardware investments in fiscal year 2018 for customer growth and current customer retention led to additional outflows of cash that will, however, in subsequent periods result in higher revenues from customer contracts.

Overall, the Management Board regards 1&1 Drillisch to be in an excellent position for its continued corporate development per the closing date of fiscal year 2018 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.

Major revenue and profit indicators (in €m)



*In previous year from continued operation

Financial position in the Group

The cash flow from operating activities rose by €177.9 million to €548.0 million in fiscal year 2018 (previous year: €370.1 million).

Net inflow of funds from operating activity from continued operation in fiscal year 2018 amounted to €155.6 million (previous year: €294.1 million). The decrease in the amount of €138.5 million reflects above all the high hardware investments made in fiscal year 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 previous year, investments in rate plans with hardware (for instance) are no longer recognised directly as expenses in the profit and loss account. They nevertheless result in outflows of funds that are offset by increased inflows of funds from end customers in the subsequent periods. Besides these negative influencing factors, increased 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 outflow of funds of €21.5 million during the reporting period (previous year: inflow of funds of €9.3 million). Outgoing payments of €15.5 million and incoming payments of €2.5 million resulted from investments in tangible and intangible assets (previous year: outgoing payments of €15.6 million and incoming payments of €0.0 million). Moreover, a retroactive outflow of funds in the amount of €8.3 million (previous year: €0.0) occurred with respect to yourfone Shop GmbH, which was deconsolidated per 31 December 2017. Inflow of funds in the amount of €33.1 million resulted from the initial consolidation of Drillisch in September 2017, reflecting the level of cash at Drillisch at the time of the initial consolidation.

Free cash flow from continued operation, defined as net incoming payments from operating activities from continued operation less investments in intangible and tangible assets plus incoming payments from disposals of intangible and tangible assets, amounted to €142.6 million in fiscal year 2018 (previous year: €278.6 million). The change over the previous year results essentially from the previously explained outflows of funds relating to the investments in customer contracts that will be reversed or amortised in subsequent periods.

The decisive elements for the cash flow from the financing sector from continued operation in fiscal year 2018 were primarily the disbursement of dividends in May in the amount of €282.8 million (previous year: €0.0), outgoing and incoming payments relating to the short-term investment of free cash in the amount of €100 million each (previous year: €0.0) and incoming and outgoing payments from the utilisation and repayment of loans from and to United Internet AG in the amount of €+200.0 million and €-168.0 million, respectively.

Cash and cash equivalents per 31 December 2018 amounted to €4.0 million in comparison with €149.7 million per 31 December 2017.

Assets and liabilities in the Group

The balance sheet total increased from €4,735.7 million per 31 December 2017 to €5,246.6 million per 31 December 2018. The first-time application of the IFRS 15 regulations in fiscal year 2018 results in long- and short-term assets in the amount of €879.4 million (31 December 2017: €0.00) and long- and short-term liabilities in the amount of €274.5 million (31 December 2017: €0.0) from items from previous periods that were to be recognised as non-operating results per 1 January 2018 and the adjustments of the current period effective on earnings.

Short-term assets rose from €656.6 million per 31 December 2017 to €1,064.6 million per 31 December 2018. The cash holdings disclosed in the short-term assets declined from €149.7 million to €4.0 million. The change results primarily from the dividend disbursement of May 2018 and the increased investments in smartphones in fiscal year 2018, which will be amortised over the customers' contract terms.

Trade accounts receivable increased because of the closing date from €182.6 million per 31 December 2017 to €230.2 million per 31 December 2018. The increase results primarily from the substantial increase in receivables from end customers that were not yet due on the balance sheet closing date. Accounts due from associated companies declined from €168.3 million per 31 December 2017 to €41.9 million per 31 December 2018. Per 31 December 2017, accounts due from associated companies related essentially to accounts due from the sale of Versatel Group in the amount of €158 million, which were basically offset in Q1 2018 against liabilities from a call option for the remaining 15% of the shares in 1&1 Telecom Holding GmbH.

Prepaid expenses increased from €15.1 million to €42.6 million and concern essentially prepaid utilisation fees that will not be recognised as effective expenditures until later periods. The item contract assets in the amount of €414.9 million (31 December 2017: €0.0) includes short-term receivables due from customers related to early revenue realisation because of the application of IFRS 15; the revenue had been recognised as non-operating results from previous periods for all customers at the beginning of the year and has been carried forward effective on earnings since then. The items costs for contract acquisition and costs for 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 €45.5 million per 31 December 2018. In 2017, these assets included mainly reimbursement claims against Deutsche Telekom for broadband connection fees paid in advance in previous years. The other non-financial assets increased from €14.4 million to €38.8 million and concern primarily income and value-added tax claims.

Long-term assets rose from €4,079.2 million per 31 December 2017 to €4,182.1 million per 31 December 2018. The increase of €102.9 million results basically here as well from the first-time application of the IFRS 15 regulations in fiscal year 2018. Intangible assets declined as planned from €901.4 million per 31 December 2017 to €746.8 million per 31 December 2018 and include primarily the assets determined as part of the Drillisch purchase price allocation less the related write-offs.

The long-term prepaid expenses increased from €79.4 million per 31 December 2017 to €182.3 million and comprise basically advance payments made pursuant to long-term purchase contracts. The items contract assets and costs of contract acquisition and fulfilment include, analogously to the short-term assets, the long-term receivables from customers resulting from the application of IFRS 15. The change in deferred tax assets from €144.6 million per 31 December 2017 to €0.0 million per 31 December 2018 results essentially from the balancing of deferred tax assets against deferred tax liabilities.

Short-term liabilities decreased from €675.2 million per 31 December 2017 to €646.9 million per 31 December 2018. Short-term trade accounts payable increased because of the closing date by €135.6 million to €365.2 million (31 December 2017: €229.5 million). Accounts due to associated companies declined from €221.9 million per 31 December 2017 to €129.3 million and are related, for one, to liabilities due to United Internet AG as part of the utilisation of cash and, for another, to liabilities due to other group undertakings of United Internet Group pursuant to the procurement of advance services. In the previous year, this item 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 2018 pursuant to the first application of IFRS 15 and that have since then been carried forward effective on earnings. Income tax liabilities fell from €47.0 million per 31 December 2017 to €38.0 million per 31 December 2018.

Long-term liabilities rose from €255.4 million per 31 December 2017 to €319.6 million per 31 December 2018. The fundamental cause for this is the increase in Other provisions of €63,6 million from €3.5 million per 31 December 2017 to €67.1 million per 31 December 2018. The increase results from the first-time recognition of provisions for termination charges related to IFRS 15 accounting. The contract liabilities in the amount of €4.5 million (previous year: €0.0) include income from one-time fees that is to be deferred in accordance with the application of IFRS 15.

The equity in the Group rose from €3,805.1 million per 31 December 2017 to €4,280.1 million per 31 December 2018. As a consequence of the stock repurchase programme, share capital declined by €0.4 million from €194.4 million per 31 December 2017 to €194.0 million. The share capital 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. As of the balance sheet closing date 31 December 2018, a total of 400,704 1&1 Drillisch AG shares had been acquired as part of the stock repurchase programme. Per 31 December 2018, the number of shares outstanding declined by 176,363,945 shares. Cumulative consolidated profit rose on balance by €489.7 million from €1,163.6 million per 31 December 2017 to €1,653.3 million per 31 December 2018. The change in the amount of €366.5 million results from adjustments recognised as non-operating amounts relating to the first-time application of IFRS 15 and IFRS 9 per 1 January 2018. Moreover, the balancing of the consolidated profit per 31 December 2018 of €406.0 million and the dividend disbursement of €282.8 million in May 2018 leads to a rise in the cumulative consolidated profit of €123.2 million. The equity ratio rose accordingly from 80.4% per 31 December 2017 to 81.6% per 31 December 2018.

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

The development of general economic conditions in Germany was slightly lower than expected as late as summer 2018. The development of the German ITC market in fiscal year 2018 was better than that of the German economy as a whole, posting growth of 2.0% and even exceeding slightly the 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 2018, recording growth of 0.97 million customer contracts to 13.54 million, revenue growth of 30.2% to €3.662 billion and an increase in the adjusted EBITDA from 532.2 million by 35,6% to €721.9 million.

The Company invested a significant portion of this cash flow in the acquisition and expansion of customer relationships and new products once again in fiscal year 2018, thus further strengthening 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 2018 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 managed equity is the equity as disclosed in the balance sheet. 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.

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.

We refer to the Non-Financial Declaration 2018 (Sustainability Report) of 1&1 Drillisch AG, published on 10 April 2019 under https://www.1und1-drillisch.de/corporate-governance → Sustainability Report, regarding these and other sustainability topics:

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 2018 and was able to increase further the number of customer contracts subject to charge by a total of 0.97 million to 13.54 million.

Service quality: High investments were also made at the level of service quality with the introduction of the so-called 1&1 Principle in 2012 and with the ongoing optimisations in the following years.

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 plus (for broadband and mobile products) delivery of the hardware within one workday or an on-site replacement of defective devices on the next workday.

The excellent ratings in the service surveys in 2018 are proof that the investments in service quality make an impact.

As in previous years, the newspaper DIE WELT, in cooperation with ServiceValue, systematically examined the service quality of German companies from the customer perspective. ServiceValue is an analysis and consulting company from Cologne that specialises in relationship management between companies and stakeholders. The service ranking from the customer perspective is based on a scientifically sound "Service Experience Score" (SES). This percentage value is calculated analogously to the generally familiar election poll "The Sunday Question" and functions as a clear, understandable and efficient measuring instrument. As part of the "SERVICE CHAMPIONS 2018" (publication in October 2018), the companies offering the best service experience were determined from among a total of 3,016 enterprises in 327 different industries on the basis of customer reviews.

The 1&1 brand was able to capture the award for "No. 1 in Experienced Customer Service" in both the industry "Telecommunications" and in the industry "Internet Provider" (DSL).

Network quality: At the network quality level, the 1&1 brand scored 441 out of a maximum of 500 possible points nationwide and – after taking first place in the previous year – took second place this time in the highly respected broadband and landline test of the journal connect (published in August 2018). 1&1 was one of only two nationwide providers – along with Deutsche Telekom (447 points) – to score the overall rating "Excellent" and placed ahead of competitors such as Unitymedia, O2/Telefónica and Vodafone, which all received a rating of "Good".

connect conducts this test annually and in 2018 tested the categories "Voice", "Data", "Web Services" and "Web TV" on test connections of well-known providers. For the second consecutive year, the landline test was conducted in three bandwidth classes. 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 20 to 100 Mbit/s and Class 3 connections with 100 Mbit/s and higher.

1&1 utilises the optic fibre network of 1&1 Versatel GmbH, an affiliate member of United Internet Group, for the realisation of broadband connections. 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 more than ten years and has been steadily developed further.

"Excellent" voice performance in landline networks was once again a convincing factor in the test for the latter. 1&1 also posted ratings of "Excellent" in the categories Data and Web Services.

The landline test was conducted by zafaco GmbH on behalf of the magazine connect. According to connect, about 4.4 million measurements were taken at 96 test connections of all of the involved providers at 48 sites across Germany over a period of about four weeks. During the tests, voice quality, data and error rates, response times, video quality and other criteria were analysed.

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.

SUPPLEMENTARY REPORT

3. Supplementary report

On 24 January 2019, the 1&1 Drillisch AG Management Board, with the consent of the Supervisory Board, decided to submit an application to the Federal Network Agency in accordance with the decision BK1-17/001 for participation in the auction for the awarding of mobile network frequencies ("5G Frequency Auction") in the ranges 2 GHz and 3.6 GHz and, in the event of the successful acquisition of frequencies, to establish and operate a 5G mobile network. The applicant is the wholly-owned group subsidiary of 1&1 Drillisch AG, Drillisch Netz AG, Krefeld. The Company is confident that, by taking this step, it can lay the foundation for the successful and long-term positioning of 1&1 Drillisch Group as the fourth mobile network operator in Germany and make a substantial contribution to turning Germany into a leading market for 5G in Europe.

Moreover, 1&1 Drillisch concluded an agreement with a European bank syndicate on 24 January 2019 for its own credit lines (in addition to the in-company credit lines with United Internet AG) in the amount of €2.8 billion. These credit lines are available to 1&1 Drillisch in addition to its current liquidity and the sustained cash flows from operational business activities.

Last, but not least, 1&1 Drillisch also announced on 24 January 2019 that the Company's Management Board and Supervisory Board will (in the event of the acquisition of frequencies) review the 1&1 Drillisch dividend policy to determine whether it should be modified in such a way that a reduction in the disbursement quota will ensure that the Company has at its disposal additional investment funds for the establishment of a powerful mobile network. 1&1 Drillisch's current dividend policy provides that about 80% of the operating consolidated profit is to be disbursed as dividends unless the funds are required for further corporate development.

1&1 Drillisch assumes there will be a decision with retroactive effect by the assessing arbitrator regarding the price adjustment with a wholesale supplier. This is now expected in summer 2019. Depending on the point in time at which this decision by the assessing arbitrator is made, the positive business results expected by 1&1 Drillisch will not be booked until fiscal year 2019.

The 1&1 Drillisch AG Management Board decided on 5 March 2019 to terminate prematurely the stock repurchase programme.

RISK REPORT

4. Risks, opportunities and forecast report

1&1 Drillisch Group pursues policies of risk and opportunity that are oriented to 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.

4.1 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 countermeasures 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 AG itself as well as for the subsidiaries.

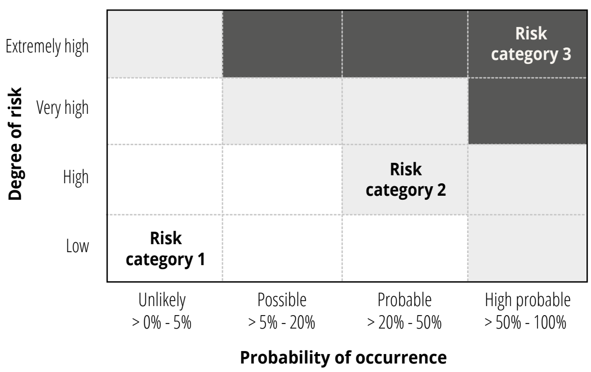
If the Company is to be consistently successful in the conflict between opportunities for profit and the threat of loss, risks must be taken into consideration during the decision-making process systematically and in accordance with standards which are uniform throughout the Group. Risk management includes the definition of risk fields, the recording and 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 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 addressed in 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, High, Very high and Extremely high; the assessment of the probability of occurrence is classified according to Very low, Low, High and Very high.

Risk Assessment Matrix



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.

Description of the major features of the internal controlling and risk management system with respect to the accounting process (Section 315 (4) HGB)

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 promptly to any and all changes in the environment. The bookkeeping systems from the manufacturers Sage and SAP are 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 entail latent risks. 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.

Risks

Strategy

Business development and innovation

A major factor for continuing the success of 1&1 Drillisch is the development of new and continuously improved products and services so that new customers are acquired and current customer relationships are 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 as expected.

1&1 Drillisch counters these risks by closely and constantly monitoring market, products and competition and by responding to customer feedback at all stages of product development.

Within the context of the diversification of the business model and the expansion of the added-value chain, 1&1 Drillisch occasionally enters new markets or upstream or downstream markets. On 24 January 2019, the 1&1 Drillisch AG Management Board, with the consent of the Supervisory Board, decided to submit an application to the Federal Network Agency in accordance with the decision BK1-17/001 for participation in the auction for the awarding of mobile network frequencies in the ranges 2 GHz and 3.6 GHz and, in the event of the successful acquisition of frequencies, to establish and operate a 5G mobile network. At this time, the mobile services provided by 1&1 Drillisch are based on the use of third-party networks. The costs resulting from this use could be reduced and internalised step by step if the Company established its own network. The authorisation to participate in the auction was issued by the Federal Network Agency on 25 February 2019.

A business decision of this type involves risks as well as offers opportunities. For example, we can mention here the risk areas “technical system operation”, “procurement market” or “litigation”. 1&1 Drillisch strives to minimise these risks through detailed, long-term planning, the cooperation with specialised partner companies and other methods.

Cooperation and outsourcing

In some of the business units, 1&1 Drillisch cooperates with specialist cooperation and outsourcing partners. The primary objectives of such cooperative activities include (among others) the concentration on the Company’s actual core business, cost reductions or participation in the partner’s expertise. These opportunities simultaneously entail risks in the form of dependencies on external service providers as well as contract and the risk of loss of providers.

To reduce these risks, a detailed market analysis and a due diligence review are carried out before a contract is concluded with an external service provider, and even after the conclusion of the contract, close interaction in the spirit of partnership is maintained with the cooperation and outsourcing partners.

Organisational structure and decision-making

The selection of a suitable organisation structure is essential for the efficiency and success of the Company. Besides the organisational structure, however, business success is also decisively dependent on making the right decisions. The basis for decisions is affected by existing business processes and structures. If efficiency is jeopardised by one or more factors, this represents a strategic risk for 1&1 Drillisch that, insofar as economically justifiable, should be avoided.

1&1 Drillisch sees itself in a solid position here because of the high agility in the organisation.

Personnel development and retention

Highly qualified and well trained employees are the foundation for the commercial success of 1&1 Drillisch. In addition to the successful recruiting of qualified personnel (see also risk “Personnel recruitment”), personnel development and the long-term retention of key employees in the company are of strategic importance for 1&1 Drillisch. If the Company does not succeed in recruiting, developing further and retaining executives and employees with special professional or technological expertise, there is a danger that 1&1 Drillisch might no longer be in a position to carry out its business activities effectively and to achieve its growth targets. Where strategic knowledge and skills have been brought together in such a concentration (so-called brain monopoly), the loss of one of these key employees can have a significant impact on the Company’s ability to perform.

1&1 Drillisch counters this risk by ensuring the continuous further development of employee and managerial competencies. Specific measures for professional advanced development, mentoring and coaching programmes and special programmes for high-potential candidates that are designed to foster and promote the talents and managerial competence of the staff are offered.

Market

Sales market and competition

The German telecommunications market is characterised by stiff and constant competition. Depending on the strategy of the players participating in the market, various effects can appear that may require inter alia a modification of the Company’s own business model or adjustments in its own price policies. Market entries of new competitors can also pose a risk to market shares, growth targets or profit margins.

1&1 Drillisch seeks to minimise these risks with detailed planning based on in-company experience values and external market studies as well as the constant monitoring of market and competition.

Procurement market

A gap in the procurement or supply of resources required for company operations can also lead to bottlenecks or operational interruptions at 1&1 Drillisch. This is true of both the purchase of hardware and the procurement of advance services. A price increase in the purchased products and services also represents a risk for the product margin targets. Planned positive effects from contractually fixed price adjustment negotiations can become risks for the achievement of the Company's targets within the intended periods if there are delays.

1&1 Drillisch counters these risks by cooperating with multiple service providers and suppliers bound by long-term contracts and – insofar as economically justifiable – expanding its own added-value chain.

Personnel recruitment

The effective management of personnel resources is of key importance for 1&1 Drillisch so that the short-, middle- and long-term demands for employees and the required professional expertise can be secured. If the Company does not succeed in recruiting executives and employees with special professional and technological expertise, 1&1 Drillisch might no longer be in a position to carry out its business activities effectively and to achieve its growth targets.

As it is an attractive employer, 1&1 Drillisch sees itself in a good position to attract and hire professionals and managers with outstanding qualifications and the potential to enhance business success in the future as well.

Service performance

Work procedures and processes

Demands on the continued development of internal work procedures and processes are rising at an accelerating pace in this setting of steadily increasing complexity and interoperability of the offered products. This goes hand in hand with steadily growing alignment and coordination efforts. The special challenge in this sense – besides assuring quality standards – is above all the adaptation to market events that are occurring in ever shorter cycles.

The Company counters these risks with constant further development and improvement of internal procedures and processes, the specific bundling and binding of experts and personnel with key competencies and the continuous optimisation of the organisational structures.

Information security

1&1 Drillisch essentially realises its corporate success in the internet sector. Within the scope of the business processes, information and telecommunications technologies (data centres, transmission systems, switching nodes etc.) are used for service performance; they are tightly meshed with the internet and their availability can be jeopardised by threats from the internet. For instance, DDoS attacks (DDoS = Distributed Denial of Service) can result in an overload on technical services or in server failures.

The current monitoring and alert system, including the necessary processes and documentation, is continuously optimised so that such risks can be warded off more and more quickly.

There is also the risk of a hacker attack with the objective of illegally obtaining or deleting customer data or of misusing services.

1&1 Drillisch counters this risk by using virus scanners, firewall concepts, tests it has initiated itself and various technical control mechanisms.

The potential for threats from the internet represent for 1&1 Drillisch one of the largest risk groups in terms of possible impact; overall, they are monitored by a large and varied number of technical and organisational measures. Particularly noteworthy in this context are the operation and the continuous improvement of the security management system and the constant expansion of the systems' resilience.

Capacity bottlenecks

The planned service performance can be jeopardised because of temporary or long-lasting shortages of resources, and this can in turn lead to losses of revenues.

There is close interaction with suppliers regarding the emergency concepts agreed with them to counter this risk.

Technical system operation

The 1&1 Drillisch products and the business processes required for them are based on a complex technical infrastructure and a broad range of software systems critical for success (servers, customer management databases, statistics systems etc.). The constant adaptation to changing customer needs leads to ever growing complexity of this technical infrastructure and the need for regular modification. In consequence of these actions as well as because of more extensive transitions such as migrations of data records, there are many different possibilities of disruptions or service failures. If, for instance, service systems were affected, 1&1 Drillisch would no longer be able to provide the warranted services to its customers, either long-term or temporarily.

The Company counters these risks by means of specific architectural adaptations, quality assurance measures and a spatially separate (geo-redundant) design of the core functions.

There is a risk to the operation of the systems from directed attacks from inside and outside the Company, e.g. from hackers or from manipulations by employees with authorised access, that could result in failures or worsening of the services.

To counter this risk, various security precautions based on software and hardware have been implemented to protect infrastructure and availability. The distribution of tasks ensures that actions or business transactions involving risks are not performed by one employee alone, but are carried out in accordance with the "two sets of eyes principle". Manual and technical access restrictions also ensure that employees are active solely in their purviews. An additional security measure to prevent data loss is the regular backup of existing data records and storage in geo-redundant data centres.

Compliance

Data protection

The possibility that data protection regulations will be violated because of human error, technical weak points or other factors can never be completely precluded. In such a case, 1&1 Drillisch would be at risk of having to pay fines and of losing the trust of its customers.

1&1 Drillisch stores its customers' data on servers in data centres certified in accordance with international security standards and operated by the Company itself as well as in in leased facilities. The handling of these data is subject to extensive statutory requirements, and compliance with these requirements is regularly reviewed.

The Company is aware of its immense responsibility and places a high value on data protection, paying especially close attention to ensuring customers' privacy. 1&1 Drillisch 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.

The new provisions of the EU General Data Protection Regulation (GDPR) have been in force since May 2018. Because of the stricter sanctions for breach of obligations that have been implemented, the impact of data protection risks has risen. In addition to implementing tougher sanctions, the EU GDPR contains new regulations regarding declarations of consent and new reporting obligations to government authorities and data subjects in the event of loss of data.

Legislation and regulation

Changes in current legislation, the passage of new laws and changes in government regulatory actions can have unexpectedly negative effects on the business models in place at 1&1 Drillisch and on further developments. Decisions of the Federal Network Agency and the Bundeskartellamt [Federal Cartel Office] influence network access and the design of the internet access rate plans, above all in the segment "Access". Price increases by the 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. Moreover, 1&1 Drillisch has access to the landline network via Versatel GmbH, an affiliated company in United Internet Group. This access to the network infrastructure gives 1&1 Drillisch the opportunity to extend the depth of its value generation and to reduce the procurement of broadband advance services from third parties. Moreover, 1&1 Drillisch has a long-term entitlement to a share of the used network capacity of Telefónica Germany that can be raised to a maximum of 30%, the only MBA MVNO in Germany to have such an entitlement, giving the Company extensive access to the largest mobile network in Germany and to all available mobile technologies such as 5G.

Legal disputes

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 insofar as this is permissible.

Tax risks

1&1 Drillisch is subject to legal tax provisions that are in effect. Risks can arise from changes in tax laws or court precedents and from varying interpretations of existing provisions.

1&1 Drillisch counters these risks by continuously expanding the scope of its tax management.

Finances

Financing

Financial liabilities that are primarily incurred by 1&1 Drillisch AG as part of the financing of its business activities include loans, overdraft facilities and other financial liabilities. 1&1 Drillisch at its disposal various financial assets that result immediately from its business activities. They basically include holdings as well as accounts due from group undertakings.

1&1 Drillisch and its activities are by their nature vulnerable to risks on the financial market. This is especially true of risks from changes in interest rates.

Interest rates

The Company is vulnerable to interest rate risks because funds are generally obtained from and invested with United Internet AG at variable interest rates (1M EURIBOR + margin) and for terms of varying lengths. The Company constantly reviews the various investment and acquisition opportunities for cash and the terms and conditions of the financial obligations on the basis of its liquidity planning. Any need to obtain financing is covered by suitable instruments for liquidity management.

The goal of the financial risk management is to limit risks through ongoing operating and finance-oriented activities.

Fraud and bad debt losses

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. As a consequence of the high appeal of the products and services being offered, the number of defaulters and fraudsters increases along with the number of customers. The consequence is growth in bad debt losses. For instance, 1&1 Drillisch could suffer losses from hardware orders that are placed using a false identity and are never paid. Losses can also be incurred from the misuse of SIM cards, e.g. through massive call diversions or roaming calls.

1&1 Drillisch seeks to prevent fraud attacks or, as a minimum, to recognise such attempts at an early stage and to stop them by permanently expanding the scope of its fraud management, through close cooperation with advance services providers and through the appropriate design of its products and services.

Liquidity

1&1 Drillisch's liquidity risk arises essentially from the possibility that the Company will be unable to meet its financial obligations (e.g. the repayment of financial debt). The Company's goal is to cover financial needs at all times and to secure its flexibility by the use of overdraft facilities and loans and other means.

Demand and surplus of cash and cash equivalents are determined centrally for the entire Group in cash management. The number of external bank transactions is held to a minimum by netting of demand and surplus within the Group. This netting is accomplished by cash pooling procedures. The Company 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.

General statement from the Management Board regarding the Group's risk situation

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.

By continually expanding the scope of its risk management, 1&1 Drillisch counters these risks and limits them, in so far as justifiable, to a minimum by implementing specific actions.

Although the assessment of the most important risk fields or specific risks changed during fiscal year 2018 because of the development of external conditions or as a consequence of the Company's own countermeasures, the overall risk situation for 1&1 Drillisch remains virtually unchanged in comparison to the previous year and when viewed in the setting of corporate development. In assessing the overall risk situation, the opportunities available to 1&1 Drillisch are not taken into account. Risks threatening the existence of 1&1 Drillisch Group from either specific risk positions or the overall risk situation were not discernible during fiscal year 2018 and at the point in time of preparation of this management report.

The probability of their occurrence, potential losses and the classification of the risks from the Group perspective and their relevance:

	Probability of occurrence	Risk exposure	Risk classification	Development in comparison with previous year
Risks in the area of "Strategy"				
Business development and innovation	Low	Low	Low	→
Cooperation and outsourcing	High	Very low	Low	→
Organisational structure and decision-making	High	Very low	Low	↘
Personnel development and retention	High	Low	Moderate	→
Risks in the area of "Market"				
Sales market and competition	Low	High	Moderate	→
Procurement market	Very low	High	Moderate	→
Personnel recruitment market	High	Very low	Low	→
Risks in the area of "Service performance"				
Work procedures and processes	Low	Low	Moderate	→
Information security	Low	Extremely high	Significant	→
Capacity bottlenecks	Low	Very low	Low	→
Technical system operation	Low	High	Moderate	→
Risks in the area "Compliance"				
Data protection	Low	Extremely high	Moderate	→
Legislation and regulation	High	High	Moderate	→
Legal disputes	High	Extremely high	Moderate	↗
Tax risks	High	High	Moderate	→
Risks in the area "Finances"				
Financing	Low	Extremely high	Low	→
Fraud and bad debt losses	High	High	Significantly	→
Liquidity	Low	Very low	Low	→

↘ Improved → Unchanged ↗ Worsened

OPPORTUNITIES REPORT

4.2. 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 and on the different markets during the product lifecycle.

The Group Management Board and the operating management level (management boards and managing directors of subsidiaries) 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 operations managers during the planning meetings, then embodied in concrete actions, targets and milestones.

Progress and success of the actions are continuously monitored by the operations managers 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.

Broad strategic positioning on growth markets

In view of the broad positioning on today's growth markets, the Company's growth opportunities from a strictly strategic perspective are obvious: increasingly powerful landline and mobile access products that are available everywhere and at all times make possible new and more complex applications. 1&1 Drillisch believes that these internet-based applications for private users, freelancers and small companies will, from today's perspective, be the growth drivers in the coming years in the segment "Access".

Participation in market growth

Despite the uncertain general economic conditions, 1&1 Drillisch as well as many of the leading industry analysts expect a positive development on the German telecommunications market that is of major importance for the Company. 1&1 Drillisch is one of the leading players on this market. Thanks to its highly competitive Access products, the strong and specialised brands, the high selling power and the current business relationships with millions of customers (potential for cross- and upselling), 1&1 Drillisch is in a good position to secure its share of the expected market growth in the business division “Access”.

Expansion of market positions

1&1 Drillisch is today one of the leading companies in the field of internet-based access services in Germany. 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.

Entry into new business fields

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.

Access to the second-largest optic fibre network 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. With more than 47,000 km this is one of the largest optic fibre networks in Germany. 1&1 Versatel’s own network infrastructure that 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 broadband advance services within the Group. This opportunity becomes clearly evident when we consider the sharply rising data consumption among private users (according to an estimate by Dialog Consult/VATM: +8.2% to approximately 90.0 GB used data volume per broadband connection and month in 2018) and, simultaneously, Germany’s extremely high lag in the provision of direct optic fibre connections. According to the most recent analysis by the OECD (Organisation for Economic Cooperation and Development) from December 2017, only 2.3% (previous year: 1.8%) of all broadband connections in Germany were optic fibre connections. Germany is in 33rd place (previous year: 30th place), far to the rear among the 36 OECD member states that were examined and even well behind the OECD average of 23.3% (previous year: 21.2%).

Access to Telefónica mobile network

1&1 Drillisch, the only MBA MVNO in Germany in this position, is entitled long-term to as much as 30% of the utilised network capacity of Telefónica Germany, assuring the Company of extensive access to the largest mobile services network in Germany. 1&1 Drillisch therefore has contractually assured, unlimited access to all products and technologies available at this time (e.g. LTE) and in the future (e.g. 5G) in the Telefónica network and, on this basis, can continue to expand its market position and business volume in the coming years. Unrestricted access to LTE as well as to even more sophisticated future technologies guarantees to 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 German mobile network operators.

The basic term of the MBA agreement with Telefónica of five 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 and continued 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.

Moreover, 1&1 Drillisch can coordinate its brand management and customer address for activities aimed even more specifically at the premium and discount segment on the German mobile services market and take advantage of the differing positions of its brand names to realise the broad and comprehensive address of various target groups

Acquisitions and participations

Along with its organic growth, 1&1 Drillisch continuously examines opportunities to acquire companies and to obtain strategic participations. Thanks to the plannable and high cash flow, 1&1 Drillisch has powerful resources to finance its activities itself and has as well good access to debt capital markets so that it can seize opportunities that present themselves in the form of acquisitions and participations.

Summary of opportunity and risk position

There were not any changes in the opportunities and risks of ongoing business operations in 2018 in comparison with the previous year. 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 precluded. 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.

FORECAST REPORT

4.3. Outlook 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

Following growth of 1.5% in 2018, the IMF expects economic growth of 1.3% in 2019 and 1.6% in 2020 for Germany.

Market/industry expectations

Bitkom expects a plus of 1.5% (previous year: +2.0%) to €168.5 billion on the German ITC market in 2019.

The information technology market is expected to have the greatest increase in 2019 as well, rising by 2.5% (previous year: +3.1%) to €92.2 billion. The greatest growth by far will presumably once again be the software segment, which is predicted to increase by 6.3% (previous year: +6.3%) to €26.0 billion. The segment IT services, which encompasses project business and IT consulting, for instance, will probably again post a plus of 2.3% (previous year: +2.3%) to €40.8 billion. In contrast, a minus of 0.7% (previous year: +1.5%) to €25.4 billion is projected for the IT hardware segment.

Further growth is also expected for the telecommunications market. Revenues are projected to rise by 1.1% (previous year: +1.6%) to €67.3 billion. TC devices are expected to increase by 2.0% (previous year: +5.9%) to €11.0 billion, Business with telecommunications infrastructure is projected to grow by 1.6% (previous year: +1.3%) to €7.1 billion. A plus of 0.8% (previous year: +0.7%) to €49.2 billion is expected for telecommunications services.

In particular, the German broadband and mobile internet market in the business unit "Access", financed primarily by subscriptions, is of special importance 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 most recent survey in the study "German Entertainment and Media Outlook 2017–2021" (October 2017), PricewaterhouseCoopers expects an increase in end customer revenues realised from landline-based broadband connections of no more than 0.5% (previous year: +1.1%) to €8.19 billion for 2019.

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

	2019e	2018	Change
Revenues	8.19	8.15	+ 0.5 %

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2017–2021, 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 5.8% to €8.22 billion in 2018, PricewaterhouseCoopers is projecting growth in 2019 as well of 6.1% (previous year: 5.8%) to €8.72 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 €bn)

	2019e	2018	Change
Revenues	8.72	8.22	+ 6.1 %

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2017–2021, October 2017

Forecast for fiscal year 2019

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 continue to be high. 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 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 advancing availability 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.

1&1 Drillisch has targeted a further strong increase in customers and a related continuation of the positive development of gross profit in operating business and a rise in revenue of approximately 4% from €3.662 billion in the coming fiscal year. For 2019, the Management Board expects an increase in adjusted EBITDA of approximately 10% from €721.9 million. The Management Board is planning to provide more precise specification of the EBITDA forecast after the conclusion of the assessment arbitration on the topic of “price adjustment negotiations with advance service providers” at the middle of the year.

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

Marketing and sales of Access products in fiscal year 2019 will focus in particular on the marketing of mobile internet products. 1&1 Drillisch intends to claim its share of market growth and continue to grow. The Company also wants to take advantage of its good positioning for broadband products and grow visibly.

1&1 Drillisch will be participating in the frequency auction for the acquisition of 5G frequencies in the spring of 2019. The 1&1 Drillisch Management Board is convinced that the commencement of network operations can open numerous additional opportunities for growth to the Company – for instance, by expanding the added-value chain and internalising external costs. The Management Board hopes that this will result in a long-term and sustained reinforcement of the business model.

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 goals explained in greater detail in the above section “Forecast for fiscal year 2019”.

Future-oriented statements and forecasts

This management report 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. 1&1 Drillisch does not guarantee that the future-oriented statements will prove to be true, and it neither assumes any obligation, nor does it have the intention, to adjust or update any future-oriented statements made in this report.

COMPENSATION REPORT

5. Remuneration report

The structure of the remuneration system for the Management Board is determined by the Supervisory Board. The criteria for the reasonableness of the remuneration 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 remuneration 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 remuneration as well as payment in kind and other benefits. The fixed remuneration as basic remuneration 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 remuneration always includes variable merit-based remuneration elements. These elements are redefined every year by the Supervisory Board on the basis of targets.

In 2015, the Supervisory Board concluded a "Bonus 2015–2017" agreement with a term of three years as a long-term incentive component with Management Board member André Driesen; this bonus was paid out in fiscal year 2018. In 2018, the Supervisory Board concluded an agreement with Management Board member André Driesen providing for a "Bonus" with a term of three years for fiscal years 2018 to 2020. The parameter for determining success is the consolidated EBITDA.

A remuneration 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 option right can be exercised as described here: 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.

The CEO of 1&1 Drillisch AG, Mr Ralph Dommermuth, does not receive any remuneration for his activities from 1&1 Drillisch AG because he decided, in consultation with the Supervisory Board, that as CEO of United Internet AG he will waive his Management Board remuneration as of fiscal year 2016.

The Management Board members did not receive remuneration (previous year: €18k) for their supervisory board activities on behalf of various subsidiaries in 2018. 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.

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

Paid compensation (in €k)	Ralph Dommermuth CEO				André Driesen Chief				Martin Witt* Chief			
	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Fixed compensation	0	0	0	0	400	400	400	400	300	300	300	300
Fringe benefits	0	0	0	0	12	12	12	12	13	13	13	13
TOTAL	**0**	**0**	**0**	**0**	**412**	**412**	**412**	**412**	**313**	**313**	**313**	**313**
One-year variable compensation	0	0	0	0	350	350	0	350	200	240	0	240
Multiannual variable compensation												
- Bonus 2015 - 2017	0	0	0	0	100	0	0	0	0	0	0	0
- Bonus 2018 - 2020	0	0	0	0	0	100	0	100	0	0	0	0
TOTAL	**0**	**0**	**0**	**0**	**450**	**450**	**0**	**450**	**200**	**240**	**0**	**240**
Pension expenses	0	0	0	0	1	1	1	1	0	0	0	0
TOTAL COMPENSATION	**0**	**0**	**0**	**0**	**863**	**863**	**413**	**863**	**513**	**553**	**313**	**553**

Inflow (in €k)	Ralph Dommermuth CEO				André Driesen Chief				Martin Witt* Chief			
	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Fixed compensation	0	0	0	0	400	400	400	400	300	300	300	300
Fringe benefits	0	0	0	0	12	12	12	12	13	13	13	13
TOTAL	**0**	**0**	**0**	**0**	**412**	**412**	**412**	**412**	**313**	**313**	**313**	**313**
One-year variable compensation	0	0	0	0	350	350	0	350	200	181	0	181
Multiannual variable compensation												
- Bonus 2015 - 2017	0	0	0	0	0	300	0	300	0	0	0	0
- Bonus 2018 - 2020	0	0	0	0	0	0	0	0	0	0	0	0
- Retention bonus	0	0	0	0	0	0	0	0	0	0	0	0
- Change of Control	0	0	0	0	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	200	0	0	0
SAR Programme H2012	0	0	0	0	0	0	0	0	402	402	0	402
SAR Programme M2014	0	0	0	0	0	0	0	0	1.714	1.833	0	1.833
TOTAL	**0**	**0**	**0**	**0**	**350**	**650**	**0**	**650**	**2,516**	**2,416**	**0**	**2,416**
Pension expenses	0	0	0	0	1	1	1	1	0	0	0	0
TOTAL COMPENSATION	**0**	**0**	**0**	**0**	**763**	**1,063**	**413**	**1,063**	**2,829**	**2,729**	**313**	**2,729**

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

The remuneration system for the 1&1 Drillisch AG Supervisory Board adopted by the Annual General Meeting 2018 provides for fixed remuneration for an ordinary Supervisory Board member in the amount of €45,000 for each full fiscal year and for the Supervisory Board chairman in the amount of €55,000 for each full fiscal year. Supervisory Board members who belong to the Supervisory Board or act as chairperson of the Supervisory Board for only part of the fiscal year receive the fixed remuneration on a pro rata temporis basis, rounded up to full months. Moreover, an attendance fee of €1,000 is paid per meeting for each participation in a physical meeting or in a telephone or video conference of the Supervisory Board. The fixed remuneration and the attendance fees as a whole are due and payable upon the expiration of a fiscal year. The Supervisory Board members are also reimbursed for all of their expenses and for any value-added tax which must be paid on their remuneration 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. There is no stock option plan for the members of the Supervisory Board.

The Supervisory Board remuneration breaks down as follows:

Supervisory Board remuneration (in €k)	**2018**	2017
Michael Scheeren	61.0	12.4
Kai-Uwe Ricke	51.0	9.8
Kurt Dobitsch	51.0	5.2
Norbert Lang	51.0	53.0
Vlasios Choulidis	51.0	0.0
Dr Claudia Borgas-Herold	51.0	0.0
Marc Brucherseifer	0.0	92.0
Susanne Rückert	0.0	55.2
Horst Lennertz	0.0	61.0
Frank Rothauge	0.0	61.7
Bernd H. Schmidt	0.0	24.5
	316.0	**374.8**

SUPPLEMENTAL INFORMATION IN ACCORDANCE WITH SECTION 315A HGB

6. Supplementary information

6.1. 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 precluded. In accordance with Sections 84 and 85 AktG in conjunction with Section 7 of the Company by-laws, the Management Board is appointed and recalled by the Supervisory Board. Any amendments to the Company by-laws 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 by-laws provided that such amendments affect only the wording. Per 31 December 2018, United Internet AG, Montabaur, held 67.06% and United Internet Investments Holding GmbH, Montabaur, 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) were 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. These retention periods expired in fiscal year 2018.

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). This approved capital was utilised in part by capital increases in May/June 2015 and in May 2017 and amounted most recently 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.

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 as a total of €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.

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 by-laws 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 €100.0 million and a term of five years. The term of the bond ended 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, 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 extraordinary 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 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 2018, 1&1 Drillisch AG held 400,704 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 extraordinary 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.

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 extraordinary General Meeting of 12 January 2018 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 by-laws.

» 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 precluded in the same scope.

As of the closing date 31 December 2018, United Internet AG , Montabaur, held 73.29% of the stock in 1&1 Drillisch AG. Per 31 December 2018, Mr Ralph Dommermuth in turn indirectly held 40.94% of the share capital (as reduced by own shares) of United Internet AG through holding companies.

"The Capital Group Companies", Los Angeles, USA, holds 3.09% of the stock in 1&1 Drillisch AG.

6.2. Declaration on Corporate Management pursuant to Section 315d HGB, in conjunction with section 289f HGB

1&1 Drillisch has published the Declaration on Corporate Management pursuant to Section 289a HGB, 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.

6.3. 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 AG at https://www.1und1-drillisch.de/corporate-governance → Sustainability Report.

DEPENDENCY REPORT

7. 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.

Maintal, 25 March 2019

The Management Board

Ralph Dommermuth   Martin Witt   André Driesen

CONSOLIDATED ANNUAL ACCOUNTS

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

from 1 January to 31 December 2018

	Remarks	2018* January - December €k	2017** January - December €k
Sales	6	3,662,460	2,812,313
Cost of sales	7,13,14	-2,555,662	-1,887,695
GROSS PROFIT FROM REVENUES		**1,106,798**	**924,619**
Distribution costs	8,13,14	-399,037	-393,728
Administration costs	9,13,14	-104,895	-74,407
Other operating expenses	10	-1,849	-45,066
Other operating income	11	51,429	28,486
Impairment losses from financial assets and contract assets	12	-85,219	n/a
RESULTS FROM OPERATING ACTIVITIES		**567,227**	**439,903**
Financing expenses	15	-5,277	-9,519
Financial income	16	625	946
RESULTS BEFORE TAXES		**562,575**	**431,330**
Tax expenses	17	-156,543	-120,959
CONSOLIDATED RESULTS (FROM CONTINUED OPERATION)		**406,032**	**310,372**
Results after taxes from discontinued operation	4	0	170,931
CONSOLIDATED RESULTS (FROM DISCONTINUED OPERATION)		**406,032**	**481,302**
Thereof attributable to			
- non-controlling interests	49	0	16,623
- shareholders of 1&1 Drillisch AG		**406,032**	**464,679**

	Remarks	2018* January - December €k	2017** January - December €k
Profit per share of the shareholders of 1&1 Drillisch AG (in €)			
- undiluted	57	2.30	3.42
- diluted	57	2.30	3.42
thereof profit per share (in €) from continued operation			
- undiluted	57	2.30	2.28
- diluted	57	2.30	2.28
thereof profit per share (in €) from discontinued operation			
- undiluted	57	0.00	1.14
- diluted	57	0.00	1.14

Rollover to total consolidated results

CONSOLIDATED RESULTS (FROM DISCONTINUED OPERATION)		**406,032**	**481,302**
Categories that may subsequently be reclassified in the profit and loss account (net)		0	0
Categories that will not subsequently be reclassified in the profit and loss account (net)			
- Net profits or losses from equity instruments that are measured at fair market value as non-operating results in other results	47	-704	0
TOTAL CONSOLIDATED RESULTS		**405,328**	**481,302**
Thereof attributable to			
- non-controlling interests	49	0	16,623
- shareholders of 1&1 Drillisch AG		**405,328**	**464,679**

* The new accounting standards IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” have been applied since 1 January 2018. The values of the previous year have not been adjusted. Additional information can be found in point 2.2 of the consolidated notes, “Effects of new or modified IFRS”.

** The comparability of the comprehensive income statement from January to December 2018 with the statement of the previous year is limited. Additional information can be found in point 1 of the consolidated notes “Acquisition of 1&1 Telecommunication SE in the previous year” and “Explanatory comments on the comprehensive income statement”.

CONSOLIDATED BALANCE SHEET

per 31 December 2018

	Remarks	31/12/2018* €k	31/12/2017 €k
ASSETS			
Short-term assets			
Cash and cash equivalents	18	3,968	149,681
Trade accounts receivable	19	230,224	182,620
Receivables due from associated companies	21	41,879	168,261
Inventories	22	89,548	46,467
Contract assets	20	414,925	n/a
Contract acquisition costs	24	83,484	n/a
Contract performance costs	24	73,686	n/a
Deferred expenditures	23	42,551	15,052
Other financial assets	25	45,513	80,120
Other non-financial assets	26	38,806	14,352
		1,064,584	**656,552**
Long-term assets			
Other financial assets	27	1,408	6,095
Tangible assets	28	14,259	14,702
Intangible assets	29,30	746,816	901,414
Goodwill	30	2,932,943	2,932,943
Contract assets	20	166,105	n/a
Contract acquisition costs	32	84,501	n/a
Contract performance costs	32	53,690	n/a
Prepaid expenses	31	182,334	79,414
Deferred tax assets	17	0	144,586
		4,182,056	**4,079,155**
TOTAL ASSETS		**5,246,640**	**4,735,708**

per 31 December 2018

	Remarks	31/12/2018* €k	31/12/2017 €k
LIABILITIES AND EQUITY			
Short-term liabilities			
Trade accounts payable	33,44	365,202	229,549
Payments received on account	36,44	6,977	5,976
Liabilities due to associated companies	34,44	129,333	221,861
Contract liabilities	39,44	17,515	n/a
Deferred income	38,44	21,614	48,394
Other provisions	40,44	8,766	52,958
Other financial liabilities	41,44	39,530	45,704
Other non-financial liabilities	42,44	20,002	23,755
Income tax liabilities	37,44	37,985	47,046
		646,924	**675,244**
Long-term liabilities			
Contract liabilities	39,44	4,543	n/a
Other provisions	40,44	67,090	3,541
Other financial lilabilities	43,44	128	6,338
Deferred tax liabilities	17	247,880	245,506
		319,641	**255,384**
TOTAL LIABILITIES		**966,565**	**930,628**
Equity			
Share capital	46	194,000	194,441
Capital reserves	47	2,433,531	2,447,085
Cumulative consolidated results		1,653,248	1,163,554
Other equity	47	-704	0
TOTAL EQUITY		**4,280,075**	**3,805,080**
TOTAL LIABILITIES AND EQUITY		**5,246,640**	**4,735,708**

* The new accounting standards IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” have been applied since 1 January 2018. The values of the previous year have not been adjusted. Additional information can be found in point 2.2 of the consolidated notes, “Effects of new or modified IFRS”.

CONSOLIDATED CASH FLOW STATEMENT

from 1 January to 31 December 2018

	Remarks	2018 January - December €k	2017 January - December €k
RESULTS FROM OPERATING ACTIVITIES	55		
Consolidated profit		406,032	481,302
Consolidated results from discontinued operation		0	170,931
Consolidated results from continued operation		406,032	310,372
Allowances for rollover of consolidated results to incoming and outgoing payments			
Amortisation and depreciation on intangible and tangible assets	13	27,422	24,320
Depreciation on assets capitalised within the framework of corporate acquisitions	13	127,274	39,768
Personnel expenses from employee stock ownership programmes	45	1,357	0
Changes in the adjustment items for deferred tax assets	17	-12,378	-19,303
Correction profits/losses from the sale of tangible assets		-1,766	551
Results from deconsolidation		0	13,989
Other items not affecting payments		19	441
CASH FLOW FROM OPERATING ACTIVITIES		**547,960**	**370,138**
Changes in assets and liabilities			
Change in receivables and other assets		-43,635	-71,408
Change in contract assets		-241,410	n/a
Change in inventories		-43,081	-816
Change in contract acquisition costs and contract performance costs		-16,490	n/a
Change in deferred expenditures		-130,419	53,999
Change in trade accounts payable		143,952	-75,046
Change in payments on account		1,001	-167
Change in other provisions		-41,221	13,593
Change in income tax liabilities		-9,061	26,010
Change in other liabilities		-3,143	13,752
Change in receivables due from/liabilities due to associated companies		1,836	-35,446
Change in deferred earnings		-26,781	-483
Change in contract liabilities		16,044	0
CHANGES IN ASSETS AND LIABILITIES, TOTAL		**-392,408**	**-76,012**
Net inflow of funds from operating activity from continued operation		**155,552**	**294,126**
Net inflow of funds from operating activity from discontinued operation		**0**	**53,484**
Net inflow of funds from operating activities		**155,552**	**347,610**

from 1 January to 31 December 2018

	Remarks	2018 January - December €k	2017 January - December €k
CASH FLOW FROM INVESTMENTS	55		
Investments in intangible and tangible assets		-15,489	-15,556
Inflow of funds from disposal of intangible and tangible assets		2,538	0
Outflow of funds for acquisitions less acquired cash		-243	-264
Outflow of funds from disposal of financial assets from deconsolidation		-8,300	-8,539
Acquisition of shares in affiliated companies less cash received		0	553
Inflow of funds from the initial consolidation of 1&1 Drillisch related to the reverse acquisition	5	0	33,125
Reimbursements from other financial assets		33	-51
Net in-/outflow of funds in the investment sector from continued operation		**-21,461**	**9,268**
Net outflow of funds in investment sector from discontinued operation		**0**	**-58,648**
Net outflow of funds in investment sector		**-21,461**	**-49,380**
CASH FLOW FROM FINANCING SECTOR	55		
Acquisition of treasury stock	48	-15,352	0
Dividend payment	58	-282,823	0
Payments from repayment of a debenture bond	35	-3,100	0
Payment of liabilities from rights of use	41	-10,000	0
Repayment of finance leasing liabilities	54	-529	-347
Inflow of funds from loans received from associated companies	51	200,000	0
Outflow of funds to associated companies in repayment of loans	51	-168,000	-200,000
Inflow of funds from the assumption of losses by United Internet AG		0	12,498
Inflow of funds from changes in the cash pool balances with associated companies	51	0	91,843
Outflow of funds for repayment of financial loans		0	-50,000
Net outflow of funds in financing sector from continued operation		**-279,804**	**-146,006**
Net outflow of funds in financing sector from discontinued operation		**0**	**-7,105**
Net outflow of funds in financing sector		**-279,804**	**-153,111**
Net decrease/increase in cash and cash equivalents		-145,713	145,119
Cash and cash equivalents at beginning of fiscal year		149,681	4,562
Cash and cash equivalents at end of reporting period		**3,968**	**149,681**

CONSOLIDATED CHANGE IN EQUITY STATEMENT

in Fiscal Years 2018 and 2017

		Share capital		Capital reserves
	Remarks		46,48	47,48
		Denomination	€k	€k
Balance per 1 January 2017		**121,000**	**121**	**-1,067,670**
Consolidated profit			0	0
Total Results			**0**	**0**
Other contributions/withdrawals			0	358,710
Issue of own stock		176,643,649	194,320	0
Corporate merger			0	3,255,893
Change in holding ratios			0	-99,755
Other transactions with equity investors			0	-93
Balance per 31 December 2017		**176,764,649**	**194,441**	**2,447,085**
Effects recognised in equity on the basis of new IFRS standards	2.2		0	0
Balance per 1 January 2018		**176,764,649**	**194,441**	**2,447,085**
Consolidated profit			0	0
Other consolidated results			0	0
Balance per 1 January 2018			**0**	**0**
Dividend payments	58		0	0
Employee stock ownership programme:	45		0	1,357
Acquisition of own shares	48	-400,704	-441	-14,911
BALANCE PER 31 DECEMBER 2018		**176,363,945**	**194,000**	**2,433,531**

* The new accounting standards IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" have been applied since 1 January 2018.
The values of the previous year have not been adjusted. Additional information can be found in point 2.2 of the consolidated notes, "Effects of new or modified IFRS".

Cumulative consolidated results	Other equity	Equity attributable to the 1&1 Drillisch AG shareholders	Non-controlling interests	Total equity
	47		49	
€k	€k	€k	€k	€k
615,289	**0**	**-452,260**	**39,442**	**-412,818**
464,679	0	464,679	16,623	481,302
464,679	**0**	**464,679**	**16,623**	**481,302**
83,586	0	442,296	0	442,296
0	0	194,320	0	194,320
0	0	3,255,893	0	3,255,893
0	0	-99,755	-56,065	-155,820
0	0	-93	0	-93
1,163,554	**0**	**3,805,080**	**0**	**3,805,080**
366,485	0	366,485	0	366,485
1,530,039	**0**	**4,171,565**	**0**	**4,171,565**
406,032	0	406,032	0	406,032
0	-704	-704		-704
406,032	**-704**	**405,328**	**0**	**405,328**
-282,823	0	-282,823	0	-282,823
0	0	1,357	0	1,357
0	0	-15,352	0	-15,352
1,653,248	**-704**	**4,280,075**	**0**	**4,280,075**

CONSOLIDATED NOTES

1. General information about the Company and the financial statements

1&1 Drillisch Group, together with 1&1 Drillisch Aktiengesellschaft, Maintal, the listed parent company (hereinafter also: "1&1 Drillisch AG" or "Company" 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 landline- and mobile network-based internet access products. These products are supplemented by fast broadband connections that 1&1 Drillisch procures as advance service from network operators, especially from 1&1 Versatel GmbH. These broadband connections are combined with additional services, including (among others) applications for 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 Hanau Local Court.

The consolidated 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 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 financial statements are prepared by applying the principle of cost of acquisition. This principle is not applied to certain financial instruments, which are measured at fair value.

The balance sheet date is 31 December 2018.

In its meeting on 21 March 2018, the Supervisory Board approved the consolidated financial statements for 2017. The consolidated financial statements for 2017 were made public in the Federal Gazette on 18 April 2018.

The consolidated financial statements 2018 were prepared by the Company's Management Board per 25 March 2019 and subsequently submitted to the Supervisory Board. The consolidated financial statements were presented to the Supervisory Board for approval on 27 March 2019. Until the consolidated 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 financial statements will be approved in their current form. They will be published on 28 March 2019.

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

The Group includes per 31 December 2018 the following companies in which 1&1 Drillisch AG, directly or indirectly, holds a majority interest.

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

(1) Wholly-owned subsidiary of 1&1 Telecommunication SE
(2) Wholly-owned subsidiary of 1&1 Telecom Holding GmbH
(3) Wholly-owned subsidiary of Drillisch Online GmbH

There has been no change in the companies included in the consolidation in comparison with 31 December 2017. The following section contains information about the change in the previous year.

During Q1 2018, 1&1 Telecommunication SE exercised its option to acquire the remaining 15% of the stock in 1&1 Telecom Holding GmbH. More detailed information can be found in item 49 “Non-controlling interests” of the notes.

The following companies were renamed or converted during fiscal year 2018:

» 1&1 Drillisch AG, Maintal (previously: Drillisch AG, Maintal)

» Drillisch Online GmbH, Maintal (previously: Drillisch Online AG, Maintal)

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

	Capital share
Name and registered office of the company	**%**
Blitz 17-665 SE, Munich	100
Blitz 17-666 SE, Munich	100
CA BG AlphaPi AG, Vienna/Austria	100

The company CA BG AlphaPi AG, Vienna/Austria, was acquired (100.0%) in fiscal year 2018.

In addition, 1&1 Drillisch holds interests in the following companies, which are disclosed under the Other long-term financial assets:

	Capital share
Name and registered office of the company	**%**
PipesBox GmbH, Rostock	14
POSpulse GmbH, Berlin	3
High-Tech Gründerfonds III GmbH & Co. KG, Bonn	1

Acquisition of 1&1 Telecommunication SE in previous year

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 Telecommunication SE 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 major power, the fourth, 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 of 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 acquirer 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 acquirer. 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 acquirer 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 for 2017 is therefore only proportional for the time period from the moment control was gained. 1&1 Drillisch AG was therefore considered only for about four months in the comprehensive income statement and the capital flow statement of the consolidated financial statements per 31 December 2017. In consequence, the comparability of the figures for fiscal year 2018 with the previous year is limited.

2. Accounting and valuation methods

This section begins with a description of all of the accounting principles that have been applied uniformly to the periods covered in these financial statements. Following these remarks, the accounting standards applied for the first time in these 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 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 authority 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 authority to make decisions. The 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. As necessary, restatements are made in the separate financial statements of subsidiaries to ensure conformity of their accounting methods with those of the Group.

All assets and liabilities, equity, income and expenditures within the Group as well as payment flows from business transactions between Group companies are completely eliminated during consolidation.

The consolidation of a subsidiary begins on the day the Group gains control over the subsidiary. It ends when the Group loses its control over the subsidiary. Assets, liabilities, income and expenditures of a subsidiary that are acquired or sold during the reporting period are recognised in the consolidated financial statements from the day on which the Group obtains control over the subsidiary until the day on which this control ends.

With the loss of the controlling influence, any gain 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 carrying value of the non-controlling shares and the cumulative amounts of the other consolidated results attributable to the subsidiary and (ii) the carrying value of the departing net assets of the subsidiary.

Any change in the amount of participation in a subsidiary without loss of control is disclosed in the balance sheet as an equity transaction.

Non-controlling interests represent the share of the results and net assets that are not attributable to the Group's shareholders. Non-controlling interests are disclosed separately in the consolidated balance sheet. The disclosure in the consolidated balance sheet is shown within equity, but separate from the equity attributable to the 1&1 Drillisch AG shareholders. Whenever interests without a controlling influence (minority interests) are acquired or shares with controlling influence are sold without a loss of the controlling interest, the carrying values of the shares with and without controlling interest are restated to reflect the change in the corresponding participation rate. The amount by which the consideration to be paid or received for the change in the participation rate exceeds the value of the pertinent interests without controlling influence must be recognised directly in equity as a transaction with the companies.

Revenue from associated companies

In addition, revenues 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.

Revenue from contracts with customers (from 1 January 2018)

Revenue from contracts with customers is disclosed in the balance sheet on the basis of the following five steps:

- Identification of the contract or contracts with a customer
- Identification of the independent performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations
- Revenue realisation upon satisfaction of the performance obligations

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.

The Company realises the revenues primarily from the provision of the access products and from services such as internet and mobile telephony. The transaction price comprises 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) as well as revenue from the sale of the relevant hardware.

The revenue realisation is based on a breakdown of the transaction price from the customer contract on the basis of the relative single selling prices of individual performance obligations. As a rule, 1&1 Drillisch Group offers comparable rate plans both with and without hardware. The calculation of the single selling price for the service components is based in these cases on the rate conditions of a service rate plan without hardware. In contrast, the calculation of the single selling prices for the hardware is based on the adjusted market assessment price because relevant hardware without a corresponding mobile services contract is only rarely sold to customers.

The share of sales for the hardware allocated on this basis is recognised upon delivery to the customer (income realisation based on point in time). As a rule, it exceeds the charge billed to the customer and results in the recognition of a contract asset. This contract asset declines over the course of the term of the contract because of the customer's payments. The revenue share attributable to the service components is recognised over the minimum term of the customer contract (income realisation based on time period).

Insofar as the one-off fees charged to the customer upon conclusion of the contract (e.g. provision or activation fees) do not represent a fundamental right (favourable option for contract renewal), they are not recognised as separate performance obligations, but are instead allocated to the identified performance obligations as part of the transaction price and realised appropriately to their service performance. If the customer is granted fundamental rights in the form of options for the use of additional goods or services, they represent an additional performance obligation to which a part of the transaction price is allocated in consideration of the expected utilisation. The corresponding revenue is then recognised when these future goods or services are transferred or when the option expires. If one-off fees qualify as favourable renewal options, revenue is realised to this extent over the expected term of the customer contract.

1&1 Drillisch Group grants to its customers monetary campaign rebates available for a limited time as part of the conclusion of the contract. Such rebates are incorporated into the calculation of the transaction price and distributed to performance obligations by an allocation mechanism, consequently reducing the corresponding revenue.

In accordance with the 1&1 Principle, 1&1 Drillisch grants to its customers a voluntary revocation right limited to 30 days. If a customer exercises this right according to the 1&1 Principle and revokes his/her contract, he/she has a claim to refund of separate transaction components such as billed one-off fees and basic charges. Any fees for use are precluded from the refund claim. In return, 1&1 Drillisch has a claim for return of any hardware that has been delivered. To this extent, there is no revenue realisation for customer cancellations that are to be expected. Payments received from customers and that will be refunded are shown as refund liabilities and the return claims for supplied hardware resulting from application of the 1&1 Principle are recognised as non-financial assets.

When calculating the transaction price, 1&1 Drillisch reviewed the materiality of a financing component. The analysis of current customer contracts revealed that at this time no major use is to be presumed. A change in the assumed interest rates or rate plans, however, could in future result in a major financing component. The financing effect is consequently reviewed for its materiality at regular intervals.

Revenue realisation (until 31 December 2017)

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

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.

The Company realises the revenues primarily from the provision of the aforementioned access products and from services such as internet and mobile telephony. The revenues comprise 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) as well as revenue from the sale of the relevant hardware.

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 wholesale customers. Telecommunications services include the provision of traditional landlines (DSL and IDSN). Until the sale of Versatel Group, the Group also realised sales revenues from 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 leases. If all of the significant opportunities and risks from a lease 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 lease receivables are realised as interest income for the subsequent accounting. The leased assets are derecognised through the cost of sales. Provision fees are distributed as accruals over the term of the contract.

In addition, revenues 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.

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 results recognised as profit or loss); see here as well the explanatory comments on the financial results.

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

Foreign currency translation

The consolidated 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 carrying value and fair value less any costs of selling that are incurred. If this value is lower than the carrying value, an impairment is recognised. The result from the valuation of operations marked for sale as well as gains 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 gains or losses from discontinued operations. The values in the profit and loss account of the previous year are restated accordingly. The pertinent assets and liabilities are disclosed in a separate line item. The payment flows of discontinued operations are disclosed separately in the cash flow statement and the values of the previous year are restated accordingly. In contrast, there is no restatement in the previous year's balance sheet.

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 gain 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 intangible 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.

Corporate mergers and goodwill

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

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 carrying 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 carrying 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 carrying 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 amortisation 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.

Development costs of a single project are capitalised as intangible assets only if the Group can prove the following:

- The technical feasibility of the completion of the intangible asset that makes possible an internal
- Use or sale of the asset;
- The intention to complete the intangible asset and the ability and intention to utilise or
- To sell the asset;
- The manner in which future economic benefits can be realised from the asset;
- The availability of resources for the purpose of completing the asset;
- The ability to calculate reliably the expenditures attributable to the intangible asset during its development.

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 amortised 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. The useful life and the amortisation method in the case of intangible assets with a limited useful life are reviewed (as a minimum) at the end of each and every fiscal year. Any required changes in the amortisation method and the useful life are treated as changes in estimates. Amortisation of 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.

The amortisation of capitalised development costs begins upon conclusion of the development phase and from the point in time at which use of the asset can begin. It is applied over the period for which future use is expected and is recognised in the cost of sales. A recoverability test is performed annually during the development phase.

Intangible assets with an indeterminate useful life are not amortised 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 useful life of an intangible asset with an indeterminate useful life is reviewed once annually to determine whether the estimation of an indeterminate useful life is still justified. If this is not the case, the estimation of an indeterminate useful life is changed to a limited useful life on a future basis.

The assumed useful life for intangible 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
Own produced intangible assets	3

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 carrying value of the asset is written up to its realisable amount. This amount, however, may not exceed the carrying value that would result after consideration of the write-offs if no impairment losses for the assets had been recognised in previous years.

Contract assets (from 1 January 2018)

A contract asset is the Group's legal claim to consideration for the goods and services transferred by the Group to the customer insofar as this claim is not linked solely to the passage of time. Every unconditional claim to receipt of consideration is disclosed separately as a receivable. Contract assets are regularly reviewed to determine whether the value of a contract asset has declined. The procedure is analogous to that used for financial assets.

Contract liabilities (from 1 January 2018)

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received (or will receive) consideration from the customer. If a customer pays consideration before the Group has provided goods or services to the customer, a contract liability is recognised at the point in time of the payment or, at the latest, at the point in time at which the payment becomes due. Contract liabilities are recognised as revenue as soon as the Group has satisfied the contract performance obligations.

Costs of obtaining and fulfilling contracts (from 1 January 2018)

Additional costs incurred when obtaining a contract with a customer (e.g. sales commissions) are capitalised if and when the Group can assume that it will recover these costs.

Moreover, the Group capitalises the costs incurred during the fulfilment of a contract with a customer (e.g. provision fees and expected termination charges) insofar as these costs:

» Do not fall under the application of a standard other than IFRS 15 (e.g. IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets);

- Relate to an existing or expected contract;
- Lead to the procurement of resources or to improvement in the Company's resources that will be used in future for the (continued) satisfaction of performance obligations; and
- Compensation of the costs is expected.

Capitalised costs to obtain and fulfil contracts are amortised by scheduled write-offs over the estimated term of the contract. They are measured in the balance sheet under separate items. The amortisation of the costs to obtain contracts is disclosed in distribution costs and the amortisation of contract fulfilment costs is disclosed in the cost of sales.

The applied amortisation periods for costs to obtain contracts are set at 3 to 4 years and the periods for costs to fulfil contracts at 1 to 3 years.

An impairment loss is taken if the carrying value of the capitalised costs exceeds the remaining part of the expected consideration from the customer for the delivery of goods or the performance of services less the related costs incurred.

Classification as short-term and long-term

The Group classifies its assets and liabilities in the balance sheet in short-term and long-term assets and liabilities. An asset is to be classified as short-term if:

- The realisation of the asset is expected within the normal business cycle or
- The asset is held for sale or consumption within this period;
- The asset is held primarily for trading;
- The realisation of the asset is expected within twelve months after the closing date; or
- The asset comprises cash or cash equivalents, unless the exchange or use of the asset for the satisfaction of an obligation is restricted for a period of at least twelve months after the closing date.

All other assets are classified as long-term.

A liability is to be classified as short-term if:

- The payment of the liability is expected within the normal business cycle or
- the liability is held primarily for trading;
- The payment of the liability is expected within twelve months after the closing date; or
- The Company does not have an unrestricted right to postpone the payment of the liability by at least twelve months after the closing date.

All other liabilities are classified as long-term.

Deferred tax assets and liabilities are classified as long-term assets or liabilities.

Measurement of the fair value

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

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 measurement of fair value that the business transaction during which the asset is sold or the liability is transferred is conducted either:

» 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 – Measurement 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 – Measurement 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.

Leases

The question of whether an agreement contains a lease 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 performance 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 leases, 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 lease 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 lease debt remains in effect over the term of the lease. Finance expenses are recognised through profit and loss.

If the transfer of ownership to the Group at the end of the term of the lease 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 lease.

Lease payments for operating leases are recognised linearly as expenses in the profit and loss account over the term of the lease.

Financial instruments (from 1 January 2018)

A financial instrument is a contract which simultaneously leads to the creation of a financial asset for one company and to the creation of a financial liability or equity instrument for another company.

Financial assets – initial recognition and measurement

With the exception of trade accounts receivable that do not include a significant financing component or that have a term of less than one year, the Group measures all financial assets at fair value during the initial recognition and, in the case of a financial asset that is subsequently not measured at fair value through profit and loss, plus the directly attributable transaction costs. Trade accounts receivable that do not include a significant financing component or that have a term of less than one year are measured at transaction price. In this context, reference is made to the accounting method in the section Revenue realisation – revenue from contracts with customers (from 1 January 2018).

Purchases or sales of financial assets that foresee the delivery of the assets within a period of time defined by regulations or conventions of the relevant market (standard market purchases) are recognised on the trading day, i.e. on the day on which the Group has assumed the obligation to purchase or sell the asset.

Financial assets – subsequent measurement

The classification of financial assets during initial recognition for the purposes of the subsequent measurement is dependent on the properties of the contractual cash flow of the financial assets and on the Group's business model for management of the financial assets. Financial assets are classified in three categories for the subsequent measurement:

» Financial assets (debt instruments) measured at amortised cost (ac);

» Financial (equity instruments) assets measured at fair value through other comprehensive income without recycling to profit and loss (fvoci);

» Financial assets measured at fair value through profit or loss (fvtpl).

Financial assets (debt instruments) measured at amortised cost

The Group measures financial assets at amortised cost provided that the two conditions shown below are met:

» The financial asset is held within the framework of a business model that has the objective of holding financial assets for the collection of contractual cash flows; and

» The terms and conditions of the contract of the financial asset result in cash flows at the defined point in time that represent solely repayment and interest payments on the outstanding capital amount.

Financial assets measured at amortised cost are measured by applying the effective interest method in subsequent periods and must be reviewed for impairments. Gains and losses are recognised through profit and loss when the asset is derecognised, modified, or impaired.

Financial assets (equity instruments) measured at fair value through other comprehensive income without recycling to profit and loss

At the time of initial recognition, the Group may make an irrevocable choice to classify its equity instruments as at fair value through other comprehensive income, provided that they satisfy the definition of equity in accordance with IAS 32 Financial Instruments: Presentation and are not held for trading. Each instrument is classified separately.

Gains and losses from these financial assets are never reclassified in the profit and loss account. Dividends are recognised in the profit and loss account as Other income if there is a legal claim to payment unless a part of the costs of acquisition of the financial assets is recovered through the dividends. In this case, gains are recognised in Other results. Equity instruments measured at fair value through other comprehensive income are not reviewed for impairment.

Financial assets measured at fair value through profit and loss

The group of financial assets measured at fair value through profit and loss includes the financial assets held for trading, financial assets that were classified during initial recognition as measured at fair value through profit and loss or financial assets for which measurement at fair value is mandatory. Classification as financial assets for trading is mandatory if such assets are acquired for sale or for surrender in the near future. Derivatives, including embedded derivatives recognised separately, are also classified as held for trading. Financial assets with cash flows that do not serve exclusively repayment and interest payments are classified at fair value through profit and loss and measured accordingly, regardless of the business model. In addition, debt instruments can be measured at fair value through profit and loss during initial recognition if this eliminates or significantly reduces an accounting anomaly.

A derivative with a financial or non-financial liability as the underlying contract embedded in a hybrid contract is separated from the basic contract and disclosed separately in the balance sheet if the economic characteristics and risks of the embedded derivative are not closely tied to the basic contract, an independent instrument subject to the same terms and conditions as the embedded derivative would meet the definition of a derivative and the hybrid contract is not measured at fair value through profit and loss.

Financial assets measured at fair value through profit and loss are recognised at fair value in the balance sheet, whereby the changes in fair value are recognised as a balance in the profit and loss account. Dividends from listed equity instruments are also recognised as Other income in the profit and loss account if there is a legal claim to payment.

Financial assets – derecognition and factoring

A financial asset (or a part of a financial asset or a part of a group of similar financial assets) is derecognised whenever the contractual rights to the procurement of cash flows from the financial asset have expired.

Receivables from the provision of mobile devices provided to customers as part of a mobile services contract were sold in part to a bank in the form of a factoring transaction. By taking this step, 1&1 Drillisch secured for itself the cash benefit at the time the contracts were concluded. Cash outflows over the term of the contracts were offset against this benefit. The opportunities and risks related to the sold receivables were transferred in full upon the sale of the receivables to the bank, taking into account a fixed and a variable purchase price discount. The 1&1 Drillisch AG terminated the factoring agreements with the bank during the reporting period 2018. As of the closing date, there were no obligations to the bank.

Impairment of financial assets

The Group applies a simplified (one-step) method for the calculation of the expected credit losses from trade accounts receivable and contract assets, whereby a risk provision in the amount of the credit losses expected over the remaining term is recognised on every closing date.

The determination of the expected future credit losses is based on regular reviews and assessments within the framework of the credit monitoring. Relationships between credit losses and various factors (e.g. payment agreements, overdue periods, dunning level etc.) are regularly determined on the basis of historical data. Based on these relationships and supplemented by current observations and future-related assumptions relating to the portfolio of receivables and contract assets on the closing date, future credit losses are estimated.

The Group recognises a valuation allowance for expected credit losses for all debt instruments that are not measured at market value through profit and loss. Expected credit losses are based on the difference between the contractual cash flows that are to be paid in accordance with the contract and the total of the cash flows the Group expects to receive, discounted by an approximate value of the original effective interest rate. The expected cash flows include the cash flows from the sale of the held securities or other collateralisations that are an essential component of the terms and conditions of the contracts. Expected credit losses are recognised in two steps. A risk provision in the amount of the expected credit losses resulting from a default event within the next twelve months is recognised for financial instruments whose risk of default has not significantly increased since the initial measurement. A risk provision in the amount of the credit losses expected over the remaining term is recognised for financial instruments whose risk of default has increased significantly since the initial measurement, regardless of when the default event occurs.

The Group's operating business is essentially found in mass customer business. Risks of default are consequently taken into consideration by means of valuation allowances and lump-sum valuation allowances. 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 and from analyses of return debit notes. The age structure of the receivables is presented in item 19 of the notes. All receivables that are overdue by more than 365 days are adjusted with a valuation allowance of 100%. Trade accounts receivable that have been fully value-adjusted are derecognised 180 days after handover to a collection agency unless there has been a positive report from the collection agency or unexpected receipt of payment from the customer for a value-adjusted receivable or if knowledge of the customer's insolvency is obtained before or after handover to the collection agency.

Additional details on the impairment of trade accounts receivable and contract assets are provided in the following information in the notes:

» Significant discretionary decisions and estimates (item 3 of the notes)

» Trade accounts receivable (item 19 of the notes)

» Contract assets (item 20 of the notes)

» Objectives and methods of financial risk management (item 52 of the notes)

Financial liabilities – initial recognition and measurement

Financial liabilities are classified at initial recognition as financial liabilities measured at fair value through profit and loss or as financial liabilities that are to be measured at amortised cost.

All financial liabilities are measured at fair value at initial recognition; in the event of financial liabilities measured at amortised cost, they are measured less the directly attributable transaction costs.

Financial liabilities – subsequent measurement

The subsequent measurement of financial liabilities is dependent on their classification:

Financial liabilities measured at fair value through profit and loss

This category encompasses the derivative financial instruments concluded by the Group. Embedded derivatives recognised separately are also classified as held for trading. Gains or losses from financial liabilities held for trading are recognised through profit and loss.

Financial liabilities measured at amortised cost

After initial recognition, financial liabilities classified as measured at amortised cost are measured by application of the effective interest rate method. The amortised costs are calculated in consideration of premiums and discounts and of fees or costs that represent an integral component of the effective interest rate. The amortisation from the effective interest rate method is included in the profit and loss statement as part of the financing expenses.

Financial liabilities – derecognition

A financial liability is derecognised when the obligation on which it is based has been satisfied or revoked or has expired. If a current financial liability is replaced by another financial liability from the same lender at substantially different contractual terms and conditions or if the terms and conditions of a current liability are fundamentally modified, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying values of the liabilities is recognised through profit and loss. If the replacement or modification is not recognised as a repayment, any costs or fees that may be incurred lead to a restatement in the carrying value of the liability and are amortised over the remaining term of the modified liability.

Balancing of financial instruments

Financial assets and liabilities are balanced and the net amount is disclosed in the consolidated balance sheet if at the present point in time there is a legal right to offset the recognised amounts against one another and there is the intention to balance them on a net basis or to discharge the relevant liability simultaneously with the realisation of the pertinent asset.

Financial instruments (until 31 December 2017)

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 as measured at fair value through profit and loss, 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
- 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.

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 amortised cost determined by use of the effective interest rate method less valuation allowances for impairment losses. Gains 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 available for sale are measured at their fair value, provided there are no significant uncertainties about the estimate in determining their value. Gains or losses that are not realised are recognised directly in equity in the reassessment reserve. Impairment losses are recognised through profit and loss in the period results. Upon disposal of the financial assets available for sale, the cumulative gain or loss previously recognised in equity is transferred through profit and loss to the profit and loss account. If the fair value of financial assets available for sale cannot be determined reliably, they are measured at amortised cost. To the extent they were previously classified as financial assets to be measured at fair value through profit and loss, they are reclassified accordingly if significant uncertainties about the estimate arise. The fair value at this time represents the cost of acquisition under the new measurement category.

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 at amortised cost by application of the effective interest rate method.

Financial instruments – impairment of financial assets

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

If there is an objective indication that an impairment of financial assets disclosed in the balance sheet at amortised cost has occurred, the amount of the loss corresponds to the difference between the carrying 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 is recognised through profit and loss. 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, the previously recognised valuation allowance is reversed. The amount of the value recovery is limited to the amortised cost at the time of the value recovery and is recognised through profit and loss.

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 that is to be recognised through profit and loss, 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.

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

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

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.

Own stock

Own stock is deducted from equity. Purchase, sale, issue or redemption of own stock is not recognised through profit and loss.

The Group uses the following order of use:

- The recognition of redemption is always carried out in the nominal amount as a debit of share capital.
- Any amount in excess of the nominal amount is initially derecognised in the amount of the value contribution from employee stock option programmes (SAR and debenture bonds) against capital reserves.
- Any amount in excess of the value contribution from employee stock option programmes is derecognised against the cumulative consolidated results.

Cash and cash equivalents

Cash and cash equivalents comprise cash in banks, other money investments, cheques and cash on hand that all have a high degree of liquidity and a remaining term of less than 3 months, calculated from the point in time of acquisition.

Pensions and similar benefits after termination of the employment relationship

Payments for contribution-oriented pension schemes are recognised as expenses together with payroll payments to the employee.

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 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.

Long-term incentive components

The variable remuneration for Management Board members and other executive employees contains a long-term incentive component that will not be paid until fiscal years 2019, 2020 and 2021. A provision has been created on the basis of the fair value.

Share-based payment

The Group's employees receive in part stock-based payment 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.

Transactions with settlement through equity instruments

The costs incurred from the granting of equity instruments are measured at the fair value of these equity instruments at the time they are granted. The fair value is calculated by using a suitable option price model. Along with the appropriate measurement method, the value component for the subsequent measurement until the end of the term is also defined at the point in time of the commitment. Conversely, a new estimate of the exercise volume to be expected is made on every measurement date with the consequence of an appropriate restatement of the allocated contribution in consideration of the contribution of the past. Required restatements must be made in each of the periods in which new information about the exercise volume becomes known. The recognition of expenses resulting from the granting of the equity instruments and the corresponding increase in equity are undertaken over the period in which the exercise or performance conditions must be fulfilled (so-called vesting period). This period ends on the day of the first opportunity to exercise the instrument, i.e. at the point in time at which the pertinent employee irrevocably becomes entitled to draw the benefits. The cumulative expenses from the granting of the equity instruments disclosed on every balance sheet closing date until the first opportunity to exercise the instruments reflect the previously expired part of the vesting period and the number of equity instruments that will actually become exercisable upon the expiration of the vesting period in the best possible estimate of the Group. The income or expense recognised in the period result corresponds to the development of the expenses recognised cumulatively at the beginning and end of the reporting period. No expenses are recognised for rights to remuneration that are not exercisable.

Transaction with cash settlement

A liability is recognised for the fair value of transactions with cash settlement. The fair value is measured at initial recognition and on every closing date and on the payment date. 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.

Profit per share

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

The “diluted” profit per share is calculated in a similar way to the profit per share with the exception that the average number of issued shares is increased by the number that would have resulted if the exercisable subscription rights from the issued employee share option programme had been exercised.

The “undiluted” and “diluted” result is in addition disclosed separately for continued and discontinued operations.

In the previous year, the average number of issued shares for the period prior to the acquisition closing date was calculated in accordance with IFRS 3.B26 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.

Financial income

Interest income is recognised when the interest accrues (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 carrying value of the financial asset).

Actual and deferred taxes

The tax expenses of a period comprise 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 recognition 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.

The carrying 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. The conditions for the offsetting of deferred taxes were fulfilled for the first time during the reporting period 2018 by virtue of the created fiscal organic unities.

Summary of valuation principles

The Group's valuation principles can be essentially summarised and simplified – insofar as there are no impairments – as shown below:

Balance sheet items	Measurement
ASSETS	
Intangible assets	
With determinate useful life	At amortised cost
With indeterminate useful life	Impairment-only recognition
Tangible assets	At amortised cost
Financial assets available for sale (until 31/12/2017)	At fair value through other comprehensive income
Cash and cash equivalents	At amortised cost
Trade accounts receivable	At amortised cost
Receivables due from associated companies	At amortised cost
Inventories	Lower of costs of acquisition or manufacture and net selling value
Contract assets (from 01/01/2018)	At amortised cost
Costs to obtain contracts (from 01/01/2018)	At amortised cost
Costs to fulfil contracts (from 01/01/2018)	At amortised cost
Prepaid expenses	At amortised cost
Other financial assets	At amortised cost or at fair value through other comprehensive income in other results without reclassification cumulative gains and losses upon derecognition
Other non-financial assets	At amortised cost
Deferred tax assets	Undiscounted measurement at the tax rates applicable during the period in which an asset is realised or a liability is satisfied
LIABILITIES	
Deferred tax liabilities	Undiscounted measurement at the tax rates applicable during the period in which an asset is realised or a liability is satisfied
Income tax liabilities	Expected payment to fiscal authorities based on tax rates applicable on the closing date or that will apply in near future
Trade accounts payable	At amortised cost
Liabilities due to associated companies	At amortised cost
Contract liabilities (from 01/01/2018)	At amortised cost
Payments received on account	At amortised cost
Deferred income	At amortised cost
Other provisions	Expected discounted amount that will lead to outflow of resources
Other financial liabilities	At amortised cost
Other non-financial liabilities	At amortised cost

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 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 financial statements are described in Section 3.

2.2 Effects of new or modified IFRS

In fiscal year 2018, application of the following standards and interpretations as revised or newly published by the IASB was mandatory:

Standard		Mandatory application for fiscal years beginning as of	Adoption by EU Commission
IFRS 9	Financial Instruments (standard and further additions)	01/01/2018	Yes
IFRS 15	Revenue from Contracts with Customers	01/01/2018	Yes
IFRS 2	Share-based Payment	01/01/2018	Yes
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01/01/2018	Yes
Various	Improvement to IFRS 2014-2016	01/01/2018	Yes

IFRS 9 – Financial Instruments

In July 2014, the IASB adopted the final version of IFRS 9 – Financial Instruments, which supersedes IAS 39 – Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. With the entry into force of IFRS 9 in its final form, the three project phases for disclosure of financial instruments in the balance sheet (“Classification and Measurement”, “Impairment” and “Accounting of Hedge Transactions”) were merged. The application of IFRS 9 first became mandatory for fiscal years beginning on or after 1 January 2018. With the exception of the accounting of hedge transactions, the standard must be applied retroactively, whereby no additional comments on the comparison information are required. With only a few exceptions, the provisions for accounting of hedging transactions, on the other hand, are to be applied prospectively.

The effects on the accounting of 1&1 Drillisch Group arise essentially from the reclassification and measurement of financial assets that were available for sale in the previous year. All the Group's financial assets previously held at fair value continued to be measured at fair value. Assets that were held as available for sale and whose gains or losses were recognised in other results, however, were measured on a case-by-case basis as either at fair value through profit and loss or through other comprehensive income. In the latter case, these assets continue to be recognised in other results, but are later no longer reclassified as gain or loss insofar as they are equity instruments. On the other hand, the volatility of the disclosed gain or loss was increased by the recognition through profit or loss. The reserves for the financial assets available for sale previously disclosed in the cumulative other results is reclassified, in so far as it is to be measured in future at fair value through profit and loss, in the earnings reserves.

1&1 Drillisch decided to exercise the accounting option in favour of the simplified initial application of IFRS 9. The cumulative effect from the changeover to IFRS 9 was included in equity through other comprehensive income. In addition, no retroactive adjustment of the corresponding comparative figures of previous years has been made. Taking into account deferred taxes, the changeover per 1 January 2018 led to a cumulative effect in the cumulative consolidated results to be recognised pursuant to IFRS 9 totalling €-8,656k.

	€k
ASSETS	
Trade accounts receivable	-12,600
Deferred tax assets	3,944
EQUITY & LIABILITIES	
Cumulative consolidated results	-8,656

As a consequence of the new regulations concerning impairment, expected losses are in part recognised through expenditures at an earlier point in time than was the case under IAS 39.

The table below presents the classes of the financial assets and liabilities. An overview that takes into account the provisions of the new standard compares here the previously applied IAS 39 with regard to the classification categories and carrying values per 31/12/2017 and 01/01/2018:

	Classification categories		Carrying values 31/12/2017 and 01/01/2018		Difference
	IAS 39	**IFRS 9**	**IAS 39** €k	**IFRS 9** €k	€k
Financial assets					
Cash and cash equivalents	lar	ac	149,681	149,681	0
Trade accounts receivable	lar	ac	182,620	170,020	-12,600
Receivables due from associated companies	lar	ac	168,261	168,261	0
Other short-term financial assets	lar	ac	80,120	80,120	0
Other long-term financial assets					
- Participating interests	afs	fvoci	1,071	1,071	0
- Miscellaneous	lar	ac	5,025	5,025	0
Financial liabilities					
Trade accounts payable	flac	ac	-229,549	-229,549	0
Liabilities due to associated companies	flac	ac	-221,861	-221,861	0
Other financial liabilities	flac	ac	-52,042	-52,042	0

IAS 39 categories	
lar	Loans and receivables
afs	Available-for-sale financial assets
fahft	Financial assets held for trading
flac	Financial liabilities measured at amortised cost
flhft	Financial liabilities held for trading

IFRS 9 categories	
ac	Measured at amortised cost
fvoci	Fair value - through other comprehensive income
fvtpl	Fair value - through profit and loss

All of the Group’s financial assets measured at fair value continue to be measured at fair value. Gains or losses from available-for-sale financial assets continue to be recognised in other results, but are no longer reclassified in profit or loss at a later time.

No changes in classification occur within the framework of the classification of financial liabilities in the new classification categories of IFRS 9. The names of the classification categories were merely adapted to the new designations of IFRS 9.

As a consequence of the changeover to IFRS 9, there are restatement effects relating to impairment for the contract assets recognised for the first time in accordance with IFRS 15. The cumulative restatement effects from impairment of the contract assets recognised for the first time in accordance with IFRS 15 before consideration of deferred taxes per 1 January 2018 amounted to €26,032k and were recognised accordingly in the cumulative consolidated results.

The table below shows the changes in the valuation allowance for existing financial assets pursuant to the changeover from IAS 39 to IFRS 9 per 01/01/2018:

Valuation allowances on financial assets (in €k)

	Trade accounts receivable		Other receivables	**Total**
Classification categories				
per IAS 39	lar	lar	lar	
per IFRS 9	ac	fvoci	ac	
Valuation allowances				
Inventory per IAS 39 (31/12/2017)	-33,638			-33,638
Inventory per IFRS 9 (01/01/2018)	-46,238			-46,238
Change in earnings reserves	**-12,600**			**-12,600**

IFRS 15 – Revenue from Contracts with Customers

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 in 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 exercised the option right to apply the modified retrospective transition method; all contracts as of 1 January 2018 were taken into consideration. The figures of the previous year were therefore not restated in the consolidated financial statements. The changeover effects were recognised through other comprehensive income in equity per 1 January 2018. The comparative values for the previous period are not subject to adjustments and are included without changes in the consolidated financial statements with the accounting principles valid at that time.

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 deaggregation 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 share of revenue allocated by this method as a rule exceeds the payment billed to the customer in the first month, 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 expense of the revenue from the performed services. In the course of the first-time application of IFRS 15, proportionate sales for all service contracts with subsidised hardware delivered in advance in effect on 1 January 2018 were taken into account directly in equity. Future sales of each of these service contracts will decline, however, by the proportion of the revenue allocated to the hardware.

Moreover, the new regulations require the capitalisation of contract costs. If and when certain prerequisites are met, the costs for the successful fulfilment of the contract (e.g. provision fees, expected termination charges) and costs for obtaining the contract (e.g. sales commissions) must in accordance with IFRS 15 be capitalised and amortised over the estimated useful life. In the past, costs of obtaining a contract were recognised immediately as expenditures in the comprehensive income statement. As part of the first-time disclosure in the balance sheet, costs of fulfilling and obtaining contracts for all service contracts in effect on 1 January 2018 were capitalised, resulting in future amortisation expenses. As a consequence, costs of obtaining contracts that were previously recognised as expenditures pursuant to IAS 18 are recognised in part once again as expenditures pursuant to IFRS 15.

The application of IFRS 15 along with IFRS 9 has essentially the following effects on the assets and liabilities, financial position and earnings of 1&1 Drillisch Group (amount for each line item that would have resulted if accounting in accordance with IAS 18 had continued in fiscal year 2018 is shown in the column "Carrying value in accordance with IAS 18"):

	Carrying value per IFRS 15 31/12/2018 €k	Carrying value per IAS 18 31/12/2018 €k	Difference IAS 18 v. IFRS 15
ASSETS			
SHORT-TERM ASSETS			
Contract assets	**414,925**	**0**	414,925
Costs of obtaining contracts	**83,484**	**0**	83,484
Costs of fulfilling contracts	**73,686**	**0**	73,686
Other non-financial assets	**38,806**	**35,757**	3,049
LONG-TERM ASSETS			
Intangible assets	**746,816**	**759,875**	-13,059
Contract assets	**166,105**	**0**	166,105
Costs of obtaining contracts	**84,501**	**0**	84,501
Costs of fulfilling contracts	**53,690**	**0**	53,690
EQUITY & LIABILITIES			
SHORT-TERM LIABILITIES			
Payments received on account	**6,977**	**6,977**	0
Deferred income	**21,614**	**51,540**	-29,926
Contract liabilities	**17,515**	**0**	17,515
Other provisions	**8,766**	**9,027**	-261
Other financial liabilities	**39,530**	**39,167**	363
LONG-TERM LIABILITIES			
Deferred tax liabilities	**247,880**	**24,345**	223,535
Contract liabilities	**4,543**	**0**	4,543
Other provisions	**67,090**	**1,217**	65,873
EQUITY			
EQUITY*	**4,280,075**	**3,695,336**	584,737

* As simplification, compiled for the presentation of the cumulative effects from the changeover to IFRS 15 to be recognised through other comprehensive income in equity.

	IFRS 15 January–December 2018 €k	IAS 18 January–December 2018 €k	Change
SALES	**3,662,460**	**3,384,884**	**277,576**
Cost of sales	-2,555,662	-2,532,716	-22,946
Distribution costs	-399,037	-439,398	40,361
Administration costs	-104,895	-104,895	0
Other operating expenses/income	49,580	49,580	0
Impairment losses from financial assets	-85,219	-60,245	-24,974
OPERATING PROFIT	567,227	297,210	270,017
FINANCIAL RESULTS	**-4,652**	**-4,710**	**58**
PROFIT BEFORE TAXES	**562,575**	**292,500**	**270,075**
Tax expenses	-156,543	-96,298	-60,245
CONSOLIDATED PROFIT	**406,032**	**196,202**	**209,830**

The changeover effects from IFRS 15 result primarily from the following circumstances:

» The measurement of contract assets in the amount of €581.0 million results both from the revenue realisation for subsidised hardware pulled forward in comparison with IAS 18 and from the deviating distribution of non-linear discounts.

» The restatements in costs of obtaining and fulfilling contracts in the amount of €168.0 million and €127.4 million, respectively, concern primarily sales commissions, provision fees and termination charges that are capitalised and consequently result in a later recognition of expenses pursuant to IFRS 15. Costs of obtaining and fulfilling contracts are recognised through profit and loss linearly over the course of the amortisation term on which they are based in each case. Before the entry into force of IFRS 15, costs of obtaining contracts were recognised immediately as expenditures in the comprehensive income statement.

» The effects from the restatement of the short-term other non-financial assets in the amount of €3.1 million relate to the claims for the return of hardware from revoked contracts based on the 1&1 Principle.

» The decline in the intangible assets essentially concerns the reassessment of the clientele capitalised as part of the purchase price allocation that was to this extent already recognised as contract assets in the course of the changeover to IFRS 15.

» Short-term deferred revenue shown under IAS 18 was offset with short-term contractual assets in the course of the conversion to IFRS 15. Current transactions of the fiscal year were shown under contractual liabilities depending on their character.

» The recognition of contractual liabilities in accordance with IFRS 15 results from pure service contracts without hardware, for which a one-off fee was invoiced, for example, in the form of an activation fee, which now leads to linearised revenue recognition over the relevant contract term. The € 22.1 million in contract liabilities carried as liabilities will result in the subsequent recognition of revenues in accordance with IFRS 15.

- As a consequence of the accounting of costs of fulfilling contracts, provisions for termination charges in the amount of €65.9 million were created (cf. item 40 of the notes).

- The difference of the deferred taxes is a liability item because of the accounting in accordance with IFRS 15 and amounts to €223.5 million. Taking into account deferred taxes, the changeover per 1 January 2018 led to an increased cumulative effect in the cumulative consolidated results to be recognised pursuant to IFRS 15 totalling €375.0 million.

- If IFRS 15 were not taken into account, sales revenues would amount to €3,384.9 million and would be €277.6 million lower. The increase in sales revenues because of the IFRS 15 changeover is favoured by general contract growth and the increased use of smartphones. The amortisation of capitalised contract assets and contract liabilities carried on the liabilities side from previous periods has in fiscal year 2018 the contrary effect of lowering the revenues over the (remaining) contract term.

- Until fiscal year 2017, expenditures from subsidised hardware and expenditures from assumed provision fees were recognised under IAS 18 as distribution costs because of their economic nature. With the entry into effect of IFRS 15, the expenditures are recognised in full as cost of sales. In addition there are deviations from the capitalization and amortization of costs for the initiation and performance of contracts.

- If IFRS 15 were not taken into account, the impairment losses on financial assets would amount to €60.3 million and would in total be €25.0 million lower. This effect results primarily from the impairment losses on the contract assets recognised for the first time in accordance with IFRS 15.

- In the reporting period, the Group recognised expenses from deferred contract costs in the amount of €184.2 million, of which €94.3 million is attributed to costs of contract renewals and €89.9 million to costs of contract fulfilment.

- The higher tax expenses according to IFRS 15 mainly refer to deferred tax expenses for capitalized contractual assets. Especially the higher use of hardware results in an increase of deferred tax liabilities.

Moreover, in fiscal year 2018, application of the following standards and interpretations as revised or newly published by the IASB was mandatory:

- **IFRS 2 Share-based Payment (classification and measurement)**
  The changes concern specific questions relating to the disclosure in the balance sheet of share-based payment with cash compensation. The major change or supplement is that IFRS 2 now contains provisions relating to the calculation of the fair value of the obligations resulting from share-based payments. The change does not have any major effects on the consolidated financial statements.

- **IFRIC 22 Foreign Currency Transactions and Advance Consideration**
  This interpretation is intended to clarify the disclosure in the balance sheet of business incidents relating to the receipt or payment of consideration in foreign currency. The interpretation does not have any major effects on the consolidated financial statements.

- **Annual revision procedures 2014–2016**
  Clarifications of IFRS 1 and IAS 28. The clarifications do not have any major effects on the consolidated financial statements.

There were no significant effects for the fiscal year as a result of the other changes in IFRS.

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 financial statements until their application becomes mandatory.

Standard		Mandatory application for fiscal years beginning as of	Adoption by EU Commission
IFRS 9	Change: Prepayment regulation with negative compensation payment	01/01/2019	Yes
IAS 12, IAS 28, IFRS 3	Annual revision procedures 2015-2017	01/01/2019	Yes
IFRS 16	Leases	01/01/2019	Yes
IFRIC 23	Uncertainty over Income Tax Treatments	01/01/2019	Yes
IAS 28	IAS 28 Clarification of IAS 28 Investments in Associates and Joint Ventures	01/01/2019	Yes
IAS 19	Change: plan modifications, curtailment or settlement	01/01/2019	Yes
General concept	Revised general concept	01/01/2020	No
IFRS 3	Change: definition of a business operation	01/01/2020	No
IAS 1, IAS 8	Change: definition of material	01/01/2020	No

IFRS 16 was published in January 2016 and supersedes “IAS 17 Leases”, “IFRIC 4 Determining Whether an Arrangement Contains a Lease”, “SIC 15 Operating Leases – Incentives” and “SCI 27 Evaluating the Substance of Transactions in the Legal Form of a Lease”. IFRS 16 sets the principles for the recognition and measurement, presentation and disclosure of leases and obligates the lessee to show all leases in the balance sheet in the future. 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 right of use) 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 write-offs 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.

When a lease is initially recognised, the lessee capitalises an asset that represents the right to use the underlying asset for the term of the lease (i.e. the right of use) and, at the same time, the lessee recognises a liability in the amount of the future lease payments, reduced by the interest share (i.e. the lease liability). In the following period, there is a restatement through expenses of the liabilities because of interest and write-off expenses for the right of use. The standard provides two exceptions from accounting in accordance with IFRS 16 – leasing of low-value assets (e.g. PCs) and short-term leases (e.g. leases with a term of 12 months or less).

The lessee is also obligated to reassess the lease liability if certain events occur (e.g. change in the term of the lease, change in the future lease payments because of the change of an index or a rate that is used to measure the liabilities or payments). As a rule, the lessee will recognise the amount of the reassessment of the lease liability as a restatement of the right of use.

The accounting as lessor in accordance with IFRS 16 is essentially unchanged in comparison with the current accounting in accordance with IAS 17. The lessors will continue to classify all leases in accordance with the same classification principle as in IAS 17 and distinguish between two types of leases: operating leases and finance leases.

The lessor has the opportunity to apply IFRS 16 either completely retrospectively while including earlier reporting periods or to recognise the cumulative restatement effect at the point in time of the initial application as a posting in equity at the commencement of the fiscal year of the initial application.

The Group will apply IFRS 16 in accordance with the modified retrospective method per 1 January 2019 (without restatement of the previous year's values). The Group will decide to recognise the asset for the granted right of use during initial application at the value of the related lease liability.

The Group exercises the exemption provided in the standard for leases with a term that expires within 12 months from the point in time of the initial application and the exemption for leases for which the underlying asset is of low value. In determining the term of leases, more accurate information is in part taken into account retroactively if and when this leads to a better assessment for the exercise of renewal or termination options.

At this time, 1&1 Drillisch appears exclusively as the lessee for all leases at the Company. Operating leases in the Group are related essentially to obligations for rent of buildings and technical equipment. The majority of the lease payments apply to the leasing of buildings for administrative or technical purposes. In consequence, the impact of IFRS 16 on the presentation of the consolidated financial statements of 1&1 Drillisch AG is to be expected largely in the amount of the obligations from the operating leases and the resulting amortisation and interest effects that will replace today's operating lease expenditures.

In 2018, the Group carried out a detailed assessment of the consequences relating to IFRS 16. The effects from the initial application of IFRS 16 per 01/01/2019 are summarised as follows:

	01/01/2019 €k
Right-of-use assets	
Land and buildings	25,623
Fixtures, fittings and equipment	285
Total right-of-use assets	**25,908**
Lease liabilities	
Short-term leases	3,238
Long-term leases	22,670
Total lease liabilities	**25,908**

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

3. Significant discretionary decisions and estimates

During preparation of the 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 restatements in the carrying 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 restatement in the carrying values of assets and liabilities will become necessary within the next fiscal year are explained below.

Revenue realisation

The single-item sales prices for the hardware are determined on the basis of the so-called adjusted market assessment approach, which requires an assessment of the relevant market prices for the hardware. Changes in these assessments can affect the allocation of the transaction fees to the single performance obligations and consequently also have an impact on the amount and course of the revenue realisation over time.

Moreover, various other assumptions and assessments based on past experience and current knowledge at the point in time of the closing date made be made as part of the application of the portfolio approach. Changes in these assumptions and assessment may in their totality also have major effects on the amount and the course of the revenue realisation over time. For additional information, see items 2.1 and 6 of the notes.

Costs to fulfil and obtain contracts

The determination of the estimated useful life for the costs of the contract are based on values from experience and is subject to major uncertainties, in particular with respect to unforeseen customer or technology development. A change in the estimated amortisation terms affects the recognition of the expenditure over time. The carrying value of the costs of obtaining contracts per 31 December 2018 amounts to €167,985k (previous year: n/a). The carrying value of the costs of fulfilling contracts per 31 December 2018 amounts to €127,376k (previous year: n/a). For additional information, see items 24 and 32 of the notes.

Impairment 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 at any time there are indications of a possible impairment. 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. See item 30 of the notes for further details, including a sensitivity analysis of the major assumptions.

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 measurement 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 measurement 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, employee stock ownership programme and stock appreciation rights Drillisch) were incurred in the amount of €2,660k (previous year: €6,441k). For additional information, see item 45 of the notes.

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 restatements 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. The carrying value of the income tax liabilities per 31 December 2018 amounts to €37,985k (previous year: €47,046k). For additional information, see item 37 of the notes.

Trade accounts receivable and contract assets

Trade accounts receivable and contract assets are disclosed in the balance sheet less the valuation allowances that have been taken. Valuation allowances are taken on the basis of expected credit losses pursuant to regular reviews and measurements 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 carrying value of the receivables per 31 December 2018 came to €230,224k (previous year in accordance with IAS 39: €182,620k). The carrying value of the contract assets per 31 December 2018 amounts to €581,030k (previous year: n/a). For additional information, see items 19 and 20 of the notes.

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 carrying values of the inventories on the balance sheet date 31 December 2018 come to €89,548k (previous year: €46,467k). For additional information, see item 22 of the notes.

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 and amortised 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 carrying value of the tangible and intangible assets, excluding goodwill, per 31 December 2018 amounts to €761,075k (previous year: €916,117k). For additional information, see items 28 and 29 of the notes.

In the course of the sale of Versatel Group, a reassessment of the remaining clientele “mass market” in the continued operation was made in the previous year. A remaining useful life of 12 years was determined on the basis of experience values and current forecasts. The restatement was made prospectively. If the original useful life of 4 years had been retained, amortisation in the previous 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 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 carrying value of the goodwill per 31 December 2018 amounts to €2,932,943k (previous year: €2,932,943k). For additional information, see items 5 and 30 of the notes.

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 carrying value of the other provisions per 31 December 2018 amounts to €75,856k (previous year: €56,499k). For additional information, see items 40 and 54 of the notes.

4. Sales and discontinued operations

Sales and discontinued operations from the previous year

Within the framework of a structure agreement, Versatel Group was sold to United Internet Service Holding GmbH, effective per 31 May 2017. The background to this structure agreement was the separation between 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.

Profit and Loss Account – Versatel (Short Form)

	2017 (Jan.–May) €k
Sales	188,885
Cost of sales	-160,494
Distribution costs	-25,724
Administration costs	-14,847
Other operating expenses	-79
Other operating income	206,263
Results from operating activities	**194,004**
Financing expenses	-1,186
Financing income	488
Taxes on income	-22,375
RESULTS FROM DISCONTINUED OPERATION	**170,931**

A gain in the amount of €205,752k from the sale of the discontinued operation was recognised in the previous year.

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

	2017 €k
Sales	1,046
Cost of sales/Distribution costs	-9,212
Other expenditures	0
Financing expenses	-39
Financing income	535

The disposals of assets and liabilities of Versatel Group related to intangible assets, tangible assets and liabilities due to associated companies.

The consolidated capital flow statement from discontinued operation comprised the following items in the previous year:

Capital Flow Statement from Discontinued Operation (Short Form)

	2017 (Jan.–May) €k
Consolidated results from discontinued operation	170,931
Write-offs on intangible and tangible assets	51,317
Changes in the offset items for deferred tax assets	17,117
Results from deconsolidation	-205,752
Change assets-equity	19,871
Net inflow of funds from operating activity from discontinued operation	**53,484**
Net outflow of funds in investment sector from discontinued operation (change in investments and inflow of funds from disposals of intangible and tangible assets)	**-58,648**
Net outflow of funds in financing sector from discontinued operation (repayment of finance lease liabilities)	**-7,105**

5. Corporate mergers and holdings

Corporate mergers of the previous year

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 point in time of the initial consolidation and therefore the point in time of acquisition of Drillisch Group was 8 September 2017.

The fair value of the transferred consideration and the net cash inflow comprises the following items:

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

Cash flow from investment activities	€k
Assumed cash	33,125
NET INFLOW OF CASH	**33,125**

Within the scope of the corporate merger, no transaction costs were recognised because the transaction costs were incurred before the point in time of the corporate acquisition of 1&1 Drillisch Group and are not to be recognised because of the reverse acquisition.

Owing to the proximity in time of the corporate acquisition to the date of preparation, the purchase price allocation per 31 December 2017 was still provisional. The necessary purchase price allocation was carried out retroactively within the 12-month measurement period in accordance with IFRS 3. This did not result in any changes over the previous year.

The purchase price allocation results in goodwill in the amount of €2,825 million. The fair value of other intangible assets comes to €905.6 million. The acquired assets and liabilities are presented below on the basis of the concluded purchase price allocation:

	€k
ASSETS	
Assets	
Short-term	
Cash and cash equivalents	33,125
Trade accounts receivable	64,604
Inventories	6,427
Other financial assets	27,280
Other non-financial assets	38
Long-term	
Other financial assets	1,095
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 received on account	3,267
Income tax liabilities	20,007
Other short-term provisions	26,031
Other financial liabilities	22,372
Long-term	
Bank loans and overdrafts	53,116
Deferred tax liabilities	255,805
Other long-term provisions	1,315
Other financial liabilities	1,439
TOTAL LIABILITIES	**462,751**
TOTAL OF IDENTIFIED NET ASSETS	**625,491**
Goodwill from the corporate acquisition after purchase price allocation	**2,824,722**
TRANSFERRED CONSIDERATION	**3,450,213**

Gross trade accounts receivable amounted to €91.4 million, of which about 30% will presumably not be realised.

The goodwill that is not tax deductible is attributable above all to values that cannot be separated such as the expected synergy effects, strategic advantages and employee know-how.

As a consequence of the initial consolidation of Drillisch Group, sales increased by €221.1 million and the profit in fiscal year 2017 declined by €25.8 million. If 1&1 Drillisch AG had been included in the group of consolidated companies of 1&1 Drillisch Group per 1 January 2017, sales per 31 December 2017 would have increased by €426.0 million to €647.1 million and the consolidated profit would have improved by €39.6 million to €13.8 million.

Explanatory comments on comprehensive income statement

1&1 Drillisch AG was considered for only about four months in the comprehensive income statement of the consolidated financial statements per 31 December 2017. Th consequence is that the comparability of the comprehensive income statement from January to December 2018 with the statement of the previous year is limited. Additional information can be found in item 1 of the consolidated notes, “Acquisition of 1&1 Telecommunication SE in the previous year”.

Moreover, comparability is further limited because of the initial application of the accounting standard IFRS 15 “Revenue from Contracts with Customers”, which has been mandatory since 1 January 2018. The figures from the previous year have not been restated. Additional information can be found in item 2.2 of the consolidated notes, “Effects of new or modified IFRS”.

6. Sales revenues/Segment reporting

Segment reporting

Pursuant to IFRS 8, the identification of reporting 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 provision fees and the sale of 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 contract fees less any credit notes and restatements 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.

In the previous year, the sub-divisions “Drillisch Online” and “1&1 SE” were grouped together into one reporting segment in the segment “Access” because the products and services within these segments do not differ significantly. The goodwill for the two business segments was not deaggregated in the previous year because of the provisional nature of the purchase price allocation.

As part of the integration of 1&1 Drillisch into 1&1 Drillisch Group, the reporting of the two business segments was consolidated and simplified in fiscal year 2018. Since that time, the reporting for access solutions to the CODM has been based solely on 1&1 Drillisch Group. Part of this process included the merging of the two previous business segments “Access” and “Drillisch Online” into one business segment “Access”. Moreover, the management team and processes were standardised in key business units. For instance, hardware purchasing and the supply of products to customers for all the Group’s brands are handled by a central unit. Within the procurement of advance services of mobile products, synergies are realised from the better utilisation of network capacities, and the brand portfolio was revised and aligned with Group strategy in fiscal year 2018.

Another consequence of the integration measures and the exploitation of existing synergy factors is that the monitoring of the goodwill in the amount of €2,932,943k (previous year: €2,932,943k) by the CODM has taken place solely at the level of the reporting segment “Access” since fiscal year 2018. In consequence, the two cash-generating units that still existed in the previous year were merged into a single unit. See item 30 in the consolidated notes for additional details.

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 contract provisions. Revenue and the related expenditures are realised as soon as the aforementioned services have been performed and accepted by the customer.

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 segment “Access” primarily in terms of sales, segment gross profit based on segment cost of materials, the number of subscribers 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). The segment cost of materials is determined by application of the cost summary method. At this time, the distribution commissions and the costs of obtaining contracts pursuant to IFRS 15 are disclosed under segment cost of materials or purchased services. Transactions between the segments are charged at market prices.

Development of Access contracts in fiscal year 2018 (in millions)

	31/12/2018	31/12/2017
Access, total contracts	13.54	12.57

The segment reporting of 1&1 Drillisch for fiscal year 2018 is presented below:

	Access	MISCELLANEOUS	CONSOLIDATION	2018 Total
	€k	€k	€k	€k
Revenues with third parties	3,662,219	241	0	3,662,460
Intercompany revenues	0	11,488	-11,488	0
SEGMENT REVENUES	**3,662,219**	**11,729**	**-11,488**	**3,662,460**
Cost of materials external third parties	-2,457,427	-24	0	-2,457,451
Cost of materials from intercompany relationships	-4	-11	15	0
COST OF MATERIALS FOR SEGMENT	**-2,457,431**	**-35**	**15**	**-2,457,451**
GROSS PROFIT FOR SEGMENT	**1,204,788**	**11,694**	**-11,473**	**1,205,009**
SEGMENT EBITDA	**726,098**	**2,580**	**-6,754**	**721,924**

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 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 reconciliation of the total of the segment profits (EBITDA) with the profit before taxes on income is determined as shown below:

	2018 €k	2017 €k
Total segment profits (EBITDA)	721,924	503,991
Write-offs	-154,696	-64,088
Operating results	**567,227**	**439,903**
Financial results	-4,652	-8,573
PROFIT BEFORE TAXES ON INCOME	**562,575**	**431,330**

The customer structure during the reporting period did not reveal any significant concentration on individual customers. There are no customers in 1&1 Drillisch Group with whom more than 10% of the total external sales revenues are generated.

Additional information on sales revenues

Group sales revenues break down as shown below:

	2018 €m	2017 €m
Service revenues	2,882.3	2,661.8
Other sales revenues	780.2	150.5
TOTAL	3,662.5	2,812.3

Fiscal year 2018 saw for the first time (also a consequence of the initial application of IFRS 15) a breakdown of sales into Service revenues and Other sales revenues (primarily sales revenues of hardware). Since it is not possible to determine an objectively correct comparative figure because of the difference in the accounting standards applied in fiscal years 2018 and 2017 (2018: IFRS 15/2017: IAS 18), the definition used in the previous year is used for fiscal year 2017.

The Group discloses valuation allowances on trade accounts receivable and contract assets from contracts with customers in the reporting period. The figures are disclosed gross under the impairment losses from financial assets and amount to €85,219k. Under a disclosure carried forward in accordance with IAS 18, the value would have been €60,245k.

Contract balances developed as shown below during fiscal year 2018:

	31/12/2018 €k	01/01/2018 €k
Trade accounts receivable (item 19 of the notes)	230,224	170,020
Contract assets (item 20 of the notes)	581,030	338,212
Contract liabilities (item 39 of the notes)	22,058	33,991

In fiscal year 2018, €27,041k that was included in the contract liabilities at the beginning of the fiscal year was realised as sales.

The total amount of the transaction price of the performance obligations not satisfied at the end of the reporting period amounts to €1,124,699k per 31 December 2018. Contract renewals were not taken into account here and contract terms of less than one year are not included in accordance with IFRS 15.121. The following table shows the time frames indicating when a realisation of the transaction prices from not yet satisfied or partially unsatisfied performance obligations is to be expected:

€k

2019	**2020**	**> 2021**	
Q1-Q4	Q1-Q4	Q1-Q4	Total
829,687	295,012	0	1,124,699

The presented transaction prices refer to unfulfilled contractual obligations from client contracts with an original contract term of more than 12 months. They refer to service components with time-related revenue recognition and to contracts for which a one-off fee was invoiced; this fee is now recognized as revenue via the relevant initial minimum contract term.

7. Cost of sales

The cost of sales developed as follows:

	2018 €k	**2017** €k
Expenditures for purchased services	1,683,331	1,396,991
Expenditures for purchased goods	678,313	368,124
Personnel expenses	71,801	53,627
Write-offs	49,909	13,396
Miscellaneous	72,308	55,557
TOTAL	**2,555,662**	**1,887,695**

Cost of sales in comparison with sales rose over the previous year by 69.8% (previous year: 67.1%). As a consequence of the rise in the low-margin hardware sales and the additional negative effects on revenue from the reversal of the hardware sales from previous periods recognised through other comprehensive income at the beginning of the year pursuant to the application of IFRS 15, the gross margin fell from 32.8% in the previous year to 30.2%.

Other costs of sales encompass primarily costs for data centres and logistics costs.

8. Distribution costs

Distribution costs increased slightly over the previous year from €393,728k (14.0% of revenues) to €399,037k (10.9% of revenues). They include personnel expenses in the amount of €76,076k (previous year: €81,185k), write-offs in the amount of €97,488k (previous year: €43,457k) and other distribution costs in the amount of €225,473k (previous year: €269,085k). Expenses for purchased services or segment costs of materials in the amount of €95,807k (previous year: €18,702k) are disclosed under distribution costs. The increase in write-offs results primarily from customer relationships capitalised in the previous year. In the previous year, capitalised customer relationships from the acquisition of 1&1 Drillisch were amortised for a period of four months only. Other distribution costs comprise essentially customer acquisition costs, advertising, customer care and product management. Selling expenses of prior year also include expenses for up-front fees within marketing actions (€63,508k), due to the implementation of IFRS 15, the expenses are shown in cost of sales in fiscal year 2018.

9. Administration costs

Administration costs increased in the fiscal year from €74,407k (2.6% of revenues) to €104,895k (2.9% of revenues). They include personnel expenses in the amount of €30,394k (previous year: €28,264k), write-offs in the amount of €7,299k (previous year: €7,235k) and other administration costs in the amount of €67,202k (previous year: €38,908k). Other administration costs comprise essentially expenditures for receivables management, rent and legal and professional fees. The increase in other administration costs results primarily from the rise in professional fees.

10. Other operating expenses

Other operating expenses break down as follows:

	2018 €k	2017 €k
Bad debts*	n/a	24,985
Transaction costs	0	15,143
Miscellaneous	1,849	4,938
TOTAL	**1,849**	**45,066**

* The bad debts are presented separately in fiscal year 2018 because of the changed requirements of IAS 1.

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

The transaction costs in the previous year were related to expenses from the deconsolidation of yourfone Shop GmbH, Düsseldorf.

11. Other operating income

Other operating income breaks down as follows:

	2018 €k	2017 €k
Income from dunning charges and return debit notes	33,431	20,576
Income from the reversal of provisions	5,800	580
Damages	5,182	4,218
Income from disposal of assets	1,986	27
Rent income	934	857
Income from translation of foreign currencies	218	260
Other operating income associated companies	32	42
Miscellaneous	3,846	1,926
TOTAL	**51,429**	**28,486**

12. Impairment losses from receivables and contract assets

Impairment losses from receivables and contract assets comprise the following:

	2018 €k	2017 €k
Trade accounts receivable	60,245	n/a
Contract assets	24,974	n/a
TOTAL	**85,219**	n/a

Reference is made to item 2.1 “Impairment of financial assets in the notes regarding impairment expenses.

13. Write-offs

The development of fixed assets, including write-offs, is presented in the consolidated analysis of fixed assets movement (exhibit to consolidated notes).

Write-offs on intangible and tangible assets break down as follows:

	2018 €k	2017 €k
Cost of sales	49,909	13,396
Distribution costs	97,488	43,457
Administration costs	7,299	7,235
TOTAL	**154,696**	**64,088**

The write-offs also include write-offs on assets capitalised within the framework of corporate acquisitions. The write-off figures break down among the capitalised assets as shown below:

	2018 €k	2017 €k
Clientele	95,742	33,063
Licences	25,061	5,020
Software	6,471	1,685
TOTAL	**127,274**	**39,768**

The write-offs are distributed among the assets capitalised among the various business divisions within the framework of corporate acquisitions as follows:

	2018 €k	2017 €k
Cost of sales	31,532	6,705
Distribution costs	95,742	33,063
TOTAL	**127,274**	**39,768**

14. Personnel expenses

Personnel expenses are distributed among the business divisions as follows:

	2018 €k	2017 €k
Cost of sales	71,801	53,627
Distribution costs	76,076	81,185
Administration costs	30,394	28,264
TOTAL	**178,271**	**163,076**

Personnel expenses comprise the expenses for wages and salaries in the amount of €152,154k (previous year: €141,070k) and the expenses for social security in the amount of €26,117k (previous year: €22,007k).

Per 31 December 2018, the balance sheet closing date, the headcount of the workforce is 3,150 (previous year: 3,194); the headcount for vocational trainees is 60 (previous year: 61). The average number of employees in fiscal year 2018 amounts to 3,142 (previous year: 2,860); the average number of vocational trainees is 56 (previous year: 21).

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 2018, they total €10,555k (previous year: €9,819k) and include primarily the contributions paid to the government pension insurer in Germany.

15. Financing expenses

The financing expenditures break down as follows:

	2018 €k	2017 €k
Financing expense from convertible bonds	3,798	0
Interest and similar expenses associated companies	500	8,008
Interest expenses from tax audits	353	93
Bank fees and commissions	122	126
Guarantee commissions	128	184
Interest expenses from current accounts	0	314
Interest expenses from compounding long-term provisions	0	309
Miscellaneous	376	485
TOTAL	**5,277**	**9,519**

As the contingent capital earmarked for service of conversions from the convertible bond programme was exhausted in the previous year, conversions in 2018 were settled in cash. The amounts exceeding the nominal amount of the convertible bond liability were to be recognised as financing expenses. Additional information can be found in item 35 of the notes.

Interest paid to associated companies concerns primarily interest on loans 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 on loans from associated companies.

Reference is made here to the disclosure under point 51 of the notes concerning the interest paid to associated companies.

16. Financial income

The financial income breaks down as follows:

	2018 €k	2017 €k
Interest income from tax audits	304	607
Interest and similar income associated companies	100	288
Miscellaneous	221	51
TOTAL	**625**	**946**

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

Reference is made here to the disclosure under point 51 of the notes concerning the interest income from associated companies.

17. Tax expenses

Tax expenses in the Group break down as follows:

	2018 €k	2017 €k
Current taxes on income	168,922	140,261
Deferred taxes	-12,379	-19,302
DISCLOSED EXPENSES FOR INCOME TAXES	**156,543**	**120,959**

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.

The effective trade tax rate is dependent on the community where the Company operates. The average trade tax rate in fiscal year 2018 was about 14.34% (previous year: 15.47%). This led to a reduction in the group tax rate for deferred taxes to 30.17% (previous year 31.3%).

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

Current taxes on income include tax expenses from other periods in the amount of €35k and tax income from other periods in the amount of €2,441k (previous year tax expenses from other periods: €2,241k).

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 are determined from the following items:

	2018		2017	
	Deferred tax assets €k	Deferred tax liabilities €k	Deferred tax assets €k	Deferred tax liabilities €k
Intangible assets	43,260	-199,876	41,485	-243,150
Tangible assets	0	0	2	0
Inventories	64	-458	48	-233
Trade accounts receivable	0	0	7,172	0
Contract assets	8,007	-155,817	0	0
Other assets	906	-920	4,830	-2,300
Deferred expenses Costs to obtain and fulfil contracts	127,504	-89,088	84,561	0
Other equity	0	0	0	74
Other provisions	20,583	0	6,336	0
Contract liabilities	2,560	-4,934	0	0
Other liabilities	329	0	385	-129
GROSS VALUE	**203,213**	**-451,093**	**144,819**	**-245,738**
Accumulated deficits carried forward relevant for taxes	0	0	0	0
Balance	-203,213	203,213	-233	233
CONSOLIDATED BALANCE SHEET	**0**	**-247,880**	**144,586**	**-245,505**

The net liability position of deferred taxes per the balance sheet date of 31 December 2018 totalled €247,880k (previous year: €100,919k).

The total amount of the change in the balance of deferred taxes therefore amounts to €149,961k (previous year: €146,961k). The reason behind this change is fundamentally in the increase in deferred taxes from contract assets, contract liabilities and costs to obtain and fulfil contracts that in the reporting period 2018 were recognised through other comprehensive income at the beginning of the year pursuant to the initial application of IFRS 15.

The deferred taxes on intangible and tangible assets result essentially from the differing treatment of capitalised intangible assets in the consolidated financial statements and in the tax balance sheet within the framework of corporate acquisitions. The deferred tax assets on deferred expenses of the previous year 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.

Deferred taxes on other provisions result essentially from the initial recognition of provisions for termination charges related to IFRS 15 accounting.

The change in the balance of the deferred taxes in comparison with their status per 31 December 2017 can be determined as shown below:

	2018 €k	2017 €k
Deferred tax income	12,379	19,302
Changes recognised through other comprehensive income:		
- Initial application of new standards	-159,340	0
- Change in consolidated companies	0	-168,701
CHANGE IN THE BALANCE OF DEFERRED TAXES	**-146,961**	**-149,399**

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

	2018	2017
Expected tax rate	**30.2%**	**29.6%**
	€k	€k
Profit before income taxes from continued operations	**562,575**	**431,330**
- Tax expenses from application of the income tax rate	169,729	127,274
- Tax rate differences	0	3,125
- Tax rate changes	-8,710	449
- Actual and deferred taxes previous years	-5,059	4,002
- Employee stock ownership programme	0	-1,009
- Tax effects related to in-group disbursements and sales	1,993	2,300
- Losses of the fiscal year relevant for taxes for which < no deferred taxes were utilised	0	4,740
- Initial recognition of deferred tax assets	0	-22,564
- Balance of other tax-free income and non-deductible expenses	-1,410	2,642
Tax expenses pursuant to comprehensive income statement	**156,543**	**120,959**
Effective tax rate	**27.8%**	**28.0%**

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

Explanatory comments on the consolidated balance sheet

18. 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. Owing to the low interest rate at this time, that is currently even negative for credit balances denominated in euros, no interest is paid for credit balances in banks.

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.

As in the previous year, there were no restrictions on disposal of bank credit balances in the reporting period.

19. Trade accounts receivable

Per the balance sheet date 31 December 2018, net trade accounts receivable amounted to €230,224k (previous year in accordance with IAS 39: €182,620k) and break down as follows:

	31/12/2018 €k	**31/12/2017** €k
Trade accounts receivable	288,363	216,258
Less		
Valuation allowances	-58,139	-33,638
TRADE ACCOUNTS RECEIVABLE, NET	**230,224**	**182,620**
thereof trade receivables – **short-term**	230,224	182,620
thereof trade receivables – **long-term**	0	0

Per 31 December 2018, valuation allowances on trade accounts receivable amounted to €58,139k (previous year in accordance with IAS 39: €33,638k).

The development of the valuation allowances account is presented below:

	2018 €k	2017 €k
Per 1 January	33,638	10,604
Change IFRS 9	12,600	n/a
Utilisation	-44,456	-12,874
Additions through expenses	57,480	13,689
Reversal	-1,123	-2,252
Change IFRS 5	0	-2,312
Additions through corporate acquisition	0	26,783
PER 31 DECEMBER	**58,139**	**33,638**

The additions of valuation allowances through 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 satisfied.

The maximum default risk on the balance sheet date corresponds to the net carrying 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. Reference is made to item 52 of the notes.

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:

	31/12/2018 €k	31/12/2017 €k
Trade accounts receivable, net		
0-5 days	198,957	153,575
6-15 days	5,820	3,245
16-30 days	4,544	5,264
31-180 days	15,877	12,028
181-365 days	4,770	7,733
> 365 days	256	775
TOTAL	**230,224**	**182,620**

20. Contract assets

Per the balance sheet date 31 December 2018, net contract assets amount to €581,030k (previous year: n/a) and break down as follows:

	31/12/2018 €k	31/12/2017 €k
Contract assets	614,113	n/a
Less Valuation allowances	-33,083	n/a
CONTRACT ASSETS, NET	**581,030**	**n/a**
of which contract assets – **short-term**	414,925	n/a
of which contract assets – **long-term**	166,105	n/a

The valuation allowances on contract assets amount to €33,083k per 31 December 2018.

The development of the valuation allowances account is presented below:

	2018 €k
Per 1 January	26,032
Additions through expenses	24,974
Utilisation	-17,923
PER 31 DECEMBER	**33,083**

21. Receivables due from associated companies

Receivables due from associated companies per the balance sheet date amount to €41,879k (previous year: €168,261k) and are related to member companies of United Internet Group who are not included in the Group's consolidated accounts.

Reference is made here to item 51 of the notes concerning the accounts receivable from associated companies.

22. Inventories

Inventories comprise the following items:

	31/12/2018 €k	31/12/2017 €k
Merchandise (gross)		
- Mobile services/Mobile internet	77,734	33,120
- Hardware	8,745	9,936
- SIM cards	3,401	2,368
- Miscellaneous	1,028	1,774
	90,908	**47,198**
Less		
Valuation allowances	-3,457	-2,647
INVENTORIES, NET	**87,433**	**44,551**
Payments on account	2,115	1,916
INVENTORIES	**89,548**	**46,467**

As in the previous year, valuation allowances apply here solely to mobile services/mobile internet.

The cost of goods sold recognised as cost of materials under cost of sales from the sale of inventories amounts to €678,313k (previous year: €368,124k).

23. Short-term deferred expenses

Short-term deferred expenses per 31 December 2018 amount to €42,551k (previous year: €15,052k) 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.

24. Short-term costs to obtain and fulfil contracts

As of the balance sheet date, the final balances of the short-term capitalised costs to obtain contracts amount to €83,484k and the short-term capitalised costs to fulfil contracts amount to €73,686k. In the reporting period, the Group recognised expenses from deferred contract costs in the amount of €184.2 million, of which €94.3 million is attributed to costs of contract renewals and €89.9 million to costs of contract fulfilment.

25. Other short-term financial assets

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

	31/12/2018 €k	31/12/2017 €k
Receivables for promotion rebates	37,220	4,569
Creditors with debit balances	4,660	1,404
Receivables due from distribution partners	750	5,022
Receivables due from network operators	0	67,302
Miscellaneous	2,883	1,823
OTHER FINANCIAL ASSETS	**45,513**	**80,120**

26. Other short-term non-financial assets

	31/12/2018 €k	31/12/2017 €k
Corporate income tax	23,472	9,792
Trade tax	6,761	4,558
Value-added tax	5,524	2
Refund claims from return of hardware	3,049	0
OTHER NON-FINANCIAL ASSETS	**38,806**	**14,352**

27. Other long-term financial assets

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

	31/12/2018 €k	31/12/2017 €k
Other loans	819	851
Participating interests	589	1,071
Receivables from advance service providers	0	4,173
TOTAL	**1,408**	**6,095**

28. Tangible assets

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

	31/12/2018 €k	31/12/2017 €k
Cost of acquisition		
Operating equipment	24,414	24,560
Land and buildings	111	695
Payments on account	417	346
	24,942	**25,601**
Less		
Accrued amortisation	-10,683	-10,899
TANGIBLE ASSETS, NET	**14,259**	**14,702**

An alternative presentation of the development of tangible assets in fiscal years 2018 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 €336k (previous year: €814k).

The carrying value of the operating equipment held as part of finance leases per 31 December 2018 amounts to €225k (previous year: €765k).

29. Intangible assets (excluding goodwill)

Intangible assets excluding goodwill per 31 December break down as follows:

	31/12/2018 €k	31/12/2017 €k
Cost of acquisition		
Clientele	776,975	792,000
Trademark	56,300	56,300
Software and licences	152,749	150,254
Own produced intangible assets	3,094	0
Miscellaneous	1,789	1,528
	990,907	1,000,082
Less		
Accrued amortisation	-244,091	-98,668
INTANGIBLE ASSETS, NET	**746,816**	**901,414**

An alternative presentation of the development of intangible assets in fiscal years 2018 and 2017 is shown in the exhibit to the consolidated notes (consolidated analysis of fixed assets movement).

Cost of acquisition of customers in the amount of €776,975k (previous year: €792,000k) relate to the clientele capitalised within the framework of corporate acquisitions. The decline essentially concerns the reassessment of the clientele capitalised as part of the purchase price allocation that was recognised as contract assets in the course of the changeover to IFRS 15.

The carrying values of the intangible assets with an indeterminate useful life (trademark rights) amount to €56,300k (previous year: €56,300k). 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 in the fiscal year, just as in the previous year.

The following table gives an overview of the trademark rights attributed to the cash-generating unit of 1&1 Drillisch:

	31/12/2018 €k	31/12/2017 €k
yourfone	16,600	16,600
smartmobil.de	15,000	15,000
WinSim	9,800	9,800
simply	5,200	5,200
DeutschlandSIM	4,400	4,400
maXXim	2,700	2,700
PremiumSIM	2,200	2,200
BildConnect	200	200
Tecol	200	200
TOTAL	**56,300**	**56,300**

Own produced intangible assets include capitalised costs for software development.

30. Goodwill and impairment 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 was allocated to the cash-generating units for the purpose of the recoverability test.

In fiscal year 2018, the purchase price allocation for the acquisition of 1&1 Drillisch, including the distribution of the goodwill between the cash-generating units 1&1 Drillisch and 1&1 Telecom (which was still provisional in the previous year) was finalised.

Following the conclusion of extensive integration measures in fiscal year 2018, the two cash-generating units 1&1 Drillisch and 1&1 Telecom were merged into one cash-generating unit 1&1 Drillisch. The merger was also carried out because the two cash-generating units obtained a substantial share of their synergies from an advance service agreement of 1&1 Drillisch. The strategic orientation and management have since that time been performed for the cash-generating unit 1&1 Drillisch as an economic entity. The integration measures and the related interdependencies in the strategic orientation have resulting in the cash-generating unit 1&1 Drillisch becoming the smallest sector for which the management monitors the goodwill. The goodwill of the two cash-generating units has therefore been merged and the recoverability test has since that time been performed at this level, which is also the equivalent of the segment "Access". An impairment test, which did not result in any impairments, was carried out before the merger of the goodwill of the two cash-generating units.

Insofar as the impairment tests resulted in impairment losses, they are disclosed separately in the profit and loss statement and in the consolidated analysis of fixed assets movement.

There were no indications of any impairment in fiscal year 2018 or in the previous year.

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

	31/12/2018 €k	31/12/2017 €k
1&1 Drillisch	2,932,943	2,824,722
1&1 Telecom	n/a	108,221
GOODWILL	**2,932,943**	**2,932,943**

Scheduled recoverability test per 31 December 2018

The realisable amount of the cash-generating unit "1&1 Drillisch" is derived through the market price on the basis of the market capitalisation. The recoverable amount so established is almost completely attributable to the segment „Access". The hierarchy of the fair value less costs of disposal within the sense of IFRS 13 is classified as Level 1 for this impairment test. This fair value was checked for plausibility based on calculation of the attributable fair value using cash flow forecasts (level 3). Market capitalization as of balance sheet date was lower than the calculated attributable fair value so that they were intended for the purpose of impairment tests.

Disposal costs of approximately 0.2% (previous year: approximately 0.2%) were assumed for the determination of the fair value less costs of disposal.

As in the previous year, the impairment test for goodwill of 1&1 Drillisch did not result in any impairment loss.

The following table shows the basic assumptions for the cash flow model used for plausibility purposes which were used for the determination of the attributable fair value:

	Reporting period	Share of goodwill in total	Long-term growth rate	Discount factor after taxes	Revenue growth rate
1&1 Drillisch	2018	100%	0.5%	6%	5%
	2017	96.3%	0.5%	5%	3%
1&1 Telecom	2018	n/a	n/a	n/a	n/a
	2017	3.7%	0.5%	5%	3%

The cash flow forecasts are based on the Company's budgets for fiscal years 2019 to 2023. These planning calculations were extrapolated for the cash-generating unit by management on the basis of external market studies and internal assumptions. Since the expectation at the end of the detailed planning period (2023) is that a sustained revenue and result level will not have been reached, the detailed planning period has been extended by an interim phase for the years from 2024 to and including 2030, until a sustained revenue and result level is reached.

The cash flow forecasts are essentially dependent on the estimates of future sales revenues. The values of the sales revenues over the detailed planning period of the cash-generating unit are based on average annual growth rates of 5% (previous year: 3%). Another significant basic assumption for the planning of the cash-generating unit are user figures, the gross profit planning based on user figures and empirical values as well as underlying discount rates. Increasing user figures and gross profits are expected for the years to come.

The attributable fair value less disposal costs is mainly determined by the cash value of the perpetuity which reacts especially sensitive on changes of assumptions regarding long-term growth and discount factor. Management assumes an annual increase in cash flow of 0.5% (previous year: 0.5%) for the period of the perpetual annuity. This growth rate corresponds to the long-term average growth rate in the industry. The discount rates after taxes used in the fiscal year for the cash flow forecasts are at 6% (previous year: 5%).

The trademark rights disclosed in the balance sheet result from the acquisition of Drillisch Group and were measured at fair value less disposal costs by application of suitable measurement methods (licence price analogy method) and reviewed for recoverability on the balance sheet closing date in the course of the corporate merger. At this time, the cash flows relevant for the trademark were multiplied by the licence rates relevant for the trademark. These rates range between 0.25% and 0.5% (previous year: between 0.25% and 0.5%). The forecast of trademark-relevant cash flows was based on the same assumptions regarding market development and discount rates as used for the calculation of fair values for the cash-generating units.

No impairment was required for any of the trademarks in the fiscal year.

Sensitivity of the applied assumptions

The sensitivity of the information concerning an impairment in goodwill (alternatively made cash flow calculations) or the trademark values is dependent on the fundamental assumptions for the pertinent cash-generating unit.

During sensitivity analyses for the cash generating unit 1&1 Drillisch an increase of the discount rate (after taxes) of 1% and a decrease in long-term growth of perpetuity of 0.25% has been assumed. Based on these assumptions there may be no changes with regard to the impairment test.

As in the previous year, 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 carrying value that is significantly higher than the realisable amount.

31. 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 €182,334k per 31 December 2018 (previous year: €79,414k).

Final balances of advance payments for advance service fees amount to €220,254 (previous year: €86,298k) per the balance sheet closing date. They comprise a short-term component (disclosed under short-term deferred expenses) in the amount of €37,920k (previous year: €6,884k) and a long-term component in the amount of €182,334k (previous year: €79,414k). In fiscal year 2018, a total of €39,158k was recognised through expenses.

32. Long-term costs to obtain and fulfil contracts

As of the balance sheet date, the final balances of the long-term capitalised contract costs came to €84,501k for costs to obtain contracts and to €53,690k for costs to fulfil contracts.

33. Trade accounts payable

Trade accounts payable amount to €365,202k (previous year: €229,549k) per the balance sheet date 31 December 2018. 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.

34. Short-term liabilities due to associated companies

Short-term liabilities due to associated companies per the balance sheet date 31 December 2018 amount to €129,333k (previous year: €221,861k) and are related to member companies of United Internet Group that are not included in the Group's consolidated accounts.

Reference is made here to item 51 of the notes concerning liabilities due to associated companies.

35. Bank loans and overdrafts, debenture bonds and Other financial liabilities

a) Bank loans and overdrafts

A revolving loan agreement for a total of €100.0 million was agreed between the Commerzbank Aktiengesellschaft, Frankfurt am Main, and the BHF-Bank Aktiengesellschaft, Frankfurt am Main, 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 comprised two components: the EURIBOR applicable to the relevant interest period and a margin stipulated in the loan agreement.

1&1 Drillisch AG gave notice of termination of the loan agreement in fiscal year 2018.

b) Debenture bonds

In December 2013, 1&1 Drillisch AG issued non-subordinated convertible bonds with a total volume of €100.0 million 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 €12.4 million. An interest rate of 3.47% was applied for the allocation and led to an initial recognition of the bond of €86.1 million. 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 and conditions of the bonds, the conversion price was adjusted from the original €24.2869 to €19.7974 per share following disbursement of cash dividends in the years 2014, 2015, 2016, 2017 and in May 2018, corresponding to 5,051.168 shares per partial debenture. The term of the bond ended on 12 December 2018. Interest accrued 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 €3,100k in fiscal year 2018. The conversion did not result in any new shares because the contingent capital of 5,000,000 new shares stipulated for the convertible bond had been completely consumed in fiscal year 2017. The new shares issued as part of the conversions in fiscal year 2017 were entitled to dividends in fiscal year 2018. Interest and similar expenses in the amount of €3,798k were incurred in relation to the conversion (cf. item 15 of the notes).

36. Payments on account

Payments on account amount to €6,977k (previous year: €5,976k) per the balance sheet date 31 December 2018.

37. Income tax liabilities

The income tax liabilities break down as follows:

	31/12/2018 €k	31/12/2017 €k
Trade tax	7,826	16,310
Corporate income tax	7,613	12,955
Capital gains tax	22,546	17,781
Total	**37,985**	**47,046**

38. Deferred income

The deferred income includes primarily customers' advance payments for specific contracts.

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

39. Contract liabilities

The contract liabilities of €22,058k (previous year: €0k), of which €17,515k relates to short-term liabilities, include liabilities from refund obligations of one-time fees for revoked contracts and deferred income from one-time fees that were recognised through other comprehensive income in the reporting period 2018 at the beginning of the year pursuant to the application of IFRS 15 and that have since then been amortised through profit and loss.

40. Other provisions

The development of the provisions is presented below:

	Share-based payment	Restructuring	Litigation risks	Termination fees	Miscellaneous	Total
	€k	€k	€k	€k	€k	€k
1. JANUAR 2018	**6,631**	**11,900**	**19,507**	**0**	**18,461**	**56,499**
Restatement IFRS 15	0	0	0	60,841	-261	60,580
Utilisation	6,020	8,624	1,937	13,756	13,374	43,711
Reversal	720	1,916	14,386	0	3,227	20,249
Allocation	730	0	1,199	18,788	2,020	22,737
31. DEZEMBER 2018	**621**	**1,360**	**4,383**	**65,873**	**3,619**	**75,856**

Reference is made to the remarks under 45 Share-based payment for information regarding the provision for share-based payment.

Reference is made here to item 2.2 of the notes concerning provisions for termination charges.

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

The provision for restructuring concerns the costs relating to the sale of yourfone Shop GmbH.

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

Provisions in the amount of €65,971k (previous year: €1,895k) have a term of one to five years and €1,119k (previous year: €1,646k) have a term of more than five years.

41. Other short-term financial liabilities

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

	31/12/2018 €k	31/12/2017 €k
Other short-term financial liabilities		
Liabilities from salaries/personnel	15,080	19,181
Marketing and distribution costs/distribution commissions	11,552	6,758
Liabilities from rights of use	5,000	10,000
Customers with credit balances	2,788	3,062
Legal and professional fees, closing expenses	481	327
Obligations pursuant to finance leases	267	529
Debenture bonds	0	3,077
Miscellaneous	4,362	2,770
TOTAL	**39,530**	**45,704**

42. Other short-term non-financial liabilities

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

	31/12/2018 €k	31/12/2017 €k
Other short-term non-financial liabilities		
Value-added tax	17,481	20,495
Income and church tax due	2,521	3,260
TOTAL	**20,002**	**23,755**

43. Other long-term financial liabilities

Other long-term financial liabilities per 31 December 2018 amount to €128k (previous year: €6,338k). The Other long-term financial liabilities from the previous year concerned essentially liabilities from rights of use (€5,000k) and platform dismantling advance service providers (€1,058k) that were disclosed in the fiscal year under the short-term financial liabilities.

44. 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	365,202	0	0	**365,202**
Liabilities due to associated companies	129,333	0	0	**129,333**
Other financial liabilities	39,530	128	0	**39,658**
Income tax liabilities	37,985	0	0	**37,985**
Deferred income	21,614	0	0	**21,614**
Other non-financial liabilities	20,002	0	0	**20,002**
Contract liabilities	17,515	4,543	0	**22,058**
Other provisions	8,766	65,971	1,119	**75,856**
Payments received on account	6,977	0	0	**6,977**
TOTAL	**646,924**	**70,642**	**1,119**	**718,685**

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	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**
Deferred income	48,394	0	0	**48,394**
Income tax liabilities	47,046	0	0	**47,046**
Other financial liabilities	45,704	6,338	0	**52,042**
Other non-financial liabilities	23,755	0	0	**23,755**
Payments received on account	5,976	0	0	**5,976**
TOTAL	**646,924**	**70,642**	**1,119**	**718,685**

45. Share-based payment

There are three different employee stock ownership programmes in the reporting period 2018. One model, the so-called stock appreciation rights (SAR), is aimed at the group of executives and executive employees and is based on virtual share options of United Internet AG. 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. The third programme, the stock appreciation rights Drillisch (SAR), which was implemented in the first half of 2018, is aimed at executives and employees in key positions and is based on virtual stock options of 1&1 Drillisch AG.

Stock appreciation rights (SAR)

Executives of the 1&1 Drillisch AG Group (or of a subsidiary) 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 1&1 Drillisch AG Group 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.

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 regulations of IFRS 2.

The provision per 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 31/12/2018		
Vesting date	17/03/2014	12/05/2014	06/04/2017
Fair value	107 €k	433 €k	236 €k
Average market value per option	4.28 €	5.78 €	2.36 €
Exercise price	32.79 €	31.15 €	41.26 €
Dividend return	2.23 %	2.23 %	2.23 %
Volatility of the stock	24.92 %	24.92 %	24.92 %
Expected term (years)	5	5	5
Risk-free interest	0.00 %	0.00 %	0.00 %

	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 %

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 the 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 2018, the total expenditures from the employee stock ownership programme came to €1,122k (previous year: €5,390k). The previously recognised cumulative expenditure per 31 December 2018 for SARs exercised in the fiscal year and for SARs not yet exercised on the balance sheet date comes to €4,384k (previous year: €10,534k). Expenditures for future years will amount to €156k (previous year: €1,721k).

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 2017	**595,000**	**29.89**
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
Newly vested	100,000	41.26
OUTSTANDING ON 31 DECEMBER 2017	**375,000**	**28.03**
Exercised	-75,000	16.06
Exercised	-25,000	22.80
Exercised	-75,000	24.44
OUTSTANDING ON 31 DECEMBER 2018	**200,000**	**21.10**

The range of the exercise prices for the share options outstanding on the closing date is between €16.60 and €24.44 (previous year: €13.30 and €41.26).

Per 31 December 2018, the carrying value of the provisions from share-based payment amounts to €621k (previous year: €5,350k).

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 expired per 30 June 2018. The last dividend disbursement was carried out on 31 May 2018 on the basis of fiscal year 2017. Expenses in the amount of €181k were incurred with respect to the employee stock ownership programme in fiscal year 2018 (previous year: €1,051k). The total income from the employee stock ownership programme comes to €510k (previous year: expense of €1,026).

The obligation is reassessed at fair value per every balance sheet date. The provision related to the obligation for the employee stock ownership programme amounted in the previous year to €1,281k per 31 December 2017.

Stock appreciation rights Drillisch (SAR)

The third programme, the stock appreciation rights Drillisch (SAR), which was implemented in the first half of 2018, is aimed at executives and employees in key positions and is based on virtual stock options of 1&1 Drillisch AG.

An SAR Drillisch encompasses the commitment of 1&1 Drillisch AG (or one of its subsidiaries) to make payments to a person eligible for the option, the amount of which results from the development of the stock price and the operating results (EBIT) of 1&1 Drillisch AG (consolidated). So-called SARs are allocated to the participants in the SAR programme and allotted over a vesting period. One SAR corresponds to a virtual subscription right to one share of 1&1 Drillisch AG stock, but is not a share right and consequently is not a (genuine) option for the purchase of 1&1 Drillisch AG stock.

The claim pursuant to one SAR is dependent on the development of the stock price and of the EBIT. Moreover, various terms and conditions for exercise of the option must be considered. The SAR claim results from multiplication of the number of exercised SARs by an EBIT factor and the difference between exercise and initial price. The EBIT factor is derived from a percentage of the achievement of the EBIT targets of 1&1 Drillisch AG ("target EBIT"). The determining criterion for this is the point in time of the exercise of the past year. For the EBIT factor, only a range of between 80% (exercise threshold) and 120% (cap) of the achievement of the EBIT targets is taken into consideration. Initial and exercise prices are calculated as the average (arithmetic mean) of the final price determined in Xetra trading (or a functionally comparable successor system) on the Frankfurt Stock Exchange of the 1&1 Drillisch AG stock on the last 10 trading days before the initial date or the exercise date. Insofar as the percentage price increase is higher than EBIT growth, there is another cap regarding the price increase of 150%.

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.

1&1 Drillisch AG reserves the right, at its own discretion, to satisfy its obligation (or the obligation of the subsidiary) for the transfer of 1&1 Drillisch AG stock from its holding of treasury stock pursuant to the SAR programme by payment in cash to the eligible persons instead. Since there is currently no obligation for cash settlement, these commitments are disclosed as transactions with compensation through equity instruments.

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

Measurement parameters per 31/12/2018

Vesting date	01/01/2018	01/09/2018	**01/12/2018**
Fair value	4,274 €k	3,036 €k	2,513 €k
Number of SARs	60,000	60,000	60,000
Initial price	68.70 €	45.00 €	43.90 €
Closing date price	68.80 €	43.60 €	44.40 €
Dividend return	2.3 %	3.7 %	3.6 %
Volatility of the stock	24.0 %	32.6 %	38.1 %
Expected term (years)	5	5	5
Exercise threshold (EBIT factor)	80.0 %	80.0 %	80.0 %
CAP (EBIT factor)	120.0 %	120.0 %	120.0 %

The volatility assumed for the determination of the fair value was determined on the basis of the historic volatility for the last 12 months before the 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 2018, the total expenditures from the employee stock ownership programme came to €1,357k. The previously recognised cumulative expenditure per 31 December 2018 for SARs exercised in the fiscal year and for SARs not yet exercised on the balance sheet date comes to €1,357k. Expenditures for future years will amount to €8,466k.

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

	Number
OUTSTANDING ON 1 JANUARY 2018	**0**
Newly vested	60,000
Newly vested	60,000
Newly vested	60,000
OUTSTANDING ON 31 DECEMBER 2018	**180,000**

Equity

46. Share capital

The fully paid-in share capital before stock repurchases 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.

Per the balance sheet date, 400,704 shares (previous year: 0 shares) were held as treasury stock.

Treasury stock reduces equity and is not entitled to dividends.

Capital Increase I

On 16 May 2017, 1&1 Drillisch AG acquired a holding of about 7.75% in 1&1 Telecommunication SE 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 to 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 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 to 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;

» 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 by-laws 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 €100.0 million 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 €100.0 million and a term of five years. The term of the bond ended 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 extraordinary 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 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 extraordinary 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.

47. Reserves

Capital reserves per 31 December 2018 came to €2,433,531k (previous year: €2,447,085k). The decline results from the purchase of own shares in the amount of €-14,911k. Conversely, the capital reserves rose because of the addition related to the employee stock option programmes.

The increase from the previous year from €-1,067,670k per 1 January 2017 to €2,447,085 per 31 December 2017 resulted essentially from consolidation effects related to the presentation of the reverse acquisition.

Other contributions from the previous year concerned the contributions of receivables from cash pooling as other payments into the capital reserves.

Other equity per the balance sheet date comprises the following:

	2018 €k	2017 €k
Holdings		
- POSpulse GmbH, Berlin	-411	0
- PipesBox GmbH, Rostock	-281	0
Miscellaneous	-12	0
TOTAL	**-704**	**0**

Other equity in the amount of €0.7 million (previous year €0.0) includes the result from categories that are not subsequently reclassified in the profit and loss account and results from the first-time application of the IFRS 9 regulations in the context of the measurement of financial assets. In this case, changes in the fair market value of these financial assets are recognised as non-operating items in other equity.

48. Treasury 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 extraordinary 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.

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.

» 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 by-laws.

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 precluded in the same scope.

In fiscal year 2018, this repurchase right was exercised and 400,704 own shares were purchased on the stock exchange at an average share price of €38.31. The repurchase led to a reduction in the share capital by €440,774.40, corresponding to about 0.23% of the 1&1 Drillisch AG share capital. €1.10 of the purchase price per share was attributed to subscribed capital. Per 31 December 2018, 1&1 Drillisch AG held 400,704 shares of treasury stock representing €440,774.40 (0.23%) of the share capital.

49. Non-controlling interests

The non-controlling interests per 1 January 2017 concerned in full the shares of 1&1 Telecom Holding GmbH, Montabaur, held by 1&1 IONOS SE (former: 1&1 Internet SE) (associated company outside of 1&1 Drillisch Group) of €39,442k (15%).

On 15 December 2014, the shareholders' meeting of 1&1 Telecom Holding GmbH carried out a cash capital increase. Subsequent to the capital increase, 1&1 Telecommunication SE holds 85% and 1&1 IONOS 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 IONOS 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 with 1&1 IONOS 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.

50. Additional disclosures about the financial instruments

The table below presents the carrying value of each category of financial assets and liabilities per 31 December 2018:

	Measurement category per IFRS 9	Carrying value per 31/12/2018	Amortised costs	Fair value through other comprehensive income without recycling to profit and loss	Fair value through other comprehensive income with recycling to profit and loss	Fair value through profit or loss	Fair value per 31/12/2018
		€k	€k	€k	€k	€k	€k
Financial assets							
Cash and cash equivalents	ac	3,968	3,968	0	0	0	3,968
Trade accounts receivable	ac	230,224	230,224	0	0	0	230,224
Receivables due from associated companies	ac	41,879	41,879	0	0	0	41,879
Other short-term financial assets	ac	45,513	45,513	0	0	0	45,513
Other long-term financial assets							
- Participating interests	fvoci	589	0	589	0	0	589
- Miscellaneous	ac	819	819	0	0	0	819
Financial liabilities							
Trade accounts payable	ac	-365,202	-365,202	0	0	0	-365,202
Liabilities due to associated companies	ac	-129,333	-129,333	0	0	0	-129,333
Other financial liabilities	ac	-39,658	-39,658	0	0	0	-39,658
thereof aggregated per classification categories:							
- Financial assets at amortised cost	ac	322,403	322,403	0	0	0	322,403
- Financial assets at fair value through other comprehensive income without recycling to profit and loss	fvoci	589	0	589	0	0	589
- Financial assets at fair value through profit or loss	fvtpl	0	0	0	0	0	0
- Financial liabilities at amortised cost	ac	-534,193	-534,193	0	0	0	-534,193
- Financial liabilities at fair value through profit or loss	fvtpl	0	0	0	0	0	0

The following net results were disclosed for the specific categories of financial instruments pursuant to IFRS 9 in fiscal year 2018:

2018 **Net result according to measurement categories**	**Measurement categories pursuant to IFRS 9**	**Net gains and losses from subsequent measurement** **From interest and dividends**	**at fair value**	**Currency translation**	**Valuation allowance**	**Net result**
		€k	€k	€k	€k	€k
Financial assets measured at amortised cost	ac	625	0	138	-60,245	-59,482
Financial assets measured at fair value						
- through other comprehensive income	fvoci	0	0	0	-692	-692
- through profit and loss	fvtpl	0	0	0	0	0
Financial liabilities measured at amortised cost	ac	-5,277	0	-59	0	-5,336
Financial liabilities measured at fair value						
- through profit and loss	fltpl	0	0	0	0	0
Total		-4,652	0	79	-60,938	-65,510

Cash and cash equivalents, trade accounts receivable and other short-term financial assets have short remaining terms. Their carrying values on the closing date are consequently close to fair value.

Participations and holdings are disclosed at fair value. It is assumed for the remaining other long-term assets, which are disclosed in the balance sheet at amortised cost, that their carrying value is equivalent to fair value.

Trade accounts payable have short remaining terms; the disclosed values represent approximately the fair values.

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

	Measurement category per IFRS 9	Carrying value per 31/12/2017 €k	Amortised costs €k	Fair value through other comprehensive income without recycling to profit and loss €k	Fair value through other comprehensive income with recycling to profit and loss €k	Fair value through profit or loss €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	1,071	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 com-panies	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 per measurement categories:							
- Loans and receivables (lar)	lar	585,706	585,706	0	0	0	585,706
- Available-for-sale (AFS)	afs	1,071	0	1,071	0	0	1,071
- Financial liabilities measured at amortised cost (FLAC)	flac	-503,451	-503,451	0	0	0	-503,451
- Hedging derivatives (HD) (negative market value)	hd	0	0	0	0	0	0

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 measurement categories	Measurement categories pursuant to IAS 39 €k	Nettogewinne und -verluste aus der Folgebewertung From interest and dividends €k	Currency translation €k	Valuation allowance €k	Net result €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 methods and assumptions applied to the determination of the fair value are, as in the previous year, shown below:

- Cash and short-term contributions, trade receivables, trade accounts payable and other short-term assets and liabilities come very close to their carrying value, primarily because of the short terms of these instruments.
- Long-term receivables/loans subject to fixed and variable interest rates are measured 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 defaults of these receivables. Per 31 December 2018, as in the previous year, the carrying values of these receivables less the valuation allowances do not differ significantly from the fair value calculated for them.
- The fair value of other financial liabilities and of other long-term financial liabilities is estimated by discounting future cash flows in application of interest rates currently available for borrowing at comparable conditions, credit risks and remaining terms. Per 31 December 2018, as in the previous year, the carrying 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.

51. 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 chairman, Frankfurt am Main
– Chairman –

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

» United Internet AG, Montabaur (Supervisory Board deputy chairman)

» 1&1 IONOS SE, Montabaur (previously 1&1 Internet SE, Montabaur) (until 14 September 2018)

» 1&1 Telecommunication SE, Montabaur (Supervisory Board chairman)

» 1&1 Mail & Media Applications SE, Montabaur

» 1&1 Internet Holding SE, Montabaur (since 5 September 2018)

» STRATO AG, Berlin (until 5 October 2018)

» Drillisch Online GmbH, Maintal (from 17 January 2018 until the change in legal form on 18 July 2018)

Kai-Uwe Ricke,
member of the Administration Board of Delta Partners, Dubai, Stallikon/Switzerland
– Deputy Chairman –

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

- United Internet AG, Montabaur
- Drillisch Online GmbH, Maintal
  (Supervisory Board chairman from 1 January 2018
  until the change in legal form on 18 July 2018)
- 1&1 IONOS SE, Montabaur (previously 1&1 Internet SE, Montabaur)
  (until 14 September 2018)
- 1&1 Telecommunication SE, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur (Supervisory Board chairman)
- STRATO AG, Berlin (until 5 October 2018)
- 1&1 Internet Holding SE (since 5 September 2018)
- EUN Holdings LLP, Delaware/USA (until 11 January 2018)
- Delta Partners, Dubai/Emirate Dubai
- Delta Partners Capital Limited, Dubai
- Delta Partners Growth Fund II GP Limited, Cayman Islands
- Delta Partners Growth Fund II (Carry) General Partner Limited, Cayman Islands
- EUNetworks Group Limited, London/UK (since 26 September 2018)
- SUSI Partners AG, Zurich/Switzerland (member of the Administration Board)
- Virgin Mobile CEE B.V., Amsterdam/The Netherlands
- Virgin Mobile Polska sp.z.o.o, Poland
  (Administration Board chairman since 27 February 2018)
- Cash Credit Limited, Cayman Islands

Kurt Dobitsch,
Supervisory Board chairman of United Internet AG, Markt Schwaben

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

- United Internet AG, Montabaur (Supervisory Board chairman)
- Drillisch Online GmbH, Maintal (Supervisory Board deputy chairman
  from 23 January 2018 until the change in legal form on 18 July 2018)
- 1&1 Telecommunication SE, Montabaur (Supervisory Board deputy chairman)

- 1&1 Mail & Media Applications SE, Montabaur (Supervisory Board deputy chairman)
- Nemetschek SE, Munich (previously Nemetschek AG, Munich) (Supervisory Board chairman)
- Bechtle AG, Gaildorf
- Graphisoft S.E., Budapest/Hungary
- Singhammer IT Consulting AG, Munich
- Vectorworks Inc., Columbia/USA

Norbert Lang,
merchant, Waldbrunn

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

- Rocket Internet SE, Berlin (Supervisory Board deputy chairman until 23 June 2018, thereafter Supervisory Board member)
- 1&1 Telecommunication SE, Montabaur (since 19 January 2018)
- Drillisch Online GmbH, Maintal (from 17 January 2018 until the change in legal form on 18 July 2018)

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

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

- Drillisch Online GmbH, Maintal (Supervisory Board deputy chairman until 23 January 2018, thereafter Supervisory Board member until the change in legal form on 18 July 2018)
- Drillisch Netz AG, Krefeld (until 30 June 2018)
- 1&1 Telecommunication SE, Montabaur (since 19 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 GmbH, Maintal (from 1 January 2018 until the change in legal form on 18 July 2018)
- 1&1 Telecommunication SE, Montabaur (since 19 January 2018)

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 chairman)
- 1&1 IONOS SE, Montabaur
(previously 1&1 Internet SE, Montabaur) (until 14 September 2018)
- 1&1 Internet Holding SE, Montabaur
(Supervisory Board deputy chairman since 5 September 2018)
- STRATO AG, Berlin (until 5 October 2018)

Martin Witt,
Management Board, Reichertshausen

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

- 1&1 Versatel Deutschland GmbH, Düsseldorf (Advisory Board chairman)
- Versatel Telecommunications GmbH, Düsseldorf
- IQ-optimize Software AG, Maintal (since 1 January 2018)
- Drillisch Netz AG, Krefeld
(since 1 July 2018 Supervisory Board member,
since 2 July 2018 Supervisory Board chairman)

André Driesen,
Management Board, Krefeld

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

- IQ-optimize Software AG, Maintal
(Supervisory Board deputy chairman since 17 January 2018)
- Drillisch Netz AG, Krefeld (until 2 July 2018 Supervisory Board chairman,
subsequently Supervisory Board member)

Remuneration paid to management in key positions and to the Supervisory Board

Remuneration paid to Management Board members in 2018 totalled €1,416k, thereof €690k variable (previous year: €3,661k, thereof €2,070k variable). The total remuneration paid to Management Board members in the previous year comprises the pro rata temporis remuneration 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 from January to and including August and the remuneration of the Management Board members of the legal acquirer (pursuant to IFRS 3. no. 6 in conjunction with IFRS 3B19: the former Drillisch AG) for the period from September to December 2017.

Remuneration paid to the Supervisory Board in 2018 totalled €316k (previous year: €270k).

The description of the remuneration system and the itemised disclosures of the remuneration paid to the officers and directors of 1&1 Drillisch AG (perspective of the legal acquirer) are shown in the remuneration report that is a component of the consolidated management report.

Directors' Holdings

Per 31 December 2018, Management Board members held the following shares in 1&1 Drillisch AG. United Internet AG, Montabaur, held 73.29% of the stock in 1&1 Drillisch AG per the closing date 31 December 2018. Per 31 December 2018, Mr Ralph Dommermuth in turn indirectly held 41% of the share capital (as reduced by own shares) of United Internet AG through holding companies.

Supervisory Board members held the following shares in 1&1 Drillisch AG per 31 December 2018: Supervisory Board member Vlasios Choulidis, 273,333 no-par shares (of which 65,000 shares via MV Beteiligungs GmbH) totalling 0.16% of the stock of 1&1 Drillisch AG.

Transactions with associated companies

All of the companies included in the consolidated 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:

	31/12/2018 €k	31/12/2017 €k
1&1 IONOS Group (previously: 1&1 Internet Group)	30,993	2,692
United Internet Services Holding GmbH	6,523	157,897
Subgroup Versatel	0	6,108
Miscellaneous	4,363	1,564
TOTAL	**41,879**	**168,261**

Short-term receivables are all trade receivables.

Of the disclosed receivables, €0k (previous year: €16k) 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 previous year in the amount of €157,897k resulted from the sale of Versatel stock.

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 2018. 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:

	31/12/2018 €k	31/12/2017 €k
Versatel Group	32,446	26,405
United Internet AG	32,054	2,297
1&1 IONOS Group (previously: 1&1 Internet Group)	28,301	160,795
United Internet Corporate Services	16,177	460
1&1 Mail & Media GmbH	14,298	23,996
Miscellaneous	6,057	7,907
TOTAL	**129,333**	**221,861**

Liabilities due to associated companies result above all from trade and from loans. The open balances existing at the end of the fiscal year are unsecured and, with the exception of liabilities owed to United Internet AG, interest-free and are settled by cash payment. There are no guarantees.

Of the disclosed liabilities, €32,054k (previous year: €2,297k) comprise liabilities due to the parent company (United Internet AG).

The parent company, United Internet AG, has granted to 1&1 Drillisch AG a credit line with an indeterminate term totalling €200 million. Per the balance sheet date, €32 million of this credit line had been utilised.

Liabilities due to 1&1 IONOS SE (previously: 1&1 Internet SE) in the previous year in the amount of €160,795k resulted essentially from the exercise of the call option (€156 million) for the acquisition of the remaining 15% of the stock in 1&1 Telecom Holding GmbH.

The liabilities are due within one year.

Long-term liabilities from fiscal year 2016 relating to a loan from United Internet AG in the amount of €1,003,963k no longer existed per 31 December 2017 because they had been offset against purchase price receivables and a capital contribution stipulated as part of the structural agreement for Versatel. See item 55 "Consolidated capital flow statement" for detailed information.

The following table presents the total amount of the transactions with associated companies:

Purchases/services from related parties 2018 €k	Purchases/services to related parties 2018 €k	Purchases/services from related parties 2017 €k	Purchases/services to related parties 2017 €k
179,813	36,344	140,038	39,110

The transactions with associated companies concern primarily issues from internal offsets of performances.

Of the disclosed expenses, €4.744k (previous year: €172k) are related to the parent company, United Internet AG.

No receivables due from or liabilities due to the related parties mentioned below exist per 31 December 2018.

The business premises of 1&1 Drillisch in Montabaur and Karlsruhe are leased to 1&1 Drillisch by 1&1 IONOS SE (previously: 1&1 Internet SE), a member company of United Internet Group. 1&1 IONOS SE has leased these premises in part from Mr Ralph Dommermuth. The resulting rent costs are charged forward proportionately to 1&1 Drillisch and are at a level usual in the area. The resulting rent expenses incurred during the reporting period amounted to €5,892k (previous year: €6,023k).

The company VPM Immobilien Verwaltungs GmbH, Maintal (member of 1&1 Drillisch AG Supervisory Board – Mr Vlasios Choulidis) has leased office space in Maintal to 1&1 Drillisch. The lease runs until 31 December 2020. The rent expenses during the reporting period amounted to €169k (previous year: period from September 2017 to December 2017 €60k).

The interest expenses and interest income realised with associated companies in each fiscal year are presented in the table below:

Interest income 2018 €k	Interest and similar expenses 2018 €k	Interest income 2017 €k	Interest and similar expenses 2017 €k
100	499	288	8,011

Interest income and interest expenses are related above all to the interest paid on loans with the parent company United Internet AG.

52. Objectives and methods of financial risk management

Basic principles of risk management

The system principles of the risk management system at 1&1 Drillisch 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 2018 and per 31 December 2017. The repayment plus the contractually determined minimum interest payment are shown in the specific year columns within the table.

	Carrying value	Cash outflow for repayment and interest in the fiscal year		
	31/12/2018 €k	2019 €k	2020 €k	Total €k
Liabilities due to associated companies	129,333	129,333	0	**129,333**
Trade accounts payable	365,202	365,202	0	**365,202**
Other financial liabilities	39,658	39,530	128	**39,658**

	Carrying value	Cash outflow for repayment and interest in the fiscal year		
	31/12/2017 €k	2018 €k	2019 €k	Total €k
Liabilities due to associated companies	221,861	221,861	0	**221,861**
Trade accounts payable	229,549	229,549	0	**229,549**
Other financial liabilities	52,041	45,703	6,338	**52,041**

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 51. Related parties disclosures.

Owing to the continuing expansive interest rate policy of the European Central Bank, the relevant EURIBOR interest rate per the closing date is negative. 1&1 Drillisch does not expect any significant change in the risk surcharges in the foreseeable future.

The Group is not vulnerable to any significant interest risks from other circumstances. There are no bank loans and overdrafts.

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 given due 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 19 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 by-laws 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 capital 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 2018 or per 31 December 2017.

53. 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 40).

The Group companies did not submit any guarantees as of the balance sheet date.

Investment expenses required by contract obligations per the balance sheet date, but that have not yet been incurred, amount to €336k (previous year: €814k).

54. Disclosures of lease 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:

	31/12/2018 €k	31/12/2017 €k
Up to 1 year	3,760	3,300
1 to 5 years	8,199	4,950
More than 5 years	11,929	7,601
TOTAL	**23,888**	**15,851**

During the reporting period, payments from operating leasing in the amount of €1,483k (previous year: €3,947k) were made.

In addition, other financial liabilities are related to the procurements of supplies and services and amount to €3m that will be due in 2019.

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 range of hundreds of millions. 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 leases

The payment obligations resulting from finance leases 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 leases 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.

	2018		2017	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	€k	€k	€k	€k
Finance leases				
Up to 1 year	277	257	560	533
1 to 5 years	2	2	276	255
More than 5 years	0	0	0	0
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	**279**	**259**	**837**	**788**

Contingent liabilities and contingent debts

Contingent liabilities represent a possible obligation that may arise because of the occurrence of one or more uncertain future events or a current liability for which payment will likely not be required or for which the amount of the obligation cannot be estimated with adequate certainty.

Advance service providers have reported claims in a low range of hundreds of millions per the balance sheet date 31 December 2018. 1&1 Drillisch AG regards the claims from each of the opposing parties to be unfounded and does not consider an outflow of resources for these contingent debts to be likely.

There are no contingent liabilities per the balance sheet closing dates 31 December 2018 and 31 December 2017.

55. Consolidated cash flow statement

The net payments from operating activities in fiscal year 2018 include interest paid in the amount of €4,722k (previous year: €14,854k) and interest received in the amount of €643k (previous year: €704k).

Taxes paid for fiscal year 2018 in the amount of €193,647k (previous year: €154,123k) concern the ongoing corporate income tax, including solidarity surcharge, and ongoing trade tax. Payments for taxes on income amount to €6,032k (previous year: €188k).

With regard to the change in liabilities to related parties, cash inflows of EUR 200 million and outflows of EUR 168 million are included in cash flow from financing activities. With regard to the change in other financial liabilities, cash outflows of EUR 13.1 million are included in cash flow from financing activities

A retroactive outflow of funds in the amount of €8.3 million (previous year: €0.0) occurred with respect to yourfone Shop GmbH, which was deconsolidated per 31 December 2017.

The deconsolidation of the discontinued operation Versatel and the acquisition of Drillisch were treated as non-cash transactions in the previous year.

The composition of the cash corresponds to the item “Cash and cash equivalents” in the balance sheet.

56. Auditor’s fees

In fiscal year 2018, auditor’s fees in the amount of €921k were calculated in the consolidated financial statements. They include €728k for the audit of the financial statements, €40k for other confirmation services and €153k for tax accountant services. The final audit services encompass both the statutory mandatory audits and voluntary final audits and reviews.

57. Profit per share

The undiluted profit per share is calculated in accordance with IAS 33.9 et seqq. by dividing the consolidated profit from continued operation 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.

UNDILUTED CONSOLIDATED PROFIT PER SHARE	2018	2017
Consolidated profit from continued operation in €k	406,032	310,372
Consolidated profit from discontinued operation in €k	0	170,931
Weighted average less own shares held (number)	176,701,581	135,829,958
UNDILUTED CONSOLIDATED PROFIT PER SHARE FROM CONTINUED OPERATION IN €	**2.30**	**2.28**
UNDILUTED CONSOLIDATED PROFIT PER SHARE FROM DISCONTINUED OPERATION IN €	**0.00**	**1.14**

DILUTED CONSOLIDATED PROFIT PER SHARE	2018	2017
Consolidated profit from continued operation in €k	406,032	310,372
Consolidated profit from discontinued operation in €k	0	170,931
Net effect from conversion bond in €k	0	0
ADJUSTED CONSOLIDATED PROFIT FROM CONTINUED OPERATION IN €K	**406,032**	**310,372**
ADJUSTED CONSOLIDATED PROFIT FROM DISCONTINUED OPERATION IN €K	**0**	**170,931**
Weighted average less own shares held (number)	176,701,581	135,829,958
Shares from convertible bond to be included as average (number)	0	0
ADJUSTED WEIGHTED AVERAGE LESS OWN SHARES HELD (NUMBER)	**176,701,581**	**135,829,958**
DILUTED CONSOLIDATED PROFIT PER SHARE FROM CONTINUED OPERATION IN €	**2.30**	**2.28**
DILUTED CONSOLIDATED PROFIT PER SHARE FROM DISCONTINUED OPERATION IN €	**0.00**	**1.14**

58. Dividend per share

The Annual General Meeting of 1&1 Drillisch AG on 17 May 2018 agreed to the resolution proposal submitted by Management Board and Supervisory Board for the disbursement of a dividend in the amount of €1.60 per share. The dividend disbursement totalling €282.8 million was carried out on 18 May 2018.

In accordance with Section 21 of the by-laws of 1&1 Drillisch AG, the General Meeting decides on the utilisation of the unappropriated retained earnings. The Management Board proposes to the Supervisory Board a dividend for fiscal year 2018 as follows:

» Payment of a dividend in the amount of €0.05 per share in the event that Drillisch Netz AG acquires frequencies as a result of the 5G frequency auction by 20 May 2019. This proposal is oriented to the minimum dividend required in Section 254 (1) AktG. Assuming 176.2 million shares entitled to dividends, this would result in a total disbursement of €8.8 million for fiscal year 2018.

» Payment of a dividend in the amount of €1.80 per share in the event that Drillisch Netz AG does not acquire frequencies as a result of the 5G frequency auction by 20 May 2019. Assuming 176.2 million shares entitled to dividends, this would result in a total disbursement of €317.3 million for fiscal year 2018.

Management Board and Supervisory Board will discuss this dividend proposal for fiscal year 2018 in the Supervisory Board meeting on 27 March 2019.

Pursuant to Section 71b AktG, the Company is not entitled to any rights from own stock and consequently is not entitled to a proportionate disbursement. As of the date of the signing of the consolidated financial statements, 1&1 Drillisch Group holds 500,000 shares (previous year: 0 shares) of own stock.

59. 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 2018 and made it permanently accessible to shareholders at the Internet address www.1und1-drillisch.de.

60. Exemption from the obligation to disclose the 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 2018:

- Drillisch Online GmbH, Maintal (previously 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
- Blitz 17-665 SE, Munich
- Blitz 17-666 SE, Munich

61. Incidents after the balance sheet date

On 24 January 2019, the 1&1 Drillisch AG Management Board, with the consent of the Supervisory Board, decided to submit an application to the Federal Network Agency in accordance with the decision BK1-17/001 for participation in the auction for the awarding of mobile network frequencies ("5G Frequency Auction") in the ranges 2 GHz and 3.6 GHz and, in the event of the successful acquisition of frequencies, to establish and operate a 5G mobile network. The applicant is the wholly-owned group subsidiary of 1&1 Drillisch AG, Drillisch Netz AG, Krefeld. The Company is confident that, by taking this step, it can lay the foundation for the successful and long-term positioning of 1&1 Drillisch Group as the fourth mobile network operator in Germany and make a substantial contribution to turning Germany into a leading market for 5G in Europe.

Moreover, 1&1 Drillisch concluded an agreement with a European bank syndicate on 24 January 2019 for its own credit lines (in addition to the in-company credit lines with United Internet AG) in the amount of €2.8 billion. These credit lines are available to 1&1 Drillisch in addition to its current liquidity and the sustained cash flows from operational business activities.

1&1 Drillisch also announced on 24 January 2019 that the Company's Management Board and Supervisory Board will (in the event of the acquisition of frequencies) review the 1&1 Drillisch dividend policy to determine whether it should be modified in such a way that a reduction in the disbursement quota will ensure that the Company at its disposal additional investment funds for the establishment of a powerful mobile network. 1&1 Drillisch's current dividend policy provides that about 80% of the operating consolidated profit is to be disbursed as dividends unless the funds are required for further corporate development.

1&1 Drillisch assumes there will be a decision with retroactive effect by the assessing arbitrator regarding the price adjustment with a wholesale supplier. This is now expected in summer 2019. Depending on the point in time at which this decision by the assessing arbitrator is made, the positive business results expected by 1&1 Drillisch will not be booked until fiscal year 2019.

The 1&1 Drillisch AG Management Board decided on 5 March 2019 to terminate prematurely the stock repurchase programme.

Maintal, 25 March 2019

1&1 Drillisch Aktiengesellschaft

Ralph Dommermuth	Martin Witt	André Driesen

CHANGE IN INTANGIBLE ASSETS AND FIXED ASSETS

in fiscal year 2018 in €k

2018	Cost of acquisition and manufacturing		
	01/01/2018 €k	Reclassification IFRS 15* €k	Additions €k
Intangible Assets			
Purchased software and licences	150,254	0	5,004
Own produced software	0	0	3,094
Brand	56,300	0	0
Clientele	792,000	-15,025	0
Miscellaneous	1,528	0	1,747
Goodwill	2,932,943	0	0
Subtotal (I)	**3,933,026**	**-15,025**	**9,845**
Tangible assets			
Land and buildings	695	0	0
Telecommunications systems	0	0	0
Network infrastructure	0	0	0
Fixtures, fittings and equipment	24,560	0	5,227
Payments on account	346	0	417
Subtotal (II)	**25,601**	**0**	**5,644**
TOTAL	**3,958,628**	**-15,025**	**15,489**

2018	Accrued depreciation		
	01/01/2018 €k	Additions €k	Disposals €k
Intangible Assets			
Purchased software and licences	33,176	52,919	3,559
Own produced software	0	322	0
Brand	0	0	0
Clientele	65,484	95,742	0
Miscellaneous	9	0	1
Goodwill	0	0	0
Subtotal (I)	**98,668**	**148,983**	**3,560**
Tangible assets			
Land and buildings	1	671	585
Telecommunications systems	0	0	0
Network infrastructure	0	0	0
Fixtures, fittings and equipment	10,899	5,042	5,344
Payments on account	0	0	0
Subtotal (II)	**10,899**	**5,713**	**5,929**
TOTAL	**109,567**	**154,696**	**9,489**

* Additional information can be found in point 2.2 of the consolidated notes, “Effects of new or modified IFRS”.

	Disposals €k	Transfers €k	Additions in the context of corporate acquisitions €k	Disposals from discontinued operations €k	31/12/2018 €k
	3,732	1,223	0	0	152,749
	0	0	0	0	3,094
	0	0	0	0	56,300
	0	0	0	0	776,975
	264	-1,223	0	0	1,789
	0	0	0	0	2,932,943
	3,996	**0**	**0**	**0**	**3,923,850**
	587	4	0	0	111
	0	0	0	0	0
	0	0	0	0	0
	5,707	334	0	0	24,414
	9	-338	0	0	417
	6,303	**0**	0	0	**24,942**
	10,299	**0**	**0**	**0**	**3,948,792**

	Transfers €k	Disposals from discontinued operations €k	31/12/2018 €k	Net book value 31/12/2017 €k	Net book value 31,12,2018 €k
	0	0	**82,536**	117,079	70,214
	0	0	322	0	2,772
	0	0	0	56,300	56,300
	0	0	161,226	726,516	615,749
	0	0	8	1,520	1,781
	0	0	0	2,932,943	2,932,943
	0	**0**	**244,091**	**3,834,358**	**3,679,759**
	0	0	86	694	25
	0	0	0	0	0
	0	0	0	0	0
	0	0	10,597	13,662	13,817
	0	0	0	346	417
	0	**0**	**10,683**	**14,702**	**14,259**
	0	**0**	**254,774**	**3,849,060**	**3,694,019**

CHANGE IN INTANGIBLE ASSETS AND FIXED ASSETS

in fiscal year 2017 in €k

2017	Cost of acquisition and manufacturing		
	01/01/2017 €k	Reclassification IFRS 15 €k	Additions €k
Intangible Assets			
Purchased software and licences	42,395	0	10,163
Brand	62,000	0	0
Clientele	187,100	0	0
Miscellaneous	6,305	0	1,887
Goodwill	506,482	0	0
Subtotal (I)	**804,282**	**0**	**12,049**
Tangible assets			
Land and buildings	1,850	0	708
Telecommunications systems	554,077	0	57,369
Network infrastructure	186,685	0	3,054
Fixtures, fittings and equipment	28,866	0	7,919
Payments on account	26,305	0	1,312
Subtotal (II)	**797,783**	**0**	**70,362**
TOTAL	**1,602,065**	**0**	**82,411**

2017	Accrued depreciation		
	01/01/2017 €k	Additions €k	Disposals €k
Intangible Assets			
Purchased software and licences	12,511	24,812	-225
Brand	0	0	0
Clientele	40,892	39,591	0
Miscellaneous	1,225	171	292
Goodwill	0	0	0
Subtotal (I)	**54,627**	**64,574**	**67**
Tangible assets			
Land and buildings	409	2,528	2,460
Telecommunications systems	161,288	31,183	177
Network infrastructure	63,243	11,397	20
Fixtures, fittings and equipment	14,710	5,723	2,656
Payments on account	2,914	0	0
Subtotal (II)	**242,563**	**50,831**	**5,314**
TOTAL	**297,190**	**115,405**	**5,381**

	Disposals €k	Transfers €k	Additions in the context of corporate acquisitions €k	Disposals from discontinued operations €k	31/12/2017 €k
	111	1,360	107,506	-11,058	150,254
	0	0	56,300	-62,000	56,300
	0	0	741,800	-136,900	792,000
	311	-875	0	-5,478	1,528
	0	0	2,824,722	-398,261	2,932,943
	422	**485**	**3,730,328**	**-613,697**	**3,933,026**
	2,980	0	2,967	-1,850	695
	600	400	0	-611,247	0
	177	121	0	-189,682	0
	3,990	12	4,566	-12,812	24,560
	33	-1,019	0	-26,219	346
	7,781	**-485**	7,532	-841,810	**25,601**
	8,202	**0**	**3,737,860**	**-1,455,507**	**3,958,628**

				Net book value	
	Transfers €k	**Disposals from discontinued operations** €k	**31/12/2017** €k	**31/12/2016** €k	**31/12/2017** €k
	0	-4,371	**33,176**	29,885	117,079
	0	0	0	62,000	56,300
	0	-14,999	65,484	146,208	726,516
	292	-1,387	9	5,080	1,520
	0	0	0	506,482	2,932,943
	292	**-20,757**	**98,668**	**749,655**	**3,834,358**
	0	-476	1	1,441	694
	0	-192,294	0	392,789	0
	0	-74,620	0	123,442	0
	0	-6,878	10,899	14,156	13,662
	-292	-2,622	0	23,392	346
	-292	**-276,889**	**10,899**	**555,220**	**14,702**
	0	**-297,647**	**109,567**	**1,304,875**	**3,849,060**

AFFIDAVIT BY LEGAL REPRESENTATIVES (BALANCE SHEET OATH)

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, 25 March 2019

Ralph Dommermuth André Driesen Martin Witt

INDEPENDENT AUDITOR'S REPORT

To 1&1 Drillisch Aktiengesellschaft

Report on the audit of the consolidated financial statements and of the group management report

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 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2018, 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 to 31 December 2018. In accordance with the German legal requirements, we have not audited the non-financial statement in section 6.3 of the group management report or the group statement on corporate governance pursuant to Sec. 315d HGB ["Handelsgesetzbuch": German Commercial Code] in conjunction with Sec. 289f HGB or the declaration pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] contained therein in section 6.2 of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

» the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the fiscal year from 1 January to 31 December 2018, and

» the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the non-financial statement in section 6.3 of the management report or the content of the consolidated corporate governance statement in section 6.2 of the group management report or the declaration pursuant to Sec. 161 AktG contained therein.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements, of the group management report or of the Group.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 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 Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 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 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 fiscal year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Impairment of goodwill

Reasons why the matter was determined to be a key audit matter

The goodwill presented in the consolidated financial statements of 1&1 Drillisch Aktiengesellschaft comprises 56% of total assets. Goodwill is tested for impairment at least once every fiscal year. The impairment test comprises a valuation of the cash-generating unit to which the goodwill is allocated and is regularly based on the present value of the future cash flows of the cash-generating unit. The cash flows are derived from the Company's budgets for the coming fiscal year which are extrapolated by the Company on the basis of internal assumptions and external market studies and rolled forward after the detailed planning period and a subsequent interim period using a long-term growth rate. In light of the magnitude of the goodwill, the underlying complexity of the valuation and the judgment exercised during valuation, the goodwill impairment test was a key audit matter.

Auditor’s response

We obtained an understanding of the methodology applied by the external expert for the valuations on the basis of the design requirements of IAS 36 and checked the clerical accuracy the calculations in the underlying valuation model. In this context, we also assessed the competence, capabilities and objectivity of the expert, obtained an understanding of the expert’s work and assessed the suitability of the expert opinion commissioned by the executive directors for the determination of fair values as audit evidence. The focus of our audit was on appraising the key assumptions used for the valuation, such as planning assumptions and discount rates.

We assessed the financial planning in terms of the reliability of previous forecasts and used the historical development to support the underlying assumptions. The assumptions relating to future cash flows were assessed by obtaining supporting evidence and by making inquiries about the significant assumptions relating to growth and business performance. We assessed the other significant assumptions, such as the discount rate and the long-term growth rate with the aid of internal valuation specialists and on the basis of our own analysis of the general market indicators.

Our audit procedures did not lead to any reservations relating to the assessment of impairment of goodwill by the executive directors.

Reference to related disclosures

The Company’s information on the impairment of goodwill is contained in Note 30 of the notes to the consolidated financial statements.

2. Revenue recognition

Reasons why the matter was determined to be a key audit matter

The recognition and cut-off of revenue in the group companies’ mass customer business are largely automated and uniform processes due to the use of special IT systems dedicated to revenue recognition which, owing to the extensive branching and interdependencies, are highly complex in their structure. Owing to the logic implemented in the IT systems, adjustments triggered by changes in tariffs or the launch of new products, for example, made in certain IT systems have a direct effect on the entire revenue recognition process. In addition, there are postings not generated by the system, which entail a risk of errors associated with manual postings. The application of IFRS 15 led to substantial changes in the recognition of revenue as well as the underlying systems and processes. Furthermore, assumptions were made and estimates used in particular relating to the determination of stand-alone selling prices for hardware, which means that the recognition of revenue was a key audit matter.

Auditor's response

As part of our audit procedures, with the aid of internal IT specialists, we assessed the design and operating effectiveness of the control system established by the Group with regard to the IT systems relevant for revenue recognition. In so doing, we tested IT systems and interfaces and assessed the mapping and processing of business processes. We examined relevant IT general controls and relevant IT application controls as well as manual controls. We examined the adjustments required by IFRS 15 using market data, in particular the allocation of the transaction price to each performance obligation on a relative stand-alone selling price basis. In addition, we evaluated the process used to determine stand-alone selling prices for hardware and the related judgments by the executive directors with regard to the requirements of IFRS 15. Furthermore, we considered the risk of errors arising from manual posting by performing substantive analytical procedures using internal data analysis tools. In this context, revenue was analyzed in relation to its development during the year, the underlying posting patterns, the persons responsible for posting and the correlation between revenue and selected accounts (e.g., cost of materials) as well as non-financial indicators (e.g., contracts concluded and terminated).

Our audit procedures did not lead to any reservations relating to the recognition of revenue.

Reference to related disclosures

The Company's information on revenue in the consolidated financial statements of 1&1 Drillisch AG is contained in Note 6 and in Note 2.1 “Explanation of main accounting and valuation methods” in the notes to the consolidated financial statements.

3. Recognition of contract initiation costs and contract fulfillment costs

Reasons why the matter was determined to be a key audit matter

The application of IFRS 15 led to changes in the recognition of incremental costs of obtaining contracts and costs to fulfil contracts. Provided that the recognition criteria are met, contract costs are recognized and amortized over their expected useful life. To determine and roll forward the costs to be recognized and assess impairment, the relevant posting logic had to be adjusted and new processes implemented. In addition, assumptions were made and estimates used with regard to the amortization periods which means that the recognition of contract initiation costs and contract fulfillment costs was a key audit matter.

Auditor's response

Our audit procedures comprised the evaluation of the newly implemented process used to determine the costs to be recognized. Based on the cost recording, we assessed the process used to identify the costs to be recognized and the further processing of the relevant data. We also evaluated on a sample basis whether the criteria of IFRS 15 for the recognition of contract initiation costs and contract fulfillment costs have been met and in particular whether the recognized contract initiation costs are incremental in character. We also checked the measurement of contract costs on a sample basis by comparing them with the underlying invoices. We also performed analytical procedures to assess the recognition and the rollforward of contract initiation costs and contract fulfillment costs over time. We assessed the underlying assumptions and estimates made in connection with the amortization periods using historical customer data. Furthermore, we assessed the logic of the impairment test of the recognized contract initiation costs and contract fulfillment costs with regard to the requirements of IFRS 15.

Our audit procedures did not lead to any reservations relating to the recognition of contract initiation costs and contract fulfillment costs.

Reference to related disclosures

The Company's information on contract initiation costs and contract fulfillment costs in the consolidated financial statements of 1&1 Drillisch Aktiengesellschaft is contained in Notes 24 and 32 and in Note 2.1 "Explanation of main accounting and valuation methods" in the notes to the consolidated financial statements.

Other information

The supervisory board is responsible for the report of the supervisory board pursuant to Sec. 171 (2) AktG. In all other respects, the executive directors are responsible for the other information. The other information comprises

- the separately published group statement on corporate governance pursuant to Sec. 315d HGB in conjunction with Sec. 289f HGB and the declaration pursuant to Sec. 161 AktG contained therein and referred to in section 6.2 of the group management report,
- the group non-financial statement, published separately and referred to in section 6.3 of the group management report,
- the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Code, published separately.

The other information also comprises the "Responsibility statement pursuant to Sec. 297 (2) Sentence 4 HGB" which will be included in the annual report and the statement pursuant to Sec. 315 (1) Sentence 5 HGB, of which we obtained a version prior to issuing this auditor's report.

In addition, the other information comprises the remaining sections of the annual report that we expect to be provided to us after we have issued our auditor's report, in particular:

- Letter to the shareholders
- Report of the supervisory board pursuant to Sec. 171 (2) AktG

Our 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 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 Sec. 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.

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 is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do 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 financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our 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 Sec. 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 opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

» Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an 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 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 Sec. 315e (1) HGB.

» Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express 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 to 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 opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual shareholders' meeting on 17 May 2018. We were engaged by the supervisory board on 17 July 2018. We have been the group auditor of 1&1 Drillisch Aktiengesellschaft since fiscal year 2018.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 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 Mr. Jens Kemmerich.

Eschborn Frankfurt am Main, 27 March 2019

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft

Andreas Grote Jens Kemmerich

INVESTOR RELATIONS CORNER

INVESTOR RELATIONS, PRICE PERFORMANCE OF THE SHARE

1. Investor Relations

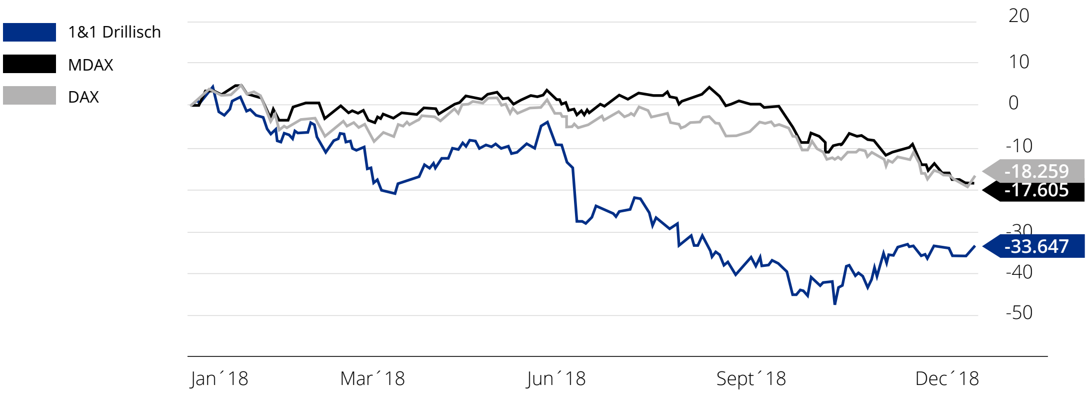
Communications are conducted in conformity with the fair disclosure principle, i.e. all shareholders and interested parties are simultaneously provided with the same type of information about all important developments. The ongoing work can be followed and tracked equally by all investor groups on our 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 2018

	2017 year end	2018 year end	% change
1&1 Drillisch	€68.83	€44.50	-35.3
DAX	12,917.64	10,558.96	-18.3
MDAX	26,200.77	21,588.09	-17.6

Performance of the 1&1 Drillisch-Share compared to DAX and MDAX*

indexed share price development in 2018



* Indices and the 1&1 Drillisch-Share show a dividend adjusted performace

LATEST RESEARCH NOTES , SHAREHOLDER STRUCTURE

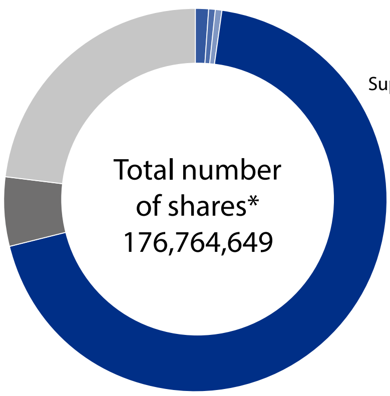
3. Current Analyst Assessments (Last Revised 27 February 2019)

Overall, the capital market views the Drillisch stock as promising because of our long-term dividend policy and good strategic positioning on the German mobile network market.

Analysis	Rating	Price Target	Date
Barclays	„Buy“	€55.00	27 February 2019
Commerzbank	„Buy“	€45.00	14 February 2019
Redburn	„Sell“	€26.00	12 February 2019
Jefferies	„Buy“	€72.00	11 February 2019
UBS	„Buy“	€46.50	08 February 2019
CITI	„Sell“	€34.00	04 February 2019
HSBC	„Hold“	€40.00	31 January 2019

A constantly updated overview of the analysts’ recommendations can be found on the 1&1 Drillisch AG IR home page:
https://www.1und1-drillisch.de/investor-relations/research-notes

4. Shareholder Structure (as of 27 February 2019)



Treasury shares: 0.28 % | 1&1 Drillisch AG

0.28 % | shs. 500,000

Supervisory board: 0.12 % | V. Choulidis

0.04 % | MV Beteiligungs GmbH

0.16 % | shs. 273,333

73.29 % | United Internet AG

73.29 % | shs. 129,558,378

3.09 % | The Capital Group

3.09 % | shs. 5,460,121

Other shareholders: 23.18 % | shs. 40,972,817

Free Float as per definition of Dt. Boerse AG: 26.43 %

* Per voting rights publications

Source: https://www.1und1-drillisch.de/investor-relations/shareholder-structure

OTHER

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.

DCF
(Abk. für Discounted Cash Flow) Eine DCF-Analyse basiert auf der Summe aller für die Zukunft prognostizierten ➔ Cash Flows und diskontiert diese auf den Gegenwartswert ab.

Dividends
The dividend is the profit which is distributed proportionally for each share of stock in the stock corpora-tion. The General Meeting of the stock corporation decides about the amount of the dividend and its distribution.

DSL
(Abbreviation for digital subscriber line). DSL is a technique that provides higher data rates over telephone lines such as ADSL

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 generation with 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
Automation of production and business processes using IT systems and special software.

PUBLICATIONS, INFORMATION AND ORDER SERVICE

This Annual Report 2018 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/welcome → 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*

28 March 2019	Annual Report 2018, Press and Analyst Meeting
15 May 2019	Quarterly Statement Q1 2019
21 May 2019	Annual General Meeting, Frankfurt
15 August 2019	6-Month Report 2019, Press and Analyst Meeting
12 November 2019	Quarterly Statement Q3 2019

* These provisional dates are subject to change.

CONTACTS

Our Investor Relations and Press Department will be glad to answer any questions you may have concerning1&1 Drillisch AG and the Annual Report 2018.

Investor Relations

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Presse (Fachpresse)

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LEGAL INFORMATION

1&1 Drillisch AG is a member of the United internet Group

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Investor Relations Contact:

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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 (CEO)
- Martin Witt (Deputy Chairman)
- André Driesen

Supervisory Board:

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

Disclaimer:

For mathematical reasons, there may be rounding differences in tables compared to the mathematical precise numbers. This report is available in German and English. Both versions are also available for downloading from the internet under www.1und1-drillisch.de. The German version of the report is legally binding.

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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