ANNUAL REPORT
2019

DATA & FACTS

Selected Performance Indicators	2019	2018	Change	Q4 '19	Q4 '18	Change	Q3 '19	Q2 '19	Q1 '19
PROFIT (IN €M)									
Revenues	3,674.9	3,634.5	1.1%	945.3	930.6	1.6%	923.3	903.8	902.5
Service revenues	2,943.0	2,854.4	3.1%	742.7	718.0	3.4%	748.5	731.0	720.8
Hardware and Other revenues	731.9	780.1	-6.2%	202.6	212.6	-4.7%	174.7	172.8	181.7
EBITDA	683.5	721.9	-5.3%	174.8	197.2	-11.3%	168.3	172.0	168.5
EBITDA margin in % of revenue	18.6%	19.9%		18.5%	21.2%		18.2%	19.0%	18.7%
EBIT without PPA write-offs	641.8	681.6	-5.8%	165.0	186.8	-11.6%	158.5	160.9	157.4
EBIT margin in % of revenue without PPA write-offs	17.5%	18.8%		17.5%	20.1%		17.2%	17.8%	17.4%
EBIT	528.5	567.2	-6.8%	137.2	158.2	-13.2%	130.2	132.3	128.8
EBIT margin in % of revenue	14.4%	15.6%		14.5%	17.0%		14.1%	14.6%	14.3%
EBT	522.4	562.6	-7.1%	139.3	154.8	-10.0%	127.2	128.4	127.5
EBT margin in % of revenue	14.2%	15.5%		14.7%	16.6%		13.8%	14.2%	14.1%
Profit per share in € excluding PPA write-offs	2.57	2.75	-6.6%	0.72	0.83	-13.8%	0.61	0.62	0.62
Profit per share in €	2.12	2.30	-7.7%	0.60	0.71	-15.5%	0.51	0.51	0.50
CASH FLOW (IN €M)									
Net inflow of funds from operating activities	375.7	155.6	141.5%	148.2	34.5	329.6%	141.3	69.2	17.0
Net outflow of funds in investment sector	-230.5	-21.5	-974.3%	-221.7	-5.9	-3,672.8%	-3.6	-3.0	-2.3
Free cash flow	355.4	142.6	149.3%	136.5	28.7	376.4%	137.8	66.4	14.7

	31/12/19	31/12/18	Change	31/12/19	31/12/18	Change	30/09/19	30/06/19	31/03/19
HEADCOUNT (INCL. MANAGEMENT BOARD)									
Total per end of December	3,163	3,150	0.4%	3,163	3,150	0.4%	3,082	3,108	3,123
CUSTOMER CONTRACTS (IN MILLIONS)									
Access, contracts	14.33	13.54	5.8%	14.33	13.54	5.8%	14.12	13.92	13.72
of which mobile internet	9.99	9.20	8.6%	9.99	9.20	8.6%	9.78	9.58	9.37
of which broadband (ADSL, VDSL, FTTH)	4.34	4.34	0.0%	4.34	4.34	0.0%	4.34	4.34	4.35
BALANCE SHEET (IN €M)									
Short-term assets	1,309.2	1,064.6	23.0%	1,309.2	1,064.6	23.0%	1,220.7	1,073.0	1,059.6
Long-term assets	5,152.7	4,182.1	23.2%	5,152.7	4,182.1	23.2%	5,161.6	4,150.4	4,206.3
Shareholders' equity	4,640.8	4,280.1	8.4%	4,640.8	4,280.1	8.4%	4,538.6	4,448.7	4,366.0
Balance sheet total	6,461.9	5,246.6	23.2%	6,461.9	5,246.6	23.2%	6,382.3	5,223.4	5,265.9
Equity ratio	71.8%	81.6%		71.8%	81.6%		71.1%	85.2%	82.9%

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LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,

1&1 Drillisch AG was able to increase its customer base and revenue again in fiscal year 2019. At the same time, profit declined because of higher costs for advance service.

The year 2019 was also marked by successful participation in the 5G frequency auction, which ended on 12 June 2019. 1&1 Drillisch acquired two frequency blocks à 2 x 5 MHz in the 2 GHz range and five frequency blocks à 10 MHz in the 3.6 GHz range. The total hammer price was around €1.07 billion. The acquisition of these frequencies laid the cornerstone for successful and long-term positioning as the fourth wireless network operator in Germany. Now we will commence the construction of an efficient wireless network.

Moreover, on 5 September 2019, 1&1 Drillisch concluded an agreement with the Federal Ministry of Transport and Digital Infrastructure (BMVI) and the Federal Ministry of Finance (BMF) regarding the construction of hundreds of wireless communications sites in so-called “white spots.” Our actions in this regard will help to close existing coverage gaps and contribute to the improvement of wireless communications coverage in rural regions. In return, we will be allowed to pay the costs for the acquired 5G frequencies in 12 annual instalments. This agreement fits in with our long-term financing strategy, which provides for the majority of the expenditures for the construction of a modern 5G network to be financed from current income.

Finally, on 30 December 2019, the first option to extend the MBA MVNO contract with Telefónica Germany that was set to expire on 30 June 2020 was exercised; with the renewal, the contract will now remain effective until at least 30 June 2025. Thanks to this extension and our option for a second extension, 1&1 Drillisch has secured long-term access to the Telefónica wireless network.

Ensuring uninterrupted coverage during the construction phase of our own nationwide wireless network will require us to conclude a national roaming agreement with one of the three established network operators. To this end, we are currently conducting negotiations with various parties, including Telefónica Germany; the talks with the latter company are based on its voluntary commitment within the framework of the EU approval for the merger with E-Plus in 2014.

As 1&1 Drillisch described in the financial reports during fiscal year 2019, certain advance service prices are the subject of several arbitration proceedings initiated by 1&1 Drillisch, in the course of which 1&1 Drillisch expects binding decisions on the type and amount of permanent price adjustments in the form of retroactively lower advance service prices.

The first petition for a retroactive reduction of the advance service prices filed by 1&1 Drillisch (Price Review 1 of September 2017) was not granted. In an assessor's report dated 19 December 2019, the assessor confirmed the decision already announced in the draft of the assessor's report. 1&1 Drillisch considers the assessor's report to be incorrect for various reasons and sees methodological errors and discrepancies in content. Furthermore, 1&1 Drillisch does not consider essential features of the MBA model introduced in the context of the merger approval of the E-Plus acquisition to have been adequately considered in the report. This includes above all the special privilege of the MBA MVNO. In the interest of its shareholders, 1&1 Drillisch will initiate legal action against the assessor's report.

Now for the operating side of the business:

In 2019, 1&1 Drillisch continued to invest in new customer contracts as well as in retention and increased value of current customer relationships with the objective of ensuring sustained growth in profits. The number of customer contracts in the current product lines rose by 790,000 to 14.33 million contracts (31/12/2018: 13.54 million) in the fiscal year. The new contracts were acquired in the mobile internet business where the number of customers rose by 790,000 (8.6 percent) to 9.99 million contracts (31/12/2018: 9.20 million). Broadband lines pursuant to 4.34 million contracts remained constant. In comparison with the closing date of the previous year, the number of customer contracts increased in total by 790,000 (5.8 percent).

Revenues increased in fiscal year 2019 by €40.4 million (1.1 percent) to €3,674.9 million (2018: €3,634.5 million). The high-margin service revenues increased by €88.6 million (3.1 percent) to €2,943.0 million (2018: €2,854.4 million). These earnings are the focus of our attention because they are sustainable and determine profit.

In contrast, the low-margin Other sales – essentially from the realisation of hardware sales brought forward (in particular from investments in smartphones that will be reimbursed by the customers over the minimum contract term in the form of higher package prices) – declined by €48.2 million (6.2 percent) from €780.1 million in the previous year to €731.9 million in fiscal year 2019. The hardware sales were below expectations, but this business fluctuates according to season and is dependent on the attractiveness of new devices and the model cycles of the hardware manufacturers. However, these revenue fluctuations have no significant impact on our EBITDA development.

The Group EBITDA (earnings before interest, taxes, depreciation and amortisation) amounted to €683.5 million (2018: €721.9 million). The EBITDA includes effects of the changeover to IFRS 16 (€+6.9 million), one-offs related to the Drillisch integration (€-3.2 million; previous year: €-25.1 million), consequences of the regulatory decision on the increase in subscriber line charges (€-8.8 million) and the EU regulatory decision regarding costs of text messages (€-5.6 million), the initial costs for the construction of a 5G wireless network (€-5.7 million) and substantial additional costs for advance service purchases following the expiration of the temporary adjustment mechanism of an advance service contract at the end of 2018 (€-83.1 million). Excluding the above-mentioned burdens on earnings and one-offs, a comparable EBITDA would have risen year-on-year by 4.8 percent.

Earnings before interest and taxes (EBIT), which were virtually unaffected by the new IFRS 16 accounting standard, fell by 6.8 percent from €567.2 million to €528.5 million. The negative effects on earnings and the one-offs mentioned above are also included in the EBIT.

1&1 Drillisch aims to achieve further customer growth in the coming fiscal year. In view of the uncertainties in the overall economic conditions because of the continuing spread of the coronavirus, 1&1 Drillisch expects revenues and earnings in in fiscal year 2020 to remain roughly at the previous year's level, assuming that terms and conditions for advance services remain the same.

In view of the upcoming investments for the 5G network expansion, the Management Board and Supervisory Board will propose an unchanged dividend of €0.05 per voting share to the Annual General Meeting. Our Company is in a good position to take the next steps in its corporate development, and we are optimistic as we look ahead to the future. We want to express our special thanks to all of our employees for their commitment and work and to our shareholders and business partners for the trust they have placed in 1&1 Drillisch AG.

Best regards from Maintal,

Ralph Dommermuth　　Markus Huhn　　Alessandro Nava

Maintal, in March 2020

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.

MARKUS HUHN
Director (since 1. Juli 2019)

Markus Huhn began his professional career in financial controlling at DLW Group in 1990; he simultaneously enrolled in advanced training courses and obtained certification in business administration from an academy of administration and economics (VWA). In July 1994, he moved to 1&1 Holding GmbH to become financial controller. From 1998 to 2007, he was commercial director of 1&1 Internet AG and guided the corporation's growth strategy. Markus Huhn held the position of CFO at 1&1 Internet in the time between 2008 and 2012, and in this role he guided the business sectors Access and Business and Consumer Applications. In addition, he was in charge of the central finance departments, which operate as shared services within United Internet Group. He has been a member of the 1&1 Telecommunication SE Management Board since 2013 and is head of the division Finances for the business unit Access.He has been a member of the 1&1 Drillisch AG Management Board since 1 July 2019.

ALESSANDRO NAVA
Director (since 1. Juli 2019)

studied business administration at Heinrich-Heine-University in Düsseldorf, earning a degree as a certified merchant (Dipl.-Kaufmann) with a special focus on marketing and financial controlling in 1997. Mr Nava began his professional career as a consultant for KPMG Consulting GmbH. As of 2000, he held the position of senior head of department, initially in landline and later in combined landline/mobile services business, at Vodafone Germany (Vodafone GmbH). His progress took him through several different business sections of the company; for instance, he was in charge of IT requirements management & business analysis, customer care and product development and was responsible for the online platforms. Following the merger of the landline and mobile services business, Mr Nava was in charge of the company's IT development as well as other areas. Since March 2014, Mr Nava has been the head of the division «Technology and Development» (CIO) at 1&1 Telecommunications SE. Since September 2018, he has been in charge of the division «Product Management». He has been a member of the Management Board of 1&1 Drillisch AG (COO) since 1 July 2019.

REPORT OF THE SUPERVISORY BOARD

Supervisory Board Members in Fiscal Year 2019

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

» **Kai-Uwe Ricke (since 16 October 2017)**
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)

In fiscal year 2019, 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 seven meetings of the full Supervisory Board, seven of them personal meetings (on 14 January 2019, 24 January 2019, 26 March 2019, 27 March 2019, 21 May 2019, 14 August 2019 and 17 December 2019), took place during the reporting period 2019.

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 2018
- » Revenue and profit budget 2019 of the Company
- » Planning and investment projects of the corporate group for fiscal year 2019
- » Deliberations and plans for a 5G mobile network and the decision to participate in the 5G frequency auction
- » Deliberations and planning of possible additional financing options
- » The Supervisory Board’s report to the Annual General Meeting for fiscal year 2018, 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 Annual General Meeting 2019
- » 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
- » Monitoring of the effectiveness of the implemented compliance system

- Quarterly reports on risk management and risk management strategy
- Dependency Report 2018, review and approval of the Dependency Report 2018
- Corporate development during the year
- Review of the independence of Ernst & Young GmbH and the acting persons, including as well the additionally performed services and the agreement with Ernst & Young, the 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 2019. Mr Martin Witt stepped down from the Management Board per 30 June 2019. Mr André Driesen stepped down from the Management Board per 31 December 2019. Mr Markus Huhn and Mr Alessandro Nava were appointed to the Management Board per 1 July 2019. Current members of the Management Board are Messrs Ralph Dommermuth (CEO), Markus Huhn (since 1 July 2019) and Alessandro Nava (since 1 July 2019).

There were no changes in the membership of the Supervisory Board during fiscal year 2019.

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 2019 came to 16.66 percent. Supervisory Board chairman in the reporting period 2019 was Mr Michael Scheeren, 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 seven meetings of the full Supervisory Board. One Supervisory Board member (Dr Borgas-Herold) was unable to attend only one meeting of the full Supervisory Board (excused).

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 17 December 2019, 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 2019.

Discussion of separate and consolidated annual financial statements 2019

The separate annual financial statements and the consolidated annual financial statements per 31 December 2019, the management reports for the stock corporation and Group for fiscal year 2019 (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 21 May 2019 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.

Finally, the concluding documents were examined and discussed during a meeting of the Supervisory Board on 24 March 2020 in the presence of the auditor. At that time, the auditor reported on the most significant results of its 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 24 March 2020. 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 [Aktiengesetz, Company Law], 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 24 March 2020, the Supervisory Board approved the separate annual financial statements and consolidated annual financial statements 2019. The annual financial statements have been adopted pursuant to Section 172 AktG. In its meeting on 24 March 2020, the Supervisory Board reviewed and adopted the non-financial declaration (“Sustainability Report 2019”).

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 2019 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 24 March 2020. 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, 24 March 2020

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).

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 17 December 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 24 April 2017, 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 17 December 2019 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.

Maintal, 17 December 2019

On behalf of the Supervisory Board	The Management Board		
Michael Scheeren	Ralph Dommermuth	Markus Huhn	Alessandro Nava

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;

» The Supervisory Board should have at least one member with international experience (e.g. in the sector financial engineering, telecommunications, M&A). All members of the Supervisory Board have experience and competencies in these areas and meet all of these target requirements;

- No more than two former members of the Management Board should belong to the Supervisory Board. This target criterion is also met because only Mr Vlasios Choulidis was active as a Management Board member and CEO before his election to the Supervisory Board. Furthermore, the Supervisory Board members should 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 percent and for the proportion of women on the Management Board of 0 percent. The deadline for achieving the above targets was set at 30 June 2022. 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.

Management Board

Working methods of the Management Board

The Management Board is the managing body of the corporate group. It consisted of three persons (namely Ralph Dommermuth, André Driesen, Martin Witt) in the 2019 financial year until 30 June 2019 and four persons (namely Ralph Dommermuth, André Driesen (until 31.12.2019), Markus Huhn and Alessandro Nava) from 1 July 2019.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.

In setting targets for the proportion of women on the two levels below the Management Board pursuant to Section 76 (4) first sentence AktG, the Management Board remained committed to a target of 5.3 percent. The set targets have at this time been met.

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 2019 had the following 5 members:

» Ralph Dommermuth, Management Board chairman

» Martin Witt, Management Board deputy chairman
(Management Board Member until 30 June 2019)

» André Driesen,
(Management Board Member until 31 December 2019)

» Markus Huhn, chief financial officer
(Management Board Member since 1 July 2019)

» Alessandro Nava
(Management Board Member since 1 July 2019)

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 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 2019. 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 page 74 et seqq. (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 164.

Stock option programmes

The basic features of the employee stock option programme are described in the remuneration report (page 74 et seqq., point 5) of the management report. Additional details are included on page 149 et seqq. under point 40 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

1&1 Drillisch Group

1&1 Drillisch Group, together with 1&1 Drillisch Aktiengesellschaft, Maintal, the listed parent company (hereinafter: “1&1 Drillisch AG” or, along with its subsidiaries, “1&1 Drillisch” or “1&1 Drillisch Group”), is a telecommunications provider that operates solely and exclusively in Germany. With more than 14 million contracts, 1&1 Drillisch is a leading internet specialist and is authorised to use one of the largest fibre optic networks in Germany because of its affiliation with the company 1&1 Versatel GmbH, Düsseldorf (hereinafter referred to as “1&1 Versatel GmbH”), which is a member of the United Internet AG corporate group. As a virtual wireless network operator, 1&1 Drillisch has guaranteed access to up to 30 percent of the capacity of Telefónica’s wireless network in Germany (so-called Mobile Bitstream Access Mobile Virtual Network Operator = MBA MVNO). In addition, 1&1 Drillisch utilises capacities in Vodafone’s wireless network. The Group’s business unit Access offers landline- and wireless network-based internet access products. They include, among others, chargeable landline and wireless access products , 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 wireless 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 wireless market) access to up to 30 percent of the utilised network capacity of Telefónica in the wireless 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 wireless 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) to become a so-called full MVNO in the wireless network of Telefónica, that is, a wireless provider that operates its own full core network and uses solely the access network of Telefónica ("Full MVNO"), and/or (2) to become a licensed wireless network operator ("MNO").

On 30 December 2019, 1&1 Drillisch exercised as planned the first option to extend the MBA MVNO contract with Telefónica Germany that was set to expire on 30 June 2020; with the renewal, the contract will now remain effective until at least 30 June 2025. Thanks to this extension and its right to a second extension option, 1&1 Drillisch has secured long-term access to the Telefónica wireless network. Ensuring uninterrupted coverage during the construction phase of our own nationwide network will require the conclusion of a national roaming agreement with one of the three established network operators. To this end, 1&1 Drillisch is currently conducting negotiations with various parties, including Telefónica Germany; the talks with the latter company are based on its voluntary commitment within the framework of the EU approval for the merger with E-Plus in 2014.

Successful participation in the 5G frequency auction

1&1 Drillisch successfully participated in the 5G auction that ended on 12 June 2019 and was able to acquire two frequency blocks à 2 x 5 MHz in the 2 GHz range and five frequency blocks à 10 MHz in the 3.6 GHz range. The total hammer price was around €1.07 billion. The frequency blocks in the 3.6 GHz range are available immediately and the frequency blocks in the 2 GHz range will be available from 1 January 2026. Prior to this point in time, 1&1 Drillisch has the opportunity to lease frequencies in the scope of 2 x 10 MHz in the 2.6 GHz range pursuant to a voluntary commitment of Telefónica Germany made as part of the EU cartel approval of the merger with E-Plus. This spectrum will be available until 31 December 2025.

Moreover, on 5 September 2019, 1&1 Drillisch concluded an agreement with the Federal Ministry of Transport and Digital Infrastructure (BMVI) and the Federal Ministry of Finance (BMF) regarding the construction of hundreds of wireless communications sites in so-called "white spots." 1&1 Drillisch's actions in this regard will help to close existing coverage gaps and contribute to the improvement of wireless communications coverage in rural regions. In return, 1&1 Drillisch will be allowed to pay the costs for the acquired 5G frequencies in twelve annual instalments. This means that the licence costs originally due in the years 2019 and 2024 can now be paid to the federal agencies in instalments scheduled through 2030. The credit line of €2.8 billion originally arranged to finance the highest bids from the frequency auction and other actions is in consequence no longer needed and has been returned in full. This agreement fits in with 1&1 Drillisch's long-term financing strategy, which provides for the majority of the expenditures for the construction of a modern 5G network to be financed from current income.

By acquiring the new frequencies, 1&1 Drillisch has laid the cornerstone for successful and long-term positioning as the fourth wireless network operator in Germany and will now construct a powerful wireless network.

1&1 Drillisch AG Is the Group's holding company

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

The operating business is essentially conducted 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 Service 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 14.33 million subscribers make 1&1 Drillisch one of the leading providers of broadband and wireless services products in Germany.

Company management and group reporting encompass the segments “Access”, “5G” and “Miscellaneous” (previously two reporting segments: “Access” and “Miscellaneous”).

Segment “Access”

The Group’s chargeable wireless access and landline products, 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 and exclusively in Germany. The Company uses the landline network of the affiliate 1&1 Versatel GmbH, a member company of United Internet AG Group, 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 enhanced by offerings of devices, own developments of applications and services to set the Company apart from its competitors.

The Access products are marketed via the well-known brand name 1&1 and discount brands such as yourfone or smartmobil.de, which address specific target groups on the market.

Segments “5G” and “Miscellaneous”

The expenses and income relating to the preparation and conduct of the 5G frequency auction and resulting from the establishment, expansion and operation of the Company’s own 5G network will be disclosed in the segment “5G”.

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 limited profit contributions of these two segments, no further details will be reported.

Major locations

LOCATION	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 Telecom GmbH, 1&1 Telecom Sales GmbH
Karlsruhe	Development, product management, data centre operation, marketing, sales, purchasing, customer service	1&1 Telecom GmbH, 1&1 Telecom Sales GmbH
Zweibrücken	Customer service	1&1 Telecom Service Zweibrücken GmbH

In fiscal year 2019, an average headcount of 3,119 (previous year: 3,142) 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 fixed contract 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 short-term economic fluctuations and opens up financial manoeuvring room so that opportunities arising in new business fields and on new markets can be exploited.

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 better fixed costs can be covered and the higher the realised profit. These profits can then be invested in acquiring new customers and in developing new products and business areas.

From today's perspective, mobile internet and high-speed broadband lines along with the related applications 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 thanks to its many years of experience as a telecommunications provider; to its competence in software development and data centre operation, marketing, sales and customer care; to its brands (such as 1&1, smartmobil.de and yourfone); and to the existing customer contract relationship with more than 14.33 million subscribers in Germany.

1&1 Drillisch will continue to invest heavily in new customers and new products so that it can steadily expand its market positioning by building on this expected growth.

1&1 Drillisch's successful participation in the 5G frequency auction in 2019 opens up further strategic potential for strengthening and expanding its position on the German wireless services market.

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 in the section “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 quarterly 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 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, chargeable contracts. Use and definition of relevant financial performance indicators can be found under item 2.2.

As part of the integration of 1&1 companies into 1&1 Drillisch Group, the reporting of the two business segments was standardised in the previous year. Since that time, the reporting to the chief operating decision-maker (CODM) has been based solely on 1&1 Drillisch Group. As a consequence of the acquisition of 5G frequencies and the related planned development of the Company's own wireless communications network, the expenses and income resulting from the preparation and execution of the 5G frequency auction as well as the future development, expansion and operation of the Company's own 5G wireless communications network have been disclosed as a separate segment and reported to the CODM since the first half of 2019. As in the previous year, the existing goodwill is attributed to the "Access" reporting segment and is monitored at this level by the CODM.

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

1.4. Focal points product development 2019

Product development in fiscal year 2019 focused on the following areas:

» Introduction of the eSIM

» Expansion of the open access platform for realisation of FTTH connections with speeds of 1 GBit/s

» Development of a new set-top box for IPTV

» Development of new IPTV applications for smart TVs based on Android

» Development of additional, product-related services such as the replacement of defective devices by the "1&1 Austausch-Service" or "Trade in" campaigns (including hassle-free acceptance of current devices in partial payment) when new hardware is ordered

» Development of attractive additional offers within the framework of the 1&1 Vorteilswelt

BUSINESS REPORT

2. Business Report

2.1. General economic and industry-related conditions

Development of the overall economy

The International Monetary Fund (IMF) has calculated economic growth of only 0.5 percent for Germany in 2019. This is 1.0 percentage points lower than in the previous year (1.5 percent) and even 0.8 percentage point lower than originally expected by the IMF (1.3 percent). The IMF's calculations for Germany are largely in line with the preliminary calculations of the Federal Statistical Office (Destatis), which found that gross domestic product (GDP) (adjusted for price and calendar effects) grew by 0.6 percent (previous year: 1.5 percent).

Changes during the year in the growth forecasts 2019 for primary target countries and regions of 1&1 Drillisch

	January forecast	April forecast	July forecast	October forecast	Actual 2019	Deviation from January forecast
World	3.5 %	3.3 %	3.2 %	3.0 %	2.9 %	-0.6 percentage points
Germany	1.3 %	0.8 %	0.7 %	0.5 %	0.5 %	-0.8 percentage points

Source: International Monetary Fund, World Economic Outlook (Update), January 2020

Multi-period overview: development of GDP in primary target countries and regions of 1&1 Drillisch

	2015	2016	2017	2018	2019	Change over previous year
World	3.2 %	3.2 %	3.7 %	3.6 %	2.9 %	-0.8 percentage points
Germany	1.5 %	1.9 %	2.5 %	1.5 %	0.5 %	-1.0 percentage points

Source: International Monetary Fund, World Economic Outlook (Update), January 2020

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

	2015	2016	2017	2018	2019	Change over previous year
GDP	1.5 %	2.1 %	2.8 %	1.5 %	0.6 %	-0.9 percentage points

Source: Federal Statistical Office, January 2020

Development of the industry/core markets

During Bitkom's annual press conference on 14 January 2020, the industry association projected significant growth on the German ITC market of 2.0 percent to €169.6 billion for the year 2019. At the beginning of 2019, the association had assumed growth of 1.5 percent, 0.5 percentage points lower.

The market for information technology continued to post the strongest growth and highest market volume, generating revenues of €92.9 billion and growth of 2.9 percent. Especially high demand was also recorded by software providers (+6.3 percent) and IT services (2.4 percent) in the year 2019.

The telecommunications market grew again in 2019 and achieved a plus of 2.0 percent to €68.1 billion. Devices (+11.1 percent) and telecommunications infrastructure (+1.5 percent) were higher while telecommunications services stagnated at the previous year's level.

The most important ITC market for 1&1 Drillisch is the German telecommunications market (broadband lines and mobile internet) in the "Access" business unit, which is financed largely by subscriptions.

(Landline) broadband market in Germany

The demand for new broadband landlines in Germany has slowed down in recent years because household coverage is already extensive and because of the strong trend in the direction of mobile internet use. An expected plus of 1.0 million new lines (2.9 percent) to 35.2 million in the year 2019 meant that the number of new activations was significantly below the figures of earlier 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 21. TK-Marktanalyse Deutschland 2019 (October 2019). Of the growth described above, the lines relevant for 1&1 Drillisch in the two technology sectors DSL and FTTB/FTTH rose by 0.3 million to 25.3 million and by 0.4 million to 1.5 million, respectively. The number of cable connections rose by 0.3 million to 8.4 million. Another 0.1 million connections are operated via satellite/Powerline in Germany (unchanged).

Revenues in the landline business remained unchanged year-on-year at €32.8 billion in 2019. The aforementioned revenue figures include inter alia advance service, interconnection and device revenues in addition to the end customer revenues.

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 landline connections, rising by 26.0 percent to 137.1 GB (per line and month), an indicator of the continuing rise in the use of IPTV or cloud applications (for example). The demand for high-speed broadband lines developed at a correspondingly high rate. The number of activated broadband lines with speeds of at least 50 MBit/s rose by 7.0 percentage points from 33.3 percent in the previous year to 40.3 percent in 2019.

Key market figures: landlines in Germany

	2019	2018	Change
Landline revenues (in €bn)	32.8	32.8	0.0%

Source: Dialogue Consult/VATM, TC Market Analysis Germany 2019, October 2019

Mobile internet market in Germany

According to estimates from Dialog Consult/VATM, the number of active SIM cards on the German wireless communications market will increase by 3.8 million (2.8 percent) to 140.8 million in 2019. This was the conclusion reached by the Association of the Providers of Telecommunications and Added-value Services (VATM) and Dialog Consult in their joint 21. TK-Marktanalyse Deutschland 2019 (October 2019).

Revenues for wireless services increased at the same time by 2.0 percent to €25.6 billion. These revenue figures also include interconnection, wholesale and device revenues in addition to the end customer revenues.

According to forecasts by Dialog Consult/VATM, the average data volume consumed per line and month rose by 58.6 percent to 2.5 GB, a rate much faster than the number of SIM cards and wireless revenues and a sign of the increasing use of wireless data services. At the same time, the number of SIM cards suitable for 4G/5G networks also increased by 7.3 million to 57.5 million while the number of 2G/3G SIM cards declined by 3.5 million to 83.3 million in 2019.

Key market figures: wireless services in Germany

	2019	2018	Change
Wireless revenues (in €bn)	25.6	25.1	+ 2.0%

Source: Dialogue Consult/VATM, TC Market Analysis Germany 2019, October 2019

General legal conditions/Major events

The legal framework for the business activities of 1&1 Drillisch remained essentially unchanged in fiscal year 2019 compared to the previous year.

The German Federal Network Agency, which is responsible for regulatory issues, raised the prices for the provision of subscriber connection lines by nearly 10 percent as of 1 June 2019. In August, 1&1 Drillisch has estimated the expected effects for fiscal year 2019 at approximately €-10 million.

As 1&1 Drillisch has described in its financial reports, certain advance service prices are the subject of several arbitration proceedings initiated by 1&1 Drillisch, in the course of which 1&1 Drillisch expects binding decisions on the type and amount of permanent price adjustments in the form of retrospectively lower advance service prices. On 24 October 2019, 1&1 Drillisch received the draft of the arbitration assessment in the first price review procedure initiated per September 2017 (Price Review 1). The report did not accept 1&1 Drillisch's first petition for a retroactive reduction of advance service prices from that date. The draft of the arbitration assessment indicated that the business figures for 2017 and – for the time being, at least – the results for 2018 and 2019 of 1&1 Drillisch will not be improved by any price reductions. In addition, a price increase due to the discontinuation of a contractual adjustment mechanism limited to the end of 2018 (an impact of approximately €85 million in 2019) remains valid for the moment. In an assessor's report dated 19 December 2019, the assessor confirmed the decision previously announced in the draft of the assessor's report.

1&1 Drillisch had not included any reductions in the advance service prices in its 2019 annual forecast, but assumed that it would be able to avert the price increase that would take effect from January 2019 in an environment of constantly falling market prices for wireless data use.

In view of these circumstances, 1&1 Drillisch corrected its EBITDA forecast for fiscal year 2019 year by approximately €85 million to an EBITDA of around €690 million in an ad hoc announcement dated 24 October 2019.

1&1 Drillisch considers the assessor's report to be incorrect for various reasons and sees methodological errors and discrepancies in content. Furthermore, 1&1 Drillisch does not consider essential features of the MBA model introduced in the context of the merger approval of the E-Plus acquisition to have been adequately considered in the report. This includes above all the special privilege of the MBA MVNO. In the interest of its shareholders, 1&1 Drillisch will initiate legal action against the assessor's report.

No other significant events with a decisive influence on the course of business occurred in fiscal year 2019.

First-time application of IFRS 16

The International Accounting Standards Board (IASB) released a new accounting regulation governing leases (IFRS 16) on 13 January 2016. Application is mandatory for reporting periods starting on 1 January 2019 and later and is therefore applicable for the first time to these consolidated annual financial statements per 31 December 2019.

1&1 Drillisch is exclusively a lessee. Most of the leases in the Group are related to the leasing of buildings and vehicles.

The first-time application of IFRS 16 in fiscal year 2019 had a positive effect on the EBITDA in the Group in the amount of €6.9 million. The EBITDA effect occurred primarily in the segment "Access" (€6.5 million).

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 expenditures for procured services and merchandise.

» 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 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 (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 to ensure 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.

Actual and forecast business performance

Projected course of business – 1&1 Drillisch

1&1 Drillisch published the forecast for fiscal year 2019 as part of its 2018 annual financial statements and substantiated or corrected it during the year as shown below:

	Actual[1] 2018	Forecast 2019 (March 2019)	Concretisation[2] (August 2019)	Correction[3] (October 2019)	Actual 2019
Revenues	€3,634.5m	approx. +4%			**3,674.9**
Service revenues	€2,854.4m		approx. + 3%		**2,943.0**
EBITDA	€721.9m	approx. +10%	approx. +8%	approx. €690m	**683.5**

(1) In the course of the ongoing integration measures within the 1&1 Drillisch Group in fiscal year 2019, the revenue disclosure for one 1&1 Drillisch subsidiary for which revenue-reducing effects were previously reported as cost of sales was restated to align with uniform group-wide disclosure practise in the fourth quarter of 2019. For better comparability, the revenue and cost of sales for the 2018 financial year have also been restated. Because of these restatements, the disclosed sales revenues and cost of sales for the previous year in the segment "Access" and at Group level were each reduced by €27.9 million. This is strictly a reclassification between these two items in the statement of comprehensive income. The restatement has no impact on the earnings figures (EBITDA and EBIT) of the segment and the Group.

(2) Concretization of the revenue forecast due to the weaker ongoing (low-margin) hardware business and the increased demand for LTE wireless tariffs from current customers during the course of the year as well as of the EBITDA forecast as a result of the subscriber connection lines charge that was not newly regulated until after the 2019 budget had been prepared (increase from July 2019; approx. €-10 million impact in 2019) and initial costs relating to planning and preparations for the 5G wireless communications network (approx. €-5 million impact in 2019). Also included are additional expenses from the EU regulatory decision on the costs of text messages (approx. €-5.6 million).

(3) Correction of the EBITDA forecast after receipt of the draft of the arbitration assessment in the first price review procedure initiated per September 2017 (Price Review 1). The assessment did not accept 1&1 Drillisch's request for a retroactive reduction of advance service prices from that date. In addition, a price increase due to the discontinuation of a contractual adjustment mechanism limited to the end of 2018 (an impact of approximately €-85 million in 2019) remains valid.

Actual course of business – 1&1 Drillisch

1&1 Drillisch again invested in new customer relationships and in maintaining existing customer relationships in fiscal year 2019 and increased the number of chargeable customer contracts by a total of 0.79 million. In the mobile internet business, it was possible to acquire 0.79 million customer contracts, raising the number of contracts to 9.99 million. The number of contracts for broadband lines remained at a constant level of 4.34 million subscriber contracts in comparison with the end of fiscal year 2018.

Sales revenues in fiscal year 2019 amounted to €3,674.9 million (previous year: €3,634.5 million).

Service revenue in fiscal year 2019 rose by 3.1 percent from €2.854 billion in the previous year to €2.943 billion, which is within the target range of the forecast (approx. 3 percent).

The EBITDA in the Group amounted to €683.5 million in fiscal year 2019. In the context of the provisions for risks, additional expenditures of approximately €5.0 million were incurred; these expenditures were as yet unknown at the time the forecast was substantiated in October 2019 and were therefore not included in it. Taking these expenses into account, EBITDA is at the upper end of the target range of the forecast revised in October 2019 (approx. €690 million).

Summary: Actual and forecast business performance in 2019

	Actual Fiscal Year 2018	Forecast[1] Fiscal Year 2019	Actual Fiscal Year 2019
Service revenues	€2,854.4m	ca. + 3%	€2,943.0m
EBITDA	€721.9m	approx. €690m	€683.5m

(1) Based on the EBITDA forecast substantiated in October

Projected course of business – 1&1 Drillisch AG

For 2019, the Management Board expected sales revenues for 1&1 Drillisch AG at the level of the separate financial statements to be of roughly the same magnitude as in fiscal year 2018 and a moderate improvement in the profit for the year.

Actual course of business – 1&1 Drillisch AG

The development of sales revenues at 1&1 Drillisch AG at the level of the separate financial statements exceeded the Management Board's expectations with an increase of €0.6 million (39.4 percent) to €2.1 million (previous year: €1.5 million) . The positive development of revenues at 1&1 Drillisch AG is essentially the result of increased Group allocations. The net profit for the year amounted to €360.5 million (previous year: €341.8 million). The increase is due to a profit transfer by 1&1 Telecommunication SE, which increased by €91.5 million to €544.3 million . The development of the annual profit exceeded the expectations of the Management Board.

Segment development

Segment "Access"

The Group's chargeable wireless and broadband access products, 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 its 14.33 million contracts mean it 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, 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 wireless or landline networks is combined with devices, own developments of applications and services to create an extended 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 address specific target groups on the market.

in fiscal year 2019, 1&1 Drillisch again invested in the acquisition of new customers and in the retention of current customer relationships. Focus was on the marketing of mobile internet contracts.

The number of contracts subject to charge in the segment “Access” rose in the current product lines by 0.79 million to 14.33 million contracts in fiscal year 2019. In the mobile internet business, it was possible to acquire 0.79 million customer contracts, raising the number of contracts to 9.99 million. The number of contracts for broadband lines remained at a constant level of 4.34 million subscriber contracts in comparison with the end of fiscal year 2018.

Development of Access contracts in fiscal year 2019 (in millions)

	31/12/2019	31/12/2018	Change
Access, total contracts	14.33	13.54	+ 0.79
of which mobile internet	9.99	9.20	+ 0.79
of which broadband full-service packages (ULL)	4.34	4.34	+ 0.0

Development of Access contracts in Q4 2019 (in millions)

	31/12/2019	30/09/2019	Change
Access, total contracts	14.33	14.12	+ 0.21
of which mobile internet	9.99	9.78	+ 0.21
of which broadband full-service packages (ULL)	4.34	4.34	+ 0.0

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.

Revenue in the segment “Access” rose by €40.4 million (1.1 percent) to €3,674.7 million (previous year: €3,634.3 million).

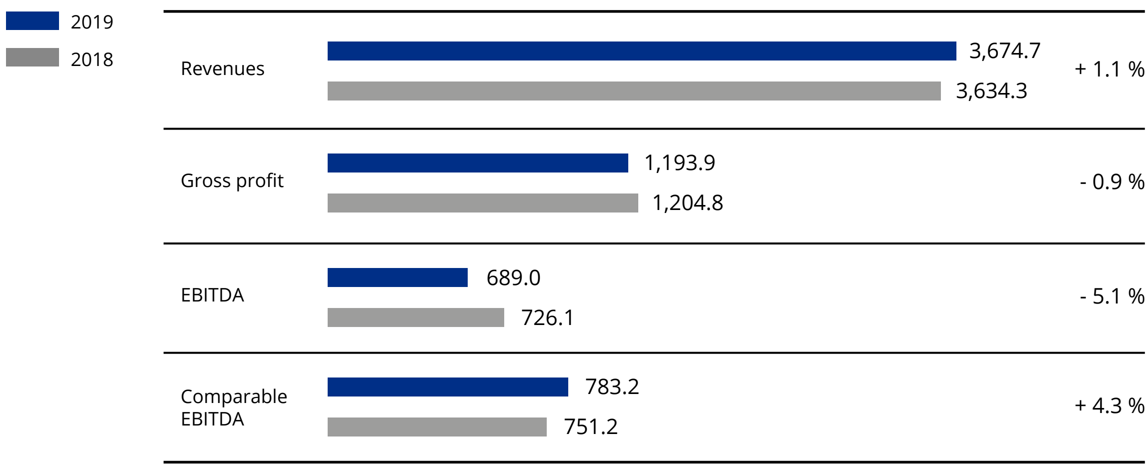
In the segment “Access”, the cost of materials rose by €51.3 million to €2,480.8 million (previous year: €2,429.5 million).

At €689.0 million, segment EBITDA fell short of the previous year’s figure (€726.1 million). This decline is due in particular to substantial additional costs of €-83.1 million for the purchase of advance services after a temporary adjustment mechanism an advance service agreement expired at the end of 2018. Contrary to initial expectations, the expired regulation was not compensated by a price reduction during the period under review. However, the related advance service prices are the subject of several arbitration proceedings initiated by 1&1 Drillisch, in the course of which 1&1 Drillisch expects binding decisions regarding the requested permanent price adjustments. On 19 December 2019, 1&1 Drillisch received the final arbitration assessment in the first price review procedure initiated per September 2017 (Price Review 1). It did not accept 1&1 Drillisch’s request for a retroactive reduction of advance service prices from that date. The result of the arbitration assessment is that the business figures for 2017 and – for the time being, at least – the results for 2018 and 2019 for 1&1 Drillisch will not be improved by any price reductions. In addition, the aforementioned price increase remains valid – for the time being, at least – owing to the elimination of the contractual adjustment mechanism and will now be the subject of further price reviews.

The EBITDA also includes one-off expenses of €-3.2 million from ongoing integration projects (previous year: €-25.1 million), additional expenses resulting from the regulatory decision for an increase in the subscriber line charges in the amount of around €-8.8 million and additional expenses resulting from the EU regulatory decision regarding costs of text messages of approximately €-5.6 million. Excluding all aforementioned effects and a positive IFRS 16 effect of €6.5 million, a comparable EBITDA would have increased by 4.3 percent.

Major revenue and profit indicators in the segment "Access"

(in €m)



2.3. Position of the Group

Earnings position in the Group

Growth in fiscal year 2019 was driven above all by the contract customer business in the segment "Access". The number of customer contracts subject to charge increased by 0.79 million to 14.33 million contracts.

Sales revenues rose in fiscal year 2019 by 1.1 percent from €3,634.5 million in the previous year to €3,674.9 million. The positive revenue development results from the continued rise in the number of contract customers and the related monthly payments. The high-margin service revenues, essentially the income related to the billing of current customer relationships, increased by €88.6 million (3.1 percent) from €2,854.4 million in the previous year to €2,943.0 million in fiscal year 2019. These are sustained earnings that determine profit. Contrary to this development, the low-margin Other sales revenues declined from €780.1 million in the previous year to €731.9 million in 2019. These sales concern primarily revenues from the realisation of hardware sales brought forward (in particular from investments in smartphones that will be reimbursed by the customers over the minimum term of the contract in the form of higher package prices). The hardware sales were below expectations, but this business fluctuates according to season and is dependent on the attractiveness of new devices and the model cycles of the hardware manufacturers. However, these revenue fluctuations have no significant impact on EBITDA development.

Cost of sales increased in 2019 by €47.0 million (1.9 percent) to €2,574.7 million (previous year: €2,527.7 million). At 29.9 percent, the gross margin remained almost unchanged from the previous year (30.5 percent). Gross profit fell slightly by €6.6 million from €1,106.8 million in the previous year to €1,100.2 million.

Distribution costs rose from €399.0 million in the previous year to €426.5 million in 2019. In relation to revenue, distribution costs amounted to 11.6 percent (previous year: 11.0 percent). Administration costs declined from €104.9 million in the previous year (2.9 percent of revenue) to €92.2 million (2.5 percent of revenue).

Other operating income fell by 34.6 percent from €51.4 million in the previous year to €33.6 million in fiscal year 2019. Other operating expenses amounted to €3.3 million (previous year: €1.8 million). Impairment losses from financial assets declined slight from €85.2 million in the previous to €83.3 million in fiscal year 2019.

The EBITDA in 2019 amounted to €683.5 million (previous year: €721.9 million). The decline is due in particular to additional costs of about €-83.1 million for the purchase of advance services after a temporary adjustment mechanism of an advance service agreement expired at the end of 2018. Contrary to initial expectations, the expired regulation was not compensated by a price reduction during the period under review. However, the related advance service prices are the subject of several arbitration proceedings initiated by 1&1 Drillisch, in the course of which 1&1 Drillisch expects binding decisions regarding the requested permanent price adjustments. On 19 December 2019, 1&1 Drillisch received the final arbitration assessment in the first price review procedure initiated per September 2017 (Price Review 1). It did not accept 1&1 Drillisch’s request for a retroactive reduction of advance service prices from that date. The result of the arbitration assessment is that the business figures for 2017 and – for the time being, at least – the results for 2018 and 2019 for 1&1 Drillisch will not be improved by any price reductions. In addition, the aforementioned price increase remains valid – for the time being, at least – owing to the elimination of the contractual adjustment mechanism and will now be the subject of further price reviews.

The EBITDA also includes one-off expenses of €-3.2 million (previous year: €-25.1 million) from ongoing integration projects, expenses of €-8.8 million from the regulatory decision regarding the increase in the subscriber line charges, additional expenses from the EU regulatory decision regarding costs of text messages of about €-5.6 million and initial costs of €-5.7 million relating to the planning and preparations for the 5G wireless communications network. If the aforementioned effects, including the substantially increased prices for advance services, were excluded and a positive IFRS 16 effect of €6.9 million were added, a comparable EBITDA would have risen by 4.8 percent.

The EBITDA margin came to 18.6 percent (previous year 19.9 percent).

Earnings before interest and taxes (EBIT) in 2019 amounted to €528.5 million (previous year: €567,2 million). The EBIT margin came to 14.4 percent (previous year: 15.6 percent). Excluding the effects from PPA write-offs, the EBIT amounted to €641.8 million and the EBIT margin to 17.5 percent (previous year: €681.6 million and 18.8 percent, respectively).

Financing expenses in 2019 amounted to €7.3 million (previous year: €5.3 million). The change over the same period of the previous year results by and large from the conclusion of a line of credit with a European bank syndicate in January 2019 and the related one-off fees together with expenses relating to the provision of these lines of credit. This credit line was terminated during fiscal year 2019. Financial income in 2019 amounted to €1.2 million (previous year: €0.6 million).

Earnings before taxes (EBT) in 2019 amounted to €522.4 million (previous year: €562.6 million). Tax expenses amounted to €148.8 million (previous year: €156.5 million).

Consolidated earnings amounted to €373.6 million (previous year: €406.0 million).

Profit per share 2019 came to €2.12 (previous year: €2.30). Excluding the effects of the PPA write-offs, the profit per share in 2019 amounted to €2.57 (previous year: €2.75).

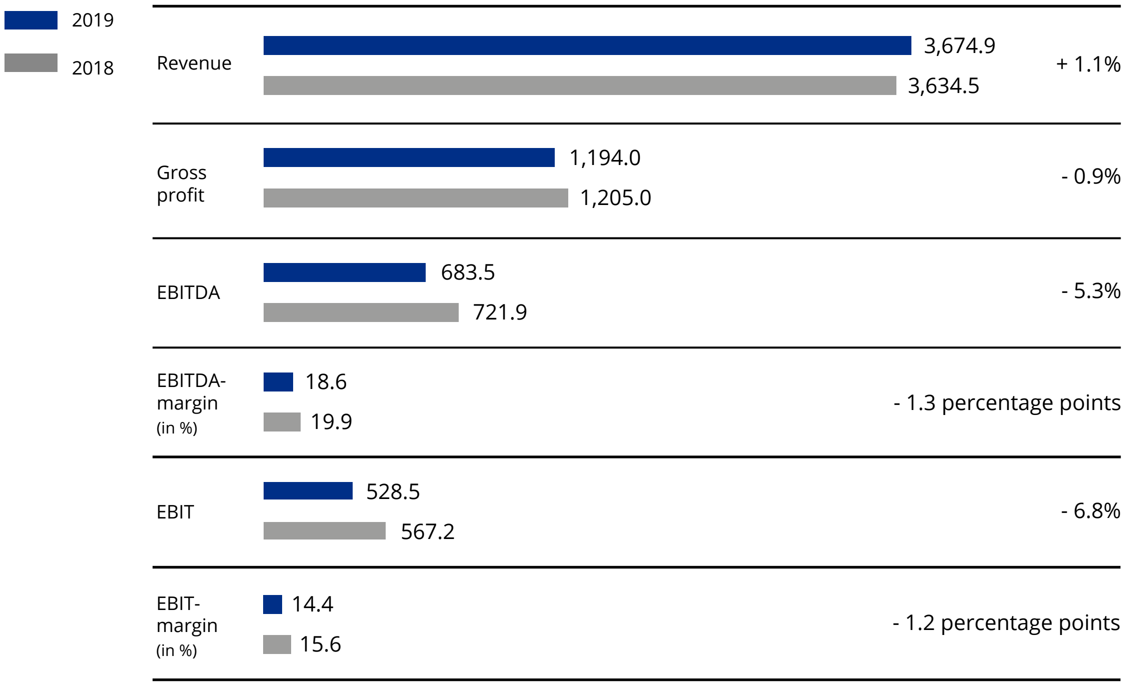
General statement on business development

Just as in the past, 1&1 Drillisch developed well in fiscal year 2019, posting growth of 0.79 million customer contracts to a total of 14.33 million, service revenue growth of 3.1 percent to €2.9 billion and an increase in the comparable EBITDA adjusted for special effects of 4.8 percent to €783.0 million, and was able to surpass the positive developments of the economy and industry. At the same time, the figures for service revenues and EBITDA achieved in fiscal year 2019 met the forecast as substantiated in August and October 2019. Excluding the aforementioned effects of the temporary adjustment mechanism for an advance service agreement that expired at the end of 2018, gross profit also developed positively in fiscal year 2019.

The financial position of 1&1 Drillisch AG remained positive in fiscal year 2019 as well. Free cash flow amounted to €355.4 million (previous year: €142.6 million). The high level of hardware investments in particular led to additional outflows of cash in the previous year, which in 2019 resulted – and in subsequent periods will result – in higher income 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 2019 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)



Financial position in the Group

Cash flow from operating activities in 2019 amounted to €510.5 million (previous year: €548.0 million). Net inflow of funds from operating activities rose from €155.6 million in the previous year to €375.7 million in 2019. Liquidity outflows in 2018 were higher than in 2019. This was primarily a consequence of the change in contract assets due to increased smartphone sales. On the other hand, the reduction in trade accounts payable in the current reporting period led to higher outgoing payments.

Cash flow from investments shows total net outgoing payments of €230.5 million during the reporting period (previous year: outgoing payments of €21.5 million). Outgoing payments of €20.5 million and payments received of €0.2 million were realised for investments in tangible and intangible assets (previous year: outgoing payments of €15.5 million and payments received of €2.5 million). The investment of free cash resulted in outgoing payments of €210.0 million (previous year: €0.0). They relate to the short-term investment of free cash with United Internet AG. A retroactive outflow of funds in the amount of €8.3 million occurred with respect to yourfone Shop GmbH, which was deconsolidated per 31 December 2017.

Free cash flow, defined as net inflow of funds from operating activities less investments in intangible and tangible assets plus inflow of funds from disposals of intangible and tangible assets, amounted to €355.4 million in 2019 (previous year: €142.6 million). In the previous year, basically the investments in wireless service contracts with hardware, which were significantly increased for the first time, led to higher outflows of funds that will be reversed or amortised in the following periods.

The decisive elements for the cash flow from the financing sector in 2019 were primarily outflows for the payment of liabilities relating to the acquisition of the 5G wireless frequencies in the amount of €61.3 million (previous year: €0.0k), repayments of loans in the amount of €32.0 million to United Internet AG (previous year: outflow and inflow of €100 million each from the short-term investment of free cash as well as inflow in the amount of €+200.0 million from the utilisation of a loan from, and outflow of €-168.0 million for loan repayment to, United Internet AG), the disbursement of dividends in the amount of €8.8 million in May (previous year: €282.8 million) and outflows from the acquisition of own stock in the amount of €3.8 million (previous year: €15.4 million). Outflows in the amount of €5.0 million (previous year: €10.0 million) and of €6.4 million (previous year: €0.5 million) resulted from the repayment of liabilities from rights of use and finance lease liabilities, respectively.

Cash and cash equivalents per 31 December 2019 amounted to €31.8 million in comparison with €4.0 million per 31 December 2018.

Assets and liabilities in the Group

The balance sheet total increased from €5,246.6 million per 31 December 2018 to €6,461.9 million per 31 December 2019.

Short-term assets rose from €1,064.6 million per 31 December 2018 to €1,309.2 million per 31 December 2019. The cash holdings disclosed in the short-term assets increased from €4.0 million to €31.8 million. Trade accounts receivable declined slightly from €230.2 million per 31 December 2018 to €228.3 million per 31 December 2019. Accounts receivable from associated companies increased from €41.9 million per 31 December 2018 to €215.3 million per 31 December 2019 and, at €210.0 million (previous year: €0.0), relate mainly to receivables from the short-term investment of free cash at United Internet AG.

Prepaid expenses increased from €42.6 million to €62.1 million and concern essentially prepaid utilisation fees that will not be recognised through expenditures until later periods. The line item short-term contract assets rose by €83.2 million from €414.9 million per 31 December 2018 to €498.1 million per 31 December 2019 and includes short-term receivables with a term of up to one year from customers from the revenue realisation brought forward because of the application of IFRS 15. The line items costs for contract acquisition and costs for contract fulfilment include the short-term expenditures related to customer acquisition and costs of contract fulfilment during the term of the contracts and declined as a total by €7.5 million from €157.2 million per 31 December 2018 to €149.7 million per 31 December 2019.

Inventories declined by €10.3 million from €89.5 million per 31 December 2018 to €79.2 million. Other short-term financial assets declined from €45.5 million per 31 December 2018 to €28.9 million per 31 December 2019. Other non-financial assets fell from €38.8 million to €15.8 million and concern primarily short-term income and value-added tax claims.

Long-term assets increased in total from €4,182.1 million per 31 December 2018 to €5,152.7 million per 31 December 2019. Intangible assets rose substantially from €746.8 million per 31 December 2018 to €1,686.0 million per 31 December 2019. This major change results from the first-time recognition in the balance sheet of the acquired 5G wireless frequencies. Goodwill remains unchanged from the previous year at €2,932.9 million. The assets determined as part of the 1&1 Drillisch purchase price allocation were reduced as scheduled by depreciation and amortisation attributable to these items. Tangible assets rose by €50.2 million from €14.3 million per 31 December 2018 to €64.5 million per 31 December 2019. The increase in the amount of €47.7 million is a consequence of the initial application of IFRS 16.

The long-term prepaid expenses declined from €182.3 million per 31 December 2018 to €168.3 million per 31 December 2019 and comprise basically advance payments made pursuant to long-term purchase contracts. The line items contract assets, costs for contract acquisition and costs for contract fulfilment include analogously to the short-term assets the long-term part of the receivables due from customers from the application of IFRS 15 and declined as a total by €5.0 million from €304.3 million per 31 December 2018 to €299.3 million per 31 December 2019.

Short-term debts decreased in total from €646.9 million per 31 December 2018 to €548.9 million per 31 December 2019. Short-term trade accounts payable decreased by €98.8 million to €266.4 million (31 December 2018: €365.2 million). Accounts due to associated companies declined from €129.3 million per 31 December 2018 to €79.3 million per 31 December 2019 and are related to liabilities due to United Internet AG and to other group undertakings of United Internet Group pursuant to the procurement of advance services and other cost allocations. Short-term Other financial liabilities increased by €63.1 million from €39.5 million to €102.6 million. The change mainly results from the first-time recognition of short-term liabilities from the acquisition of the 5G wireless frequencies, of which the next pro rata payment in the amount of €61.3 million is due in 2020.

Contract liabilities include short-term liabilities from reimbursement obligations for one-time fees for revoked contracts and deferred income from one-time fees related to the application of IFRS 15. Income tax liabilities fell from €38.0 million per 31 December 2018 to €24.5 million per 31 December 2019.

Long-term debts rose from €319.6 million per 31 December 2018 to €1,272.2 million per 31 December 2019. The fundamental cause for this is especially the increase in Other financial liabilities from €0.1 million per 31 December 2018 to €991.8 million per 31 December 2019. The increase in the amount of €947.7 million results essentially from the first-time recognition of long-term liabilities from the acquisition of 5G wireless frequencies and in the amount of €40.2 million from the first-time application of IFRS 16.

Deferred tax liabilities fell by €18.1 million from €247.9 million per 31 December 2018 to €229.7 million per 31 December 2019. The contract liabilities in the amount of €5.0 million (previous year: €4.5 million) include long-term 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 €4,280.1 million per 31 December 2018 to €4,640.8 million per 31 December 2019. As a consequence of the stock repurchase programme that was prematurely terminated at the beginning of March 2019, share capital declined by €0.1 million from €194.0 million per 31 December 2018 to €193.9 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 each and represents the share capital of 1&1 Drillisch AG. As of the balance sheet closing date 31 December 2019, a total of 500,000 1&1 Drillisch AG shares had been acquired as part of the stock repurchase programme. Per 31 December 2019, the number of shares outstanding declined to 176,264,649 shares. The balancing of the consolidated profit per 31 December 2019 of €373.6 million and the dividend disbursement of €8.8 million in May 2019 lead to an increase of the cumulative consolidated profit of €364.8 million. The equity ratio decreased from 81.6 percent per 31 December 2018 to 71.8 percent per 31 December 2019 owing to the first-time recognition of liabilities from the acquisition of 5G wireless frequencies.

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 2019. The development of the German ITC market in fiscal year 2019 was better than that of the German economy as a whole, posting growth of 2.0 percent and even exceeding slightly the original expectations.

Although industry development overall is characterised by keen competition, 1&1 Drillisch posted good development in fiscal year 2019, recording growth of 0.79 million customer contracts to 14.33 million, growth of service revenues by 3.1 percent to €2,943 million and an increase in the comparable EBITDA adjusted for special effects by 4.8 percent from €747.0 million to €783.0 million.

The Company invested a portion of this cash flow in the acquisition and expansion of customer relationships and new products once again in fiscal year 2019, 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 2019 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 Position of the Company

Earnings of 1&1 Drillisch AG

In fiscal year 2019, revenues at 1&1 Drillisch AG at the level of the separate financial statements increased by €0.6 million to €2.1 million (previous year: €1.5 million). These figures comprise, on the one hand, the remaining wireless services revenues of 1&1 Drillisch AG from legacy end-customer contracts in the amount of €0.1 million (previous year: €0.2 million) and, on the other hand, revenues from group allocations for services in the amount of €2.0 million (previous year: €1.3 million) that 1&1 Drillisch AG provided to its subsidiaries.

Other operating income amounted to €0.5 million (previous year: €2.1 million) and mainly relates to income from the reversal of provisions.

Personnel expenses declined by €0.2 million to €3.1 million (previous year: €3.3 million).

Other operating expenses decreased slightly by €0.4 million to €6.9 million (previous year: €7.3 million) and mainly comprise legal and consulting costs as well as group allocations and costs passed on to third parties.

Income and expenses from profit and loss transfer agreements increased on balance by €91.5 million to €544.3 million (previous year: €452.8 million) due to an increased profit transfer from 1&1 Telecommunication SE.

The interest result in fiscal year 2019 amounted to €-3.8 million (previous year: €-5.2 million).

Amortisation of financial assets resulted in expenses of €10.9 million in the previous year (fiscal year 2019 €0.0). The wholly-owned subsidiary Drillisch Logistik GmbH had discontinued its operations at the end of 2018 as part of the reorganisation measures implemented in fiscal year 2018. Because of the associated change in the future earnings situation of the Company and the related impairment test of the investment carrying value, the above-mentioned write-down was made in the previous year.

Taxes on income amounted to €172.6 million (previous year: €87.9 million). The net increase on balance of €84.7 million over the previous year is mainly due to the fact that deferred tax liabilities of €82.3 million were reversed through income in the previous year (fiscal year 2019: €0.0) because of the established organic unities between the Company and 1&1 Telecommunication SE.

The net profit for the year per 31 December 2019 amounted to €360.5 million (previous year: €341.8 million).

Assets, liabilities and financial position

The balance sheet total of 1&1 Drillisch AG rose significantly by €343.9 million to €7,011.5 million in fiscal year 2019 (31 December 2018: €6,667.6 million). Fixed assets declined in total by €8.1 million to €6,495.2 million (31 December 2018: €6,503.3 million).

Current assets rose by €351.0 million from €164.3 million in 2018 to €515.2 million per 31 December 2019. Accounts receivable from affiliated companies increased by €326.5 million from €144.9 million per 31 December 2018 to €471.4 million because of the reporting date and include €210.1 million in receivables from United Internet AG from the investment of free cash (previous year: €0.0) and €261.3 million in receivables from profit and loss transfer, cash pooling and trade relationships (previous year: €144.9 million). 1&1 Drillisch AG is linked to its subsidiaries through cash pooling agreements. The liquidity of 1&1 Drillisch AG is ensured by the positive cash flows from the operating activities of its subsidiaries. In addition, within the framework of the cash management agreement concluded between 1&1 Drillisch AG and United Internet AG in fiscal year 2018, 1&1 Drillisch AG can draw on up to a maximum of €200.0 million in cash from United Internet AG, thus securing the financing of 1&1 Drillisch.

Other assets fell by €3.2 million from €15.9 million per 31 December 2018 to €12.7 million per 31 December 2019 and essentially comprise value-added tax claims.

The cash balance increased by €27.7 million to €31.1 million per 31 December 2019 (previous year: €3.4 million).

In comparison with the previous year, equity increased by a total of €347.9 million to €6,940.3 million (31 December 2018: €6,592.4 million).

As a consequence of the stock repurchase programme, share capital declined by €0.1 million from €194.0 million per 31 December 2018 to €193.9 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 each and represents the share capital of 1&1 Drillisch AG. As of the balance sheet closing date 31 December 2019, a total of 500,000 1&1 Drillisch shares had been acquired as part of the stock repurchase programme. Per 31 December 2019, the number of shares outstanding declined to 176,264,649 shares.

Retained earnings decreased from €14.0 million to €10.2 million as a result of the share buyback in fiscal year 2019.

Owing to the dividend disbursement in May 2019, unappropriated retained earnings (balanced against the net profit for the year totalling €351.7 million) increased to €719.1 million (31 December 2018: €367.4 million). The equity ratio per 31 December 2019 came to 99.0 percent (31 December 2018: 98.9 percent).

Tax provisions increased from €0.0 in the previous year to €26.9 million per 31 December 2019. The change over the previous year results essentially from the substantial increase in the gross profit. Other provisions declined by €0.5 to €1.4 million (previous year: €1.9

million). The change is mainly due to the decrease in provisions for target achievement bonuses and management bonuses by €0.1 million from €0.4 million in the previous year to €0.3 million per 31 December 2019 and the decrease in provisions for Supervisory Board remuneration from €0.3 million in the previous year to €0.0 per 31 December 2019.

Liabilities declined by a total of €30.4 million to €42.9 million 31 December 2019 (31 December 2018: €73.3 million). Liabilities owed to affiliated companies amounted to €16.2 million per 31 December 2019 (31 December 2018: €54.9 million) and primarily relate to cash pooling liabilities. The change compared to the previous year is mainly due to the fact that in the previous year, within the framework of the cash management agreement with United Internet AG, a total of €32.0 million in cash and cash equivalents was utilised by United Internet AG per the balance sheet date. This liability was repaid in full during 2019. The change in other liabilities is mainly due to a reporting date-related increase in VAT liabilities by €7.8 million from €17.7 million in the previous year to €25.5 million per 31 December 2019.

As in the previous year, there was also a surplus of deferred tax assets in fiscal year 2019. They are not recognised due to the option under Section 274 (1) second sentence HGB.

General statement on business development

The development of sales revenues at 1&1 Drillisch AG exceeded the expectations of the Management Board. Due to the reorganization measures continued in fiscal year 2019, income from Group allocations increased. The development of the annual profit exceeded the expectations of the Management Board.

Overall, the Management Board regards 1&1 Drillisch AG to be in an excellent position for its continued corporate development per the closing date of fiscal year 2019 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.

In view of the additional investments that will be required for the buildup and expansion of its own 5G wireless network, the 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 2019 to the Supervisory Board:

» Payment of a dividend of €0.05 per share. This proposal is oriented to the minimum dividend required in Section 254 (1) AktG. Assuming 176.3 million shares entitled to dividends, this would result in a total disbursement of €8.8 million for fiscal year 2019.

Management Board and Supervisory Board will discuss this dividend proposal in the Supervisory Board meeting on 25 March 2020. The Annual General Meeting of 1&1 Drillisch AG will decide about the motion proposed jointly by Management Board and Supervisory Board on 19 May 2020.

2.5 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.

2.6 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 2019 (Sustainability Report) of 1&1 Drillisch AG at www.1und1-drillisch.de/corporate-governance → Sustainability Report regarding these and other sustainability topics that will be published in April 2020.

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 in customer growth once again in fiscal year 2019 and was able to increase further the number of customer contracts subject to charge by a total of 0.79 million to 14.33 million.

Customer loyalty: In addition to acquiring new customers, the most important factor in expanding the customer base is retaining and securing the loyalty of current customers. Customer satisfaction is a management criterion at 1&1 Drillisch. For this reason, structures and processes have been established in the "Access" segment to measure, analyse and ultimately improve customer satisfaction on a continuous and sustainable basis Customer feedback is obtained by the conduct of regular customer surveys, market research and analyses of comments found on social media platforms (for instance).

Customer satisfaction is measured and controlled via various KPIs such as the customer sentiment index (CSI) or the recommendation rate/net promoter score (NPS).

The knowledge gained from the customer satisfaction analyses is used to identify potential for improvement and subsequently translated into concrete measures to increase customer satisfaction (for example, in the area of service or product quality).

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

For instance, 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 wireless products) delivery of the hardware within one workday or an on-site replacement of defective devices with the same model configuration on the next workday. Should the model not be available in exceptional cases, an equivalent smartphone will be delivered immediately.

This premium service has been included in conclusion of the contracts for all 1&1 all-net unlimited rate plans with smartphones since September 2018. What makes it so special is that the 1&1 replacement service also covers self-inflicted damage such as water damage or display breakage that exceeds the usual warranty cover for damage. This all-round protection is valid throughout the entire minimum term.

The excellent ratings in the service surveys in 2019 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 2019” (publication in October 2019), the companies offering the best service experience were determined from among a total of 3,530 enterprises in 353 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, 1&1 Drillisch scored 872 out of a maximum of 1,000 possible points from the nationwide "Big Player" and took third place in the highly respected broadband and landline test of the journal connect (published in August 2019). 1&1 was awarded the overall rating of "Excellent."

connect conducts this test annually and in 2019, tested the categories "Voice," "Data," "Crowdsourcing," "Web Services" and "Web TV" on test lines of all well-known providers.

1&1 Drillisch utilises the fibre optic network of its affiliate 1&1 Versatel for the realisation of broadband full-service lines. 1&1 Drillisch cooperates with other telecommunications companies in locations where this network is not yet available. 1&1 Drillisch provides telephony services via its Voice-over-IP (VoIP) platform that has given reliable service for more than ten years and has steadily evolved.

The platform's performance in the category "Voice" was again convincing, offering fast connection and voice runtimes. In the "Voice" and high-speed internet segment, the 1&1 brand, together with the regional provider M-net, scored the best performance. In the new category "Crowdsourcing," 1&1 landed in the middle range. In "Web Services," 1&1 is one of the top three (with Telefónica and M-net), and in Web TV, 1&1 placed second together with M-net.

The landline test was conducted by zafaco GmbH on behalf of the magazine connect. According to connect, about 4.6 million measurements were taken using test lines in a total of 52 cities across Germany over a period of about four weeks.

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 its customers. 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.

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

SUPPLEMENTARY REPORT

3. Supplementary report

In the course of fiscal year 2020 to date, the risk situation has changed as a consequence of the continuing global spread of the coronavirus (Sars-CoV-2) in the risk areas of "procurement market," "external risks - personnel crises" and others. If the virus continues to spread over a longer term, this could have a negative impact on consumer and business demand, the procurement of advance services (e.g. smartphones, routers, servers or network technology) or the health and fitness of employees, ultimately having a detrimental effect on the performance capability of 1&1 Drillisch.

Statements on the economic situation of the Group and the Company at the time of preparation of this management report are provided under item 4.3 in the "Forecast report."

RISK REPORT

4. Risks, opportunities and forecast report

1&1 Drillisch Group pursues risk and opportunity policies 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 that 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

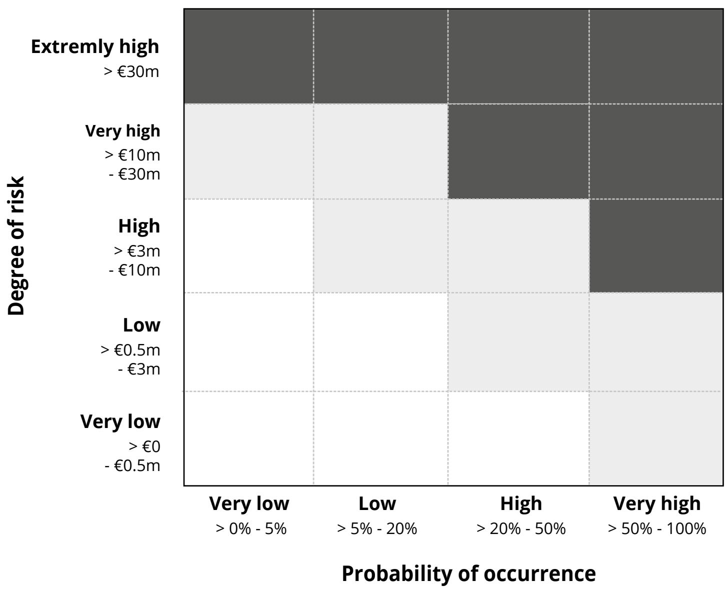
» The continuous monitoring of the market

» 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. 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 EBITDA and equity. 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 is based on the criteria Very low, 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. The Group Management Board and operating management level in each of the business segments are directly responsible for the early and continuous identification, assessment and management of opportunities. The system complies with the legal requirements for an early risk detection system, is in harmony with the German Corporate Governance Code and in its design is based on the features defined in the international ISO standard ISO 31000:2018. The Supervisory Board reviews the effectiveness of the risk management system in accordance with the provisions of the German Stock Corporation Act.

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 with respect to the accounting process

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 so that other risks besides those threatening the existence of the enterprise are detected early, controlled and monitored. In accordance with Section 317 (4) HGB, the auditor assesses whether the monitoring system is suitable for identifying in good time any developments that might jeopardise the continued existence of the Company. 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 IDL 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 reduces 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.

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 wireless 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 wireless network. At this time, the wireless services provided by 1&1 Drillisch are based on the use of third-party networks. On 12 June 2019, 1&1 Drillisch successfully completed its participation in the auction of 5G frequencies and purchased two frequency blocks of 2 x 5 MHz each in the 2 GHz range and five frequency blocks of 10 MHz each in the 3.6 GHz range for a total price of €1.07 billion. The Company plans to use these frequencies for the step-by-step buildup of its own high-performance wireless communications network, increasing its added value in the wireless communications business as well and developing new business areas. The establishment and expansion of the Company's own 5G wireless network depend on the conclusion of so-called national roaming agreements with one or more wireless network operators. If it is not possible to conclude agreements at competitive terms and conditions, this could jeopardise the establishment and expansion of the Company's own wireless communications 5G network. In this case, there is a risk of impairment losses on intangible assets through profit and loss resulting from the acquisition of the frequencies, provided that they cannot be resold, which is essentially possible. Due to the limited capacities relating to available network equipment suppliers, there are in addition risks with regard to time, quality and budget arising from the establishment and expansion of a proprietary wireless communications network. The Company is countering these risks with intensive discussions and negotiations to conclude appropriate agreements.

A business decision of this type involves risks as well as offers opportunities. The main areas of risk are "operations of technical systems," "procurement market" or "legal disputes." 1&1 Drillisch strives to minimise these risks through detailed, long-term planning, cooperation with specialist partner companies and other methods.

Participations and investments

The acquisition and holding of equity interests and the making of strategic investments represent a significant success factor for 1&1 Drillisch AG. Besides enabling better access to existing and new growth markets and to new technologies/know-how, participations and investments also serve to develop synergy and growth potential. These opportunities are accompanied by risks. There is a risk that the hoped-for potential cannot be exploited as expected or that acquired investments will not develop as expected (write-downs of going-concern value, losses on disposals, loss of dividends or reduction in hidden reserves).

All participations are therefore subject to a continuous monitoring process. This risk is largely irrelevant for the EBITDA as its occurrence results primarily in non-cash impairment losses. The recovery value of the investments that have been made is regularly monitored by management and financial controlling.

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 risks related to contracts and failures.

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 the 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 and establishing rules for representation. 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. The delivery of hardware within one working day or an on-site replacement of defective devices on the next working day requires a corresponding stock of end devices. This may result in impairment losses over time if market prices for terminal equipment change. Market entries of new competitors can also pose a danger 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 lead to bottlenecks or operational disruptions at 1&1 Drillisch. This is true of both the purchase of hardware and the procurement of advance services. Changes to the existing models for the advance payment terms and conditions (for example, price increases or changes in billing modalities) may result in margin and earnings risks. A price increase in the purchased products and other services also represents a risk for the product margin targets.

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.

In terms of its position as an employer, 1&1 Drillisch sees itself in a good position to attract and hire qualified professionals and managers with 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.

Cyber and 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 represents 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.

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 added-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 entire network capacity of Telefónica Germany that can be raised to a maximum of 30 percent, the only MBA MVNO in Germany to have such an entitlement, giving the Company extensive access to the largest wireless network in Germany and to all available wireless technologies such as 5G.

Legal disputes

1&1 Drillisch is currently involved in various litigation and arbitration proceedings that result from its normal business activities. One advance service provider has reported claims in a low range of hundreds of millions per 31 December 2019. 1&1 Drillisch regards the claims from each of the opposing parties to be unfounded and does not consider an outflow of resources to be likely. 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.

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 offered products and services, 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 objective is to cover continuously its financial requirements and to ensure flexibility by using overdrafts and loans as well as by investing and raising cash and cash equivalents at United Internet AG.

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.

External events – personnel crises

External events such as personnel crises (pandemics or epidemics) can have a negative impact on the business operations of 1&1 Drillisch. 1&1 Drillisch counters these risks as far as possible with a variety of different measures such as comprehensive hygiene precautions, workplaces independent of specific locations (home office), the use of modern communication media to avoid travel and the regular review of our emergency concepts and related training programmes. If the virus continues to spread over a longer term, this could have a negative impact on consumer and business demand, the procurement of advance services (e.g. smartphones, routers, servers or network technology) or the health and fitness of employees, ultimately having a detrimental effect on the performance capability of 1&1 Drillisch.

General statement from the Management Board regarding the risk situation of Company and Group

The assessment of the overall risk situation for 1&1 Drillisch and 1&1 Drillisch Group is the result of a consolidated consideration of all major risk areas and specific risks, taking into account interdependencies.

From today's perspective, the most significant challenge for 1&1 Drillisch AG and 1&1 Drillisch Group is presented by the risk areas "business development and innovation" and "information security." During the year, the risk rating of the risk areas "litigation" and "data protection" was raised while the risk rating of the risk area "technical systems operations" was lowered. In addition, a relevant risk has been included owing to the progressive global spread of the coronavirus (Sars-CoV-2).

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 2019 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 AG and 1&1 Drillisch Group remains virtually unchanged in comparison with 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 AG and to 1&1 Drillisch Group are not taken into account. Risks threatening the existence of 1&1 Drillisch AG and 1&1 Drillisch Group from either specific risk positions or the overall risk situation were not discernible during fiscal year 2019 and at the point in time of preparation of this management report.

In the course of fiscal year 2020 to date, the risk situation has changed as a consequence of the continuing global spread of the coronavirus (Sars-CoV-2) in the risk areas of "procurement market," "external risks - personnel crises" and others. A precise risk assessment is not yet possible at the time of the preparation of this management report. If the virus continues to spread over a longer term, this could have a negative impact on consumer and business demand, the procurement of advance services (e.g. smartphones, routers, servers or network technology) or the health and fitness of employees, ultimately having a detrimental effect on the performance capability of 1&1 Drillisch.

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

	Probability of occurrence	Degree of risk	Risk classification	Development in comparison with previous year
Risks in the area of "Strategy"				
Business development and innovation	Low	Extremely high	Significant	↗
Participations and investments	Low	Low	Low	→
Cooperation and outsourcing	Low	Very low	Low	→
Organisational structure and decision-making	Low	Very low	Low	→
Personnel development and retention	Low	Very low	Low	→
Risks in the area of "Market"				
Sales market and competition	Low	High	Moderate	→
Procurement market	Very low	Extremely high	Significant	→
Recruitment market	High	Very low	Low	→
Risks in the area of "Service performance"				
Work procedures and processes	Low	Low	Low	→
Information security	Low	Extremely high	Significant	→
Capacity bottlenecks	Low	Very low	Low	→
Technical system operation	Low	Low	Low	↘
Risks in the area "Compliance"				
Data protection	Low	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	Very low	Very high	Low	→
Interest rates	Very low	Low	Low	→
Fraud and bad debt losses	Very high	High	Significant	→
Liquidity	Low	Very low	Low	→
External events – personnel crises	Low	Very high	Moderate	↗

↘ 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

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 positioning on today's growth markets, the Company's growth opportunities from a strictly strategic perspective are obvious: increasingly powerful landline and wireless 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. Thanks to its highly competitive Access products, the strong and well-known 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 segment "Access."

Expansion of market positions

1&1 Drillisch is today one of the leading companies in Germany, serving more than 14 million customers in the field of internet-based access services. 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 an efficient sales force to active customer care) makes it possible for 1&1 Drillisch to introduce innovations on the market quickly and to market them intensely.

Development of our own wireless network

On 12 June 2019, 1&1 Drillisch successfully completed its participation in the auction of 5G frequencies and purchased two frequency blocks of 2 x 5 MHz each in the 2 GHz range and five frequency blocks of 10 MHz each in the 3.6 GHz range for a total price of €1.07 billion. In addition, 1&1 Drillisch will lease frequencies from Telefónica for the construction of its own 5G wireless network. These are two frequency blocks of 10 MHz each in the 2.6 GHz range. The two frequency blocks will be available to 1&1 Drillisch until 31 December 2025. The Company plans to use these frequencies for the step-by-step buildup of a high-performance 5G wireless communications network, increasing its added value in the wireless communications business as well and developing new business areas.

More than 9.9 million wireless customers and 4.3 million broadband customers together with access to one of the largest fibre optic networks in Germany indicate that 1&1 Drillisch has the best prerequisites for exploiting the high potential of 5G in Germany.

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, one of the largest and most powerful fibre optic networks in Germany. The network infrastructure provided by 1&1 Versatel gives 1&1 Drillisch the chance to enhance further its own added value and to procure from United Internet Group broadband advance services produced 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: +26 percent to approximately 137.1 GB used data volume per broadband line and month in 2019) and, simultaneously, Germany's extremely high lag in the provision of direct fibre optic lines. According to the most recent analysis by the OECD (Organisation for Economic Cooperation and Development) from December 2018, only 3.2 percent (previous year: 2.3 percent) of all broadband lines in Germany were fibre optic lines. This puts Germany in 32nd place (previous year: 33rd place), far to the rear among the 36 OECD member states that were examined and even well below the OECD average of 26.0 percent (previous year: 23.3 percent).

Access to Telefónica wireless network

1&1 Drillisch, the only MBA MVNO in Germany in this position, is entitled long-term to as much as 30 percent of the utilised network capacity of Telefónica Germany, assuring the Company of extensive access to the largest wireless 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 independent in the design of new products, thus allowing fair competition on equal footing with the three German wireless network operators.

The basic term of the MBA agreement with Telefónica of five years (until the middle of 2020), the extension by another five years to the middle of 2025 exercised at the end of 2019 and the option to extend this term once again (a total of 15 years) offer to 1&1 Drillisch the opportunity for continuing long-term and ongoing 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 wireless network or to become a licensed wireless 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 wireless 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 2019 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. Forecast report

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

Economic expectations

Following growth of 0.5 percent in 2019, the IMF expects economic growth of 1.1 percent in 2020 and 1.4 percent in 2021 for Germany.

Industry/market expectations

The industry association Bitkom expects a plus on the German ITC market of 1.5 percent (previous year: +2.0 percent) to €172.2 billion in 2020.

The information technology market is expected once again to post the greatest increase in 2020, growing by 2.7 percent (previous year +2.9 percent) to €95.4 billion. The greatest growth by far will presumably once again be in the software segment, which is predicted to increase by 6.3 percent (previous year: +6.3 percent) to €27.6 billion. The segment IT services, which encompasses project business and IT consulting, for instance, will presumably again post a plus of 2.4 percent (previous year: +2.4 percent) to €41.9 billion. In contrast, a minus of 0.4 percent (previous year: +0.5 percent) to €25.9 billion is projected for the IT hardware segment.

The most important ITC market in the sense of 1&1 Drillisch's business model is the German telecommunications market (broadband lines and mobile internet) in the "Access" business unit, which is financed largely by subscriptions.

Telecommunications market in Germany

The industry association Bitkom expects further growth for the German telecommunications market in 2020. Revenues are projected to rise in total by 1.0 percent (previous year: 2.0 percent) to €68.8 billion.

A slight plus of 0.4 percent (previous year: 0.0 percent) to €48.8 billion is expected for telecommunications services. Telecommunications devices are expected to grow by 2.5 percent (previous year: 11.1 percent) to €12.8 billion while the telecommunications infrastructure business is expected to grow by 2.0 percent (previous year: +1.5 percent) to €7.2 billion.

Market forecast: telecommunications market in Germany

	2020e	2019	Change
Revenues	68.8	68.1	+ 1.0%

Source: Bitkom, Annual Press Conference, January 2020

Forecast for fiscal year 2020

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 wireless 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 wireless data communications will continue to be high. The greatest revenue growth and growth potential are predicted for this segment of the wireless 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 strives for further customer growth in the coming business year. Against the background of the uncertain macroeconomic conditions resulting from the continuing spread of the coronavirus (comments in sections 4.1 "Risk report" and 3 "Supplementary report“), 1&1 Drillisch expects revenues and EBITDA in 2020 to be approximately at the previous year’s level, assuming that terms and conditions for advance services remain the same. This forecast is subject to uncertainties, as it is currently not possible to precisely assess the duration and effects of the corona crisis.

For 2020, the Management Board expected sales revenues for 1&1 Drillisch AG at the level of the separate financial statements at roughly the same level as in fiscal year 2019 and a slight improvement in the profit for 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 2020 will focus in particular on the marketing of mobile internet products. 1&1 Drillisch intends to claim its share of market growth in this sector.

1&1 Drillisch successfully participated in the frequency auction for the 5G frequencies in spring 2019 and acquired wireless services frequencies in the 2 GHz and 3.6 GHz ranges. 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 2020.”

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.

REMUNERATION 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. 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 "Long-Term Bonus 2018–2020" with a term of three years for fiscal years 2018 to 2020.

The parameter for determining success is the consolidated EBITDA. As a consequence of the resignation of Mr André Driesen from the Management Board of 1&1 Drillisch AG per 31 December 2019, the entitlement to "Management Bonus 2018–2020" was limited to the years 2018 and 2019.

A remuneration component with the effect of a long-term incentive exists for Management Board member Alessandro Nava and Martin Witt in the form of a participation programme based on virtual share options (SAR). The exercise threshold of the programme is 120 percent of the exercise price. The payment of the growth in value is limited to 100 percent 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 percent 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 percent at the earliest 36 months from the point in time of the vesting of the option, for a partial amount totalling up to 75 percent 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 compensation for his work.

As in the previous year, the members of the Management Board did not receive any remuneration from their Supervisory Board activities at various subsidiaries in the 2019 financial year. 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.

Mr Martin Witt stepped down from the 1&1 Drillisch AG Management Board per 30 June 2019. Mr Markus Huhn and Mr Alessandro Nava were appointed to the Management Board of 1&1 Drillisch AG effective 1 July 2019. Mr André Driesen resigned from the 1&1 Drillisch AG Management Board per 31 December 2019.

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

Paid compensation (in €k)	Ralph Dommermuth CEO				Markus Huhn[1] Chief			
	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)
Fixed compensation	0	0	0	0	0	225	225	225
Fringe benefits	0	0	0	0	0	6	6	6
TOTAL	**0**	**0**	**0**	**0**	**0**	**231**	**231**	**231**
One-year variable compensation	0	0	0	0	0	50	0	60
Multiannual variable compensation								
- Bonus 2018 - 2020					0	0	0	0
TOTAL	**0**	**0**	**0**	**0**	**0**	**50**	**0**	**60**
Pension expenses	0	0	0	0	0	2	2	2
TOTAL COMPENSATION	**0**	**0**	**0**	**0**	**0**	**283**	**233**	**293**

Inflow (in €k)	Ralph Dommermuth CEO				Markus Huhn[1] Chief			
	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)
Fixed compensation	0	0	0	0	0	225	225	225
Fringe benefits	0	0	0	0	0	6	6	6
TOTAL	**0**	**0**	**0**	**0**	**0**	**231**	**231**	**231**
One-year variable compensation	0	0	0	0	0	0	0	0
Multiannual variable compensation					0			
- Bonus 2015 - 2017					0	0	0	0
- Bonus 2018 - 2020	0	0	0	0	0	0	0	0
SAR Programme H2012	0	0	0	0	0	0	0	0
SAR Programme M2014	0	0	0	0	0	0	0	0
TOTAL	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Pension expenses	0	0	0	0	0	2	2	2
TOTAL COMPENSATION	**0**	**0**	**0**	**0**	**0**	**233**	**233**	**233**

(1) from 01/07/2019
(2) until 31/12/2019
(3) until 30/06/2019

Markus Huhn, Alessandro Nava and Martin Witt as Management Board members of 1&1 Drillisch AG receive their remuneration from 1&1 Telecommunication SE.

	Alessandro Nava[1] Chief				André Driesen[2] Chief				Martin Witt[3] Chief			
	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)
	0	200	200	200	400	400	400	400	300	150	150	150
	0	6	6	6	12	12	12	12	13	7	7	7
	0	**206**	**206**	**206**	**412**	**412**	**412**	**412**	**313**	**157**	**157**	**157**
	0	100	0	120	350	350	0	420	240	100	0	120
	0	0	0	0	100	100	0	100	0	0	0	0
	0	**100**	**0**	**120**	**450**	**450**	**0**	**520**	**240**	**100**	**0**	**120**
	0	7	7	7	1	1	1	1	0	0	0	0
	0	**313**	**213**	**333**	**863**	**863**	**413**	**933**	**553**	**257**	**157**	**277**

	Alessandro Nava[1] Chief				André Driesen[2] Chief				Martin Witt[3] Chief			
	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)	2018	2019	2019 (Min)	2019 (Max)
	0	200	200	200	400	400	400	400	300	150	150	150
	0	6	6	6	12	12	12	12	13	7	7	7
	0	**206**	**206**	**206**	**412**	**412**	**412**	**412**	**313**	**157**	**157**	**157**
	0	0	0	0	350	286	0	286	181	200	0	200
	0											
	0	0	0	0	300	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	402	0	0	0
	0	0	0	0	0	0	0	0	1.833	0	0	0
	0	**0**	**0**	**0**	**650**	**286**	**0**	**286**	**2.416**	**200**	**0**	**200**
	0	7	7	7	1	1	1	1	0	0	0	0
	0	**213**	**213**	**213**	**1.063**	**699**	**413**	**699**	**2.729**	**357**	**157**	**357**

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)	**2019**	2018
Michael Scheeren	62.0	61.0
Kai-Uwe Ricke	52.0	51.0
Vlasios Choulidis	52.0	51.0
Kurt Dobitsch	52.0	51.0
Dr Claudia Borgas-Herold	52.0	51.0
Norbert Lang	52.0	51.0
	322.0	**316.0**

SUPPLEMENTARY INFORMATION

6. Supplementary information

6.1. Supplementary information in accordance with Section 289a HGB and Section 315a 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 2019, United Internet AG, Montabaur, held 75.10 percent of the 1& 1 Drillisch AG stock. 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 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 percent 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 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 2019, 1&1 Drillisch AG held 500,000 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 percent 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 percent 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 of 10 percent 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 percent 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 percent 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 percent 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 percent 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 2019, United Internet AG, Montabaur, Germany, held 75.10 percent of the stock in 1&1 Drillisch AG. Per 31 December 2019, Mr Ralph Dommermuth, Montabaur, Germany, in turn holds indirectly (through holding companies) 43.1 percent of the share capital of United Internet AG with respect to the share capital of United Internet AG as reduced by own shares.

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 289f and Section 315d HGB, which also contains the Declaration of Conformity pursuant to Section 161 AktG, on the Company's internet site at 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 and Section 315c HGB

The Company's declaration pursuant to Section 289b and Section 315c HGB is published in compliance with statutory deadlines on the internet site of 1&1 Drillisch AG at 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, 23 March 2020

The Management Board

Ralph Dommermuth   Markus Huhn   Alessandro Nava

CONSOLIDATED ANNUAL ACCOUNTS

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

from 1 January to 31 December 2019

	Remarks	2019 January - December €k	2018 January - December €k
Sales	4	3,674,846	3,634,532*
Cost of sales	5,11,12	-2,574,677	-2,527,734*
GROSS PROFIT FROM REVENUES		**1,100,169**	**1,106,798**
Distribution costs	6,11,12	-426,467	-399,037
Administration costs	7,11,12	-92,165	-104,895
Other operating expenses	8	-3,345	-1,849
Other operating income	9	33,634	51,429
Impairment losses from receivables and contract assets	10	-83,341	-85,219
RESULTS FROM OPERATING ACTIVITIES		**528,485**	**567,227**
Financing expenses	13	-7,262	-5,277
Financial income	14	1,213	625
PROFIT BEFORE TAXES		**522,436**	**562,575**
Tax expenses	15	-148,816	-156,543
CONSOLIDATED PROFIT		**373,620**	**406,032**
Profit per share (in €)			
- undiluted	51	2.12	2.30
- diluted	51	2.12	2.30
Weighted average number of shares outstanding (in millions)			
- undiluted	51	176.27	176.70
- diluted	51	176.27	176.70
Rollover to total consolidated profit			
CONSOLIDATED PROFIT		**373,620**	**406,032**
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	42	-272	-704
Other results	42	-272	-704
TOTAL CONSOLIDATED PROFIT		**373,348**	**405,328**

* Adjustment of figures from previous year; see Consolidated Notes 4 and 5

CONSOLIDATED BALANCE SHEET

Per 31 December 2019

	Remarks	31/12/2019 €k	31/12/2018 €k
ASSETS			
Short-term assets			
Cash and cash equivalents	16	31,785	3,968
Trade accounts receivable	17	228,261	230,224
Receivables due from associated companies	19	215,329	41,879
Inventories	20	79,227	89,548
Contract assets	18	498,111	414,925
Costs of obtaining contracts	22	88,942	83,484
Costs of fulfilling contracts	22	60,747	73,686
Prepaid expenses	21	62,056	42,551
Other financial assets	23	28,923	45,513
Other non-financial assets	24	15,844	38,806
		1,309,225	**1,064,584**
Long-term assets			
Other financial assets	25	1,678	1,408
Tangible assets	26	64,496	14,259
Intangible assets	27, 28	1,686,027	746,816
Goodwill	28	2,932,943	2,932,943
Contract assets	18	173,747	166,105
Costs of obtaining contracts	30	81,985	84,501
Costs of fulfilling contracts	30	43,584	53,690
Prepaid expenses	29	168,259	182,334
		5,152,719	**4,182,056**
TOTAL ASSETS		**6,461,944**	**5,246,640**

	Remarks	31/12/2019 €k	31/12/2018 €k
LIABILITIES AND EQUITY			
Short-term liabilities			
Trade accounts payable	31, 39	266,369	365,202
Liabilities due to associated companies	32, 39	79,294	129,333
Contract liabilities	33, 39	40,314	46,106
Other provisions	35, 39	6,559	8,766
Other financial liabilities	36, 39	102,634	39,530
Other non-financial liabilities	37, 39	29,256	20,002
Income tax liabilities	34, 39	24,469	37,985
		548,895	**646,924**
Long-term liabilities			
Contract liabilities	33, 39	4,960	4,543
Other provisions	35, 39	45,670	67,090
Other financial liabilities	38, 39	991,825	128
Deferred tax liabilities	15	229,748	247,880
		1,272,203	**319,641**
TOTAL LIABILITIES		**1,821,098**	**966,565**
Equity			
Share capital	41	193,891	194,000
Capital reserves	42	2,429,876	2,433,531
Cumulative consolidated results		2,018,055	1,653,248
Other equity	42	-976	-704
TOTAL EQUITY		**4,640,846**	**4,280,075**
TOTAL LIABILITIES AND EQUITY		**6,461,944**	**5,246,640**

CONSOLIDATED CASH FLOW STATEMENT

from 1 January to 31 December 2019

	Remarks	2019 January - December €k	2018 January - December €k
RESULTS FROM OPERATING ACTIVITIES	**49**		
Consolidated profit		373,620	406,032
Allowances for rollover of consolidated results to incoming and outgoing payments			
Depreciation on intangible and tangible assets	11	29,091	27,422
Depreciation on assets capitalised within the framework of corporate acquisitions	11	125,923	127,274
Personnel expenses from employee stock ownership programmes	40	79	1,357
Changes in the adjustment items for deferred tax assets	15	-18,018	-12,378
Correction profits/losses from the sale of tangible assets		-158	-1,766
Other items not affecting payments		0	19
CASH FLOW FROM OPERATING ACTIVITIES		**510,537**	**547,960**
Changes in assets and liabilities			
Change in receivables and other assets		41,571	-43,635
Change in contract assets		-90,828	-241,410
Change in inventories		10,321	-43,081
Change in costs of obtaining and fulfilling contracts		20,104	-16,490
Change in deferred expenditures		-5,430	-130,419
Change in trade accounts payable		-98,833	143,952
Change in other provisions		-23,628	-41,221
Change in income tax liabilities		-13,516	-9,061
Change in other liabilities		12,273	-3,143
Change in receivables due from/liabilities due to associated companies		18,512	1,836
Change in contract liabilities		-5,376	-9,736
Changes in assets and liabilities, total		**-134,830**	**-392,408**
Net inflow of funds from operating activities		**375,707**	**155,552**

	Remarks	2019 January - December €k	2018 January - December €k
CASH FLOW FROM INVESTMENTS	**49**		
Investments in intangible and tangible assets		-20,452	-15,489
Inflow of funds from disposal of intangible and tangible assets		184	2,538
Investments in other financial assets		-326	-243
Outflow of funds for the grant of loans to associated companies	45	-210,000	0
Reimbursements from other financial assets		45	33
Outflow of funds from disposal of financial assets or from deconsolidation		0	-8,300
Net outflow of funds in investment sector		**-230,549**	**-21,461**
CASH FLOW FROM FINANCING SECTOR	**49**		
Acquisition of treasury stock	43	-3,844	-15,352
Dividend payment	52	-8,813	-282,823
Repayment of liabilities related to the acquisition of 5G spectrum	49	-61,266	0
Repayment of leasing liabilities and rights of use	36, 48	-11,418	-10,529
Payments from repayment of a debenture bond		0	-3,100
Inflow of funds from loans received from associated companies		0	200,000
Outflow of funds to associated companies in repayment of loans	45	-32,000	-168,000
Net outflow of funds in financing sector		**-117,341**	**-279,804**
Net increase/decline in cash and cash equivalents		27,817	-145,713
Cash and cash equivalents at beginning of fiscal year		3,968	149,681
Cash and cash equivalents at end of reporting period		**31,785**	**3,968**

CONSOLIDATED CHANGE IN EQUITY STATEMENT

in Fiscal Years 2019 and 2018

		Share capital		Capital reserves	Cumulative consolidated results	Other equity	Total equity
	Remarks		**41, 43**	**42, 43**		**42**	
		Denomination	€k	€k	€k	€k	€k
Per 1 January 2018		**176,764,649**	**194,441**	**2,447,085**	**1,530,039**	**0**	**4,171,565**
Consolidated profit					406,032		406,032
Other consolidated results					0	-704	-704
Total results					**406,032**	**-704**	**405,328**
Dividend payments					-282,823		-282,823
Employee stock ownership programme				1,357			1,357
Acquisition of own shares		-400,704	-441	-14,911			-15,352
Per 31 December 2018		**176,363,945**	**194,000**	**2,433,531**	**1,653,248**	**-704**	**4,280,075**
Per 1 January 2019		**176,363,945**	**194,000**	**2,433,531**	**1,653,248**	**-704**	**4,280,075**
Consolidated profit					373,620		373,620
Other consolidated results						-272	-272
Total results					**373,620**	**-272**	**373,348**
Dividend payments	52				-8,813		-8,813
Employee stock ownership programme	40			79			79
Acquisition of own shares	43	-99,296	-109	-3,734			-3,844
Per 31 December 2019		**176,264,649**	**193,891**	**2,429,876**	**2,018,055**	**-976**	**4,640,846**

CONSOLIDATED NOTES PER 31 DECEMBER 2019

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: "1&1 Drillisch AG" or "Company" or, along with its subsidiaries, "1&1 Drillisch" or "Group"), is a telecommunications provider that operates solely and exclusively in Germany. With more than 14 million contracts, 1&1 Drillisch is a leading internet specialist and is authorised to use one of the largest fibre optic networks in Germany because of its affiliation with the company 1&1 Versatel GmbH, Düsseldorf, another member of the United Internet AG corporate group. As a virtual wireless network operator, 1&1 Drillisch has guaranteed access to up to 30 percent of the capacity of Telefónica's wireless network in Germany (so-called Mobile Bitstream Access Mobile Virtual Network Operator = MBA MVNO). In addition, 1&1 Drillisch utilises capacities in Vodafone's wireless network. The Group's business unit Access offers landline- and wireless network-based internet access products. They include, among others, chargeable landline and wireless access products , including the related applications such as home networks, online storage, telephony, video on demand or IPTV.

Company headquarters of 1&1 Drillisch 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 consolidated annual financial statements are published in the German Federal Gazette [Bundesanzeiger].

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 2019.

In its meeting on 27 March 2019, the Supervisory Board approved the consolidated annual financial statements for 2018. The consolidated annual financial statements for 2018 were made public in the Federal Gazette on 15 April 2019.

The consolidated financial statements for 2019 were prepared by the Management Board per 23 March 2020 and subsequently submitted to the Supervisory Board. The consolidated annual financial statements will be presented to the Supervisory Board for approval on 24 March 2020. Until the consolidated annual financial statements have been approved and released for publication by the Supervisory Board, it is theoretically possible that changes will be made. The Management Board, however, is assuming that the consolidated financial statements will be approved in their current form. They will be published on 26 March 2020.

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

The Group includes per 31 December 2019 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	100
IQ-optimize Software AG, Maintal	100
Drillisch Netz AG, Krefeld[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 2018.

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

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	15
POSpulse GmbH, Berlin	1
High-Tech Gründerfonds III GmbH & Co. KG, Bonn	1

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 contracts with customers

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 Group realises revenues primarily from the provision of the access products and from services such as internet and wireless telephony. The transaction price comprises fixed monthly basic fees and variable additional utilisation charges for certain services (e.g. for foreign and wireless 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 wireless 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 from associated companies

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.

Foreign currency translation

The consolidated annual financial statements are prepared in euros, the parent'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.

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
Rights of use for land and buildings	up to 17
Motor vehicles	5 to 6
Other equipment, fixtures, fittings and equipment	3 to 19
Rights of use for fixtures, fittings and equipment	up to 4
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

The Group has control over an asset if it is in a position to obtain the future economic benefits flowing from the underlying resource and it can restrict access to these benefits by third parties. 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 completion of the intangible asset can be technically realised to the extent that it can be used or sold;

» 1&1 Drillisch intends to complete the intangible asset and use or sell it;

» 1&1 Drillisch is able to use or sell the intangible asset;

» The manner in which the intangible asset is expected to generate future economic benefits; among other things, 1&1 Drillisch can demonstrate the existence of a market for the products of the intangible asset or for the intangible asset itself or, if it is to be used internally, the benefit of the intangible asset;

» Adequate technical, financial and other resources are available to complete development and to use or sell the intangible asset;

» 1&1 Drillisch is able to assess reliably the expenditures attributable to the intangible asset during its development.

A distinction is made between intangible assets with limited and indeterminate useful lives and intangible assets that cannot yet be used at this time (spectrum).

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 and intangible assets that cannot yet be used at this time 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 amortisation of the intangible assets that at this time are not yet usable (spectrum) will begin at the point in time at which network operation actually commences.

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

	Useful life in years
Trademark rights	Indeterminate
Clientele	4 to 25
Spectrum	up to 21
Miscellaneous 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 Group estimates 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

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

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

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 recognised 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 recognised 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 liabilities are classified as long-term 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 primary market for the asset or liability;
- Or, if there is no principal market, on the most advantageous market for the asset or liability.

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

1&1 Drillisch is exclusively a lessee. Most of the leases in the Group are related to the leasing of buildings and vehicles.

» **Leases (from 1 January 2019)**

The Group has applied the new standard IFRS 16 Leases since 1 January 2019. The Group assesses at the inception of an agreement whether an agreement constitutes or contains a lease. This is the case when the agreement establishes the right to control the use of an identified asset for a specified period of time in return for consideration.

The Group recognises and measures all leases (with the exception of short-term leases and leases involving an underlying asset of minor value) according to one single model. The Group recognises liabilities for lease payments and rights of use for the right to use the underlying asset.

A contract to receive goods or services may be entered into by, or on behalf of, a joint arrangement within the meaning of IFRS 11 (Joint Arrangement). To determine whether such an agreement contains a lease, the Group assesses whether the joint agreement has the right to control the use of an identified asset throughout its full period of use.

Rights of use

The Group recognises rights of use per date of provision (i.e. the date on which the underlying leased asset is available for use). Rights of use are measured at cost less any cumulative depreciation and any cumulative impairment losses and are adjusted for any revaluation of the lease liabilities. The costs of rights of use include the recognised lease obligations, the initial direct costs incurred and the lease payments made at or before the provision of the leased asset less any lease incentives received. The Group determines the term of the lease on the basis of the non-cancellable basic term of the lease and including the periods resulting from an option to extend the lease if it is reasonably certain that it will exercise this option or the periods resulting from an option to terminate the lease if it is reasonably certain that it will not exercise this option. Rights of use are amortised on a straight-line basis over the shorter of the lease term and the expected useful life of the leases as follows:

» Land and buildings up to 17 years

» Fixtures, fittings and equipment up to 4 years

If ownership of the leased asset is transferred to the Group at the end of the lease term or if the costs include the exercise of a purchase option, write-offs are determined on the basis of the expected useful life of the leased asset.

Lease liabilities

On the date of provision, the Group recognises lease liabilities at the present value of the lease payments to be made over the term of the lease. Lease payments comprise fixed payments (including de facto fixed payments) less any lease incentives to be received, variable lease payments linked to an index or (interest) rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option if it is reasonably certain that the Group will actually exercise it and penalties for termination of the lease if the lease term takes into account that the Group will exercise the termination option. Periods resulting from an option to extend the lease, insofar as it is reasonably certain that this option will be exercised, or periods resulting from an option to terminate the lease, insofar as it is reasonably certain that this option will not be exercised, are included in the lease term. Variable lease payments not linked to an index or (interest) rate are recognised as expenditures in the period in which the event or condition giving rise to the payment occurs.

In calculating the present value of the lease payments, the Group uses its incremental borrowing rate of interest per the provision date of the lease because the interest rate on which the lease is based cannot be readily determined. After the provision date, the amount of lease liabilities is increased to reflect the higher interest expense and decreased to reflect lease payments made. In addition, the carrying amount of lease liabilities is reassessed in the event of changes in the lease, changes in the term of the lease, changes in lease payments (for example, changes in future lease payments resulting from a change in the index or interest rate used to determine those payments) or a change in the assessment of a purchase option for the underlying asset.

The incremental borrowing rate of interest is derived from reference interest rates for a period of up to 17 years from risk-free interest rates appropriate to the term.

Short-term leases and leases involving an underlying asset of minor value

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 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. Lease payments for short-term leases and for leases involving an asset of minor value are recognised as an expense on a straight-line basis over the term of the lease.

» Leases (to 31 December 2018)

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

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.

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.

Derecognition of financial assets

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. The gains and losses recognised for financial assets measured at fair value in other comprehensive income are reclassified to cumulative profit or loss. A pro rata transfer posting is made for pro rata disposal.

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 17 of the notes. All receivables that are overdue by more than 365 days are adjusted with a valuation allowance between 95 percent and 100 percent. 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 17 of the notes)

» Contract assets (item 18 of the notes)

» Objectives and methods of financial risk management (item 46 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.

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. Cash and cash equivalents are measured at cost.

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 be paid in fiscal year 2020. A provision has been created on the basis of the fair value.

Share-based payment

The Group's employees receive in part share-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 of the Group'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.

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 realised 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.

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	
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	At amortised cost
Costs of obtaining contracts	At amortised cost
Costs of fulfilling contracts	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
Tangible assets	At amortised cost
Intangible assets	
With determinate useful life	At amortised cost
With indeterminate useful life	Impairment-only recognition
Not yet usable	Impairment-only recognition
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	
Trade accounts payable	At amortised cost
Liabilities due to associated companies	At amortised cost
Contract liabilities	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
Income tax liabilities	Expected payment to fiscal authorities based on tax rates applicable on the closing date or that will apply in near future
Deferred tax liabilities	Undiscounted measurement at the tax rates applicable during the period in which an asset is realised or a liability is satisfied

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 2019, 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 16	Leases	01/01/2019	Yes
IFRS 9	Change: Prepayment regulation with negative compensation payment	01/01/2019	Yes
IFRIC 23	Uncertainty over Income Tax Treatments	01/01/2019	Yes
IAS 19	Change: plan modifications, curtailment or settlement	01/01/2019	Yes
IAS 28	Clarification of IAS 28 Investments in Associates and Joint Ventures	01/01/2019	Yes
IFRS 3 and 11, IAS 12, IAS 23	Annual revision procedures 2015-2017	01/01/2019	Yes

Leases

The main effects of the first-time application of IFRS 16 result from the lessee's obligation to show all leasing agreements in the balance sheet.

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. Accordingly, an asset that represents the right to the use of the underlying asset (right of use) is capitalised for the duration of the lease. Simultaneously, a liability in the amount of the future lease instalments, reduced by the interest share (i.e. the lease liability), is recognised in the liabilities. In the following period, there is a restatement through expenses of the lease because of interest and write-off expenses for the right of use.

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 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). IFRS 16 applies for the first time to fiscal years beginning on or after 1 January 2019.

1&1 Drillisch is exclusively a lessee. Most of the leases in the Group are related to the leasing of buildings and vehicles. In the case of buildings, various rental objects/leased objects such as space (office space, storage space or parking spaces, etc.) may be listed as contractual objects (i.e. for rent by 1&1 Drillisch).

1&1 Drillisch has decided to use the modified retrospective initial application method. In the modified retrospective application, leases are recognised for the first time per 1 January 2019; the previous year's figures are not restated. The Group has opted to use the practical expedient for the transition. This option provides that, per 1 January 2019, it is not required to reassess whether an agreement constitutes or contains a lease. Instead, the Group has applied the standard solely to those agreements that it previously classified as leases by applying IAS 17 and IFRIC 4 on the date of initial application. In addition, the option is exercised to recognise, upon initial application, the asset for the right of use granted in the amount of the value of the associated lease liability, adjusted by the amount of the lease payments made or accrued in advance for this lease and disclosed in the balance sheet immediately preceding the date of initial application.

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.

The application of the new regulation led to an increase in assets (rights of use) and simultaneously to an increase in finance liabilities (owing to the payment obligations) in the consolidated balance sheet of 1&1 Drillisch. This led to a reduction in rent expenses, higher write-offs and higher interest expenses in the profit and loss account.

The rights of use and lease liabilities were not disclosed separately in the balance sheet, but were allocated to tangible assets or other financial liabilities. The following rights of use were identified and recognised per 1 January 2019:

	Carrying value per 01/01/2019 €k
Tangible assets	
Right-of-use assets	
- Land and buildings	25,166
- Fixtures, fittings and equipment	1,689
Total right-of-use assets	**26,855**
Other financial liabilities	
Lease liabilities	
- Short-term leases	4,467
- of which from finance leases pursuant to IAS 17	267
- Long-term leases	22,388
Total lease liabilities	**26,855**

The rollover of the operating lease obligations per 31 December 2018 (additional information: Number 54 in the Annual Report 2018 “Information regarding leases, other financial obligations, contingent liabilities and contingent debts”), discounted at the appropriate incremental borrowing rates of interest and the lease liabilities in the opening balance sheet per 1 January 2019, is determined as follows:

	01/01/2019 €k
Operating lease: minimum lease payments (nominal) total 31/12/2018	23,888
Liabilities from finance leases pursuant to IAS 17 – 31/12/2018	267
Non-capitalised short-term leases and leases for low-value assets	-287
Payments for optional extension periods included in the lease liability that were not included in the minimum lease payments under operating leases per 31/12/2018	4,448
less discounting effect	-1,461
Finance liabilities IFRS 16 – 01/01/2019	**26,855**

The incremental borrowing rate of interest is applied for measurement of the rights of use and lease liabilities The incremental borrowing rate of interest is derived from reference interest rates for a period of up to 17 years from risk-free interest rates appropriate to the term.

The discounting per 1 January 2019 applied the weighted average incremental borrowing rate of interest of 1 percent.

Since the first-time application of IFRS 16, rights of use in the amount of €28,600k were received as of 31 December 2019. These rights break down into land and buildings (€26,048k) and fixtures, fittings and equipment (€2,552k). For additional information, see “Disclosures of lease obligations”, item 48 of the notes.

Moreover, in fiscal year 2019, application of the following standards and interpretations as revised or newly published by the IASB was mandatory:

» **Amendments to IFRS 9: Prepayment regulations with negative compensation**
In accordance with IFRS 9, a debt instrument can be measured at amortised cost or at fair value in other comprehensive income if the contractually agreed cash flows represent solely and principal and interest payments on the outstanding principal amount (so-called SPPI criterion) and the debt instrument is held within the scope of a business model that corresponds to this classification. The amendments to IFRS 9 clarify that a financial asset meets the SPPI criterion regardless of the event or circumstance giving rise to the early termination of the contract and regardless of which party pays or receives the reasonable consideration for the early termination of the contract. These changes do not have any effects on the consolidated annual financial statements.

» **IFRIC Interpretation 23: Uncertainty over Income Tax Treatments**
The interpretation applies to the accounting for income taxes in accordance with IAS 12 Income Taxes when there is uncertainty about the treatment of income taxes. It does not apply to taxes or duties that are not the subject of IAS 12 and does not include provisions for interest and penalties for late payment associated with uncertain tax treatment. The interpretation does not have any major effects on the consolidated financial statements.

» **Amendments to IAS 19: Plan Amendment, Curtailment or Settlement**
The amendments to IAS 19 relate to the accounting treatment of plan amendments, curtailments or settlements made during a reporting period. According to the standard, an enterprise must determine the following after a plan amendment, curtailment or settlement that has taken place during the course of a fiscal year. These changes do not have any effects on the consolidated annual financial statements.

» **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**
The amendments specify that an entity shall apply IFRS 9 to long-term investments in an associate or joint venture to which the equity method is not applied, but which are de facto part of the net investment in the associate or joint venture (long-term investments). This clarification is relevant because it implies that the model provided in IFRS 9 with regard to expected credit losses is applicable to such long-term interests.

The amendments also clarify that, when applying IFRS 9, an entity does not recognise losses of the associate or joint venture or impairment losses on the net investment recognised as amendments of the net investment in the associate or joint venture arising from the application of IAS 28 Investments in Associates and Joint Ventures. These amendments had no effect on the consolidated annual financial statements, as the Group does not hold any long-term investments in associated companies and joint ventures.

» **Annual corrective procedure (2015–2017)**
Clarifications of IFRS 3, IFRS 11, IAS 12 and IAS 23. The clarifications do not have any major effects on the consolidated annual financial statements.

There were no significant effects for these annual financial statements 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
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	Amendment: Definition of materiality	01/01/2020	No
IFRS 9, IAS 39, IFRS 7	Reform of reference interest rates	01/01/2020	No
IFRS 17	Accounting for insurance contracts	01/01/2021	No

No major effects are expected from the 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 4 of the notes.

Costs to fulfil and obtain contracts

The determination of the estimated useful amortisation terms 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 capitalised costs of obtaining contracts per 31 December 2019 amounts to €170,927k (previous year: €167,985k). The carrying value of the capitalised costs for fulfilling contracts per 31 December 2019 amounts to €104,331k (previous year: €127,376k). For additional information, see items 22 and 30 of the notes.

Impairment of non-financial assets

The Group reviews the goodwill and other intangible assets with an indeterminate useful life as well as those assets that are currently not yet available for use 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 assets are 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 28 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.

The carrying value of the goodwill per 31 December 2019 amounts to €2,932,943k (previous year: €2,932,943k). The carrying value of intangible assets with indeterminate useful lives is €56,300k, just as in the previous year. The carrying amount of intangible assets that are currently not yet available for use is €1,070,187k (previous year: €0k). For additional information, see item 28 of the notes.

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, earnings from share-based payment (stock appreciation rights and stock appreciation rights Drillisch) in the amount of €277k resulted (previous year: expenditures of €2,660k). For additional information, see item 40 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 Group must determine whether to assess each uncertain tax treatment separately or together with one or more other uncertain tax treatments. At this time, it chooses the method that is more suitable for predicting the resolution of the uncertainty. The Group makes significant discretionary judgments in identifying uncertainties regarding the income tax treatment.

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 income tax liabilities per 31 December 2019 amounts to €24,469k (previous year: €37,985k) and mainly relates to current taxes for fiscal year 2019. For additional information, see item 34 of the notes.

Leases – determining the term of leases with renewal and termination options and estimating the incremental borrowing rate of interest

The Group determines the term of the lease on the basis of the non-cancellable basic term of the lease and including the periods resulting from an option to extend the lease if it is reasonably certain that it will exercise this option or the periods resulting from an option to terminate the lease if it is reasonably certain that it will not exercise this option.

The Group has included the extension period in the terms of leases for buildings with shorter non-cancellable terms. The Group usually exercises its option to extend these leases as they concern the Group's administrative buildings.

The Group cannot readily determine the interest rate underlying the lease, so it uses its incremental borrowing rate of interest to measure lease liabilities. The Group estimates the incremental borrowing rate of interest using observable input factors (e.g. market interest rates), if available, and must make certain company-specific estimates (e.g. individual credit rating of the subsidiary). For additional information, see items 2.2 and 48 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 trade accounts receivables per 31 December 2019 came to €228,261k (previous year: €230,224k). The carrying value of the contract assets per 31 December 2019 amounts to €671,858k (previous year: €581,030k). For additional information, see items 17 and 18 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 2019 come to €79,227k (previous year: €89,548k). For additional information, see item 20 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. Discretionary decisions were made in determining the timing of capitalisation and the start of amortisation for the 5G spectrum.

The carrying value of the tangible assets (including rights of use) and intangible assets (excluding goodwill) per 31 December 2019 amounts to €1,750,523k (previous year: €761,075k). For additional information, see items 26 and 27 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 2019 amounts to €52,229k (previous year: €75,856k). For additional information, see item 35 of the notes.

Explanatory comments on comprehensive income statement

Comparability is limited because of the initial application of the accounting standard IFRS 16 “Leases”, application of which has been mandatory since 1 January 2019. The figures from the previous year have not been restated. Additional information can be found in item 2.2 of the notes, “Effects of new or modified IFRS”.

4. 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.

Company management and group reporting encompass the segments "Access", "5G" and "Miscellaneous" (previously 2 reporting segments: "Access" and "Miscellaneous"). As a consequence of the acquisition of 5G frequencies and the related planned development of the Company's own wireless communications network, the expenses and income resulting from the preparation and execution of the 5G frequency auction as well as the future development, expansion and operation of the Company's own 5G wireless communications network have been disclosed as a separate segment and reported to the CODM since the first half of 2019.

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.

The monitoring of goodwill in the amount of €2,932,943k (previous year: €2,932,943k) is the responsibility of the CODM at the level of the reporting segment "Access".

The expenses and income relating to the preparation and conduct of the 5G frequency auction and resulting from the establishment, expansion and operation of the Company's own 5G wireless network are disclosed in the segment "5G". In fiscal year 2019, no revenues were recognised in the segment 5G.

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 wireless 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, of the 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. The sales commissions and the costs to obtain contracts pursuant to IFRS 15 are disclosed under segment cost of materials or expenditures for purchased services. Transactions between the segments are charged at market prices.

The segment reporting of 1&1 Drillisch for fiscal year 2019 is presented below:

	Access €k	5G €k	Miscellaneous €k	Consolidation €k	2019 Total €k
Revenues with third parties	3,674,731	0	115	0	3,674,846
Intercompany revenues	8	0	12,360	-12,368	0
SEGMENT REVENUES	**3,674,739**	**0**	**12,475**	**-12,368**	**3,674,846**
Cost of materials external third parties	-2,480,817	0	-19	0	-2,480,836
Cost of materials from intercompany relationships	0	0	-7	7	0
COST OF MATERIALS FOR SEGMENT	**-2,480,817**	**0**	**-26**	**7**	**-2,480,836**
GROSS PROFIT FOR SEGMENT	**1,193,922**	**0**	**12,449**	**-12,361**	**1,194,010**
SEGMENT EBITDA	**688,988**	**-5,677**	**4,057**	**-3,869**	**683,499**
CUSTOMER CONTRACTS (IN MILLIONS)	**14.33**	**-**	**-**	**-**	**14.33**

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

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

	Access €k	Miscellaneous €k	Consolidation €k	2018 Total €k
Revenues with third parties	3,634,291	241	0	3,634,532
Intercompany revenues	0	11,488	-11,488	0
SEGMENT REVENUES	**3,634,291**	**11,729**	**-11,488**	**3,634,532**
Cost of materials external third parties	-2,429,499	-24	0	-2,429,523
Cost of materials from intercompany relationships	-4	-11	15	0
COST OF MATERIALS FOR SEGMENT	**-2,429,503**	**-35**	**15**	**-2,429,523**
GROSS PROFIT FOR SEGMENT	**1,204,788**	**11,694**	**-11,473**	**1,205,009**
SEGMENT EBITDA	**726,098**	**2,580**	**-6,754**	**721,924**
CUSTOMER CONTRACTS (IN MILLIONS)	**13.54**	**-**	**-**	**13.54**

In the course of the ongoing integration measures within 1&1 Drillisch Group in fiscal year 2019, the revenue disclosure for one 1&1 Drillisch subsidiary for which revenue-reducing effects were previously reported as cost of sales was restated to align with uniform group-wide disclosure practise in the fourth quarter of 2019. For better comparability, the revenue and cost of sales for the 2018 financial year have also been restated. Because of these restatements, the disclosed sales revenues and cost of sales for the previous year in the segment "Access" and at Group level were each reduced by €27.9 million. This is strictly a reclassification between these two items in the statement of comprehensive income. The restatement has no impact on the earnings figures (EBITDA and EBIT) of the segment and the Group.

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

	2019 €k	2018 €k
Total segment profits (EBITDA)	683,499	721,924
Amortisation and depreciation	-155,014	-154,696
Operating results	**528,485**	**567,227**
Financial results	-6,049	-4,652
PROFIT BEFORE TAXES ON INCOME	**522,436**	**562,575**

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 percent of the total external sales revenues are generated.

Additional information on sales revenues

Group sales revenues break down as shown below:

	2019 €m	2018* €m
Service revenues	2,943.0	2,854.4
Hardware and Other revenues	731.9	780.1
TOTAL	3,674.9	3,634.5

* The service revenues of 2018 were reduced by €27.9 million; for further information, please refer to the segment reporting.

The Group discloses valuation allowances on trade accounts receivable and contract assets from contracts with customers in the reporting period. The figures are disclosed as gross amounts under the impairment losses from receivables and contract assets and amount to €83,341k (previous year: €85,219k).

Contract balances developed as shown below during fiscal year 2019:

	31/12/2019 €k	31/12/2018 €k
Trade accounts receivable (item 17 of the notes)	228,261	230,224
Contract assets (item 18 of the notes)	671,858	581,030
Contract liabilities (item 33 of the notes)	45,274	50,649

In fiscal year 2019, the amount of €17,515k (previous year: €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 service obligations not satisfied at the end of the reporting period amounts to €1,177,144k per 31 December 2019 (previous year: €1,124,699k). Contract renewals were not taken into account here and, in accordance with IFRS 15.121, contract terms of less than one year are not included. 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:

31 December 2019

€k			**Total**
2020	**2021**	**> 2022**	
887,640	289,504	0	1,177,144

31 December 2018

€k			**Total**
2019	**2020**	**> 2021**	
829,687	295,012	0	1,124,699

The transaction prices shown relate to unfulfilled service obligations pursuant to contracts with customers with an original contract term of more than 12 months. They relate to service components with revenue recognition over time and to contracts for which a one-time fee was invoiced and which is now recognised as revenue over the relevant original minimum contract term.

5. Cost of sales

The cost of sales developed as follows:

	2019 €k	**2018*** €k
Expenditures for purchased services	1,679,356	1,655,403
Expenditures for purchased goods	701,418	678,313
Personnel expenses	73,397	71,801
Write-offs	47,391	49,909
Miscellaneous	73,115	72,308
TOTAL	**2,574,677**	**2,527,734**

* Expenditures for purchased services of 2018 were reduced by €27.9 million; for further information, please refer to the 4th sales revenues / segment reporting.

Cost of sales declined in relation to the sales revenues in comparison with the previous year to 70.1 percent (previous year: 69.5 percent), leading to a decline in the gross margin to 29.9 percent (previous year: 30.5 percent).

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

6. Distribution costs

Distribution costs increased over the previous year from €399,037k (11.0 percent of revenues) to €426,467k (11.6 percent of revenues). They include personnel expenses in the amount of €87,161k (previous year: €76,076k), write-offs in the amount of €99,328k (previous year: €97,488k) and other distribution costs in the amount of €239,978k (previous year: €225,473k). Expenses for purchased services or segment costs of materials in the amount of €100,062k (previous year: €95,807k) are disclosed under distribution costs. Other distribution costs comprise essentially customer acquisition costs, advertising, customer care and product management.

7. Administration costs

Administration costs in the fiscal year declined from €104,895k (2.9 percent of revenues) to €92,165k (2.5 percent of revenues). They include personnel expenses in the amount of €25,071k (previous year: €30,394k), write-offs in the amount of €8,295k (previous year: €7,299k) and other administration costs in the amount of €58,799k (previous year: €67,202k). Other administration costs comprise essentially expenditures for receivables management, rent and legal and professional fees.

8. Other operating expenses

Other operating expenses break down as follows:

	2019 €k	**2018** €k
Other expenses associated companies	459	241
Other taxes	42	51
Miscellaneous	2,844	1,557
TOTAL	**3,345**	**1,849**

Other operating expenses in the reporting period are related primarily to expenses from other periods, just as in the previous year.

9. Other operating income

Other operating income breaks down as follows:

	2019 €k	2018 €k
Income from dunning charges and return debit notes	24,339	33,431
Damages	4,965	5,182
Rent income	713	934
Income from translation of foreign currencies	414	218
Other operating income associated companies	189	32
Income from disposal of assets	9	1,986
Income from the reversal of provisions	0	5,800
Miscellaneous	3,005	3,846
TOTAL	**33,634**	**51,429**

10. Impairment losses from receivables and contract assets

Impairment losses from receivables and contract assets comprise the following:

	2019 €k	2018 €k
Trade accounts receivable	54,848	60,245
Contract assets	28,493	24,974
TOTAL	**83,341**	**85,219**

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

11. 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 (including rights of use from IFRS 16 accounting) break down as follows:

	2019 €k	2018 €k
Cost of sales	47,391	49,909
Distribution costs	99,328	97,488
Administration costs	8,295	7,299
TOTAL	**155,014**	**154,696**

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:

	2019 €k	2018 €k
Clientele	95,742	95,742
Licences	25,061	25,061
Software	5,120	6,471
TOTAL	**125,923**	**127,274**

This figure includes depreciation and amortisation of €113,322k (previous year: €114,376k) attributable to the additional assets capitalised as part of purchase price allocation.

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

	2019 €k	2018 €k
Cost of sales	30,181	31,532
Distribution costs	95,742	95,742
TOTAL	**125,923**	**127,274**

12. Personnel expenses

Personnel expenses are distributed among the business divisions as follows:

	2019 €k	2018 €k
Cost of sales	73,397	71,801
Distribution costs	87,161	76,076
Administration costs	25,071	30,394
TOTAL	**185,629**	**178,271**

Personnel expenses comprise the expenses for wages and salaries in the amount of €158,695k (previous year: €152,154k) and the expenses for social security in the amount of €26,934k (previous year: €26,117k).

Per the balance sheet date 31 December 2019, the number of employees (headcount) was 3,163 (previous year: 3,150). The average number of employees during fiscal year 2019 was 3,119 (previous year: 3,142).

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 2019, they total €13,088k (previous year: €10,555k) and include primarily the contributions paid to the government pension insurer in Germany.

13. Financing expenses

The financing expenditures break down as follows:

	2019 €k	2018 €k
One-off fees and expenses from the provision of credit lines	6,347	0
Interest from leasing liabilities	387	0
Interest and similar expenses associated companies	265	500
Guarantee commissions	173	128
Financing expense from convertible bonds	0	3,798
Miscellaneous	90	851
TOTAL	**7,262**	**5,277**

Credit line of originally €2.8 billion agreed with a European banking syndicate on 24 January 2019 was terminated by 1&1 Drillisch AG during fiscal year 2019. 1&1 Drillisch has concluded an agreement with the BMVI and BMF on the construction of wireless service locations in so-called “white spots,” and benefits in turn from instalment payments for the costs of the acquired 5G frequencies. This means that the licence costs originally payable in 2019 and 2024 can be distributed as instalments over the period until 2030. One-time fees and expenses from the provision of credit lines amounted to €6,347k in fiscal year 2019.

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.

Reference is made here to the disclosure under point 45 of the notes concerning the interest paid to associated companies.

14. Financial income

The financial income breaks down as follows:

	2019 €k	2018 €k
Interest income from tax audits	828	304
Interest and similar income associated companies	242	100
Miscellaneous	143	221
TOTAL	**1,213**	**625**

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 45 of the notes concerning the interest income from associated companies.

15. Tax expenses

Tax expenses in the Group break down as follows:

	2019 €k	2018 €k
Current taxes on income	166,834	168,922
Deferred taxes	-18,018	-12,379
DISCLOSED EXPENSES FOR INCOME TAXES	**148,816**	**156,543**

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

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

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 2019 was about 14.20 percent (previous year: 14.34 percent). This led to a reduction in the group tax rate to 30.03 percent (previous year: 30.17 percent).

The current taxes on income include tax income from other periods in the amount of €6,341k (previous year: €2,406k).

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:

	31/12/2019		31/12/2018	
	Deferred tax assets €k	Deferred tax liabilities €k	Deferred tax assets €k	Deferred tax liabilities €k
Intangible assets	45,641	-170,031	43,260	-199,876
Tangible assets	0	-13,895	0	0
Inventories	57	-168	64	-458
Contract assets	11,637	-181,511	8,007	-155,817
Other assets	1,437	-1,377	906	-920
Deferred expenses, costs to obtain and fulfil contracts	140,698	-82,747	127,504	-89,088
Other provisions	15,204	-6	20,583	0
Contract liabilities	4,750	-9,426	2,560	-4,934
Other liabilities	14,373	-4,384	329	0
GROSS VALUE	**233,797**	**-463,545**	**203,213**	**-451,093**
Balance	-233,797	233,797	-203,213	203,213
CONSOLIDATED BALANCE SHEET	**0**	**-229,748**	**0**	**-247,880**

The net liability position of deferred taxes per the balance sheet date 31 December 2019 totalled €229,748k (previous year: €247,880k).

The total amount of the change in the balance of deferred taxes amounts to €18,132k (previous year: €146,961k).

The deferred taxes on intangible and tangible assets result essentially from the differing treatment of intangible assets capitalised in the course of corporate acquisitions in the consolidated annual financial statements and in the tax balance sheet.

Deferred tax liabilities on tangible assets and deferred tax assets on other liabilities result mainly from the first-time application of IFRS 16 in fiscal year 2019.

The deferred taxes on contract assets, contract liabilities and costs to obtain and fulfil contracts result from the IFRS 15 accounting.

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 2018 can be determined as shown below:

	2019 €k	2018 €k
Deferred tax income	18,018	12,379
Changes recognised through other comprehensive income:		
- Directly through other equity	114	0
- Initial application of new standards	0	-159,340
CHANGE IN THE BALANCE OF DEFERRED TAXES	**18,132**	**-146,961**

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

	2019	2018
Expected tax rate	**30.0%**	**30.2%**
	€k	€k
Profit before income taxes from continued operations	**522,436**	**562,575**
- Tax expenses from application of the income tax rate	156,872	169,729
- Tax rate changes	-1,787	-8,710
- Actual and deferred taxes previous years	-6,675	-5,059
- Tax effects from other deferred taxes	-323	0
- Tax effects related to in-group disbursements and sales	0	1,993
- Balance of other tax-free income and non-deductible expenses	729	-1,410
Tax expenses pursuant to comprehensive income statement	**148,816**	**156,543**
Effective tax rate	**28.5%**	**27.8%**

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

Explanatory comments on the consolidated balance sheet

Comparability is limited because of the initial application of the accounting standard IFRS 16 “Leases”, application of which has been mandatory since 1 January 2019. 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”.

16. 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.

17. Trade accounts receivable

Per the balance sheet date 31 December 2019, net trade accounts receivable amounted to €228,261k (previous year: €230,224k) and break down as follows:

	31/12/2019 €k	31/12/2018 €k
Trade accounts receivable	295,318	288,363
Less		
Valuation allowances	-67,057	-58,139
TRADE ACCOUNTS RECEIVABLE, NET	**228,261**	**230,224**
of which trade receivables – **short-term**	228,261	230,224
of which trade receivables – **long-term**	0	0

The development of the valuation allowances account is presented below:

	2019 €k	2018 €k
Per 1 January	58,139	33,638
Change IFRS 9	0	12,600
Utilisation	-45,930	-44,456
Additions through expenses	57,312	57,480
Reversal	-2,464	-1,123
PER 31 DECEMBER	**67,057**	**58,139**

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 46 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 based on expected credit losses.

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

	31/12/2019 €k	31/12/2018 €k
Trade accounts receivable, net		
0-5 days	198,501	198,957
6-15 days	4,105	5,820
16-30 days	3,414	4,544
31-180 days	16,402	15,877
181-365 days	5,674	4,770
> 365 days	165	256
TOTAL	**228,261**	**230,224**

18. Contract assets

Per the balance sheet date 31 December 2019, net contract assets amount to €671,858k (previous year: €581,030k) and break down as follows:

	31/12/2019 €k	31/12/2018 €k
Contract assets	718,841	614,113
Less		
Valuation allowances	-46,983	-33,083
CONTRACT ASSETS, NET	**671,858**	**581,030**
of which contract assets – **short-term**	498,111	414,925
of which contract assets – **long-term**	173,747	166,105

The development of the valuation allowances account is presented below:

	2019 €k	2018 €k
Per 1 January	33,083	26,032
Additions through expenses	28,493	24,974
Utilisation	-14,593	-17,923
PER 31 DECEMBER	**46,983**	**33,083**

19. Receivables due from associated companies

Receivables due from associated companies per the balance sheet date amount to €215,329k (previous year: €41,879k) 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 45 of the notes concerning the accounts receivable from associated companies.

20. Inventories

Inventories comprise the following items:

	31/12/2019 €k	31/12/2018 €k
Merchandise (gross)		
- Wireless services/Mobile internet	72,327	77,734
- Broadband hardware	8,408	8,745
- SIM cards	3,323	3,401
- Miscellaneous	1,224	1,028
	85,282	**90,908**
Less		
Valuation allowances	-8,157	-3,475
INVENTORIES, NET	**77,125**	**87,433**
Payments on account	2,102	2,115
INVENTORIES	**79,227**	**89,548**

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

The cost of goods sold recognised as cost of materials under cost of sales from the sale of inventories amounts to €701,418k (previous year: €678,313k).

21. Short-term deferred expenses

Short-term deferred expenses per 31 December 2019 amount to €62,056k (previous year: €42,551k) 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.

22. Short-term costs to obtain and fulfil contracts

Per the balance sheet date, the final balances of the short-term capitalised costs to obtain contracts amount to €88,942k (previous year: €83,484k) and the short-term capitalised costs to fulfil contracts amount to €60,747k (previous year: €73,686k). In the reporting period, the Group recognised expenses from deferred contract costs in the amount of €186,083k (previous year: €184,120k). Of this amount, €101,199k (previous year: €94,269k) relates to costs to obtain contracts and €84,884k (previous year: €89,851k) to costs to fulfil contracts.

23. Other short-term financial assets

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

	31/12/2019 €k	31/12/2018 €k
Receivables for promotion rebates	11,939	37,220
Creditors with debit balances	8,227	4,660
Claim for repayment from company acquisitions from previous years	8,062	0
Receivables due from distribution partners	0	750
Miscellaneous	695	2,883
OTHER FINANCIAL ASSETS	**28,923**	**45,513**

24. Other short-term non-financial assets

	31/12/2019 €k	31/12/2018 €k
Value-added tax	7,952	5,524
Refund claims from return of hardware	3,825	3,049
Corporate income tax	2,772	23,472
Trade tax	1,295	6,761
OTHER NON-FINANCIAL ASSETS	**15,844**	**38,806**

25. Other long-term financial assets

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

	31/12/2019 €k	31/12/2018 €k
Other loans	774	819
Participating interests	904	589
TOTAL	**1,678**	**1,408**

26. Tangible assets

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

	31/12/2019 €k	31/12/2018 €k
Cost of acquisition		
Land and buildings	302	111
Rights of use for land and buildings	50,344	n/a
Rights of use for fixtures, fittings and equipment	3,807	n/a
Fixtures, fittings and equipment	27,822	24,414
Payments on account	2,478	417
	84,753	**24,942**
Less		
Accrued amortisation	-20,257	-10,683
TANGIBLE ASSETS, NET	**64,496**	**14,259**

An alternative presentation of the development of tangible assets in fiscal years 2019 and 2018 is shown in the exhibit to the consolidated notes (consolidated analysis of fixed assets movement).

Per the balance sheet date, there are purchase obligations for the fixed assets in the amount of €64,164k (previous year: €336k).

For information regarding the rights of use to land and buildings and to fixtures, fittings and equipment, please refer to note 2.2.

27. Intangible assets (excluding goodwill)

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

	31/12/2019 €k	31/12/2018 €k
Cost of acquisition		
Purchased software and licences	158,772	152,749
Own produced software	8,369	3,094
Spectrum	1,070,187	0
Trademark	56,300	56,300
Clientele	776,975	776,975
Payments on account	3,228	1,789
	2,073,831	**990,907**
Less		
Accrued amortisation	-387,803	-244,091
INTANGIBLE ASSETS, NET	**1,686,027**	**746,816**

An alternative presentation of the development of intangible assets in fiscal years 2019 and 2018 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: €776,975k) relate to the clientele capitalised within the framework of corporate acquisitions.

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 CGU of 1&1 Drillisch AG:

	31/12/2019 €k	31/12/2018 €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**

Per the balance sheet date, there are purchase obligations for intangible assets in the amount of €165,256k (previous year: €0k).

Spectrum

1&1 Drillisch participated in the 5G frequency auction that ended on 12 June 2019 and acquired two frequency blocks à 2 x 5 MHz in the 2 GHz range and five frequency blocks à 10 MHz in the 3.6 GHz range; the usability of each block is limited 31 December 2040. The frequency blocks in the 3.6 GHz range are available immediately and the frequency blocks in the 2 GHz range will be available from 1 January 2026.

The intangible assets resulting from the acquisition were recognised at their cost of acquisition. The carrying values of the frequency blocks per 31 December 2019 break down as follows:

Frequency block	Amount in €k
3.6 GHz	735,190
2 GHz	334,997
TOTAL	**1,070,187**

There were no write-downs in fiscal year 2019. The acquired frequency blocks will not be amortised until actual network operation when the spectrum is actually used. The impairment test was performed per the balance sheet date at the level of the cash-generating units. The test did not result in any impairment in the fiscal year.

Own produced intangible assets

Own produced intangible assets include capitalised costs for software development.

28. Goodwill and impairment of goodwill and intangible assets with indeterminate useful lives as well as intangible assets not yet available for use (spectrum)

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 the fiscal year for conduct of the impairment test required annually 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.

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 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 impairment test of the goodwill of 1&1 Drillisch is carried out at the level of the “Access” reporting segment.

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 2019 or in the previous year.

Since the end of 2018, the goodwill has been attributed completely to the cash-generating unit 1&1 Drillisch.

Scheduled recoverability test per 31 December 2019

The realisable amounts of the cash-generating unit 1&1 Drillisch is determined on the basis of the calculation of the fair value less costs of the disposal with application of cash flow forecasts. The hierarchy of the fair value less costs of disposal within the sense of IFRS 13 is classified as Level 3 for this impairment test.

Disposal costs of approximately 0.2 percent (previous year: 0.2 percent) 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 in fiscal year 2019 did not result in any impairment loss.

The table below presents the underlying assumptions that were used for the impairment test of the cash-generating unit 1&1 Drillisch and the determination of the fair value less costs of disposal:

	Reporting year	Share of total goodwill	Long-term growth rate	Discount factor after taxes	Revenue growth rate*
1&1 Drillisch	2019	100%	0.1%	4%	2%
	2018	100%	0.5%	6%	5%

* End of detailed planning period 2024

The cash flow forecasts are based on the Group's budgets for fiscal years 2020 to 2024. 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 (2024) 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 2025 to and including 2030, at which time a sustained revenue and result level will have been 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 3 percent (previous year: 5 percent). Another major fundamental assumption for the planning of the cash-generating units is the number of subscribers, the gross profit planning based on this subscriber number, our experience and discounting rates assumed for this purpose. Rising subscriber numbers and increasing gross profits are expected in the coming years.

The fair value less costs of disposal is determined primarily by the present value of the perpetual annuity, which reacts especially sensitively to changes in the assumptions about long-term growth rates and the discount rate. Management assumes an annual increase in cash flow of 0.1 percent (previous year: 0.5 percent) 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 4 percent (previous year: 6 percent).

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 percent and 0.5 percent (previous year: between 0.25 percent and 0.5 percent). The forecasts of the cash flows relevant for the trademarks were based on the same assumptions concerning market development and discount rates that were previously used in the calculation of the fair value of the cash-generating unit.

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

Sensitivity of the applied assumptions

The sensitivity of the assumptions concerning an impairment in goodwill or the trademark values is dependent on the fundamental assumptions for the pertinent cash-generating unit.

Within the framework of the sensitivity analyses for the cash-generating unit 1&1 Drillisch, an increase in the discount rate (after taxes) of one percentage point and a decline in the long-term growth rate in the perpetual annuity of 0.1 percentage point was assumed. No changes in the impairment test would arise from these assumptions.

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.

Intangible assets not yet usable (spectrum)

The recognised 5G spectrum results from the 5G frequency auction of 2019. 1&1 Drillisch acquired two frequency blocks à 2 x 5 MHz in the 2 GHz range and five frequency blocks à 10 MHz in the 3.6 GHz range; the usability of each block is limited to 31 December 2040. The frequency blocks in the 3.6 GHz range are available immediately and the frequency blocks in the 2 GHz range will be available from 1 January 2026. The spectrum cannot yet be used as long as the Group does not have its own network and was therefore subjected to an impairment test in fiscal year 2019 at the level of the “5G” cash-generating unit in the newly created “5G” segment.

The realisable amounts of the cash-generating unit “5G” is determined on the basis of the calculation of the fair value less costs of the disposal with application of cash flow forecasts. The hierarchy of the fair value less costs of disposal within the sense of IFRS 13 is classified as Level 3 for this impairment test.

The planning calculation on which the impairment test was based includes profit and loss planning and an investment plan for fiscal years 2020 to 2040. As the spectrum runs until 2040, the measurement was carried out over the period from 2020 to 2040. Disposal costs of approximately 3 percent were assumed for the determination of the fair value less costs of disposal. The discount rates after taxes used in the fiscal year for the cash flow forecasts are at 4 percent. There was no need for impairment in the fiscal year. This also reflects qualitatively (there are no internal or external indications of impairment) the expectations of the Management Board based on the relative proximity of the acquisition date to the balance sheet date.

29. Long-term deferred expenses

The long-term deferred expenses result essentially from advance payments made in relation to long-term purchasing agreements and amount to €168,259k per 31 December 2019 (previous year: €182,334k).

Final balances of advance payments for advance service fees amount to €182,401k (previous year: €220,254k) per the balance sheet closing date. They comprise a short-term component (disclosed under short-term deferred expenses) in the amount of €45,957k (previous year: €37,920k) and a long-term component in the amount of €136,444k (previous year: €182,334k). In fiscal year 2019, a total of €37,853k (previous year: €39,158k) was recognised through expenses.

30. Long-term costs to obtain and fulfil contracts

Per the balance sheet date, the final balances of the long-term capitalised contract costs came to €81,985k for costs to obtain contracts (previous year: €84,501k) and to €43,584k for costs to fulfil contracts (previous year: €53,690k).

31. Trade accounts payable

Trade accounts payable amount to €266,369k (previous year: €365,202k) per the balance sheet date 31 December 2019. 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.

32. Short-term liabilities due to associated companies

Short-term liabilities due to associated companies per the balance sheet date 31 December 2019 amount to €79,294k (previous year: €129,333k) 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 45 of the notes concerning liabilities due to associated companies.

33. Contract liabilities

	31/12/2019 €k	31/12/2018 €k
Contract liabilities	45,274	22,058
- of which short-term	40,314	17,515
- of which long-term	4,960	4,543
Deferred income	n/a	21,614
Payments received on account	n/a	6,977
TOTAL	**45,274**	**50,649**

Contract liabilities include liabilities from reimbursement obligations for one-time fees for revoked contracts and deferred income from one-time fees updated through profit and loss.

Deferred income and payments received on account were still disclosed separately per 31 December 2018.

34. Income tax liabilities

The income tax liabilities in the amount of €24,469k (previous year: €37,985k) are related as in the previous year to income liabilities due to fiscal authorities in Germany.

35. 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 JANUARY 2019	**621**	**1,360**	**4,383**	**65,873**	**3,619**	**75,856**
Utilisation	0	159	4,158	9,991	3,268	17,576
Reversal	356	1	225	16,366	0	16,948
Allocation	0	0	3,454	5,803	1,640	10,897
31 DECEMBER 2019	**265**	**1,200**	**3,454**	**45,319**	**1,991**	**52,229**

Reference is made to the remarks under notes 40 Share-based payment for information regarding the provision for share-based payment.

In the course of accounting for costs of contract fulfilment in accordance with IFRS 15, provisions for termination fees were created in the previous year.

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 relate to commission, warranty and contingent loss provisions as well as refund claims.

Provisions in the amount of €45,670k (previous year: €65,971k) have a term of one to five years and €0k (previous year: €1,119k) have a term of more than five years.

36. Other short-term financial liabilities

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

	31/12/2019 €k	31/12/2018 €k
Other short-term financial liabilities		
Frequency liabilities	61,266	0
Marketing and distribution costs/distribution commissions	12,168	11,552
Liabilities from salaries/personnel	11,188	15,080
Obligations pursuant to leases	7,573	267
Customers with credit balances	3,401	2,788
Legal and professional fees, closing expenses	1,945	481
Liabilities from rights of use	0	5,000
Miscellaneous	5,093	4,362
TOTAL	**102,634**	**39,530**

Reference is made here to item 46 of the notes concerning frequency liabilities.

37. Other short-term non-financial liabilities

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

	31/12/2019 €k	31/12/2018 €k
Other short-term non-financial liabilities		
Value-added tax	27,012	17,481
Income and church tax due	2,244	2,521
TOTAL	**29,256**	**20,002**

38. Other long-term financial liabilities

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

	31/12/2019 €k	31/12/2018 €k
Other long-term financial liabilities		
Frequency liabilities	947,655	0
Obligations pursuant to leases	40,215	0
Miscellaneous	3,955	128
TOTAL	**991,825**	**128**

Reference is made here to item 46 of the notes concerning frequency liabilities.

39. 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	266,369	0	0	**266,369**
Liabilities due to associated companies	79,294	0	0	**79,294**
Contract liabilities	40,314	4,960	0	**45,274**
Other financial liabilities	102,634	328,667	663,158	**1,094,459**
Other non-financial liabilities	29,256	0	0	**29,256**
Other provisions	6,559	45,670	0	**52,229**
Income tax liabilities	24,469	0	0	**24,469**
TOTAL	**548,895**	**379,297**	**663,158**	**1,591,350**

The frequency liabilities, which are disclosed under other financial liabilities, have a term until 2030.

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	365,202	0	0	**365,202**
Liabilities due to associated companies	129,333	0	0	**129,333**
Contract liabilities	46,106	4,543	0	**50,649**
Other financial liabilities	39,530	128	0	**39,658**
Other non-financial liabilities	20,002	0	0	**20,002**
Other provisions	8,766	65,971	1,119	**75,856**
Income tax liabilities	37,985	0	0	**37,985**
TOTAL	**646,924**	**70,642**	**1,119**	**718,685**

40. Share-based payment

There are two different employee stock ownership programmes in the reporting year 2019. 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 programme, the stock appreciation rights Drillisch (SAR Drillisch), 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)

An older employee stock ownership model, the so-called stock appreciation rights (SAR) programme, is aimed at executives and executive employees of many years' standing and is based on virtual share options of United Internet AG. From the perspective of the Group, this share-based remuneration is to be presented as share-based remuneration 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. In fiscal year 2019, this resulted in income of €356k (previous year: expense of €1,122k). Per 31 December 2019, the carrying value of the provisions from share-based remuneration amounts to €265k (previous year: €621k). Per 31 December 2019, 200,000 virtual stock options at an average exercise price of €21.10 (previous year: 200,000 options) are outstanding and unchanged from the previous year. The range of the exercise prices for the share options outstanding on the closing date is unchanged between €16.06 and €24.44.

Stock appreciation rights Drillisch (SAR Drillisch)

The second programme, the stock appreciation rights Drillisch (SAR Drillisch), 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 percent (exercise threshold) and 120 percent (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 percent.

The first-time exercise of the allocated SARs is possible after four years at the earliest. Each year, the participant has an exercise window of one month, beginning on the day after the publication of the annual financial statements of 1&1 Drillisch AG. The participant has a final exercise window in the year following the expiration of the term. SARs not exercised by this point expire without compensation. The possibility to exercise SARs is limited in the first exercise window to a maximum of 25 percent and in the second exercise window to 50 percent of the total SARs allocated to the participants at these points in times, including previous exercises.

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

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

Measurement parameters per 31/12/2019

Vesting date	01/01/2019	01/01/2019	01/10/2019
Fair value	196 €k	434 €k	3,252 €k
Number of SARs	4,500	8,600	64,300
Initial price	44.10 €	45.00 €	45.00 €
Closing date price	44.50 €	43.60 €	43.60 €
Dividend return	3.7 %	3.7 %	3.7 %
Volatility of the stock	37.8 %	32.6 %	32.6 %
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 %

Measurement parameters per 31/12/2018

Vesting date	01/01/2018	01/09/2018	01/12/2018
Fair value	4,274 €k	3,035 €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 2019, the total expenditures from the employee stock ownership programme came to €3,882k (previous year: €9,823k). The previously recognised cumulative expenditure per 31 December 2019 for SARs exercised in the fiscal year and for SARs not yet exercised on the balance sheet date comes to €1,436k (previous year: €1,357k). Expenditures for future years will amount to €2,444k (previous year: €8,466k). Personnel expenses attributable to the current financial year amounted to €79k (previous year: € 1,357k).

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

	Number
OUTSTANDING PER 1 JANUARY 2018	**0**
Newly vested	60,000
Newly vested	60,000
Newly vested	60,000
OUTSTANDING PER 31 DECEMBER 2018	**180,000**
Newly vested	77,400
lapsed/forfeited	-180,000
OUTSTANDING PER 31 DECEMBER 2019	**77,400**

41. 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, 500,000 shares (previous year: 400,704 shares) were held as treasury stock.

Treasury stock reduces equity and is not entitled to dividends.

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 percent 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 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 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.

42. Capital reserves and other equity

Capital reserves per 31 December 2019 came to €2,429,876k (previous year: €2,433,531k). Of this decrease, €3,734k resulted from the acquisition of treasury shares. Conversely, the capital reserves rose because of the addition related of € 79k to the employee stock option programmes.

Other equity per the balance sheet date comprises the following:

	31/12/2019 €k	31/12/2018 €k
Participating interests:		
- PipesBox GmbH, Rostock	-411	-411
- POSpulse GmbH, Berlin	-292	-281
Miscellaneous	-273	-12
TOTAL	**-976**	**-704**

Other equity in the amount of €976k (previous year €704k) includes the result from categories that are not subsequently reclassified in the profit and loss account and results essentially from the application of the IFRS 9 regulations for 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.

43. Treasury stock

The extraordinary General Meeting on 12 January 2018 authorised the Management Board of 1&1 Drillisch AG to acquire shares of the Company's own stock in an amount totalling no more than 10 percent 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 percent 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 percent of the share capital at the time of the adoption of the resolution by the General Meeting or – if this amount is lower – 10 percent 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 percent 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 percent 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 2019, this repurchase right was exercised and 99,296 shares (previous year: 400,704 shares) were purchased on the stock exchange at an average share price of €38.71 (previous year: €38.31). The repurchase led to a reduction in the share capital by €109,225.60 (previous year: €440,774.40), corresponding to about 0.06 percent of the 1&1 Drillisch AG share capital. The amount of €1.10 of the purchase price per share was attributed to subscribed capital. Per 31 December 2019, 1&1 Drillisch AG held 500,000 own shares (previous year: 400,704) representing €550,000 (0.28 percent) of the share capital (previous year: €440,774.40 (0.23 percent)).

44. Additional disclosures about the financial instruments

The table below presents the book value of each category of financial assets and liabilities per 31 December 2019:

	Measurement category per IFRS 9	Carrying value per 31/12/2019	Amortised costs	Fair value through other comprehensive income without recycling to profit and loss	Valuation according to IFRS 16	Fair Value per 31/12/2019
		€k	€k	€k	€k	€k
Financial assets						
Cash and cash equivalents	ac	31,785	31,785			31,785
Trade accounts receivable	ac	228,261	228,261			228,261
Receivables due from associated companies	ac	215,328	215,328			215,328
Other short-term financial assets	ac	28,923	28,923			28,923
Other long-term financial assets						
- Participating interests	fvoci	904		904		904
- Miscellaneous	ac	774	774			774
Financial liabilities						
Trade accounts payable	ac	-266,369	-266,369			-266,369
Liabilities due to associated companies	ac	-79,294	-79,294			-79,294
Other short-term financial liabilities	ac/n/a					
- Lease obligations	n/a	-7,573			-7,573	
- Miscellaneous	ac	-95,061	-95,061			-95,061
Other long-term financial liabilities	ac/n/a					
- Lease obligations	n/a	-40,215			-40,215	
- Miscellaneous	ac	-951,610	-951,610			-951,610
of which aggregated per classification categories:						
- Financial assets at amortised cost	ac	505,071	505,071			505,071
- Financial assets at fair value through other comprehensive income without recycling to profit and loss	fvoci	904		904		904
- Financial liabilities at amortised cost	ac	-1,392,334	-1,392,334			-1,392,334
Lease obligations	n/a	-47,788			-47,788	

The following net results were disclosed for the specific categories of financial instruments pursuant to IFRS 9 in fiscal year 2019:

2019 Net result according to measurement categories	Measurement categories pursuant to IFRS 9	Net result according to measurement categories From interest and dividends €k	Currency translation €k	Valuation allowance €k	Net result €k
Financial assets measured at amortised cost	ac	1,213	274	-56,761	-55,274
Financial assets measured at fair value (through other comprehensive income)	fvoci	0	0	-272	-272
Financial liabilities measured at amortised cost	ac	-7,262	-117	0	-7,379
TOTAL		**-6,049**	**157**	**-57,033**	**-62,925**

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

Participations 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, liabilities due to associated companies and other short-term financial liabilities have short remaining terms; the disclosed values represent approximately the fair values.

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

The measurement of financial assets measured at fair value is based on appropriate valuation techniques. Insofar as available, stock exchange prices on active markets are used. Option price models are primarily used to measure purchase price liabilities.

The table below presents the carrying values and fair values 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 per 31/12/2018
		€k	€k	€k	€k
Financial assets					
Cash and cash equivalents	ac	3,968	3,968	0	3,968
Trade accounts receivable	ac	230,224	230,224	0	230,224
Receivables due from associated companies	ac	41,879	41,879	0	41,879
Other short-term financial assets	ac	45,513	45,513	0	45,513
Other long-term financial assets					
- Participating interests	fvoci	589	0	589	589
- Miscellaneous	ac	819	819	0	819
Financial liabilities					
Trade accounts payable	ac	-365,202	-365,202	0	-365,202
Liabilities due to associated companies	ac	-129,333	-129,333	0	-129,333
Other financial liabilities	ac	-39,658	-39,658	0	-39,658
of which aggregated per classification categories:					
- Financial assets at amortised cost	ac	322,403	322,403	0	322,403
- Financial assets at fair value through other comprehensive income without recycling to profit and loss	fvoci	589	0	589	589
- Financial liabilities at amortised cost	ac	-534,193	-534,193	0	-534,193

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 category per IFRS 9	From interest and dividends	Currency translation	Valuation allowance	Net result
		€k	€k	€k	€k
Financial assets measured at amortised cost	ac	625	138	-60,245	-59,482
Financial assets measured at fair value (through other comprehensive income)	fvoci	0	0	-692	-692
Financial liabilities measured at amortised cost	ac	-5,277	-59	0	-5,336
TOTAL		**-4,652**	**79**	**-60,938**	**-65,510**

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.

Assets and liabilities measured at fair value

Non-current financial assets include investments of €904k that were measured at fair value (Level 3).

As in the previous year, there were no transfers between the valuation levels during the reporting period.

45. 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 Telecommunication SE, Montabaur (Supervisory Board chairman)
- 1&1 Mail & Media Applications SE, Montabaur

- 1&1 IONOS Holding SE, Montabaur (previously 1&1 Internet Holding SE, Montabaur)
- Tele Columbus AG, Berlin (since 29 August 2019)

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
- 1&1 Telecommunication SE, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur (Supervisory Board chairman)
- 1&1 IONOS Holding SE, Montabaur (previously 1&1 Internet Holding SE, Montabaur) (until 27 March 2019)
- Delta Partners, Dubai/Emirate Dubai
- Delta Partners Capital Limited, Dubai/Emirate 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
- SUSI Partners AG, Zurich/Switzerland (until 17 June 2019)
- Virgin Mobile CEE B.V., Amsterdam/The Netherlands
- Virgin Mobile Polska sp.z.o.o, Warsaw/Poland (Administration Board chairman)
- 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)
- 1&1 Telecommunication SE, Montabaur (Supervisory Board deputy chairman)
- 1&1 Mail & Media Applications SE, Montabaur (Supervisory Board deputy chairman)
- 1&1 IONOS Holding SE (previously 1&1 Internet Holding SE, Montabaur) (since 27 March 2019)

- 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
- 1&1 Telecommunication SE, Montabaur

Vlasios Choulidis,
entrepreneur, Gelnhausen

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

- 1&1 Telecommunication SE, Montabaur

Dr Claudia Borgas-Herold,
entrepreneur, Kilchberg/Switzerland

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

- 1&1 Telecommunication SE, Montabaur

Management Board

Ralph Dommermuth,
Management Board chairman, Montabaur

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

- Versatel Telecommunications GmbH, Düsseldorf (Advisory Board chairman) (until 22 July 2019)
- 1&1 Versatel GmbH, Düsseldorf (previously 1&1 Versatel GmbH, Berlin) (Advisory Board chairman since 20 September 2019)

- 1&1 IONOS Holding SE, Montabaur (previously 1&1 Internet Holding SE, Montabaur) (Supervisory Board deputy chairman)
- Drillisch Netz AG, Krefeld (since 1 January 2020; Supervisory Board chairman since 16 January 2020)

Martin Witt,
Management Board member, Reichertshausen (until 30 June 2019)

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 (until 22 July 2019)
- IQ-optimize Software AG, Maintal
- Drillisch Netz AG, Krefeld (Supervisory Board chairman) (until 25 January 2019)
- 1&1 Versatel GmbH, Düsseldorf (previously 1&1 Versatel GmbH, Berlin) (since 20 September 2019)

André Driesen,
Management Board member, Krefeld (until 31 December 2019)

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

- IQ-optimize Software AG, Maintal (Supervisory Board deputy chairman) (until 31 December 2019)
- Drillisch Netz AG, Krefeld (until 31 December 2019)

Markus Huhn,
Management Board member, Neuerkirch (since 1 July 2019)

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

- Drillisch Netz AG, Krefeld (Supervisory Board chairman from 25 January 2019 until 16 January 2020)
- 1& 1 Versatel Deutschland GmbH, Düsseldorf
- 1&1 Versatel GmbH, Düsseldorf (previously 1&1 Versatel GmbH, Berlin) (since 20 September 2019)
- Versatel Telecommunications GmbH, Düsseldorf (until 22 July 2019)
- IQ-optimize Software AG, Maintal (Supervisory Board deputy chairman since 1 January 2020)

Alessandro Nava,
Management Board member, Essen (since 1 July 2019)

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

- IQ-optimize Software AG, Maintal (Supervisory Board chairman)
- Drillisch Netz AG, Krefeld (Supervisory Board deputy chairman)

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

Remuneration paid to Management Board members in 2019 totalled €1,716k, of which €700k variable (previous year: €1,416k, of which €690k variable).

Remuneration paid to the Supervisory Board in 2019 totalled €322k (previous year: €316k).

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

Directors' Holdings

Per 31 December 2019, Management Board members held the following shares in 1&1 Drillisch AG. United Internet AG, Montabaur, held 75.10 percent of the stock in 1&1 Drillisch AG per the closing date 31 December 2019. Per 31 December 2019, Mr Ralph Dommermuth in turn holds indirectly through holding companies 43 percent of the share capital of United Internet AG as reduced by his own shares of United Internet AG.

Supervisory Board members held the following shares in 1&1 Drillisch AG per 31 December 2019: Supervisory Board member Vlasios Choulidis, 273,333 no-par shares (of which 65,000 shares via MV Beteiligungs GmbH) totalling 0.16 percent 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:

	31/12/2019 €k	31/12/2018 €k
United Internet AG	209,646	0
United Internet Services Holding GmbH	2,087	6,523
1&1 IONOS Group	1,792	30,993
Miscellaneous	1,804	4,363
TOTAL	**215,329**	**41,879**

Short-term receivables result from trade receivables and from granted loans. Of the disclosed receivables, €209,646k (previous year: €0k) are receivables due from the parent company (United Internet AG).

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 2019. 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:

	31/12/2019 €k	31/12/2018 €k
Versatel Group	56,466	32,446
United Internet Corporate Services GmbH	8,190	16,177
1&1 Mail & Media GmbH	4,990	14,298
A1 Marketing, Kommunikation und neue Medien GmbH	3,422	545
1&1 IONOS Group	1,585	28,301
United Internet AG	0	32,054
Miscellaneous	4,641	5,512
TOTAL	**79,294**	**129,333**

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, €0k (previous year: €32,054k) 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. No loans had been utilised per the balance sheet date.

The liabilities are due within one year.

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

Purchases/services from related parties 2019 €k	Purchases/services to related parties 2019 €k	Purchases/services from related parties 2018 €k	Purchases/services to related parties 2018 €k
163,514	29,264	179,813	36,344

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

Of the disclosed expenses, €89k (previous year: €4,744k) 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 2019.

The business premises of 1&1 Drillisch in Montabaur and Karlsruhe are leased to 1&1 Drillisch by 1&1 IONOS SE, a member company of United Internet Group. 1&1 IONOS SE has leased these premises in part from Mr Ralph Dommermuth. The resulting payment obligations are at the usual local level and were passed on to 1&1 Drillisch on a pro rata basis.

During the second half of the fiscal year, the leases for office buildings used by several subsidiaries of 1&1 Drillisch Group were adjusted in such a way that all companies using the buildings are now tenants of equal standing in the buildings. Prior to the lease conversions, only the main tenant in each case was a party to the contract and consequently included the pertinent leases in full in its accounting in accordance with IFRS 16.

In the converted leases, the tenants act as a joint operation in accordance with IFRS 11 "Joint Arrangements". The leases constitute a lease relationship because they entitle the tenant to control the use of the office buildings during the term of the lease. The subsidiaries disclose their shares of the rights of use and lease liabilities as well as the related depreciation and interest in their own accounting.

The conversion of the leases resulted in an addition of €24,076k to rights of use in the Group in fiscal year 2019.

The carrying value of the right of use per 31 December 2019 amounts to €22,586k and that of the lease liabilities to €22,646k. Depreciation and amortisation amounted to €1,301k and interest expenses to €148k in fiscal year 2019. The payment commitments incurred during the reporting period amounted to €4,888k. The rental expense in the previous year amounted to €5,892k.

The company VPM Immobilien Verwaltungs GmbH, Maintal (shareholder of VPM and member of the Supervisory Board of 1&1 Drillisch AG – Mr Vlasios Choulidis) has leased office space in Maintal to 1&1 Drillisch. The resulting payment obligations are at the usual local level. Following the first-time application of IFRS 16, which has been mandatory since 1 January 2019, a right of use or lease liability was recognised in the balance sheet. The carrying value of the right of use per 31 December 2019 amounted to €1,037k and that of the lease liabilities to €1,042k. Depreciation and amortisation amounted €173k and interest expenses to €11k in fiscal year 2019. The resulting payment commitments incurred during the reporting period amounted to €179k. The rental expense in the previous year amounted to €169k.

The interest expenses and interest income (excluding the interest effects pursuant to IFRS 16 accounting described above) realised with associated companies in each fiscal year are presented in the table below:

Interest income 2019 €k	Interest and similar expenses 2019 €k	Interest income 2018 €k	Interest and similar expenses 2018 €k
242	265	100	499

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

46. 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 Group.

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 2019 and 31 December 2018. 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					
	31/12/2019 €k	2020 €k	2021 €k	2022 €k	2023 €k	> 2023 €k	Total €k
Trade accounts payable	266,369	266,369					**266,369**
Liabilities due to associated companies	79,294	79,294					**79,294**
Other financial liabilities	1,094,459	102,634	68,179	67,028	66,771	789,847	**1,094,459**

The payments from other financial liabilities essentially comprise the payments for spectrum. On 5 September 2019, 1&1 Drillisch concluded an agreement with the Federal Ministry of Transport and Digital Infrastructure (BMVI) and the Federal Ministry of Finance (BMF) regarding the construction of wireless communications sites in so-called “white spots.” By taking this action, 1&1 Drillisch helps to close existing coverage gaps and, by building antenna sites, is making a contribution to improving wireless communications coverage in rural regions. In return, 1&1 Drillisch will benefit from the agreement of instalment payments for the costs of the acquired 5G frequencies. This means that the licence costs originally payable in 2019 and 2024 can now be transferred to the federal agencies in instalments until 2030. Payments to the German authorities do not follow a linear pattern and will increase to €128 million from fiscal year 2026 onwards.

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

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 note 45, “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 Group sees 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 restated with a valuation allowance between 95 percent and 100 percent.

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 17 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 2019 or per 31 December 2018.

47. Contingencies and other obligations

Contingent liabilities

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 the middle range of hundreds of millions per the balance sheet date 31 December 2019. 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.

Legal disputes

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 35).

Guarantees

The Group had not issued any guarantees per the balance sheet date.

48. Disclosures of lease obligations, other financial obligations, contingent liabilities and contingent debts

Obligations pursuant to leases

The effects on the profit and loss statement from January to December 2019 are presented below:

	IFRS 16 2019 €k
Write-offs on rights of use	
- Land and buildings	5,267
- Fixtures, fittings and equipment	1,525
- of which from finance leasing	267
Total write-offs on rights of use	**6,792**
Interest expenses from leases	387
Expenses for short-term leases	272
Expenses for leases for a low-value asset	15

During the reporting period, the outflow of funds in the amount of €6,418k was related to lease liabilities.

The following carrying values of the rights of use according to the classes of the underlying assets resulted per 31 December 2019:

	Carryfing value per 31/12/2019 €k
Land and buildings	45,104
Fixtures, fittings and equipment	2,577

Leasing obligations existing per 31 December 2019 will result in outgoing payments in the following years:

Up to 1 year	7,573
1 to 5 years	22,320
More than 5 years	19,160
TOTAL	**49,053**

Other financial obligations

The following minimum payment obligations for the future existed per 31 December:

	31/12/2019 €k	31/12/2018 €k
Other miscellaneous obligations	257,229	3,000
Operating leasing	n/a	23,888
TOTAL	**257,229**	**26,888**

Due to the first-time application of the accounting standard IFRS 16 “Leases”, which has been mandatory since 1 January 2019, leases must be disclosed in the balance sheet. With regard to operating lease obligations, please refer to item 2.2 “Effects of new or amended IFRS standards.”

The Group exercises the exemption provided in the standard IFRS 16 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. Lease obligations not recognised in the balance sheet due to application simplifications amounted to €48k per 31 December 2019.

During the previous year, payments from operating leasing in the amount of €3,317k were made.

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 first option to extend the MBA MVNO contract with Telefónica that was set to expire on 30 June 2020 was exercised on 30 December 2019; with the renewal, the contract will remain effective until 30 June 2025. The capacity that must be purchased is 20 percent to 30 percent of the utilised network capacity of Telefónica. 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.

On 5 September 2019, 1&1 Drillisch concluded an agreement with the Federal Ministry of Transport and Digital Infrastructure (BMVI) and the Federal Ministry of Finance (BMF) regarding the construction of wireless communications sites in so-called “white spots.” By taking this action, 1&1 Drillisch helps to close existing coverage gaps and, by building antenna sites, is making a contribution to improving wireless communications coverage in rural regions. Per the balance sheet date, there are contractual obligations that will result in investment expenditures in subsequent years.

In addition, other financial obligations from procurements of supplies and services amounting to €27,761k in fiscal year 2019.

Investment expenditures for which contractual obligations in subsequent years exist per the balance sheet date amount to €229,420k (previous year: €336k). These exist for tangible assets in the amount of €64,164k (previous year: €336k) and intangible assets of €165,256k (previous year: €0k). Cash outflows are expected mainly in fiscal years 2020 and 2021.

49. Consolidated cash flow statement

Concomitant with the mandatory initial application of the accounting standard IFRS 16 per 01/01/2019, the repayment share of leasing payments is disclosed in the cash flow from financing activities. In the previous year, on the other hand, the outgoing payments resulting from operating leases in the amount of €3,317k were disclosed under the cash flow from operating activities. The values of the previous year have not been restated.

The net payments from operating activities in fiscal year 2019 include interest paid in the amount of €9,739k (previous year: €4,722k) and interest received in the amount of €842k (previous year: €643k).

Taxes paid for fiscal year 2019 in the amount of €187,973k (previous year: €193,647k) concern the ongoing corporate income tax, including solidarity surcharge, and ongoing trade tax. Payments for taxes on income amount to €33,253k (previous year: €6,032k).

The acquisition of the 5G frequency spectrum (exception: repayment in fiscal year 2019: €61,266k) and the disclosure of rights of use or leasing obligations from the first-time application of the accounting standard IFRS 16 (exception: repayment in fiscal year 2019: €6,418k) represent non-cash transactions. The initial recognition of the 5G spectrum took into account the deferral and instalment payments with the federal government as a balance sheet extension and did not affect cash. The first instalment payment in December 2019 in the amount of €61,266k was disclosed under cash flow from financing activities. As a matter of principle, leases are disclosed with no effect on cash upon initial recognition. Current payments include interest and repayment components. The latter are disclosed under cash flow from financing activities.

With regard to changes in receivables/liabilities with associated companies, payments from the issue of loans in the amount of €210 million are included in cash flow from investing activities and payments from the repayment of loans in the amount of €32 million are included in cash flow from financing activities. With regard to the change in other financial liabilities, payments in the amount of €73 million (previous year: €13.1 million) are included in the cash flow from financing activities. In the reporting year 2019, these payments were related mainly to payments for liabilities from 5G spectrum.

A retroactive outflow of funds in the amount of €8.3 million occurred with respect to yourfone Shop GmbH, which was deconsolidated per 31 December 2017.

The composition of the cash corresponds to the item “Cash and cash equivalents” in the balance sheet.

50. Auditor’s fees

In fiscal year 2019, auditor’s fees in the amount of €1,436k were calculated in the consolidated financial statements. They include €1,191k for the audit of the financial statements, €72k for other confirmation services and €173k for tax accountant services. The audit services comprise exclusively statutory audits.

51. Profit per share

The undiluted profit per share is calculated in accordance with IAS 33.9 et seqq. by dividing the consolidated profit 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 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.

52. Dividend per share

The Annual General Meeting of 1&1 Drillisch AG on 21 May 2019 agreed to the resolution proposal submitted by Management Board and Supervisory Board for the disbursement of a dividend in the amount of €0.05 per share. The dividend disbursement totalling €8.8 million was carried out on 22 May 2019.

In accordance with Section 21 of the Charter 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 2019 as follows:

» Payment of a dividend of €0.05 per share. This proposal is oriented to the minimum dividend required in Section 254 (1) AktG. Assuming 176.3 million shares entitled to dividends, this would result in a total disbursement of €8.8 million for fiscal year 2019.

Management Board and Supervisory Board discuss this dividend proposal for fiscal year 2019 in the Supervisory Board meeting on 25 March 2020.

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: 500,000 shares) of own stock.

53. 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 17 December 2019 and made it permanently accessible to shareholders at the Internet address www.1und1-drillisch.de.

54. 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 2019:

- 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
- Drillisch Online GmbH, Maintal
- IQ-optimize Software AG, Maintal
- Drillisch Netz AG, Krefeld
- Blitz 17-665 SE, Munich
- Blitz 17-666 SE, Munich

55. Incidents after the balance sheet date

In the course of fiscal year 2020 to date, the risk situation has changed as a consequence of the continuing global spread of the coronavirus (Sars-CoV-2) in the risk areas of "procurement market," "external risks - personnel crises" and others. A precise risk assessment is not yet possible at the time of the preparation of the consolidated annual financial statements. If the virus continues to spread over a longer term, this could have a negative impact on consumer and business demand, the procurement of advance services (e.g. smartphones, routers, servers or network technology) or the health and fitness of employees, ultimately having a detrimental effect on the performance capability of 1&1 Drillisch. For additional information, see item 4.3 "Forecast report" of the Management Report.

Maintal, 23 March 2020

1&1 Drillisch Aktiengesellschaft

Ralph Dommermuth | Markus Huhn | Alessandro Nava

CHANGE IN INTANGIBLE ASSETS AND FIXED ASSETS

in fiscal year 2019 and 2018 in €k

2019	Cost of acquisition and manufacturing					
	01/01/2019 €	Addition IFRS 16* €	Additions €	Disposals €	Transfers €	31/12/2019 €
Intangible assets						
Purchased software and licences	152,749	0	5,101	4	926	158,772
Own produced software	3,094	0	5,275	0	0	8,369
Spectrum	0	0	1,070,187	0	0	1,070,187
Trademark	56,300	0	0	0	0	56,300
Clientele	776,975	0	0	0	0	776,975
Payments on account	1,789	0	2,557	192	-926	3,228
Goodwill	2,932,943	0	0	0	0	2,932,943
Subtotal (I)	**3,923,850**	**0**	**1,083,120**	**196**	**0**	**5,006,774**
Tangible assets						
Land and buildings	111	0	185	0	6	302
Rights of use	0	26,588	28,600	1,037	0	54,151
Fixtures, fittings and equipment	24,414	0	5,111	1,859	156	27,822
Payments on account	417	0	2,223	0	-162	2,478
Subtotal (II)	**24,942**	**26,588**	**36,119**	**2,896**	**0**	**84,753**
TOTAL	**3,948,792**	**26,588**	**1,119,239**	**3,092**	**0**	**5,091,527**

2018	Cost of acquisition and manufacturing					
	01/01/2018 €	Reclassification IFRS 15** €	Additions €	Disposals €	Transfers €	31/12/2018 €
Intangible assets						
Purchased software and licences	150,254	0	5,004	3,732	1,223	152,749
Own produced software	0	0	3,094	0	0	3,094
Trademark	56,300	0	0	0	0	56,300
Clientele	792,000	-15,025	0	0	0	776,975
Payments on account	1,528	0	1,747	264	-1,223	1,789
Goodwill	2,932,943	0	0	0	0	2,932,943
Subtotal (I)	**3,933,026**	**-15,025**	**9,845**	**3,996**	**0**	**3,923,850**
Tangible assets						
Land and buildings	695	0	0	587	4	111
Fixtures, fittings and equipment	24,560	0	5,227	5,707	334	24,414
Payments on account	346	0	417	9	-338	417
Subtotal (II)	**25,601**	**0**	**5,644**	**6,303**	**0**	**24,942**
TOTAL	**3,958,628**	**-15,025**	**15,489**	**10,299**	**0**	**3,948,792**

* Additional information can be found in point 2.2 of the consolidated notes, "Effects of new or modified IFRS".

** 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.

Accrued amortisation					Net carrying value	
01/01/2019 €	Additions €	Disposals €	Transfers €	31/12/2019 €	31/12/2018 €	31/12/2019 €
82,536	46,640	0	-5	129,171	70,214	29,601
322	1,330	0	0	1,652	2,772	6,717
0	0	0	0	0	0	1,070,187
0	0	0	0	0	56,300	56,300
161,226	95,742	0	0	256,968	615,749	520,007
8	0	0	5	13	1,781	3,215
0	0	0	0	0	2,932,943	2,932,943
244,091	**143,712**	**0**	**0**	**387,803**	**3,679,759**	**4,618,970**
86	9	0	0	95	25	207
0	6,525	55	0	6,470	0	47,681
10,597	4,769	1,674	0	13,692	13,817	14,130
0	0	0	0	0	417	2,478
10,683	**11,303**	**1,729**	**0**	**20,257**	**14,259**	**64,496**
254,774	**155,014**	**1,729**	**0**	**408,060**	**3,694,019**	**4,683,466**

Accrued amortisation					Net carrying value	
01/01/2018 €	Additions €	Disposals €	Transfers €	31/12/2018 €	31/12/2017 €	31/12/2018 €
33,176	52,919	3,559	0	82,536	117,079	70,214
0	322	0	0	322	0	2,772
0	0	0	0	0	56,300	56,300
65,484	95,742	0	0	161,226	726,516	615,749
9	0	1	0	8	1,520	1,781
0	0	0	0	0	2,932,943	2,932,943
98,668	**148,983**	**3,560**	**0**	**244,091**	**3,834,358**	**3,679,759**
1	671	585	0	86	694	25
10,899	5,042	5,344	0	10,597	13,662	13,817
0	0	0	0	0	346	417
10,899	**5,713**	**5,929**	**0**	**10,683**	**14,702**	**14,259**
109,567	**154,696**	**9,489**	**0**	**254,774**	**3,849,060**	**3,694,019**

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, 23 March 2020

Ralph Dommermuth | Markus Huhn | Alessandro Nava

INDEPENDENT AUDITOR'S REPORT

To 1&1 Drillisch Aktiengesellschaft

Report on the audit of the consolidated financial statements and of the management report of the Company and the Group

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 2019, 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 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report for the Company and the Group of 1&1 Drillisch Aktiengesellschaft for the fiscal year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance published on the website referred to in the management report for the Company and the Group that is a part of the management report for the Company and the Group.

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 ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the fiscal year from 1 January to 31 December 2019, and

» the enclosed management report for the Company and the Group as a whole provides a suitable view of the Group's position. In all material respects, this management report for the Company and the Group 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 management report for the Company and the Group does not cover the content of the aforementioned statement on corporate governance.

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 and of the management report for the Company and the Group.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the management report for the Company and the Group 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 management report for the Company and the Group" 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 management report for the Company and the Group.

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 2019. 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 45 percent 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. 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 verified that the key assumptions were derived plausibly. 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 28 "Goodwill and impairment of goodwill and intangible assets with an indefinite useful life as well as intangible assets not yet available for use (frequency licenses)" 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 manual postings which entail an inherently higher risk of errors. As part of the revenue recognition pursuant to IFRS 15, 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 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 is contained in Note 4 “Revenue/segment reporting” and in Note 2.1 “Explanation of significant accounting policies” 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

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, there are relevant posting logic and processes. In addition, assumptions are 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

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 tests 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 is contained in Note 22 "Short-term contract initiation and contract fulfillment costs," Note 30 "Long-term contract initiation and contract fulfillment costs" and in Note 2.1 "Explanation of significant accounting policies" in the notes to the consolidated financial statements.

Other information

The supervisory board is responsible for the Report of the supervisory board. In all other respects, the executive directors are responsible for the other information. The other information comprises the statement on corporate governance referred to above and the following other components of the annual report, of which we obtained a version prior to issuing this auditor's report, including, in particular:

» the "Compliance statement" pursuant to Sec. 297 (2) Sentence 4 HGB and the "Responsibility statement pursuant to Sec. 315 (1) Sentence 5 HGB on the management report for the Company and the Group"

» the supervisory board's report pursuant to Sec. 171 (2) AktG ["Aktiengesetz": German Stock Corporation Act]

» the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Code

» the "Letter to the shareholders" section

» the non-financial group report

» but excluding the consolidated financial statements, the content in the management report for the Company and the Group we have audited and our auditor's report.

Our opinions on the consolidated financial statements and on the management report for the Company and the Group 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 management report of the Company and the Group 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 management report for the Company and the Group

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 management report for the Company and the Group 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 management report for the Company and the Group that is in accordance with the relevant German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report for the Company and the Group.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the management report for the Company and the Group.

Auditor's responsibilities for the audit of the consolidated financial statements and of the management report for the Company and the Group

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 management report for the Company and the Group 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 management report for the Company and the Group.

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 the management report of the Company and the Group.

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 management report for the Company and the Group, 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 management report for the Company and the Group 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 management report for the Company and the Group 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 management report for the Company and the Group. 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 management report for the Company and the Group with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

» Perform audit procedures on the prospective information presented by the executive directors in the management report for the Company and the Group. 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 21 May 2019. We were engaged by the supervisory board on 14 August 2019. 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, 23 March 2020

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft

Jens Kemmerich Jens Eichenauer

INVESTOR RELATIONS CORNER

INVESTOR RELATIONS, PRICE PERFORMANCE OF THE SHARE

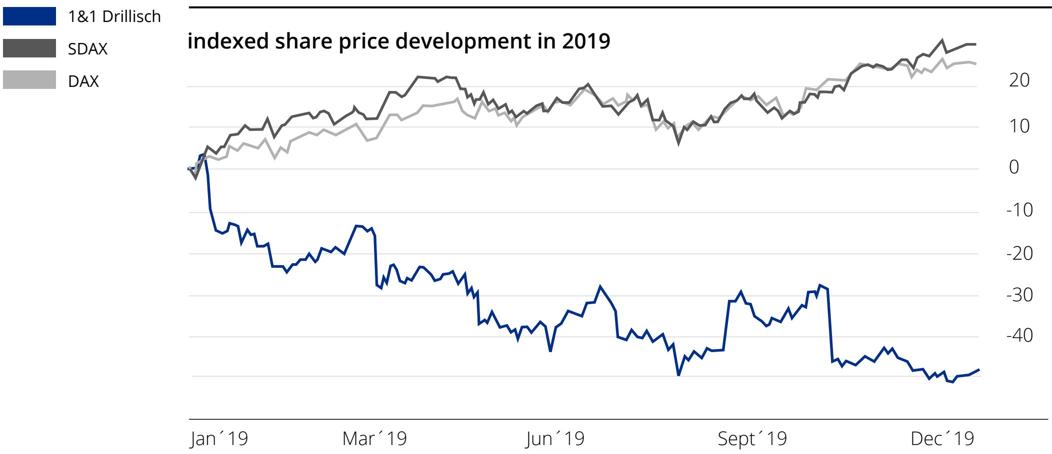
1. Investor Relations

The capital market communications of 1&1 Drillisch AG 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 on-going work can be followed and tracked equally by all investor groups on our investor relations home page where all of our relevant reports and publications 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 2019

	2018 year end	2019 year end	% change
1&1 Drillisch	€44.50	€22.88	-48.6
DAX	10,558.96	13,249.01	+25.5
SDAX	9,509.15	12,511.89	+31.6

Performance of the 1&1 Drillisch-Share compared to DAX and SDAX*



* Indices and the 1&1 Drillisch-Share show a dividend adjusted performace

LATEST RESEARCH NOTES, SHAREHOLDER STRUCTURE

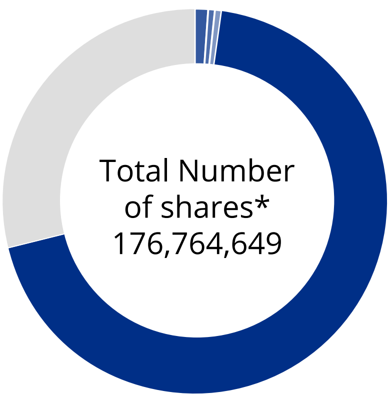
3. Current Analyst Assessments (Last Revised 24 February 2020)

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.

Analyse	Rating	Price Target	Date
Hauck	„Buy“	€45.00	24 February 2020
Warburg	„Buy“	€47.60	24 February 2020
HSBC	„Neutral“	€26.00	20 February 2020
Commerzbank	„Buy“	€45.00	12 February 2020
Hauck	„Buy“	€45.00	10 February 2020
Credit Suisse	„Sell“	€21.00	03 February 2020

A current overview of the analysts' recommendations can be found on the IR homepage of 1&1 Drillisch AG.
www.1und1-drillisch.de/investor-relations/research-notes

4. Shareholder Structurer (Last Revised 24 February 2020)



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

75.10 % | United Internet AG
75.10 % | shs. 132,746,378

Other Shareholders: 24.46 % | shs. 43,244,938

Free Float as per definition of Dt. Boerse AG: 24.62 %
* Per voting rights publications

Quelle: 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.

5G antenna
Device for transmitting and receiving 5G frequencies. It is located on the housing of the transmitter mast and consists of up to 64 individual antennas, which can be individually controlled to provide very high transmission performance. This technology is called "Massive Multiple Input, Multiple Output", in short "Massive MIMO".

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.

Bandwidth
Difference between the lowest and highest frequency possible on a transmission channel. It is measured in bits per second and describes the amount of data that can be transmitted within a certain period of time.

Campus network
Exclusive mobile network for a defined local company site. The Federal Network Agency assigns own 5G frequencies to industrial companies for the construction of campus networks.

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).

E-Health
(Abbreviation for Electronic Health) Collective term for the use of digital technologies in health care. Information and communication technologies (ICT) are used here for prevention, diagnosis, treatment, monitoring and management. 5G is considered the driver of these developments.

EPG
Electronic Program Guide

Federal Network Agency
Germany's highest regulatory authority – responsible for competition in the five network markets of electricity, gas, telecommunications, postal and rail transport. In addition to moderating conciliation procedures, its tasks also include the allocation of mobile radio frequencies.

Fibre optics
The connection to fiber optics offers the currently highest transmission rates of up to 100 GBit/s and is therefore the basis for the success of 5G. The data is transmitted by means of light particles (photons). In contrast to copper cables, which require electrical impulses for data transmission, there is no signal loss due to distance or weather conditions.

Free Float
Number or proportion of shares which can be freely traded on the stock market rather than being held by strategic investors.

Frequency
Number of repetitions per time unit for an operation. In telecommunications technology, repetitions take place in the form of radio waves and are measured in the unit Hertz (Hz). From a certain number of oscillations per second - from a certain frequency - electrical signals radiate from antennas into free space.

Frequency Auction
Procedure by which the Federal Network Agency awards licenses for the use of frequency ranges to mobile communications providers. The auction of the frequencies ends with the last bid of the participating companies. The 2019 5G auction lasted a historically long three months and generated a total of 6.5 billion euros for the state.

Frequency spectrum
The frequency spectrum, usually simply spectrum, of a signal indicates its composition from different frequencies.

GHz
(Abbreviation for gigahertz) Hertz is the number of repetitive operations per second in a periodic signal. One kilohertz (kHz) corresponds to 1,000 hertz, one megahertz (MHz) to 1,000,000 hertz and one gigahertz to 1,000,000,000 hertz. The frequencies used for 5G, which were auctioned off in the 2019 frequency auction, are in the 3.6 GHz range.

g~paid
Virtual cash card system which makes possible the secure distribution of activation codes for topping up ➔ prepaid 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

IoT
(Abbreviation for Internet of Things) Collective term for the increasing physical and virtual networking of objects with the Internet. Everyday objects, objects or machines are equipped with processors and sensors and can thus communicate with each other via IP networks. Especially in industry, connecting intelligent machines is an essential driver of digital transformation (Industry 4.0). 5G is considered the key to future technologies in the field of IoT.

IPTV
(Abbreviation for international protocol television) Transmission of television programs via an internet connection.

Issuer
An issuer is the party who issues securities.

Latency
Dwell time of data within a network - the time it takes for a data packet to travel from sender to receiver. While 4G has a latency of about 60 milliseconds, 5G offers a latency of less than one millisecond.

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. *(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.

MIMO
(Abbreviation for Multiple Input, Multiple Output) Transmission method for the communication of several antennas in transmitters and receivers. MIMO uses intelligent antenna technology that combines available antennas to minimize potential errors in data transmission and optimize transmission speeds. 5G uses Massive MIMO, which helps providers prepare their networks to support higher data volumes.

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.

National Roaming Agreement
Negotiations on nationwide access to networks of incumbent network operators during the construction phase of a new network infrastructure by a new entrant.

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: www.elektronik-kompendium.de/sites/kom/1107181.htm)*

Network slicing
Architecture that divides virtual networks into individual areas (slices). Each "network slice" is an isolated end-to-end network tailored to the different requirements of a specific application. Network slicing plays a central role in supporting 5G mobile networks that are designed to implement a wide range of services with different requirements.

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).

Radio cell
Area in which a signal can be transmitted from a transmission mast. Users who move with their terminal equipment within a radio cell share its capacity.

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").

Smart City
Development concepts aimed at making cities more efficient and digital through technological innovation. Here, too, 5G is to serve as the key to numerous applications.

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 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. The Supervisory Board is elected by the general meeting

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.

LEGAL INFORMATION

1&1 Drillisch AG is a member of the United Internet Group.

Company Headquarters:

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Investor Relations Contact:

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Fax: +49 (0) 6181 / 412 183
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)

» Markus Huhn (since 1 July 2019)

» Alessandro Nava (since 1 July 2019)

Supervisory Board:

» Michael Scheeren (Chairman)

» Kai-Uwe Ricke (Deputy Chairman)

» Dr Claudia Borgas-Herold

» Vlasios Choulidis

» Kurt Dobitsch

» Norbert Lang

Disclaimer:

Due to calculation processes, tables and references may produce rounding differences from the mathematically exact values (monetary units, percentage statements, etc.). This Interim Statement is available in German and English.
Both versions can also be downloaded from www.1und1-drillisch.de. In all cases of doubt, the German version shall prevail.

Future-oriented Statements:

This Report contains certain forward-looking statements which reflect the current views of 1&1 Drillisch AG's management with regard to future events. These forward looking statements are based on our currently valid plans, estimates and expectations. The forward-looking statements made in this Interim Statement are only based on those facts valid at the time when the statements were made. Such statements are subject to certain risks and uncertainties, as well as other factors which 1&1 Drillisch often cannot influence but which might cause our actual results to be materially different from any future results expressed or implied by these statements. Such risks, uncertainties and other factors are described in detail in the Risk Report section of the Annual Reports of 1&1 Drillisch AG. 1&1 Drillisch does not intend to revise or update any forward-looking statements set out in this Interim Statement.

PUBLICATIONS, INFORMATION AND ORDER SERVICE

This Annual Report 2019 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*

26 March 2020	Annual Report 2019
13 May 2020	Quarterly Statement Q1 2020
19 May 2020	Annual General Meeting
13 August 2020	6-Month Report 2020
10 November 2020	Quarterly Statement Q3 2020

* These provisional dates are subject to change.

CONTACTS

Our Investor Relations and Press Department will be glad to answer any questions you may have concerning 1&1 Drillisch AG and the report.

Investor Relations

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BRAND PORTFOLIO OF 1&1 DRILLISCH AG

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www.1und1-drillisch.de/contact-us

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united internet

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