Annual Financial Statements 2017

MANAGEMENT REPORT FOR THE GROUP AND PARENT COMPANY

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS ACC. TO IFRS

CONTENTS OF THE MANAGEMENT REPORT

Note:

Due to calculation processes, tables and references may produce rounding differences from the mathematically exact values (monetary units, percentage statements, etc.).

These annual financial statements are available in German and English. Both versions can also be downloaded from www.united-internet.de. In all cases of doubt, the German version shall prevail.

MANAGEMENT REPORT FOR THE FISCAL YEAR 2017

1 COMPANY AND GROUP PROFILE

1.1 BUSINESS MODEL

Group structure

Founded on January 1, 1998 and based in Montabaur, Germany, United Internet AG is the **Group parent company** of the United Internet Group.

Together with its service company United Internet Corporate Services GmbH, United Internet AG focuses mainly on centralized functions such as Finance, Corporate Controlling & Accounting, Tax, Press Relations (PR), Investor Relations (IR), Investment Management, Legal, Corporate Governance, Compliance, Risk Management, Corporate Audit, Procurement, Corporate IT, Facility Management, and HR Management.

Compared to the previous year, the Group structure as of December 31, 2017 changed in particular as a result of the Warburg Pincus investment in the Business Applications division, the takeover of Strato AG, and the merger with Drillisch AG.

- As part of the strategic partnership with United Internet already announced in November 2016, Warburg Pincus (via Warburg Pincus WP XII Venture Holdings S.à r.l., Luxembourg) acquired an indirect 33.33% stake in our Business Applications division via a newly created holding structure (1&1 Internet TopCo SE / 1&1 Internet Holding SE) in the first quarter of 2017. The entire Business Applications activities of the United Internet Group are now pooled in the newly created holding structure.

- On April 1, 2017, the complete acquisition of Strato AG from Deutsche Telekom AG, as announced in December 2016, was closed and Strato integrated into the above mentioned holding structure.

- On May 12, 2017, the Management Boards of United Internet AG and Drillisch AG entered into a business combination agreement governing the step-by-step acquisition of 1&1 Telecommunication SE by Drillisch. The aim of the overall transaction is to contribute 1&1 Telecommunication to Drillisch (in return for Drillisch shares) and thus create a more powerful full-service telecommunications provider under the umbrella of United Internet.

    - To this end, the complete telecommunications business with home users (DSL and Mobile Internet) of United Internet was pooled in 1&1 Telecommunication SE. The consumer business (mass market business DSL) previously pursued by 1&1 Versatel was also integrated into 1&1 Telecom GmbH, a subsidiary of 1&1 Telecommunication SE.

    - Activities with business users and other telecommunications providers (wholesale) were not part of this transaction. This business will continue to be operated by 1&1 Versatel and was transferred to United Internet Service Holding GmbH by means of a carve out (from 1&1 Telecommunication SE).

    - Since the successful conclusion of total transaction on September 8, 2017, Drillisch holds

100% of shares in 1&1 Telecommunication SE and in turn United Internet holds 73.29% of shares in Drillisch AG.

Following the completion of the above mentioned structuring measures, operating activities in the Access segment relating to Consumer Access are mainly managed by the companies Drillisch Online AG and 1&1 Telecom GmbH – under the umbrella of Drillisch AG (now named 1&1 Drillisch AG). In the field of Business Access, United Internet mainly operates via 1&1 Versatel GmbH – held by United Internet Service Holding GmbH.

Operating activities in the Applications segment are primarily managed in the field of Consumer Applications via the companies 1&1 De-Mail GmbH, 1&1 Mail & Media GmbH and United Internet Media GmbH – pooled together under 1&1 Mail & Media Applications SE. In the field of Business Applications, United Internet is primarily active via Strato AG and its subsidiary Cronon AG – held by the holding companies 1&1 Internet TopCo SE and 1&1 Internet Holding SE – as well as via 1&1 Internet SE and its main domestic and foreign subsidiaries. In addition to 1&1's foreign subsidiaries 1&1 Internet Inc. (USA), 1&1 Internet Ltd. (UK), 1&1 Internet S.A.R.L. (France) and 1&1 Internet España S.L.U. (Spain), these include in particular Arsys Internet S.L. (Spain), Fasthosts Internet Ltd. (UK), home.pl S.A. (Poland), InterNetX GmbH, ProfitBricks GmbH, Sedo GmbH and united-domains AG.

In addition to these operative and fully consolidated subsidiaries, United Internet AG held a number of other investments as of December 31, 2017. These mainly consist of equity interests – held by United Internet Investments Holding GmbH (formerly: United Internet Ventures AG) – in the listed companies AdUX S.A. (formerly: Hi-Media S.A.), France (10.46%), Rocket Internet SE, Germany (8.31%), and Tele Columbus AG, Germany (28.52%), as well as investments in the strategic partners ePages GmbH, Germany (25.01%), Open-Xchange AG, Germany (25.39%), rankingCoach International GmbH, Germany (29.93%), uberall GmbH, Germany (30.34%), and virtual minds AG, Germany (25.10%). In addition, United Internet holds shares in AWIN AG, Germany (20.00%), via 1&1 Mail & Media Applications SE – following the contribution of affilinet to AWIN.

Further details on these investments and changes in investments are provided in section 2.2 "Business development" under "Group investments".

A simplified illustration of the Group structure of United Internet with its significant operating subsidiaries and investments – as of December 31, 2017 – is shown in the following chart.

United Internet AG

- **Drillisch AG (73.29%)**
  - Drillisch Online (100%)
  - 1&1 Telecommunication (100%)
    - 1&1 Telecom GmbH (100%)
- **United Internet Service Holding GmbH (100%)**
  - 1&1 Versatel (100%)
- **1&1 Mail & Media Applications SE (100%)**
  - 1&1 De-Mail (100%)
  - 1&1 Mail & Media (100%)
  - United Internet Media (100%)
  - Awin (20%)
- **1&1 Internet TopCo SE (66.67%)**
  - 1&1 Internet Holding SE (100%)
    - 1&1 Internet SE (100%)
      - 1&1 Internet USA (100%)
      - 1&1 Internet UK (100%)
      - 1&1 Internet FR (100%)
      - 1&1 Internet ES (100%)
      - Arsys (100%)
      - Fasthosts (100%)
      - home.pl (100%)
      - InterNetX (95.56%)
      - ProfitBricks (100%)
      - Sedo (100%)
      - united-domains (100%)
    - Strato AG (100%)
      - Cronon AG (100%)
- **United Internet Investments Holding GmbH (100%)**
  - AdUX (10.46%)
  - Rocket Internet (8.31%)
  - Tele Columbus (28.52%)
  - ePages (25.01%)
  - Open-Xchange (25.39%)
  - rankingCoach (29.93%)
  - uberall (30.34%)
  - virtual minds (25.10%)

Business operations

With 22.89 million fee-based customer contracts (prior year: 16.79 million) and 35.42 million ad-financed free accounts (prior year: 34.29 million), United Internet is a leading European internet specialist.

The Group’s operating business is divided into the two reporting segments “Access” and “Applications”.

Access segment

The Access segment comprises United Internet’s fee-based access products for its consumer and business customers. In its consumer business, these include DSL and mobile access products with the respective applications (such as home networks, online storage, telephony, video-on-demand or IPTV), while in the business segment these include data and network solutions for SMEs, as well as infrastructure services for large corporations.

With a current length of 44,889 km (prior year: 41,644 km), United Internet owns Germany’s second-largest fiber-optic network. Moreover, the company – indirectly via Drillisch AG acquired in 2017 (now 1&1 Drillisch AG) – is the only MBA MVNO in Germany with long-term rights to a share (rising to 30%) of the used network capacity of Telefónica Germany and thus extensive access to Germany’s largest mobile network. In addition to its own landline network and privileged access to the Telefónica network, the company also purchases standardized network services from various pre-service providers. These wholesale services are enhanced with end-user devices, self-developed applications and services from the company’s own “Internet Factory” in order to differentiate them from the competition.

In its Access segment, United Internet operates exclusively in Germany where it is one of the leading providers.

Access products are marketed via well-known brands, such as 1&1, or the discount brands of the former Drillisch AG, such as winSIM, yourfone and smartmobile.de, which enable the company to offer a comprehensive range of products while also targeting specific customer groups.

Applications segment

The Applications segment comprises ad-financed or fee-based application products for consumer and business customers. These applications include domains, home pages, webhosting, servers and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software.

The applications are developed at the company’s own “Internet Factory” or in cooperation with partner firms and operated on around 90,000 servers at the company’s 10 data centers.

In its Applications segment, United Internet is also a leading global player with activities in European countries (Germany, France, the UK, Italy, the Netherlands, Austria, Poland, Switzerland and Spain) as well as in North America (Canada, Mexico and the USA).

Applications are marketed to specific home-user and business-user target groups via the differently positioned brands GMX, mail.com, WEB.DE, 1&1, Arsys, Fasthosts, home.pl, InterNetX, ProfitBricks, Strato and united-domains. Via the Sedo brand, United Internet also offers customers professional services in the field of active domain management. Free apps are monetized via advertising run by the company’s in-house agency United Internet Media.

Segments, target groups and brands (as of: December 31, 2017):

Segment	Target group	Brand
Access	Consumer	winSIM, smartmobil.de, yourfone, maXim, 1&1, simply, PremiumSIM, DeutschlandSIM
	Business	1&1 versatel
Applications	Consumer	GMX, WEB.DE, 1&1, mail.com, united internet media
	Business	home.pl, InterNetX, fasthosts, arsys, 1&1, STRATO, PROFITBRICKS, sedo, united domains

Management

The Management Board of United Internet AG comprised the following five members in fiscal year 2017:

- Ralph Dommermuth, company founder and Chief Executive Officer (with the company since 1988)
- Frank Krause, Chief Financial Officer (with the company since 2015)
- Robert Hoffmann, Management Board member responsible for Business Applications – until December 31, 2017 (with the company since 2006)
- Jan Oetjen, Management Board member responsible for Consumer Applications (with the company since 2008)
- Martin Witt, Management Board member responsible for Access – until September 30, 2017 (with the company since 2009)

In fiscal year 2017, United Internet continued to drive also the structural reorganization of the Group into the Access (Consumer and Business) and Applications (Consumer und Business) segments.

Following the merger with Drillisch in the Consumer Access division and investment of Warburg Pincus in the Business Applications division, the foundation has also been laid for the future management of these two now largely independent divisions and their importance reflected with the corresponding Management Board seats.

Following the successful conclusion of the merger between Drillisch AG and 1&1 Telecommunication SE, for example, Mr. Martin Witt stepped down as planned from his position as a member of the Management Board of United Internet AG (as of September 30, 2017) in order to focus fully on the development of the Consumer Access division in his role as CEO of

1&1 Telecommunication SE and in his new additional role as member of the Management Board of Drillisch AG (as of October 1, 2017). Moreover, Mr. Ralph Dommermuth took over responsibility for the Consumer Access division as CEO of Drillisch AG on January 1, 2018 – in addition to his role as CEO of United Internet AG.

After serving on the Management Board of 1&1 Internet SE for eleven years, five of which as CEO of 1&1 Internet SE and Member of the Board for Business Applications at United Internet AG, Robert Hoffmann stepped down from the Management Board of United Internet at his own request on December 31, 2017 in order to pursue new entrepreneurial challenges. Robert Hoffmann successfully laid the foundation for United Internet's growth plans in the field of Business Applications. Offerings for small businesses were expanded with the addition of new cloud services, such as online and social marketing, cloud productivity and accounting, the cloud infrastructure portfolio was revamped, new growth markets were tapped via the acquisition of Arsys, home.pl, Strato and recently ProfitBricks, and new markets entered in Mexico and Italy. In addition, United Internet acquired stakes in strategically relevant cooperation partners, such as ePages, OpenXChange, rankingCoach and uberall. And with the above mentioned investment of Warburg Pincus in the Business Applications division, a strong partner was gained for the planned IPO. Robert Hoffmann already handed over his position as CEO of 1&1 Internet SE to Eric Tholomé on October 1, 2017. Eric Tholomé can look back on a long and successful career in the New Economy – he has been developing and marketing software, hardware and digital solutions at various companies for more than 25 years. Before joining 1&1 Internet SE, Eric Tholomé worked for Google – as of 2007 – in Switzerland and Silicon Valley in a variety of management positions, with responsibility for Gmail, YouTube, the Google Cloud platform and Google Shopping. Over the past five years, he was also responsible for Google's largest development center outside the USA with over 2,000 employees in Zurich. As CEO of the 1&1 Internet holding companies and 1&1 Internet SE, Eric Tholomé will focus exclusively on the development of Business Applications division.

As in the previous year, the Supervisory Board of United Internet AG elected by the Annual Shareholders' Meeting 2015 comprised the following three members in fiscal year 2017:

- Kurt Dobitsch, chair
- Michael Scheeren, deputy chair
- Kai-Uwe Ricke

Main markets and competition

Germany is the most important sales market of the United Internet Group by far and accounts for around 91% of total sales. In addition to Germany, the Group’s most important sales markets include the UK, the USA, Spain, France, Poland, Austria, and Switzerland.

Competitive standing in the Access segment

In terms of its competitive standing, United Internet (in the purely domestically aligned Access segment) is among the top three suppliers in Germany’s broadband market with its DSL products and one of the fastest growing companies with its mobile internet products in the German mobile communications market. Following the merger with Drillisch (now 1&1 Drillisch) in 2017, United Internet is the fourth force in Germany’s telecommunications market with mobile and landline products – after Deutsche Telekom, Vodafone and Telefónica Germany.

Competitive standing in the Applications segment

United Internet has long been the market leader in Germany for hosting and cloud applications (in the globally aligned Applications segment) and strengthened its position in 2017 with the takeover of its competitor Strato.

In Europe, United Internet’s hosting and cloud applications are now available in all major markets – either locally or via Germany. In addition to the domestic German market, these mainly include the major European economies of France, the UK, Italy, Poland and Spain. With the exception of Italy, where United Internet only began operations in May 2012, the company is among the market leaders in the aforementioned countries. All in all, therefore, United Internet is also the leading European supplier of hosting and cloud applications.

Further target markets for the Group’s application business outside Europe are the North American countries Canada, USA and Mexico. In the most important of these markets, the USA, United Internet is one of the leading companies in this segment.

Viewed globally, United Internet is thus one of the top three companies for hosting and cloud applications – also according to internet analysts such as 451 RESEARCH.

Main locations

As of December 31, 2017, the United Internet Group employed a total of 9,414 people at around 40 domestic and foreign facilities.

Main locations (by headcount; > 50 employees)

Location	Main activity	Company / brand
Montabaur (HQ)	HQ, Investments, IR, PR, Finance, Corporate Controlling & Accounting, Risk Management, Internal Audit, Legal, Compliance, HR	United Internet
	Finance, PR, Marketing, Sales, Logistics, Customer Service for Access & Applications Segments	1&1
Karlsruhe	Development, Product Management, Data Center Operation, Marketing, Sales, Purchasing, Customer Service for Access & Applications Segments	1&1, WEB.DE, GMX, mail.com, United Internet Media
Berlin	Development, Customer Service for Applications Segment (Business)	1&1
	Access Segment (Business)	1&1 Versatel
	Applications Segment (Business)	Strato, ProfitBricks
Munich	Applications Segment (Consumer)	GMX, WEB.DE
	Access Segment (Consumer)	1&1 Drillisch
Zweibrücken	Customer Service for Access & Applications Segments	1&1
Cebu City (Philippines)	Customer Service for Applications Segment (Business)	1&1
Madrid / Logroño (Spain)	Applications Segment (Business) in Spain, DC Operation	1&1, Arsys
Stettin (Poland)	Applications Segment (Business) in Poland	home.pl
Gloucester (UK)	Applications Segment (Business) in UK, DC Operation	1&1, Fasthosts
Flensburg	Access Segment (Business)	1&1 Versatel
Düsseldorf	Access Segment (Business)	1&1 Versatel
Dortmund	Access Segment (Business)	1&1 Versatel
Krefeld	Access Segment (Consumer)	1&1 Drillisch
Maintal	Access Segment (Consumer)	1&1 Drillisch
Bucharest (Romania)	Development for Applications Segment	1&1
Chesterbrook / Lenexa (USA)	Applications Segment (Business) in North America, DC Operation and Customer Service	1&1
Stuttgart	Access Segment (Business)	1&1 Versatel
Essen	Access Segment (Business)	1&1 Versatel
Regensburg	Applications Segment (Business)	InterNetX
Cologne	Applications Segment (Business)	Sedo
Münster	Access Segment (Consumer)	1&1 Drillisch
Starnberg	Applications Segment (Business)	united-domains

1.2 STRATEGY

United Internet’s business model is based predominantly on customer contracts (electronic subscriptions) with fixed monthly amounts and contractually agreed terms. Such a business model ensures stable and plannable revenue and cash flows, protects against macroeconomic effects and provides the financial scope to grasp opportunities in new business fields and markets – organically or via acquisitions and investments.

A large number of customer relationships also helps the company to utilize so-called economies of scale: the more customers using the products created by our development teams and operated at our own data centers, the greater our profit will be. These profits can then be invested in new customers, new developments and new business fields.

From the current perspective, Cloud Applications and Mobile Internet will be the growth markets over the coming years. With its clear positioning in the Access and Applications segments, United Internet is well placed to exploit the expected market potential.

In view of the dynamic market development of Cloud Applications and Mobile Internet, the company’s growth opportunities are clearly apparent: universally accessible, increasingly powerful broadband connections are enabling new and more sophisticated cloud applications. These internet-based programs for end users and companies will also be United Internet’s growth drivers in the years ahead – both as stand-alone products in the Applications business field as well as in combination with landline and mobile access products in the Access segment business field.

With its many years of experience as an access and application provider, its expertise in software development and data center operation, marketing, sales and customer support, as well as its strong and well-known brands (such as 1&1, GMX and WEB.DE), and customer relationships with millions of private users, freelancers and small companies in Germany and abroad (currently around 59 million user accounts world-wide), the company is excellently positioned.

In order to leverage this positioning for further sustainable growth, United Internet will also invest heavily in new customers, new products and business fields in future, as well as in its further internationalization.

In addition to organic growth, United Internet also continually seeks possibilities for company acquisitions, investments and cooperations, in order to extend its market positions, competencies and product portfolios.

Thanks to its high and plannable level of free cash flow, United Internet has a strong source of internal funding as well as good access to debt financing markets. Further information on the company’s equity strength and external financing is presented in section 2.2 Business Development and 2.3 Position of the Group.

Further information on strategy, opportunities and targets is included in the “Risk, Opportunity and Forecast Report” in section 4.

1.3 CONTROL SYSTEMS

The internal control systems help management steer and monitor the Group and its segments. The systems consist of planning, actual situation and forecast calculations based on the Group's annually revised strategic planning. Particular attention is paid to market developments, technological developments and trends, as well as their impact on the Group's own products and services, and the Group's financial possibilities. The corporate control system's aim is the continual and sustainable development of United Internet and its subsidiaries.

The Group's reporting system comprises the monthly profit calculations and quarterly IFRS-compliant reports for all consolidated subsidiaries. It presents the financial position and performance of the Group and all divisions. Financial reporting also includes other detailed information which is required for the assessment and control of operating business.

The key performance indicators of the United Internet Group for chief corporate management are presented in "Segment reporting" under point 5 of the Notes to the Consolidated Financial Statements.

Quarterly reports on significant risks for the company represent a further component of the control systems.

The above mentioned reports are discussed at meetings of the Management Board and Supervisory Board and provide the fundamental basis for assessments and decisions.

In order to control the Group's performance, United Internet AG uses in particular the key figures of the income statement (sales, EBITDA, EBIT, EPS), of the statement of cash flows (free cash flow) and of the statement of financial position (asset items, financial liabilities). The company also employs non-financial key figures, in particular the number and growth of fee-based customer contracts, as well as ad-financed free accounts. The use and definition of the relevant key financial figures is shown in section 2.2.

The key performance indicators (KPIs) are the number of fee-based customer contracts, sales, and EBITDA. These figures are also used in forecast reporting.

A comparison of the KPIs stated in the forecast and the actual figures is provided in this Management Report in 2.2 "Business Development" in the section "Actual and Forecast Development" as well as in 2.3 "Position of the Group".

The number of customer contracts, the gross and net sales figures and the related customer acquisition costs in particular – compared to the company's plans and forecast calculations – serve as an early warning system.

1.4 RESEARCH AND DEVELOPMENT

As an internet service provider, the United Internet Group does not engage in research and development (R&D) on a scale comparable with manufacturing companies. Against this backdrop, United Internet does not disclose key figures for R&D.

At the same time, the United Internet brands stand for high-performance internet access, solutions and innovative web-based products and applications which are mostly developed in-house. The success of United Internet is rooted in an ability to develop, combine or adapt innovative products and services and launch them on major markets.

Thanks to its own development teams, United Internet is able to react fast and flexibly to new ideas and trends and continually enhance its established products, adapting them to changing market needs – a key success factor in the fast-moving internet market. The company's expertise in product development, enhancement and roll-out minimizes its reliance on third party development work and supplies in many areas and thus ensures decisive competitive and time-to-market advantages.

At United Internet's own development centers (especially in Karlsruhe, Berlin and Bucharest), over 3,000 developers, product managers and technical administrators (corresponding to around 32% of all employees) use mainly open source code in clearly defined and modeled development environments. Third-party programming services are also used to swiftly and efficiently implement specific projects. This enables the company to quickly change existing products and adapt them to changing customer needs. United Internet also procures solutions from partners, which are then modified according to needs and integrated into its systems. With the aid of its self-developed and integrated applications, United Internet has a set of modules which can be easily combined and provided with product-specific or country-specific user interfaces in order to create a variety of powerful and integrated applications – a huge benefit when tailoring products to varying target groups or for international rollouts.

Due to the steady growth in customer figures, the demands placed on reliability and availability are constantly rising. In addition to the further development of existing products and continual optimization of back-end operations, the company also focuses on continually enhancing existing processes in order to raise system reliability and thus also customer satisfaction.

Focus areas 2017

Access

Open access platform
As one of the leading DSL and mobile providers in Germany, 1&1 already developed an open access platform two years ago. This platform links the fiber-optic networks of regional providers with the fiber-optic network of 1&1 Versatel and allows 1&1 as a nationwide provider to market these connections. The fiber-optic network of United Internet subsidiary 1&1 Versatel – with a length of around 45,000 km, the second-largest in Germany – provides nationwide aggregation possibilities. After connecting the first partner, wilhelm.tel in northern Germany in 2016, three more fiber-optic providers were added to the 1&1 platform in 2017 with M-net in Munich, R-KOM in Regensburg, and NetCologne in Cologne. Further partners are to be connected to the open access platform in the future. By using the standardized interface (S/PRI 4.0) and enhancing the technical capabilities of the platform, the effort involved in connecting other carriers and their fiber-optic house connections was further reduced. Thanks to the newly gained cooperation partners and a further enhanced product portfolio, a growing number of private customers can now benefit from modern fiber-optic connections. In addition, 1&1 thus ensures access to the best possible infrastructures.

Layer 2 Bitstream Access

In January 2017, 1&1 and 1&1 Versatel started the construction of the Layer 2 platform in order to be able to source high-bit-rate VDSL wholesale services at much more attractive terms from Deutsche Telekom in the future and at the same time significantly increase their own added value. To this end, 1&1 Versatel expanded its network and connected so-called BNGs (access points for Layer 2) with fiber-optics. This was and is an important development step in order to exploit commercial synergies through the use of the company's own fiber-optic network and expand its own future-ready product design – by developing into an independent network operator.

Over 700,000 customers had already been successfully migrated to this new platform by the end of 2017. This was made possible by 1&1 Versatel's use of Deutsche Telekom's BNGs. As a result, 1&1 developed into Germany's largest Layer 2 customer within a year and boasts the largest Layer 2 network of the alternative carriers.

Nationwide coverage will continue to be driven by the Layer 2 platform as the fiber-optic network is successively expanded.

"1&1 Digital-TV"

In the fiscal year 2017, 1&1 launched "1&1 Digital-TV" together with 1&1 Versatel and the IPTV specialist Zattoo as its technical service provider. In addition to the technical platform and application work, license agreements for content and functions had to be negotiated and agreed with over 25 partners. The licenses are in the hands of 1&1, thus ensuring 100% product design and price sovereignty as well as maximum flexibility to respond to market conditions.

"1&1 Digital-TV" was rolled out in December 2017 and offers users the possibility to receive TV via the 1&1 broadband network. It can used either via the 1&1 TV box or via Wi-Fi on tablets or smartphones (Android/iOS). Native apps for Fire TV and Apple TV are also available. 1&1 has thus strengthened its position as a full-service provider offering one-stop shopping for its customers. "1&1 Digital-TV" can be ordered as a chargeable option with all VDSL connections.

The basic package offers up to three TV streams that can be used simultaneously, and contains around 90 free-to-air channels. Public channels are already included in HD quality. Customers can also request HD for all private channels. A variety of genre- and country-specific TV packages are also available.

"1&1 Digital-TV" is the first completely cloud-based TV service from a landline provider on the German market. User-friendly functions such as recording, pause, instant restart and catch-up are realized completely in the cloud. It is therefore possible to program recordings at home or on the road via a smartphone. The recordings are then stored in a personal cloud and can be accessed via DSL within the private home network.

Anyone wanting to watch a program from the beginning again during a broadcast can restart it using the Instant Restart function. In addition, the EPG (Electronic Program Guide) offers a catch-up feature that provides quick access to past programs: the selected content can be retrieved up to seven days after broadcast.

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

The trend towards digitalization is still continuing and the number of customers who want to manage their contracts online or via apps is steadily growing. The aim of the 1&1 Control Center is therefore to cover four different areas of customer service – Self Care, Customer Care, Help, and Cross & Upselling. For example, customers can view their data and minute usage, as well as invoices, and can change payment methods and tariffs, or use special offers in the integrated customer shop. At the same time, they can contact customer service via call, recall, email or chat, or reach their desired destination via the smart search function.

In 2017, new regulatory requirements were implemented in the Control Center. In addition to the increase in failure and data security, there were adjustments in itemized billing, and the EU Roaming Regulation was integrated. At the same time, the user-friendliness of the app was improved with a much more intuitive design and further new features, such as push notifications which can inform about new invoices but also serve as a new communication and distribution channel. Customers can also provide their traffic and usage data on a voluntary basis, thus contributing to further product enhancements. All in all, sales performance was improved significantly without increasing the amount of advertising.

DSL customers can now also use the app to measure the quality of their broadband connection at any time and optimize their home Wi-Fi networks. The aim is to ensure enough bandwidth is available in all rooms of the apartment or house for applications such as "1&1 Digital TV" for use on various devices.

Business Applications

MyWebsite

A change of strategy was implemented for MyWebsite in 2017 to ensure that it remains a leading product in the future. The development and operation of the core editor components were taken over by a strong, highly specialized partner so that the company's own teams can focus more on integration and innovation in the field of sector expertise, user experience and support.

Following an intensive selection process, Duda Inc. based in Palo Alto, California, was chosen as the partner. Duda was responsible for bringing a completely new, highly modern editor component to the MyWebsite product offering which enables modifications to the company's internal system to be made much faster and more efficiently. In addition to significant increases in performance, this resulted in the following enhancements to the MyWebsite functions:

- Dynamic personalization of website content depending on events, time, location, cookies (visitor targeting)
- Versioning of websites and management of backups
- Transfer of content from existing websites or social networks (crawler)
- Modern blog system with a variety of settings and networking options (syndication)
- Multilingual websites including automatic translations and localizations
- Availability of all editing options on mobile devices
- More flexible design options such as moving image backgrounds, parallax scrolling and responsive layouts
- Access to and editing of website source code

At the same time, in-house product development focused on a whole series of value-adding measures:

- Integration and consolidation in order to be able to access a central system offering across the entire brand network in the future. In addition provision, this includes the planning and implementation of migrations from various existing website editors.
- Further increase in industry expertise to provide maximum assistance and inspiration for SMEs with regard to establishing and expanding their digital footprint. Launched in the third quarter of 2017, this included testing and developing a completely new approach to providing website templates and enriching them with industry-specific text and image content. Within the new editor, the 1&1 image pool with over 20 million images was enhanced once again by increasing the number and industry-relevance of the search results and presenting them in clearer display. In addition, modules with special functions for specific industries were integrated, for example for making table reservations directly on the website.
- Innovations in the user experience and support to shorten the most important factor in web page creation: time. A dialog system was placed before the initial use of the new editor to

enable users to follow and execute the setup process in a few simple steps. One major addition is the online business card, which is explained in more detail below. With regard to the user-friendliness of the editor, extensive user tests were conducted in order to optimize all functions according to the needs of the respective target group and to make them as intuitive as possible. The help system also got a major overhaul with deeper integration so that more detailed information is always available within the current use context.

Online Business Card

In the 4th quarter of 2017, a new function was rolled out together with the greatly simplified MyWebsite set-up process that enables customers to publish their initial online presence within seconds: the Online Business Card. The main idea behind this concept is to give customers the time they need to create their perfect website with the MyWebsite editor, knowing that site visitors can already get the most important information about their business during this time – a need which was revealed during intensive user research.

The Online Business Card enables customers to quickly and easily configure their company logo, contact information, directions to the firm, contact form, and social networking links in one of five designs in order to make this information visible for both visitors and search engines. Customers whose companies are already represented in an online directory can transfer the corresponding data into their Online Business Card, making the set-up process even faster.

1&1 Website Checker

The 1&1 Website Checker provides even better support for SMEs in their quest for online success. It analyzes more than 20 website criteria in the four categories: “Online Presence”, “Being Found”, “Being Safe”, and “Being Fast”. The 1&1 Website Checker is available for free to all customers in the 1&1 Control Center and the 1&1 Hosting Manager app.

The monthly email report monitors the online presence of 1&1 customers and informs them about new optimization potential and the development of visitor figures.

Alexa Skill

1&1 now offers its hosting customers a skill for Amazon’s voice assistant Alexa. The Alexa skill provides information on the latest invoice and can send an invoice copy by email if required. In addition, the skill provides information about the number of visitors to the customer’s website.

The skill can be activated for free in the Amazon Skill Store and linked with the 1&1 user account. 1&1 is thus one of the first hosters to offer this modern form of user interface. Depending on user feedback, further functions will be added to the skill.

CaaS platform (Container-as-a-Service)

The latest container technologies Docker and Kubernetes, packaged “as a service”, represent a quantum leap for the ever faster development cycles of software development and the “fail (and learn) fast” methods. Strict modularization of the software, also known as cloud-native software, supports this container technology by allowing software modules (also known as micro-services) to be exchanged in individual containers within just a few seconds.

At the same time, containers can be started and stopped in milliseconds so that micro-services react elastically to changes in load and, consequently, use the underlying infrastructure much more efficiently. The management software Kubernetes guarantees the maintenance of the service level by automatically starting and stopping the required number of container instances.

1&1 already uses this technology for the provision of managed cloud hosting services, as well as for internal management components. Moreover, a beta version of this technology is now also offered to customers.

Consumer Applications

Big Data & Tracking

United Internet sees a key competitive advantage in the consistent exploitation of the enormous data volumes which result from its operating business. The aim is to understand customer wishes more fully, thus enabling the company to optimize its product portfolio and provide services more efficiently.

With the aid of its own big data platform, the continuous integration of additional data sources from across the entire company provides more accurate analysis and understanding of customer needs and product usage. This knowledge makes it possible to optimize existing products and services or to develop new business fields.

One of the most important data sources for the big data platform is a tracking system that registers 18 billion user interactions per month on United Internet’s portals and web services. This has been given a new technical basis and thus, first of all, prepared for the requirements of the upcoming EU General Data Protection Regulation. Secondly, new data processing methods like stream processing and machine learning were introduced so that further use cases can now be tapped and new customer systems, such as recommendation engines, can be supplied with online information.

Log-in alliance

In cooperation with the media group RTL Germany and ProSiebenSat.1, United Internet has announced the creation of a log-in alliance. Against the backdrop of the EU General Data Protection Regulation (GDPR) and the planned ePrivacy Regulation, the log-in alliance represents a counterweight to the “walled gardens” of the US platform operators, such as Google and Facebook. The main focus is on the data sovereignty of users.

With the same log-in data, users can log in to any of the initiative’s partners via a single, cross-industry infrastructure. Thanks to this single-sign-on concept, individual registration with different access data and passwords is no longer necessary. At the same time, users retain full control and decide for themselves which data is transmitted to other service providers.

United Internet will also act as the technical service provider within the log-in alliance. The company can draw on its vast experience in dealing with user data in a high-load and high-availability environment.

The basis is a solid technology base that supports the basic idea of an open and federal network. Of particular importance is the use of established standards to ensure easy integration of diverse internet services and cooperation partners.

The company regards this openness with regard to the integration of different suppliers and service providers as a decisive advantage over its competitors.

2 ECONOMIC REPORT

2.1 GENERAL ECONOMIC AND SECTOR CONDITIONS

General economic development

The International Monetary Fund (IMF) upgraded its forecasts for the global economy throughout 2017. In the latest update to its "World Economic Outlook" on January 22, 2018, the Fund calculated preliminary growth for the global economy of 3.7% in 2017. This is 0.5 percentage points more than in the previous year (3.2%) and also 0.3 percentage points more than the IMF had forecast in January 2017 (3.4%).

The Fund attributed this stronger-than-expected trend in 2017 to a general global economic upturn focusing on Europe and Asia.

From the point of view of United Internet, the economies of its current target markets all performed better than originally expected (apart from the USA, which was in line with expectations). With the exception of Mexico, Spain and the UK, the pace of economic growth was also faster than in the previous year.

With growth of 2.3% in 2017, the US economy improved strongly over the previous year (1.5%) and was in line with the IMF forecast issued at the beginning of the year (outlook January 2017: 2.3%). Economic growth of 3.0% in Canada was also well above the prior-year figure (1.4%) and also exceeded the original expectations (1.9%). Mexico's growth rate of 2.0%, however, was well down on the previous year (2.9%) but above the IMF's original forecast (1.7%).

At 2.4%, economic growth in the eurozone was not only significantly stronger than in the previous year (1.8%) but also easily exceeded the original expectations of the IMF (1.6%).

In France, the 1.8% increase in economic output was well up on the previous year (1.2%) and the original expectations (1.3%). With economic growth of 3.1%, Spain fell just short of its prior-year rate (3.3%) but was still well above (2.3%). Italy achieved growth of 1.6% and thus easily surpassed both the prior-year figure (0.9%) and the original expectations of the IMF (0.7%).

In the non-euro country UK, the economic trend was slightly better than expected. Although growth of 1.7% was slightly down on the previous year (1.9%), it did exceed IMF expectations (1.5%).

The IMF calculated economic growth of 2.5% for Germany, United Internet's most important market (sales share 2017: around 91%), in 2017. This is 0.6 percentage points more than in the previous year (1.9%) and 1.0 percentage point more than the original expectations (1.5%). The IMF's calculations for Germany correspond with the preliminary figures of the country's Federal Statistics Office (Destatis), which calculated growth in gross domestic product (GDP) of 2.5% (after price and calendar adjustments). This growth was driven in particular by consumer spending, as well as public sector spending.

Changes in growth forecasts made during 2017 for United Internet's key target countries and regions

	January forecast	April forecast	July forecast	October forecast	Actual 2017	Change on January forecast
World	3.4%	3.5%	3.5%	3.6%	3.7%	+ 0.3 %-points
USA	2.3%	2.3%	2.1%	2.2%	2.3%	+/- 0.0 %-points
Canada	1.9%	1.9%	2.5%	3.0%	3.0%	+ 1.1 %-points
Mexico	1.7%	1.7%	1.9%	2.1%	2.0%	+ 0.3 %-points
Eurozone	1.6%	1.7%	1.9%	2.1%	2.4%	+ 0.8 %-points
France	1.3%	1.4%	1.5%	1.6%	1.8%	+ 0.5 %-points
Spain	2.3%	2.6%	3.1%	3.1%	3.1%	+ 0.8 %-points
Italy	0.7%	0.8%	1.3%	1.5%	1.6%	+ 0.9 %-points
UK	1.5%	2.0%	1.7%	1.7%	1.7%	+ 0.2 %-points
Germany	1.5%	1.6%	1.8%	2.0%	2.5%	+ 1.0 %-points

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

Multi-period overview: GDP trend in United Internet's key target countries and regions

	2013	2014	2015	2016	2017	YoY change
World	3.3%	3.4%	3.2%	3.2%	3.7%	+ 0.5 %-points
USA	2.2%	2.4%	2.6%	1.5%	2.3%	+ 0.8 %-points
Canada	2.0%	2.5%	0.9%	1.4%	3.0%	+ 1.6 %-points
Mexico	1.4%	2.3%	2.6%	2.9%	2.0%	- 0.9 %-points
Eurozone	- 0.5%	0.9%	2.0%	1.8%	2.4%	+ 0.6 %-points
France	0.3%	0.2%	1.3%	1.2%	1.8%	+ 0.6 %-points
Spain	- 1.2%	1.4%	3.2%	3.3%	3.1%	- 0.2 %-points
Italy	- 1.9%	- 0.4%	0.7%	0.9%	1.6%	+ 0.7 %-points
UK	1.7%	2.9%	2.2%	1.9%	1.7%	- 0.2 %-points
Germany	0.2%	1.6%	1.5%	1.9%	2.5%	+ 0.6 %-points

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

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

	2013	2014	2015	2016	2017	YoY change
GDP	0.6%	1.9%	1.5%	1.9%	2.5%	+ 0.6 %-points

Source: German Federal Statistical Office, January 2018

Development of sector / core markets

Global ICT sales (ICT = Information and Communication Technology) are calculated to have grown by 3.3% to € 3.2 trillion in 2017. The figure was announced by the industry association Bitkom on the basis of a recent survey of the European Information Technology Observatory (EITO) on September 20, 2017. There was particularly strong growth in the emerging markets. In an international comparison, the ICT markets in India (+ 9.0%) and China (+ 8.5%) continued to grow at the fastest rates. The world's largest ICT market by far is still the USA with growth of 3.0% to € 979 billion. **ICT sales in the EU** are expected to have grown by 1.8% to € 683 billion in 2017.

At its annual press conference on February 14, 2018, the industry association Bitkom calculated that the **ICT market in Germany** grew by 2.2% to € 161.3 billion in 2017. With sales of € 86.2 billion and growth of 3.9%, the IT sector still displays the strongest growth and largest market volume. Vendors of software (+ 6.3%), IT hardware (+ 4.2%) and IT services (+ 2.3%) once again posted the strongest growth in 2017. Compared to the previous year, the telecommunications market stabilized with a slight increase of 0.1% to € 65.7 billion. There was growth for user devices (+ 4.7%) and telecommunication infrastructure (+ 0.5%), while demand for telecommunication services fell slightly (- 0.1%). Following a few weaker years, the consumer electronics market recovered with sales rising by 2.6% to € 9.4 billion.

The most important ICT markets for United Internet's business model are the German broadband and mobile internet markets for its mostly subscription-financed Access segment, and the global cloud computing and German online advertising markets for its subscription- and ad-financed Applications segment.

(Stationary) broadband market in Germany

In view of the high level of household coverage already achieved and the strong trend toward mobile internet usage, demand for new landline broadband connections in Germany has slowed since 2008. With expected growth of 1.0 million to 33.0 million in 2017, the number of new connections was again well below previous record years and also below the prior-year figure (1.3 million new connections). These figures were calculated by the Association of Telecommunications and Value-Added Service Providers (Verband der Anbieter von Telekommunikations- und Mehrwertdiensten – VATM) and Dialog Consult in their joint "TC Market Analysis for Germany 2017" (October 18, 2017). Within the above mentioned growth, the connections of relevance for United Internet in the two technology fields DSL and FTTB / FTTH grew by 0.5 million to 24.6 million and by 0.1 million to 0.8 million. The number of cable connections rose by 0.4 million to 7.6 million. Approximately 0.1 million connections are still operated via satellite / powerline.

In its survey "German Entertainment and Media Outlook 2017-2021" (October 2017), PricewaterhouseCoopers (PWC) expects total sales of landline broadband connections to rise by 1.1% to around € 8.06 billion in 2017.

According to calculations of Dialog Consult / VATM, the average volume of data used is rising much more strongly than the number of newly activated connections and sales of broadband connections – as an indicator of continued growth in usage of e.g. IPTV and cloud applications – with growth of 33.2% to 79.0 GB (per connection and month). As a result, demand for more powerful broadband connections also developed strongly. For example, the proportion of switched broadband connections with speeds of at least 50 MBits / s increased by 4.4 percentage points, from 23.8% in the previous year to 28.2% in 2017.

Key market figures: broadband access (landline) in Germany

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

Source: PricewaterhouseCoopers, October 2017

Mobile internet market in Germany

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

Due in part to the elimination of roaming fees within the EU (mid-2017), however, mobile revenues decreased by 1.9% to € 26.2 billion. Sales of user devices and content fell by 5.4% to € 3.5 billion, while voice and connection revenues declined by 13.6% to € 9.5 billion. By contrast, sales of data services (including SMS) increased by 10.0% to € 13.2 billion. The revenue share of data services therefore grew by 5.5 percentage points to 50.4% (prior year: 44.9%). The aforementioned revenue figures also include – in addition to retail sales – interconnection, wholesale and user device sales. According to calculations by PricewaterhouseCoopers, purely retail sales of mobile data services revenues – the main market for United Internet – grew by 6.6% to € 7.77 billion in 2017 and thus continued to approach the figure for landline revenues.

According to forecasts of Dialog Consult / VATM, the average volume of data used (per connection and month) – as an indicator of the growing use of mobile data services – rose even more strongly in the same period by 43.8% to 850 MB.

Key market figures: mobile internet access (cellular) in Germany

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

Source: PricewaterhouseCoopers, October 2017

Global cloud computing market

There was also further dynamic growth in the cloud computing market. In an update of its study “Forecast Analysis: Public Cloud Services, Worldwide” (December 2017), Gartner Inc. forecast global growth for public cloud services of 21.8% in 2017, from $ 125.7 billion to $ 153.1 billion.

Cloud computing is no short-term trend, but represents a fundamental shift in the provision and use of IT services. The aforementioned figures indicate the dynamic potential of this market. IT users get better services for less money with cloud computing. Small and mid-size companies in particular can gain access to IT applications which only major corporations could afford in the past.

Key market figures: cloud computing worldwide
(in $ billion)

	2017	2016	Change
Global sales of public cloud services	153.1	125.7	+ 21.8%
thereof business process services (BPaaS)	42.5	39.6	+ 7.3%
thereof application services (SaaS)	60.1	47.6	+ 26.3%
thereof application infrastructure services (PaaS)	11.9	9.2	+ 29.3%
thereof system infrastructure services (IaaS)	29.9	22.2	+ 34.7%
thereof management and security services	8.7	7.1	+ 22.5%

Source: Gartner, December 2017

German online advertising market

PricewaterhouseCoopers expects an increase in (net) revenues of the German online advertising market of 6.8% to around € 7.07 billion in 2017.

With a growth of 26.3%, mobile online advertising posted the strongest growth – due in particular to the sharp rise in the use of mobile devices. However, video advertising and search word marketing also rose strongly once again, with growth of 8.6% and 6.8%, respectively.

Key market figures: online advertising in Germany
(in € billion)

	2017	2016	Change
Online advertising revenues	7.07	6.62	+ 6.8%
thereof search marketing	3.46	3.24	+ 6.8%
thereof display advertising	1.52	1.48	+ 2.7%
thereof affiliate / classifieds	0.99	0.98	+ 1.0%
thereof mobile online advertising	0.72	0.57	+ 26.3%
thereof video advertising	0.38	0.35	+ 8.6%

Source: PricewaterhouseCoopers, October 2017

Legal conditions / significant events

With the exception of the EU Roaming Regulation introduced in mid 2017, the legal parameters for United Internet’s business activities remained largely unchanged from the previous year in 2017 and thus had no significant influence on the development of the United Internet Group.

Apart from the investment of Warburg Pincus and the takeovers of Strato and Drillisch, there were no significant events in fiscal 2017 which had a material effect on the development of business.

2.2 BUSINESS DEVELOPMENT

Use and definition of relevant financial performance measures

In order to ensure the clear and transparent presentation of United Internet’s business trend, the Group’s annual financial statements and interim financial statements include key financial performance measures – in addition to the disclosures required by International Financial Reporting Standards (IFRS) – such as EBITDA, the EBITDA margin, EBIT, the EBIT margin and free cash flow.

United Internet defines these measures as follows:

- EBIT: Earnings before interest and taxes represents the operating result disclosed in the statement of comprehensive income.
- EBIT margin: Presents the ratio of EBIT to sales.
- EBITDA: Earnings before interest, taxes, depreciation and amortization are calculated as EBIT / operating result plus the depreciation and amortization (disclosed in the consolidated financial statements) of intangible assets and property, plant and equipment, as well as assets capitalized in the course of company acquisitions.
- EBITDA margin: Presents the ratio of EBITDA to sales.
- Free cash flow: Calculated as cash flow from operating activities (disclosed in the consolidated financial statement), less capital expenditure for intangible assets and property, plant and equipment, plus payments from the disposal of intangible assets and property, plant and equipment.

Insofar as necessary for a clear and transparent presentation, these indicators are adjusted for special items. Such special items usually refer solely to those effects capable of restricting the validity of the key financial performance measures with regard to the Group’s financial and earnings performance – due to their nature, frequency and/or magnitude. All special items are presented and explained for the purpose of reconciliation with the unadjusted financial figures in the relevant section of the financial statements.

Currency-adjusted sales and earnings figures are calculated by converting sales and earnings figures with the average exchange rates of the comparative period instead of the current period.

Actual and forecast development

United Internet AG maintained its growth trajectory in fiscal year 2017. The company raised the number of customer contracts, improved its sales and earnings figures once again, and reached its forecasts.

Following the sale and deconsolidation of affilinet, the comparative figures of the previous year (sales and EBITDA) were adjusted. The number of customer contracts in the previous year was also adjusted as United Internet's reporting now focuses on customer contracts with basic monthly fees in its current product lines following the initial consolidation of Drillisch (in September 2017). Contracts without basic monthly fees and old contracts for product lines being phased out are only reported for information purposes.

Forecast development

United Internet published its guidance for the fiscal year 2017 in its annual financial statements 2016 and provided more specific guidance during the course of the year as follows.

	Fiscal year 2016	Forecast 2017 (03/2017)	Specification (08/2017)	Specification (11/2017)
Customer contracts	16.79 million(1)	+ approx. 800,000(2) + approx. 1.8 million(3)	+ approx. 800,000(2)	+ approx. 6.1 million(6)
Sales	€ 3.81 billion(1)	+ approx. 7%(4)	+ 5 - 6%	+ approx. € 4.20 billion
EBITDA	€ 835 million(1)	+ approx. 12%(5)	+ approx. 12%	€ 970 million - € 1 billion(7)

(1) Customer contracts 2016 acc. to current product lines; sales / EBITDA 2016 after sale and deconsolidation of affilinet
(2) Organic growth
(3) Expected contract growth from Strato takeover
(4) Incl. approx. € 95 million sales from initial Strato consolidation as of April 1, 2017 and opposing sales burdens from regulation topics (roaming / termination charges) amounting to approx. € 60 million
(5) Incl. approx. € 36 million EBITDA from initial Strato consolidation as of April 1, 2017 and opposing EBITDA burdens from regulation topics and Telefónica DSL migration with net effect of approx. € 30 million
(6) In current product lines; thereof € 1.87 million from initial Strato consolidation and € 3.35 million from initial consolidation of Drillisch
(7) Including regulation effects, costs of Telefónica DSL migration and currency effects, and without consideration of extraordinary results

Significant year-on-year growth was also forecast for the financial KPI EBIT – in ordinary business (without special items).

By contrast, in March 2017 (and thus before the Drillisch transaction), earnings per share (EPS) were expected to be virtually unchanged from the previous year (€ 2.11 from continued operations) due to increased PPA amortization from the Strato takeover, a sharp rise in minority interests following the Warburg Pincus investment in the Business Applications division, and one-off tax effects from this transaction.

Special items

In order to ensure the comparability of the forecast KPIs EBITDA, EBIT and EPS and those actually achieved, they are first adjusted for special items.

These special items only refer to those effects capable of restricting the validity of the key financial performance measures with regard to the company's financial and earnings performance – due to their nature, frequency and/or magnitude.

Key earnings figures for 2016 and 2017 were influenced by special items with different effects:

Special items 2016:

- “Writedowns on financial assets”: this special item results from the writing down of financial assets (especially impairment of shares held by United Internet in Rocket Internet SE) and has a negative impact on EPS.

Special items 2017:

- “Revaluation of Drillisch shares”: this special item results from one-off, non-cash-effective, extraordinary income from the Drillisch takeover (due to the revaluation of Drillisch shares acquired before the complete transaction was closed) and has a positive effect on EBITDA, EBIT and EPS.
- “Revaluation of ProfitBricks shares”: this special item results from one-off, non-cash-effective, extraordinary income from the ProfitBricks takeover (due to the revaluation of ProfitBricks shares held before the takeover) and has a positive effect on EBITDA, EBIT and EPS.
- “M&A transaction costs”: this special item results from the costs for M&A activities (especially in connection with the Drillisch takeover) and has a negative effect on EBITDA, EBIT and EPS.
- “Restructuring costs offline sales”: this special item results in particular from one-off costs in connection with the sale of yourfone shops at year-end 2017 and the restructuring of the Drillisch retail organization and has a negative effect on EBITDA, EBIT and EPS.
- “Trademark writedowns Strato”: this special item results from trademark writedowns on Strato and has a negative effect on EBIT and EPS.
- “Financing costs Drilliisch”: this special item results in particular from bank commissions in connection with the overall Drillisch transaction and has a negative effect on EPS.
- “Writedowns on financial assets”: this special item results from the writing down of financial assets (especially impairment of shares held by United Internet in Rocket Internet SE) and has a negative impact on EPS.
- “Tax effects from M&A activities”: this special item results from one-off tax effects in connection with the Warburg Pincus investment in the Business Applications division and the Drillisch takeover and has a negative effect on EPS.

Reconciliation of EBITDA, EBIT and EPS with figures adjusted for special items
(in € million; EPS in €)[1)]

	Fiscal year 2017[(1)]	Fiscal year 2016[(1)]
EBITDA	1,253.3	835.4
Revaluation of Drillisch shares (2017)	- 303.0	-
Revaluation of ProfitBricks shares (2017)	- 16.1	-
M&A transaction costs (2017)	+ 17.1	-
Restructuring costs offline sales (2017)	+ 28.3	-
EBITDA before special items (operating)	979.6	835.4
EBIT	958.9	642.7
Revaluation of Drillisch shares (2017)	- 303.0	-
Revaluation of ProfitBricks shares (2017)	- 16.1	-
M&A transaction costs (2017)	+ 17.1	-
Restructuring costs offline sales (2017)	+ 28.3	-
Trademark writedowns Strato (2017)	+ 20.7	-
EBIT before special items (operating)	705.9	642.7
EPS (I)[(2)]	3.06	0.86
EPS (II)[(2)]	3.25	0.88
Revaluation of Drillisch shares (2017)	- 1.51	-
Revaluation of ProfitBricks shares (2017)	- 0.08	-
M&A transaction costs (2017)	+ 0.06	-
Restructuring costs offline sales (2017)	+ 0.10	-
Trademark writedowns Strato (2017)	+ 0.07	-
Financing costs Drilliisch (2017)	+ 0.01	-
Writedowns on financial assets (2017 / 2016)	+ 0.10	+ 1.25
Tax effects from M&A activities (2017)	+ 0.21	-
EPS I before special items (operating)	2.02	2.11
EPS II before special items (operating)	2.21	2.13

(1) After initial consolidation of affilinet in 2017; previous year adjusted
(2) EPS I = EPS from continued operations; EPS II = EPS including discontinued operations

Actual development

United Internet continued to invest heavily in new customer relationships in fiscal year 2017 and succeeded in raising the number of **fee-based customer contracts** organically by 880,000 contracts. The initial consolidation of Strato and Drillisch resulted in a further 1.87 million and 3.35 million contracts.

As a result, the forecast (November specification: + 6.1 million organic growth and from initial consolidation of Strato and Drillisch) was met.

In fiscal year 2017, **consolidated sales** rose by 10.5% to € 4.206 billion (comparable prior-year figure: € 3.808 billion) and were thus slightly above the November specification after the Drillisch takeover (approx. € 4.2 billion).

Consolidated EBITDA from operating activities increased by 17.3% to € 979.6 million in fiscal year 2017 (comparable prior-year figure: € 835.4 million) and is thus within the targeted range of the November specification (€ 970 million - € 1 billion).

Despite increased PPA amortization from the Strato takeover, there was also strong year-on-year growth in **EBIT** from operating activities, which rose as forecast by 9.8% to € 705.9 million.

Operating **EPS** of € 2.02 fell short of the original forecast of € 2.11 (comparable prior-year figure from continued operations). This was due to the strong increase in minority interests caused by the 27% stake of non-controlling shareholders in 1&1 Drillisch AG and thus in the Consumer Access division.

Summary: actual and forecast development of business in 2017

	Fiscal year 2016	Forecast 2017 (03/2017)	Specification (08/2017)	Specification (11/2017)	Results fiscal year 2017
Customer contracts	16.79 million[(1)]	+ approx. 800,000[(2)] + approx. 1.8 million[(3)]	+ approx. 800,000[(2)]	+ approx. 6.1 million[(6)]	+ 6.1 million
Sales	€ 3.81 billion[(1)]	+ approx. 7%[(4)]	+ 5 - 6%	+ approx. € 4.20 billion	€ 4.206 billion
EBITDA	€ 835 million[(1)]	+ approx. 12%[(5)]	+ approx. 12%	€ 970 million - € 1 billion[(7)]	€ 979.6 million

(1) Customer contracts acc. to current product lines; sales / EBITDA adjusted after sale and deconsolidation of affilinet in 2017
(2) Organic growth
(3) Expected contract growth from Strato takeover
(4) Incl. approx. € 95 million sales from initial Strato consolidation as of April 1, 2017 and opposing sales burdens from regulation topics (roaming / termination charges) amounting to approx. € 60 million
(5) Incl. approx. € 36 million EBITDA from initial Strato consolidation as of April 1, 2017 and opposing EBITDA burdens from regulation topics and Telefónica DSL migration with net effect of approx. € 30 million
(6) In current product lines; thereof € 1.87 million from initial Strato consolidation and € 3.35 million from initial consolidation of Drillisch
(7) Including regulation effects, costs of Telefónica DSL migration and currency effects, and without consideration of extraordinary results

Including special items, EBITDA rose to € 1,253.3 million, EBIT to € 958.9 million and EPS from continued operations to € 3.06.

Segment development

Access segment

The **Access segment** comprises United Internet's fee-based access products for its consumer and business customers. In its consumer business, these include DSL and mobile access products with the respective applications (such as home networks, online storage, telephony, video-on-demand or IPTV), while in the business segment these include data and network solutions for SMEs, as well as infrastructure services for large corporations.

With a current length of 44,889 km (prior year: 41,644 km), United Internet owns Germany's second-largest fiber-optic network. Moreover, the company – indirectly via Drillisch AG acquired in 2017 (now 1&1 Drillisch AG) – is the only MBA MVNO in Germany with long-term rights to a share (rising to 30%) of the used network capacity of Telefónica Germany and thus extensive access to Germany's largest mobile network. In addition to its own landline network and privileged access to the Telefónica network, the company also purchases standardized network services from various pre-service providers. These wholesale services are enhanced with end-user devices, self-developed applications and services from the company's own "Internet Factory" in order to differentiate them from the competition.

In its Access segment, United Internet operates exclusively in Germany where it is one of the leading providers.

Access products are marketed via well-known brands, such as 1&1 or the discount brands of the former Drillisch AG, such as winSIM, yourfone and smartmobile.de, which enable the company to offer a comprehensive range of products while also targeting specific customer groups.

Following the initial consolidation of Drillisch (since September 2017), United Internet's **reporting of fee-based contracts** is based on the current product lines with basic monthly fees. These include the Mobile Internet contracts of the former 1&1 and the MVNO budget contracts of the former Drillisch AG (grouped together under Mobile Internet), as well as the DSL / VDSL contracts (complete DSL contracts) of the former 1&1. Mobile tariffs without basic monthly fees and old mobile/DSL tariffs will only be reported for a transitional period. These include the volume-based and MSP tariffs of the former Drillisch AG and the phased-out T-DSL / R-DSL product lines of the former 1&1.

The number of **fee-based contracts** for current product lines of the Access segment rose by 4.10 million contracts to 12.64 million in the fiscal year 2017 – due in part to the consolidation of Drillisch. A total of 3.99 million customer contracts were added in the company's Mobile Internet business (of which 3.35 million from the Drillisch acquisition), thus raising the total number of contracts to 8.30 million. There was growth in complete DSL contracts (ULL = Unbundled Local Loop) with the addition of 110,000 customer contracts, taking the total to 4.34 million.

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

	Dec. 31, 2017	Dec. 31, 2016	Change
Access, total contracts	12.64	8.54	+ 4.10
thereof Mobile Internet	8.30	4.31	+ 3.99
thereof DSL complete (ULL)	4.34	4.23	+ 0.11

Development of Access contracts in the 4th quarter of 2017
(in million)

	Dec. 31, 2017	Sep. 30, 2017	Change
Access, total contracts	12.64	12.39	+ 0.25
thereof Mobile Internet	8.30	8.06	+ 0.24
thereof DSL complete (ULL)	4.34	4.33	+ 0.01

In addition to the above mentioned customer contracts in the current product lines, United Internet’s Access segment includes a further 0.47 million contracts without basic monthly fees and service provider contracts (volume-based tariffs / MSP tariffs) from the Drillisch acquisition as well as 0.11 million DSL contracts in the phased-out T-DSL / R-DSL product lines.

Despite burdens from regulation effects, sales of the Access segment grew by 9.4% from € 2,917.2 million in the previous year to € 3,192.6 million in the fiscal year 2017. Revenue in the home-user business grew by 15.2%, from € 2,414.0 million to € 2,781.6 million (including the reclassification of 1&1 Versatel’s mass market business as of May 1, 2017). This figure includes a revenue contribution from Drillisch of € 223.0 million as well as opposing burdens on sales from regulation effects (international roaming / termination charges) amounting to € 29.7 million. At € 447.9 million, sales to business users of 1&1 Versatel were down on the previous year (€ 513.7 million). As already reported in the half-yearly financial report 2017 – this was due to negative regulation effects (€ - 14.8 million), a decline in one-off revenue from project business (€ - 18.8 million), and the reclassification of mass market business (€ - 52.1 million). Without these effects, sales rose by € 19.9 million. Sales consolidation within the segment amounted to € 36.9 million (prior year: € 10.5 million).

In the reporting period, segment EBITDA increased by 18.5%, from € 525.6 million in the previous year to € 622.7 million. EBITDA in the home-user business grew by 36.9%, from € 395.2 million to € 541.2 million (including the reclassification of 1&1 Versatel’s mass market business as of May 1, 2017). This figure includes an earnings contribution from Drillisch of € 56.8 million, as well as an opposing burden from regulation effects and costs for the Telefónica DSL migration of € 15.7 million. At € 81.5 million, EBITDA in 1&1 Versatel’s business-user segment was down on the previous year (€ 124.0 million). This was due to negative regulation effects (€ - 1.4 million), a decline in one-off revenue from project business (€ - 7.9 million), and the reclassification of mass market business (€ - 34.1 million). Without these effects, EBITDA rose by € 0.9 million.

Segment EBIT rose by 10.6%, from € 389.9 million in the previous year to € 431.2 million. The lower percentage growth compared to EBITDA results from increased PPA amortization from the Drillisch takeover.

In addition, segment EBITDA and segment EBIT were dominated by one-off, non-cash-effective, extraordinary income of € 303.0 million from the Drillisch takeover (due to the revaluation of Drillisch shares acquired before the complete transaction was closed), as well as by – with an opposing effect – one-off costs in connection with the sale of yourfone shops at year-end 2017 and the restructuring of the Drillisch retail organization amounting to € 28.3 million. Including these effects, segment EBITDA rose to € 897.4 million and segment EBIT to € 705.9 million.

All **customer acquisition costs** for DSL and Mobile Internet products, as well as costs for the migration of resale DSL connections to complete DSL packages (ULL = Unbundled Local Loop) and upgrades to VDSL connections, continue to be charged directly as expenses.

As a result of the expansion of business and the Drillisch takeover, the number of **employees** in this segment rose by 30.1% to 4,526 as of December 31, 2017 (prior year: 3,478).

Key sales and earnings figures in the Access segment
(in € million)

	2017	2016	Change
Sales	3,192.6	2,917.2	+ 9.4%
EBITDA	622.7(1)	525.6	+ 18.5%
EBIT	431.2(1)	389.9	+ 10.6%

(1) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and restructuring costs for offline sales (EBITDA and EBIT effect: € -28.3 million)

Quarterly development; change on prior-year quarter
(in € million)

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016	Change
Sales	730.6	743.8	798.8	919.4	750.0	+ 22.6%
EBITDA	133.7	126.3	164.0(1)	198.7(2)	141.1	+ 40.8%
EBIT	99.9	91.7	118.5(1)	121.1(2)	107.4	+ 12.8%

(1) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million
(2) Without restructuring costs for offline sales (EBITDA and EBIT effect: € -28.3 million)

Multi-period overview: development of key sales and earnings figures
(in € million)

	2013	2014	2015	2016	2017
Sales	1,788.3	2,135.1	2,742.6	2,917.2	3,192.6
EBITDA	245.4	330.8(1)	492.1	525.6	622.7(2)
EBITDA margin	13.7%	15.5%	17.9%	18.0%	19.5%
EBIT	217.4	267.8(1)	336.4	389.9	431.2(2)
EBIT margin	12.2%	12.5%	12.3%	13.4%	13.5%

(1) Without one-off income from Versatel acquisition (EBITDA and EBIT effect: €+112.6 million)
(2) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and without restructuring costs for offline sales (EBITDA and EBIT effect: € -28.3 million)

Applications segment

The **Applications segment** comprises ad-financed or fee-based application products for consumer and business customers. These applications include domains, home pages, webhosting, servers and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software.

The applications are developed at the company’s own “Internet Factory” or in cooperation with partner firms and operated on around 90,000 servers at the company’s 10 data centers.

In its Applications segment, United Internet is also a leading global player with activities in European countries (Germany, France, the UK, Italy, the Netherlands, Austria, Poland, Switzerland and Spain) as well as in North America (Canada, Mexico and the USA).

Applications are marketed to specific home-user and business-user target groups via the differently positioned brands GMX, mail.com, WEB.DE, 1&1, Arsys, Fasthosts, home.pl, InterNetX, ProfitBricks, Strato and united-domains. Via the Sedo brand, United Internet also offers customers professional services in the field of active domain management. Free apps are monetized via advertising run by the company’s in-house agency United Internet Media.

With regard to Business Applications, the main focus in fiscal year 2017 was on the sale of additional features to existing customers (e.g. further domains, e-shops and business apps), as well as the acquisition of high-value customer relationships. Nevertheless, the number of fee-based **Business Applications contracts** was raised organically by 100,000 contracts in the fiscal year 2017. Moreover, the initial consolidation of Strato as of April 1, 2017 resulted in the addition of 1.87 million contracts. The total number of Business Applications contracts as of December 31, 2017 therefore amounted to 8.02 million.

Development of Business Applications contracts in fiscal year 2017
(in million)

	Dec. 31, 2017	Dec. 31, 2016	Change
Business Applications, total contracts	8.02	6.05	+ 1.97
thereof “domestic”	4.01	2.34	+ 1.67
thereof “foreign”	4.01	3.71	+ 0.30

Development of Business Applications contracts in the fourth quarter of 2017
(in million)

	Dec. 31, 2017	Sep. 30, 2017	Change
Business Applications, total contracts	8.02	8.00	+ 0.02
thereof “domestic”	4.01	3.99	+ 0.02
thereof “foreign”	4.01	4.01	+/- 0.00

In the case of Consumer Applications, United Internet raised the number of pay accounts by 30,000 contracts to 2.23 million in fiscal year 2017. At the same time, the number of free accounts increased by 1.13 million to 35.42 million in the reporting period. Consequently, the number of **Consumer Accounts** increased by 1.16 million in total to 37.65 million accounts in fiscal year 2017.

Development of Consumer Applications contracts in fiscal year 2017
(in million)

	Dec. 31, 2017	Dec. 31, 2016	Change
Consumer Applications, total accounts	37.65	36.49	+ 1.16
thereof with Premium Mail subscription	1.67	1.72	- 0.05
thereof with Value-Added subscription	0.56	0.48	+ 0.08
thereof free accounts	35.42	34.29	+ 1.13

Development of Consumer Applications contracts in the fourth quarter of 2017
(in million)

	Dec. 31, 2017	Sep. 30, 2017	Change
Consumer Applications, total accounts	37.65	36.90	+ 0.75
thereof with Premium Mail subscription	1.67	1.69	- 0.02
thereof with Value-Added subscription	0.56	0.54	+ 0.02
thereof free accounts	35.42	34.67	+ 0.75

Following the **contribution of Group subsidiary affilinet GmbH to AWIN AG** completed on October 1, 2017, affilinet was deconsolidated in these consolidated financial statements and is no longer included in the sales and earnings figures of the Applications segment but disclosed separately under discontinued operations. The sales and earnings figures of the previous year were adjusted accordingly.

Despite burdens from currency effects, **sales of the Applications segment** rose by 12.9% from € 922.5 million (comparable prior-year figure after deconsolidation of affilinet) to € 1,041.8 million in fiscal year 2017. With regard to subscriptions for Business Applications, sales rose by 19.3% from € 638.9 million to € 762.1 million. This figure includes a total contribution to sales from Strato AG (consolidated since April 1, 2017) and ProfitBricks GmbH (consolidated since August 7, 2017) of € 104.0 million, as well as burdens from currency effects of € 8.2 million. Due in particular to weak portal advertising revenues in the first quarter of 2017, total sales of Consumer Applications rose only moderately by 0.2%, from € 283.6 million to € 284.2 million. Sales consolidation within the segment amounted to € 4.5 million.

Due in particular to the year-on-year devaluation of the British pound, **sales of the Applications segment generated abroad** increased only moderately by 3.0% in fiscal year 2017, from € 370.0 million (comparable prior-year figure) to € 381.0 million. Adjusted for currency effects, sales generated abroad were up 5.2%.

Despite the burdens from currency effects, **segment EBITDA** rose by 12.6%, from € 329.7 million (comparable prior-year figure) to € 371.3 million. EBITDA for Business Applications was up 22.1%, from € 202.5 million to € 247.3 million. This figure includes a total EBITDA contribution from Strato and ProfitBricks of € 39.7 million as well as an opposing burden from currency effects of € 3.5 million. There was a further burden on earnings from a TV campaign run in the fourth quarter of 2017. Due in particular to weak portal advertising business in the first quarter of 2017, EBITDA for Consumer Applications as a whole fell by 2.8%, from € 127.6 million to € 124.0 million.

In addition, segment EBITDA was influenced by a net positive extraordinary result of € 7.4 million. This results from one-off, non-cash-effective, extraordinary income of € 16.1 million in the third quarter from the complete takeover of ProfitBricks (due to the revaluation of previously held ProfitBricks shares) and – with an opposing effect – M&A costs of € 8.7 million from the previous year (Warburg Pincus transaction) which were reallocated within the Group from United Internet Holding to the Business Applications segment in the third quarter of 2017.

Segment EBIT improved by 5.5%, from € 274.3 million (comparable prior-year figure) to € 289.5 million. The lower percentage growth compared to EBITDA results from increased PPA amortization from the Strato takeover.

EBIT also rose as a result of above mentioned positive extraordinary result by € 7.4 million in total. There was an opposing effect for this item from the trademark writedowns of Group subsidiary Strato totaling € 20.7 million.

Including these extraordinary effects, segment EBITDA rose to € 378.7 million and segment EBIT to € 276.2 million.

Customer acquisition costs in the Applications segment also continue to be charged directly as expenses.

Due to the acquisitions of Strato and ProfitBricks, as well as – with an opposing effect – internal staff transfers to the HQ division and the deconsolidation of affilinet, the number of employees in this segment rose by 7.7% to 4,547 as of December 31, 2017 (prior year: 4,221).

Key sales and earnings figures in the Applications segment [1]
(in € million)

	2017	2016	Change
Sales	1,041.8	922.5	+ 12.9%
EBITDA	371.3[2]	329.7	+ 12.6%
EBIT	289.5[2]	274.3	+ 5.5%

[1] After deconsolidation of affilinet in 2017; prior-year figures adjusted
[2] Without extraordinary income from revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million), without internally allocated M&A costs (EBITDA and EBIT effect: € -8.7 million) and without Trademark writedowns Strato (EBIT effect: € -20.7 million)

Quarterly development; change on prior-year quarter [1]
(in € million)

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016	Change
Sales	229.6	[2] 264.2	261.7	286.3	237.5	+ 20.5%
EBITDA	81.7	94.3	95.2[2]	100.1	95.9	+ 4.4%
EBIT	68.5	71.5	72.3[2]	77.2[3]	82.0	- 5.9%

[1] After deconsolidation of affilinet in 2017; prior-year figures adjusted
[2] Without extraordinary income from revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million) and without internally allocated M&A costs (EBITDA and EBIT effect: € -8.7 million)
[3] Without Trademark writedowns Strato (EBIT effect: € -20.7 million)

Multi-period overview: development of key sales and earnings figures
(in € million)

	2013	2014	2015	2016[1]	2017[1]
Sales	867.0	929.4	1,001.2	922.5	1,041.8
EBITDA	168.7	228.6	281.9	329.7	371.3[2]
EBITDA margin	19.5%	24.6%	28.2%	35.8%	35.6%
EBIT[1]	102.1	170.9	222.5	274.3	289.5[2]
EBIT margin	11.8%	18.4%	22.2%	29.7%	27.8%

(1) After deconsolidation of affilinet in 2017; prior-year figures adjusted
(2) Without extraordinary income from revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million), without internally allocated M&A costs (EBITDA and EBIT effect: € -8.7 million) and without Trademark writedowns Strato (EBIT effect: € -20.7 million)

Group investments

United Internet AG continued to optimize its investment portfolio in the fiscal year 2017. New strategic investments were made, stakes in existing holdings were decreased, and further shares in existing investments acquired.

Significant changes in investments

Takeover of Strato completed

On December 15, 2016, United Internet announced its intention to acquire Strato AG. The takeover was initially subject to approval by the German Federal Cartel Office ("Bundeskartellamt"). This approval was granted on February 10, 2017 and United Internet closed the transaction as planned in the first quarter of 2017. Strato has been included in the consolidated financial statements since April 1, 2017.

Investment of Warburg Pincus closed

The acquisition of a 33.33% stake in the Business Applications division by Warburg Pincus, announced on November 8, 2016, was successfully closed on February 15, 2017.

Investment in Tele Columbus increased

In the first quarter of 2017, United Internet increased its stake in Tele Columbus AG from 25.11% as of December 31, 2016 and holds around 28.52% of shares as of December 31, 2017. A total of € 34.9 million was paid for the purchase of additional shares.

Investment in rankingCoach

On March 28, 2017, United Internet AG announced that it had acquired – via United Internet Investments Holding GmbH (formerly: United Internet Ventures AG) – a stake of 29.93% in rankingCoach International GmbH in the course of a capital increase. Based in Cologne, rankingCoach was founded in 2014 by the company's managers Daniel Wette, Marius Gerdan and Thomas Meierkord as a spin-off of a major online marketing agency. Today, an international team of over 60 specialists supports small and mid-size enterprises (SMEs) in 11 languages and 24 countries. rankingCoach markets its products both directly to end-users and agencies, as well as indirectly via international partners, such as hosting providers, telecommunications companies and publishers. Online visibility and online reputation have a major impact on the business success of SMEs. rankingCoach offers affordable, web-based solutions in the field of search engine marketing (SEM), search engine optimization (SEO) and social media which are tailored to the needs of its various target groups. The capital increase is aimed in particular at driving technical product development, the expansion of services, and the company's further internationalization. In addition to the equity stake, rankingCoach and the United Internet subsidiary 1&1 Internet SE have signed a long-term cooperation agreement for 1&1 to use the online marketing solutions of rankingCoach as part of its hosting and cloud products marketed in Europe and North America. At the time of its announcement, the transaction was still subject to approval by the relevant anti-trust authorities. This approval was granted on April 13, 2017.

Merger with Drillisch

On May 12, 2017, the Management Boards of United Internet AG and Drillisch AG (each with the approval of their respective Supervisory Boards) entered into a business combination agreement governing the step-by-step acquisition of 1&1 Telecommunication SE by the former Drillisch AG (now 1&1 Drillisch AG) under the umbrella of United Internet.

The aim of the overall transaction (now completed) was to contribute 1&1 Telecommunication to Drillisch and thus create a more powerful full-service telecommunications provider under the umbrella of United Internet with considerable potential for synergies and growth. The combination of the two companies has now created a strong fourth player in the German telecommunications market alongside the three major full-service providers (Deutsche Telekom, Vodafone and Telefónica).

The merger of 1&1 Telecommunication and Drillisch was completed in two steps:

In the first step, United Internet contributed 9,372 shares of 1&1 Telecommunication SE (corresponding to around 7.75% of the share capital of 1&1 Telecommunication) to Drillisch in the course of a capital increase for non-cash contribution from approved capital under the exclusion of subscription rights conducted by Drillisch. In return, United Internet received 9,062,169 new Drillisch shares.

In a second step, the remaining 111,628 1&1 Telecommunication SE shares held by United Internet (corresponding to around 92.25% of the share capital of 1&1 Telecommunication) were contributed to Drillisch in return for the issue of 107,937,831 new Drillisch shares in total. This step required the approval of an Extraordinary General Meeting of Drillisch AG, which was held on July 25, 2017. At this general meeting, 97.85% of share capital represented voted in favor of the proposed capital increase for non-cash contribution. The majority of 75% required for approval was thus reached.

The transaction was accompanied by a voluntary public tender offer submitted by United Internet AG for all outstanding shares of Drillisch AG. United Internet offered to purchase the no-par value bearer shares, each representing a proportionate amount of Drillisch AG share capital of €1.10, from the current Drillisch shareholders. As compensation, United Internet offered to pay € 50 per no-par share – which is 8.2% more than the volume-weighted average domestic share price of Drillisch shares over the past three months as of May 11, 2017 (€ 46.18). The cash offer was made in accordance with the condition specified in the offer document published on May 26, 2017 regarding anti-trust approval. This condition was met with the approval of the German Federal Cartel Office ("Bundeskartellamt"). There was no minimum acceptance threshold for the tender offer. United Internet used bank loans to finance the Drillisch shares tendered as part of the tender offer. The financing banks confirmed that they would grant a maximum of € 2.5 billion (if all outstanding Drillisch shares were tendered). As at the expiry of the additional acceptance period on July 12, 2017, the tender offer had been accepted for a total of 1,224,157 Drillisch shares. After the acceptance period for the voluntary tender offer had expired, the related loan was canceled by United Internet as the acquired Drillisch shares were purchased from liquid funds.

With the registration of the capital increase for non-cash contribution in the Commercial Register on September 8, 2017, Drillisch acquired the remaining stake of approx. 92.25% in 1&1 Telecommunication. The capital increase had been approved by the Extraordinary General Meeting of Drillisch on July 25, 2017. 1&1 Telecommunication is thus a wholly-owned subsidiary of Drillisch. In return, United Internet received 107,937,831 new Drillisch shares, increasing United Internet's stake in Drillisch to more than 73%. As a result, Drillisch has been consolidated in the financial statements of United Internet since September 8, 2017.

The contribution of 1&1 Telecommunication to Drillisch under the United Internet umbrella offers extensive synergies and growth opportunities for both United Internet and Drillisch. These jointly-identified synergies are expected to arise at the level of their combined business starting in 2018. An annual volume of € 150 million is anticipated as early as 2020, rising to approx. € 250 million annually by 2025. Synergies will result in particular from joint purchasing of hardware and services, more efficient use of network capacity available to Drillisch, and the expansion of the 1&1 product portfolio to include future technologies. To achieve these synergies, the companies expect one-off implementation costs of around € 50 million at the combined business level.

Complete takeover of ProfitBricks

In late July 2017, United Internet reached an agreement with the other shareholders of ProfitBricks GmbH, a technologically leading cloud hosting specialist, regarding the complete acquisition of the company. United Internet has held a stake in ProfitBricks since 2010 (previous shareholding 44.42%) and acquired the remaining 55.58% of shares from the other shareholders. The complete takeover has strengthened United Internet's activities with Business

Applications, which are pooled with its subsidiary 1&1 Internet SE. 1&1 was thus able to expand its leading position in Europe for cloud hosting and added an innovative enterprise cloud platform to its product range.

Based in Berlin, ProfitBricks was founded in 2010 and employs over 100 people from more than 20 nations. The company is the first and only specialized cloud computing provider of Infrastructure-as-a-Service (IaaS) in Germany and offers professional public and hybrid cloud solutions which comply with the strict German and European data privacy guidelines.

The share purchase was approved by the German Federal Cartel Office ("Bundeskartellamt") on August 7, 2017. As a result, ProfitBricks has been included in the consolidated financial statements of United Internet since August 7, 2017.

Merger of affilinet and Awin

United Internet and Axel Springer plan to create a joint affiliate network by merging their companies affilinet and AWIN. A corresponding agreement was signed on August 1, 2017.

As part of the transaction, United Internet contributed its affiliate marketing business operated by its subsidiary affilinet GmbH to AWIN AG in return for 20% of AWIN shares. 80% of AWIN shares are held by Axel Springer.

The merger enables United Internet and Axel Springer to significantly strengthen their competitive standing in affiliate marketing and thus lay the foundation for accelerated growth in Germany and abroad. By pooling the expertise, skills and respective reach of AWIN and affilinet, the companies also plan to drive new revenue models. In addition, the business combination will lay the foundation for the targeted IPO of AWIN AG.

The merger was approved by the relevant anti-trust authorities in Austria and Germany on September 12 and 15, 2017 and closed as of October 1, 2017. affilinet was already carried as a discontinued operation in accordance with IFRS 5 in the half-yearly figures 2017.

Sale of yourfone Shop GmbH

With effect from December 31, 2017, Drillisch Online AG sold yourfone Shop GmbH and its approximately 100 stores to aptus 1206. GmbH, Berlin. At the same time, an extensive sales cooperation agreement was signed regarding the marketing of telecommunication products.

In addition to its (fully consolidated) core operating companies in the Access and Applications segments, United Internet also held investments in the following companies as of December 31, 2017.

Minority holdings in limited companies

United Internet has held a stake in AdUX S.A. (formerly: Hi-Media S.A.), Paris / France, since the transfer of the Group's Display Marketing business in July 2009. As of December 31, 2017, this shareholding amounted to 10.46%. The company's market capitalization on December 31, 2017 amounted to around € 13 million (prior year: € 21 million).

United Internet has held an investment in Rocket Internet SE since August 2014. As of December 31, 2017 the share of voting rights amounted to 8.31%. The company's market capitalization as of December 31, 2017 was around € 3.489 billion (prior year: € 3.161 billion).

In February 2016, United Internet announced its investment in Tele Columbus AG. As of December 31, 2017, the share of voting rights amounted to 28.52%. The company's market capitalization as of December 31, 2017 was around € 1.180 billion (prior year: € 1.003 billion).

Minority holdings in partner companies

United Internet has held a stake in virtual minds AG since February 2008 (main activity: media technologies, digital advertising and hosting). As of December 31, 2017, United Internet's share of voting rights amounted to 25.10%. Via its ADITION brand also an adserving supplier of United Internet portals, virtual minds generated a positive result in its fiscal year 2017.

In July 2013, United Internet acquired a stake in Open-Xchange AG (main activity: e-mail and collaboration solutions). United Internet has already been working successfully with the company for many years in its Applications business. As of December 31, 2017, United Internet's share of voting rights amounted to 25.39%. Open-Xchange closed its fiscal year 2017 with a negative result.

In February 2014, United Internet acquired a stake of 25.10% in ePages GmbH (main activity: e-shop solutions). In addition to the equity stake, ePages and United Internet's subsidiary 1&1 Internet SE agreed a long-term cooperation contract for the use of ePages solutions. As part of this cooperation, there is a joint technology platform for 1&1 E-Shops. As of December 31, 2017, United Internet's share of voting rights amounted to 25.01%. ePages posted a positive result in its fiscal year 2017.

In April 2014, United Internet acquired a stake in uberall GmbH (main activity: online listings). In addition, uberall and United Internet's subsidiary 1&1 Internet SE agreed a long-term cooperation contract for the use of uberall solutions. As of December 31, 2017, the share of voting rights amounted to 30.34%. uberall is still in the start-up phase and posted a negative result in its fiscal year 2017.

In April 2017, United Internet acquired a stake in rankingCoach International GmbH (main activity: online marketing solutions). In addition to the equity stake, rankingCoach and 1&1 Internet SE signed a long-term cooperation agreement for 1&1 to use the online marketing solutions of rankingCoach as part of its hosting and cloud products marketed in Europe and North America. As of December 31, 2017, the share of voting rights amounted to 29.93%. rankingCoach is also still in the start-up phase and posted a negative result in its fiscal year 2017.

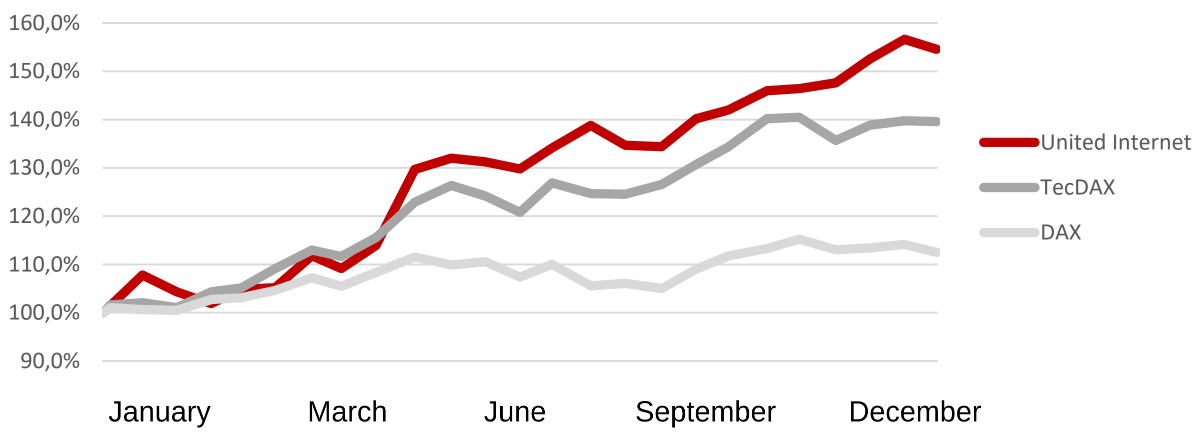
Following the contribution of affilinet GmbH to AWIN in October 2017, United Internet also holds a stake in AWIN AG (main activity: affiliate marketing). As of December 31, 2017, United Internet's share of voting rights amounted to 20.00%. AWIN closed its fiscal year 2017 with a positive result.

Share and dividend

Share

In line with the company's positive performance and successful M&A activities, the United Internet **share** increased strongly in fiscal year 2017. Specifically, the share price rose by 54.6% to € 57.34 in fiscal year 2017 (December 31, 2016: € 37.10). The share thus outperformed both the DAX (+12.5%) and TecDAX (+39.6%) indices.

Share performance 2017, indexed



There was a corresponding increase in the **market capitalization** of United Internet AG from around € 7.61 billion in the previous year to around € 11.75 billion as of December 31, 2017.

In fiscal year 2017, average daily trading via the XETRA electronic computer trading system amounted to around 419,000 shares (prior year: 407,000) with an average value of € 19.70 million (prior year: € 16.30 million).

Multi-period overview: share performance
(in €; all stock exchange figures are based on Xetra trading)

	2013	2014	2015	2016	2017
Year-end	30.92	37.49	50.91	37.10	57.34
Performance	+ 89.6%	+ 21.2%	+ 35.8%	- 27.1%	+ 54.6%
Year-high	31.00	37.95	51.94	49.89	59.17
Year-low	16.11	28.35	36.17	34.42	37.01
Average daily turnover	8,554,509	13,731,799	15,279,407	16,301,156	19,666,155
Average daily turnover (units)	367,102	420,640	354,904	407,372	418,771
Number of shares at year-end	194 million	205 million	205 million	205 million	205 million
Market value at year-end	6.00 billion	7.69 billion	10.44 billion	7.61 billion	11.75 billion
EPS(1)	1.07	2.28	1.80	0.86	3.06
Adjusted EPS(2)	1.07	1.46	1.73	2.11	2.02

(1) EPS from continued operations
(2) EPS from continued operations and without special items: 2014 without positive one-off effect from Versatel acquisition and portfolio optimization (EPS effect: € +0.82); 2015 without effects from sale of Goldbach shares and part of stake in virtual minds (EPS effect: € +0.07); 2016 without negative one-off effect from impairment (EPS effect: € -1.25); 2017 without net positive one-off effects from valuation topics, transaction and restructuring costs, writedowns, financing costs and one-off tax effects (EPS effect: €+1.04)

Share data

Share type	Registered common stock
Notional share of capital stock	€ 1.00
German Securities Identification Number (WKN)	508903
International Securities Identification Number (ISIN)	DE0005089031
Ticker symbol Xetra	UTDI
Reuters ticker symbol	UTDI.DE
Bloomberg ticker symbol	UTDI.GR
Segment	Prime Standard
Index	TecDAX
Sector	Software

Shareholder structure

Shareholder	Shareholding
Ralph Dommermuth - Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft (39.02%) - RD Holding GmbH & Co. KG (0.98%)	40.00%
Allianz Global Investors	4.78%
United Internet (treasury stock)	2.48%
Free float	52.74%

As of December 31, 2017; figures based on the last respective notification of voting rights

Dividend

In fiscal year 2017, United Internet continued to pursue its shareholder-friendly dividend policy based on continuity. The company's Annual Shareholders' Meeting on May 18, 2017 voted to accept the proposal of the Management Board and Supervisory Board to pay a **dividend** of € 0.80 per share for fiscal year 2016 (prior year: € 0.70). The total dividend payment of € 159.7 million (prior year: € 142.9 million) was made on May 23, 2017. The dividend payout ratio amounted to 36.8% of the adjusted consolidated net income after minority interests for 2016 (€ 433.9 million) and was thus at the upper end of the range targeted by the company's dividend policy (20-40% of adjusted consolidated net income after minority interests, unless funds are required for further company development).

For fiscal year 2017, the Management Board of United Internet AG will propose to the Supervisory Board a dividend of € 0.85 per share (prior year: € 0.80). The Management Board and Supervisory Board will discuss this **dividend proposal** at the Supervisory Board meeting on March 21, 2018 (and thus after the preparation deadline for this Management Report of March 16, 2018). The Annual Shareholders' Meeting of United Internet AG on May 24, 2018 will then vote on the joint proposal of the Management Board and Supervisory Board.

On the basis of 199.9 million shares with dividend entitlement (as of December 31, 2017), the total dividend payment for fiscal year 2017 would amount to € 169.9 million. This would correspond to 42.0% of consolidated net income from continued operations after minority interests for 2017 (€ 405.0 million) and thus lie slightly above the targeted payout range. Based on the year-end 2017 price of the United Internet share, the dividend yield would amount to 1.5%.

Multi-period overview: dividend development

	For 2013	For 2014	For 2015	For 2016	For 2017[1]
Dividend per share (in €)	0.40	0.60	0.70	0.80	0.85
Dividend payment (in € million)	77.5	122.3	142.9	161.3	169.9
Payout ratio	37.4%	27.3%	39.0%	90.0%	26.1%
Adjusted payout ratio[2]	37.4%	43.0%	39.0%	37.2%	42.0%
Dividend yield[3]	1.3%	1.6%	1.4%	2.2%	1.5%

(1) Subject to approval of Supervisory Board and Annual Shareholders' Meeting 2018

(2) Without special items: one-off income from Versatel acquisition and portfolio optimization (2014); Rocket impairment charges (2016); net positive one-off effects from non-cash-effective valuation topics, transaction and restructuring costs, writedowns, financing costs, one-off tax effects, and discontinued operations

(3) As of: December 31

Annual Shareholders' Meeting 2017

The Annual Shareholders' Meeting of United Internet AG was held in Frankfurt am Main on May 18, 2017. A total of 75% of capital stock was represented. The shareholders adopted all resolutions on the agenda requiring voting with large majorities.

Capital stock and treasury shares

United Internet purchased treasury shares once again in the fiscal year 2017. The share buyback was based on a resolution of the Management Board of June 30, 2016 to launch a new share buyback program. In the course of this new share buyback program, up to 5,000,000 shares in the company (corresponding to approx. 2.44% of capital stock) could be bought back via the stock exchange. The buyback followed the authorization of the Annual Shareholders' Meeting of May 22, 2014 to purchase treasury shares representing up to 10% of capital stock. The authorization was issued for the period up to September 22, 2017.

In the period January 1 to February 3, 2017, a total of 2,000,000 treasury shares were purchased at an average price of € 38.58 and with a total volume of € 77.2 million. Together with the 3,000,000 treasury shares already purchased in fiscal year 2016, the share buyback program adopted on June 30, 2016 was thus fully exhausted.

Following the issue of treasury shares as part of employee stock ownership plans, United Internet held 5,093,289 treasury shares as of December 31, 2017 (December 31, 2016: 3,370,943). This corresponds to 2.48% of the current capital stock of € 205,000,000 (December 31, 2016: 1.64%).

Investor Relations

In fiscal 2017, the Management Board and Investor Relations department of United Internet AG once again provided institutional and private investors with regular and comprehensive information. Information was provided to the capital market via the quarterly statements, half-yearly financial report and annual report, as well as at press and analyst conferences. The company's management and Investor Relations department explained the company's strategy and financial results in numerous one-on-one discussions at the company's offices in Montabaur, as well as at roadshows and conferences in Germany, Finland, France, the UK, Canada, Switzerland, Spain and the USA. Around 30 national and international investment banks are in contact with the company's Investor Relations department and publish regular studies and comments on the company's progress and share performance. Apart from such one-on-one meetings, shareholders and potential future investors can also receive the latest news on the company around the clock via the company's website (www.united-internet.de).

Liquidity and finance

The Group's financial strategy is primarily geared to the strategic business plans of its operating business units. In order to provide sufficient flexibility for further growth, United Internet therefore constantly monitors trends in funding opportunities arising on the financial markets. Various options for funding and potential for optimizing existing financial instruments are regularly reviewed. The main focus is on ensuring sufficient liquidity and the financial independence of the Group at all times. In addition to its own financial strength, the Group maintains sufficient liquidity reserves with core banks. The flexible use of these liquidity reserves enables efficient management of Group liquidity, optimal debt management to reduce interest costs, and the avoidance of negative interest on deposits.

New promissory note loan

In the past fiscal year, United Internet placed a new promissory note loan with a total amount of € 500 million for the purpose of general company funding. The five tranches in total have terms from March 2022 to March 2025, were placed at the issuance amount, and are 100% repayable. By placing mainly fixed-interest tranches, the Group naturally hedged the risk of rising interest rates and optimized the maturity profile with maturities of up to 8 years. The average interest rate is 1.14% p.a.. The new promissory note loan is not tied to any covenants.

Adjustment of existing promissory note loan

At the same time, United Internet made an offer to the creditors of the fixed-interest tranches from the existing promissory note loan placed in 2014 to adjust the contractual terms. 99% of creditors accepted the offer, which focused in particular on relaxing the existing covenants.

Adjustment of syndicated loans

With effect from May 5, 2017, United Internet signed an agreement with its core banks regarding a consolidation and adjustment of its syndicated loan borrowing. The syndicated loan of € 750 million arranged in August 2014 and syndicated loan of € 810 million arranged in July 2015 were consolidated into a single loan arrangement. At the same time, the Company used the favorable market situation to renegotiate significant components of the loan agreements. In particular, existing covenants were relaxed, borrowing costs optimized, and some of the terms prolonged in order to further harmonize the maturity profile. No new debt was taken on as a result of this measure.

Acquisition facility – takeover of Drillisch AG

In addition, United Internet signed an agreement with selected core banks on May 12, 2017 to provide the necessary funds to cover the voluntary public tender offer to the Drillisch shareholders. The agreed syndicated acquisition facility with a total amount of € 2.5 billion was divided into several tranches and maturities. However, the shares offered by Drillisch AG shareholders during the public tender offer could be purchased in full from existing liquid funds.

As a result, it was not necessary to use the acquisition facility. Following the end of the offering period, United Internet canceled the acquisition facility.

Harmonization of bilateral credit and guaranty facilities

In order to harmonize the key components of the Group's funding, United Internet also consolidated its existing bilateral credit and guaranty facilities with core banks into a single arrangement. Individual contracts were summarized and terms optimized.

The successful financing activities of the past fiscal year demonstrate the company's trusting and cooperative relationships with its long-standing core banks and underline the United Internet Group's strong position on the capital market.

Further disclosures on the various financial instruments, drawings, interest rates and maturities are provided under point 30 of the Notes to the Consolidated Financial Statements.

2.3 POSITION OF THE GROUP

Following the disposal of affilinet GmbH on October 1, 2017, affilinet was deconsolidated in the consolidated financial statements as of December 31, 2017 and the statement of comprehensive income (income statement) for the fiscal year 2017 and the preceding period adjusted accordingly. The revenues and expenses of affilinet are thus no longer included in the respective income statement items nor the sales and earnings figures stated below. The net income of affilinet after taxes is disclosed separately as a discontinued operation. However, the balance sheet of the previous year is to be disclosed unchanged.

Group's earnings position

In the fiscal year 2017, the number of **fee-based customer contracts** in current product lines rose organically and via the Strato and Drillisch takeovers by 6.10 million to a total of 22.89 million contracts. In addition to these customer contracts in the current product lines, the company holds a further 0.47 million contracts without basic monthly fees and service provider contracts (volume-based tariffs / MSP tariffs) from the Drillisch acquisition, as well as 0.11 million DSL contracts in the phased-out T-DSL / R-DSL product lines. Ad-financed free accounts rose by 1.13 million to 35.42 million.

Consolidated sales grew by 10.5% to € 4,206.3 million in fiscal year 2017 (comparable prior-year figure: € 3,808.1 million). Revenue contributions from Strato and ProfitBricks (€ 104.0 million) as well as Drillisch (€ 223.0 million) were offset in part by burdens on sales from regulatory effects (€ -44.5 million) and negative currency effects (€ -8.2 million).

Due in particular to the year-on-year decline in the value of the British pound, there was only a modest 3.0% increase in **sales outside Germany**, from € 370.0 million (comparable prior-year figure) to € 381.0 million in the fiscal year 2017. Adjusted for currency effects, foreign sales rose by 5.2%.

All **customer acquisition costs** for Access and Applications products, as well as costs for the migration of resale DSL connections to complete DSL packages and upgrades to VDSL connections, continue to be charged directly as expenses.

As a result of economies of scale and improved conditions for the purchase of pre-services, the **cost of sales** increased more slowly than revenues in fiscal year 2017, from € 2,461.8 million (64.6% of sales) in the previous year to € 2,689.1 million (63.9% of sales). Consequently, the **gross margin** rose from 35.4% in the previous year to 36.1%. The 12.7% increase in **gross profit** from € 1,346.4 million in the previous year to € 1.517.2 million thus even surpassed sales growth (10.5%).

Sales and marketing expenses increased from € 521.2 million (13.7% of sales) in the previous year to € 638.3 million (15.2% of sales). **Administrative expenses** rose less than proportionately from € 182.9 million (4.8% of sales) in the previous year to € 185.1 million (4.4% of sales).

Multi-period overview: development of key cost items
(in € million)

	2013	2014	2015	2016	2017
Cost of sales	1,742.8	2,034.5	2,437.2	2,461.8	2,689.1
Cost of sales ratio	65.6%	66.4%	65.6%	64.6%	63.9%
Gross margin	34.4%	33.6%	34.4%	35.4%	36.1%
Selling expenses	481.4	481.3	557.2	521.2	638.3
Selling expenses ratio	18.1%	15.7%	15.0%	13.7%	15.2%
Administrative expenses	120.4	136.9	182.2	182.9	185.1
Administrative expenses	4.5%	4.5%	4.9%	4.8%	4.4%

Other operating income results in particular from one-off, non-cash-effective, extraordinary income described below from the revaluation of Drillisch shares (€ 303.0 million) and from the revaluation of ProfitBricks shares (€ 16.1 million).

Key earnings figures for the fiscal years 2016 and 2017 were influenced by various special items.

Special items 2016:

- “Writedowns on financial assets”: this special item results from writedowns on financial assets (especially impairment of shares held by United Internet in Rocket Internet SE) and has a negative impact on EBT, net income and EPS.

Special items 2017:

- “Revaluation of Drillisch shares”: this special item results from one-off, non-cash-effective, extraordinary income from the Drillisch takeover (due to the revaluation of Drillisch shares acquired before the complete transaction was closed) and has a positive effect on EBITDA, EBIT, EBT, net income and EPS.
- “Revaluation of ProfitBricks shares”: this special item results from one-off, non-cash-effective, extraordinary income from the ProfitBricks takeover (due to the revaluation of ProfitBricks shares held before the takeover) and has a positive effect on EBITDA, EBIT, EBT, net income and EPS.
- “M&A transaction costs”: this special item results from the costs for M&A activities (especially in connection with the Drillisch takeover) and has a negative effect on EBITDA, EBIT, EBT, net income and EPS.
- “Restructuring costs offline sales”: this special item results in particular from one-off costs in connection with the sale of yourfone shops at year-end 2017 and the restructuring of the Drillisch retail organization and has a negative effect on EBITDA, EBIT, EBT, net income and EPS.
- “Trademark writedowns Strato”: this special item results in particular from trademark writedowns on Strato and has a negative effect on EBIT, EBT, net income and EPS.
- “Financing costs Drilliisch”: this special item results in particular from bank commissions in connection with the overall Drillisch transaction and has a negative effect on EBT, net income and EPS.
- “Writedowns on financial assets”: this special item results from the writing down of financial assets (especially impairment of shares held by United Internet in Rocket Internet SE) and has a negative impact on EBT, net income and EPS.
- “Tax effects from M&A activities”: this special item results from one-off tax effects in connection with the Warburg Pincus investment in the Business Applications division and the Drillisch takeover and has a negative effect on net income and EPS.

Reconciliation of EBITDA, EBIT, EBT, net income and EPS with figures adjusted for special items[1] (in € million; EPS in €)

	Fiscal year 2017	Fiscal year 2016
EBITDA	1,253.3	835.4
Revaluation of Drillisch shares (2017)	- 303.0	-
Revaluation of ProfitBricks shares (2017)	- 16.1	-
M&A transaction costs (2017)	+ 17.1	-
Restructuring costs offline sales (2017)	+ 28.3	-
EBITDA before special items (operating)	979.6	835.4
EBIT	958.9	642.7
Revaluation of Drillisch shares (2017)	- 303.0	-
Revaluation of ProfitBricks shares (2017)	- 16.1	-
M&A transaction costs (2017)	+ 17.1	-
Restructuring costs offline sales (2017)	+ 28.3	-
Trademark writedowns Strato (2017)	+ 20.7	-
EBIT before special items (operating)	705.9	642.7
EBT	891.0	362.6
Revaluation of Drillisch shares (2017)	- 303.0	-
Revaluation of ProfitBricks shares (2017)	- 16.1	-
M&A transaction costs (2017)	+ 17.1	-
Restructuring costs offline sales (2017)	+ 28.3	-
Trademark writedowns Strato (2017)	+ 20.7	-
Financing costs Drilliisch (2017)	+ 4.3	-
Writedowns on financial assets (2017 / 2016)	+ 19.8	+ 254.9
EBT before special items (operating)	662.1	617.5
Net income I[2]	648.5	175.8
Net income II[2]	687.1	179.2
Revaluation of Drillisch shares (2017)	- 303.0	-
Revaluation of ProfitBricks shares (2017)	- 16.1	-
M&A transaction costs (2017)	+ 12.0	-
Restructuring costs offline sales (2017)	+ 19.9	-
Trademark writedowns Strato (2017)	+ 14.5	-
Financing costs Drilliisch (2017)	+ 3.0	-
Writedowns on financial assets (2017 / 2016)	+ 19.8	+ 254.9
Tax effects from M&A activities (2017)	+ 43.0	-
Net income I before special items (operating)	441.6	430.7
Net income II before special items (operating)	480.2	434.1
EPS I[3]	3.06	0.86
EPS II[3]	3.25	0.88
Revaluation of Drillisch shares (2017)	- 1.51	-
Revaluation of ProfitBricks shares (2017)	- 0.08	-
M&A transaction costs (2017)	+ 0.06	-
Restructuring costs offline sales (2017)	+ 0.10	-
Trademark writedowns Strato (2017)	+ 0.07	-
Financing costs Drilliisch (2017)	+ 0.01	-
Writedowns on financial assets (2017 / 2016)	+ 0.10	+ 1.25
Tax effects from M&A activities (2017)	+ 0.21	-
EPS I before special items (operating)	2.02	2.11
EPS II before special items (operating)	2.21	2.13

(1) After initial consolidation of affilinet in 2017; previous year adjusted
(2) Net income I = Net income from continued operations; Net income II = Net income including discontinued operations
(3) EPS I = EPS from continued operations; EPS II = EPS including discontinued operations

Operating EBITDA increased by 17.3% to € 979.6 million in fiscal year 2017 (comparable prior-year figure: € 835.4 million). EBITDA was impacted by the earnings contribution from Strato and ProfitBricks (€ 39.7 million) as well as from Drillisch (€ 56.8 million), and – with an opposing effect – from regulation effects and costs for the Telefónica DSL migration (€ -17.1 million), as well as negative currency effects (€ -3.5 million).

In addition, EBITDA was influenced by a net **positive extraordinary result** of € 273.7 million in the reporting period. This resulted from one-off, non-cash-effective, extraordinary income of € 303.0 million from the revaluation of Drillisch shares acquired before the complete transaction was closed, and from the revaluation of ProfitBricks shares already held before the takeover totaling € 16.1 million. There were opposing effects from M&A transaction costs for the above mentioned transactions of € 17.1 million and restructuring costs for offline sales of Drillisch totaling € 28.3 million.

Operating EBIT rose by 9.8% to € 705.9 million in the fiscal year 2017 (comparable prior-year figure: € 642.7 million). The lower percentage growth compared to EBITDA results from increased PPA amortization from the takeovers of Drillisch and Strato.

EBIT was also influenced in addition by the above mentioned positive extraordinary result of € 273.7 million. There was an opposing effect for this item from the writedowns of Group subsidiary Strato totaling € 20.7 million.

Including these extraordinary effects, EBITDA rose to € 1,253.3 million and EBIT to € 958.9 million.

Operating EBT rose by 7.2% to € 662.1 million (comparable prior-year figure without Rocket impairments: € 617.5 million). In addition, there was a net positive impact on EBT in the reporting period from the above mentioned extraordinary result (EBT effect: € 273.7 million) and – with an opposing effect – writedowns on the Strato brand (EBT effect: € -20.7 million), financing costs in connection with the total Drillisch transaction (EBT effect: € -4.3 million), and Rocket impairments (EBT effect: € -19.8 million). Including these special items, EBT rose to € 891.0 million.

Operating net income from continued operations increased by 2.5% to € 441.6 million (comparable prior-year figure without Rocket impairments: € 430.7 million). Including discontinued operations, operating net income amounted to € 480.2 million (comparable prior-year figure without Rocket impairments: € 434.1 million). In addition, there was a net positive impact on net income in the reporting period from the above mentioned extraordinary result (net income effect: € 287.2 million) and – with an opposing effect – from writedowns on brands (net income effect: € -14.5 million), financing costs for Drillisch (net income effect: € -3.0 million), Rocket impairments (net income effect: € -19.8 million) and one-off tax effects from the Warburg Pincus investment in the Business Applications division and Drillisch takeover (net income effect: € 43.0 million). Including these special items, net income from continued operations rose to € 648.5 million, and including discontinued operations to € 687.1 million.

As a result of the strong increase in minority interests due to the 33% stake of Warburg Pincus in the Business Applications division and 27% stake of minority shareholders in 1&1 Drillisch AG (and thus in the Consumer Access division), operating EPS from continued operations fell to € 2.02 (comparable prior-year figure without Rocket impairments: € 2.11). Before PPA amortization resulting in particular from the Versatel, Strato and Drillisch takeovers, operating EPS amounted to € 2.34 (comparable prior-year figure without Rocket impairments: € 2.27). Including discontinued operations, operating EPS amounted to € 2.21 (comparable prior-year figure without Rocket impairments: € 2.13) and operating EPS before PPA amortization to € 2.53 (comparable prior-year figure without Rocket impairments: € 2.29).). In addition, there was a net positive impact on EPS in the reporting period from the above mentioned extraordinary result (EPS effect: € 1.43) and – with an opposing effect – from writedowns on brands (EPS effect: € -0.07), financing costs in connection with the total Drillisch transaction

(EPS effect: € -0.01), Rocket impairments (EPS effect: € -0.10) and one-off tax effects from the Warburg Pincus investment in the Business Applications division and Drillisch takeover (EPS effect: € -0.21). All in all, EPS from continued operations rose from € 2.02 to € 3.06, and including discontinued operations to from € 2.21 to € 3.25.

Key sales and earnings figures of the Group (1)
(in € million)

	2017	2016	Change
Sales	4,206.3	3,808.1	+ 10.5%
EBITDA	979.6(2)	835.4	+ 17.3%
EBIT	705.9(2)	642.7	+ 9.8%

(1) After deconsolidation of affilinet in 2017; prior-year figures adjusted
(2) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million) and without M&A transaction costs (EBITDA and EBIT effect: € -17.1 million), without restructuring costs for offline sales (EBITDA and EBIT effect: € -28.3 million), and without Trademark writedowns Strato (EBIT effect: € -20.7 million)

Quarterly development; change on prior-year quarter (1)
(in € million)

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q4 2016	Change
Sales	952.7	1,001.4	1,054.1	1.198.1	980.0	+ 22.3%
EBITDA	213.0	216.9	254.2(2)	295.5(3)	224.8	+ 31.5%
EBIT	165.9	159.4	185.9(2)	194.7(3)	176.7	+ 10.2%

(1) After deconsolidation of affilinet in 2017; prior-year figures adjusted
(2) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million) and without M&A transaction costs (EBITDA and EBIT effect: € -15.2 million)
(3) Without M&A transaction costs (EBITDA and EBIT effect: € -1.9 million), without restructuring costs for offline sales (EBITDA and EBIT effect: € -28.3 million), and without Trademark writedowns Strato (EBIT effect: € -20.7 million)

Multi-period overview: development of key sales and earnings figures (1)
(in € million)

	2013	2014	2015	2016	2017
Sales	2,655.7	3,065.0	3,715.7	3,808.1	4,206.3
EBITDA(1)	406.9	551.5(2)	757.2(3)	835.4	979.6(4)
EBITDA margin	15.3%	18.0%	20.4%	21.9%	23.3%
EBIT(1)	312.2	430.6(2)	541.7(3)	642.7	705.9(4)
EBIT margin	11.8%	14.0%	14.6%	16.9%	16.8%

(1) After deconsolidation of affilinet in 2017; prior-year figures adjusted
(2) Without one-off income from Versatel acquisition and portfolio optimization (EBITDA and EBIT effect: € +186.1 million)
(3) Without one-off income from sale of Goldbach shares and part of stake in virtual minds (EBITDA and EBIT effect: € +14.0 million)
(4) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million) and without M&A transaction costs (EBITDA and EBIT effect: € -17.1 million), without restructuring costs for offline sales (EBITDA and EBIT effect: € -28.3 million), and without Trademark writedowns Strato (EBIT effect: € -20.7 million)

Group’s financial position

At € 656.4 million, **operative cash flow** was slightly up on the previous year (€ 644.2 million) in fiscal 2017.

Net cash inflows from operating activities of the fiscal years 2016 and 2017 were dominated by various tax effects. Whereas in fiscal year 2016 (in Q1) an income tax payment of around € 100.0 million was made (originally planned for the fourth quarter of 2015), there was a capital gains tax refund of € 70.3 million (originally planned for the fourth quarter of 2016) in fiscal year 2017 (in Q1) in connection with a dividend payment within the Group in fiscal year 2015. Without consideration of these opposing tax effects, **net cash inflows from operating activities** rose from € 587.0 million (comparable prior-year figure) to € 655.7 million in fiscal year 2017. Including the opposing tax effects, net cash inflows from operating activities rose from € 487.0 million to € 726.0 million.

Cash flow from investing activities amounted to € 897.7 million in the reporting period (prior year: € 422.7 million). This resulted mainly from capital expenditures of € 233.5 million (prior year: € 168.9 million), disbursements for the acquisition of shares in affiliated companies (less cash received) of € 528.1 million (Strato, ProfitBricks and Drillisch takeovers), and disbursements for the acquisition of shares in associated companies of € 127.9 million (mainly additional shares in Tele Columbus and Drillisch {prior to the completion of the overall transaction) and the investment in rankingCoach). Apart from capital expenditures, net cash outflows from investing activities in the previous year were also dominated by disbursements for the acquisition of shares in associated companies (investment in Tele Columbus) amounting to € 266.4 million.

Without consideration of the above mentioned opposing tax effects, **free cash flow** (i.e. net cash inflows from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment) was virtually unchanged from the previous year (€ 423.0 million) at € 424.4 million in 2017. Including the tax effects, free cash flow rose to € 494.7 million (prior year: € 323.0 million).

Cash flow from financing activities in the fiscal year 2017 was dominated by the purchase of treasury shares amounting to € 77.2 million (prior year: € 112.2 million), the net assumption of loans totaling € 138.6 million (prior year: € 224.2 million), the dividend payment of € 159.7 million (prior year: € 142.9 million), and payments from minority shareholders (investment of Warburg Pincus in Business Applications division) amounting to € 427.3 million (prior year: disbursement of € 0.7 million).

Cash and cash equivalents amounted to € 238.5 million as of December 31, 2017 – compared to € 101.7 million on the same date last year.

Multi-period overview: development of key cash flow figures
(in € million)

	2013	2014	2015	2016	2017
Operative cash flow	280.1	380.6	554.5	644.2	656.4
Cash flow from operating activities	268.3	454.0(2)	533.2(3)	590.3(4)	655.7(5)
Cash flow from investing activities	-207.8	-1,349.8	-766.0	-422.7	-897.7
Free cash flow(1)	211.6	386.6(2)	300.5(3)	423.0(4)	424.4(5)
Cash flow from financing activities	-59.2	1.240.9	23.1	-43.2	312.2
Cash and cash equivalents on December 31	42.8	50.8	84.3	101.7	238.5

(1) Free cash flow is defined as net cash inflows from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment
(2) 2014 without consideration of a capital gains tax payment due to closing-date effects of € 335.7 million
(3) 2015 without consideration of a capital gains tax refund (net) of € 242.7 million and including an income tax payment (originally planned for the fourth quarter of 2015) of around € 100.0 million;
(4) 2016 without consideration of the aforementioned income tax payment (originally planned for the fourth quarter of 2015) of around € 100.0 million
(5) 2017 without consideration of the aforementioned capital gains tax refund (originally planned for the fourth quarter of 2016) of € 70.3 million

Group’s asset position

The Group’s balance sheet total rose from € 4.074 billion as of December 31, 2016 to € 7.606 billion on December 31, 2017.

Current assets increased from € 631.4 million as of December 31, 2016 to € 823.9 million on December 31, 2017. *Cash and cash equivalents* disclosed under current assets rose from € 101.7 million to € 238.5 million. Due to closing-date effects and the expansion of business, *trade accounts receivable* increased from € 228.0 million to € 290.0 million. *Inventories* grew from € 39.5 million to € 44.7 million. Due to closing-date effects, *current prepaid expenses* decreased from € 111.2 million to € 92.3 million. *Other financial assets* rose from € 21.5 million to € 100.3 million, mainly as a result of a reimbursement receivable from a pre-service provider. *Other non-financial assets* declined from € 129.4 million to € 58.2 million due to the above mentioned capital gains tax refund.

Non-current assets rose from € 3,442.3 million as of December 31, 2016 to € 6,781.9 million on December 31, 2017. Despite the increased stake in Tele Columbus and the investments in rankingCoach and AWIN (as part of the contribution of affilinet to AWIN), *shares in associated companies* fell from € 755.5 million to € 418.0 million due to the takeover and full consolidation of ProfitBricks and Drillisch. *Other financial assets* increased from € 287.7 million to € 333.7 million, in particular as a result of the subsequent valuation of listed shares in Rocket Internet as of December 31, 2017. *Property, plant and equipment and intangible assets* rose from € 655.0 million to € 747.4 million and from € 369.5 million to € 1,393.3 million following the acquisition of Strato, ProfitBricks and Drillisch. *Goodwill* also rose as a result of the Strato, ProfitBricks and Drillisch acquisitions from € 1,087.7 million to € 3,579.8 million.

Current liabilities rose from € 1,269.4 million as of December 31, 2016 to € 1,284.5 million on December 31, 2017. Due to closing-date effects and the expansion of business, current *trade accounts payable* increased from € 373.7 million to € 399.9 million. Short-term *bank liabilities* fell from € 422.2 million to € 248.2 million. *Income tax liabilities* increased from € 64.1 million to € 130.2 million, *other accrued liabilities* from € 13.2 million to € 49.4 million and *other financial liabilities* from € 114.7 million to € 135.6 million.

Non-current liabilities increased from € 1,606.5 million as of December 31, 2016 to € 2,270.8 million on December 31, 2017. In addition to the rise in long-term ***bank liabilities*** from € 1,338.4 million to € 1,707.6 million, the main reason was the increase in ***deferred tax liabilities*** from € 94.2 million to € 390.7 million, resulting mainly from the initial consolidation of Drillisch AG.

The Group's **equity capital** rose from € 1,197.8 million as of December 31, 2016 to € 4,050.6 million on December 31, 2017. This was mainly due to consolidation effects in connection with the investment of Warburg Pincus in the Business Applications division and consolidation effects from the acquisition of Drillisch AG by means of the contributing 1&1 Telecommunication to Drillisch. Consequently, the ***equity ratio*** rose from 29.4% to 53.3%. At the end of the reporting period on December 31, 2017, United Internet held 5,093,289 **treasury shares** (December 31, 2016: 3,370,943).

Despite the takeovers and investments made in 2017, **net bank liabilities** (i.e. the balance of bank liabilities and cash and cash equivalents) increased only moderately from € 1,658.9 million as of December 31, 2016 to € 1,717.3 million on December 31, 2017.

Multi-period overview: development of relative indebtedness

	2013	2014	2015	2016(1)	2017(1)
Net bank liabilities(2) / EBITDA	0.73	1.79	1.88	1.98	1.37
Net bank liabilities(2) / free cash flow(3)	1.40	3.42	3.63	3.88	4.04

(1) After deconsolidation of affilinet in 2017; previous year adjusted
(2) Net bank liabilities = balance of bank liabilities and cash and cash equivalents
(3) Free cash flow 2014 and 2015 without consideration of closing-date effects from a capital gains tax payment of € 335.7 million (2014) and a capital gains tax refund (net) of € 242.7 million (2015) and an income tax payment (originally due in the fourth quarter of 2015) of around € 100.0 million (2016) and a capital gains tax refund (originally planned for the fourth quarter of 2016) of € 70.3 million

Further details on the objectives and methods of the Group's financial risk management are provided under point 42 of the notes to the consolidated financial statements.

Multi-period overview: development of key balance sheet items
(in € million)

	2013	2014	2015	2016	2017
Total assets	1,270.3	3,673.4	3,885.4	4,073.7	7,605.8
Cash and cash equivalents	42.8	50.8	84.3	101.7	238.5
Shares in associated companies	115.3	34.9(1)	468.4(1)	755.5(1)	418.0
Other financial assets	47.6	695.3(2)	449.0(2)	287.7(2)	333.7(2)
Property, plant and equipment	116.2	689.3(3)	665.2	655.0	747.4(3)
Intangible assets	165.1	385.5(3)	389.5	369.5	1.393.3(3)
Goodwill	452.8	977.0(4)	1,100.1(4)	1,087.7	3,579.8(4)
Liabilities due to banks	340.0	1,374.0(5)	1,536.5(5)	1,760.7(5)	1,955.8(5)
Capital stock	194.0	205.0(6)	205.0	205.0	205.0
Treasury stock	5.2	35.3	26.3	122.5	189.4
Equity	307.9	1,204.76)	1,149.8	1,197.8	4,050.66)
Equity ratio	24.2%	32.8%	29.6%	29.4%	53.3%

(1) Decrease due to contribution of the GFC and EFF funds to Rocket and complete takeover of Versatel (2014); increase due to investment in Drillisch (2015); increase due to investment in Tele Columbus (2016); decrease due to takeover and consolidation of ProfitBricks and Drillisch

(2) Increase due to investment in Rocket (2014), decrease due to sale of Goldbach shares and subsequent valuation of shares in listed companies (2015); decrease due to subsequent valuation of shares in listed companies (2016); increase due to subsequent valuation of shares in listed companies (2017)

(3) Increase due to complete takeover of Versatel (2014); increase due to takeover of Strato, ProfitBricks and Drillisch (2017)

(4) Increase due to complete takeover of Versatel (2014); increase due to takeover of home.pl (2015); increase due to takeover of Strato, ProfitBricks and Drillisch (2017)

(5) Increase due to Rocket investment and takeover of Versatel (2014); increase due to increased stake in Rocket, Drillisch investment, and acquisition of home.pl (2015); increase due to investment in Tele Columbus (2016); increase due to takeover of Strato and increased stake in Drillisch and Tele Columbus (2017)

(6) increase due to capital increase (2014); increase due to consolidation effects in connection with the Warburg Pincus investment in the Business Applications division and takeover of Strato (2017)

Management Board’s overall assessment of the Group’s business situation

With the exception of the UK, Spain and Mexico, the macroeconomic conditions in the main target countries of the United Internet Group developed better than in the previous year during the reporting period. GDP in Germany – United Internet’s most important market – grew by 2.5%. This figure was not quite matched by the German ICT market, which raised sales by 2.2%.

With (organic and inorganic) growth of 6.1 million customer contracts to 22.89 million, a 10.5% increase in sales to € 4.206 billion and an improvement in EBITDA of 17.3% to € 979.6 million, United Internet enjoyed further dynamic growth in fiscal year 2017 in excess of the macroeconomic and sector trends. With the milestones in customer contracts, sales and earnings achieved in fiscal year 2017, United Internet was also able to meet its original forecasts and the more specific guidance issued during the year.

The company’s successful performance – especially when compared with the macroeconomic and sector trends – highlights the benefits of United Internet’s business model based predominantly on electronic subscriptions with fixed monthly payments and contractually fixed terms. This ensures stable and predictable revenues and cash flows, offers protection against cyclical influences and provides the financial scope to win new customers, expand existing customer relationships, and grasp opportunities in new business fields and new markets – organically or via investments and acquisitions.

In the fiscal year 2017, the company once again invested heavily in gaining and expanding customer relationships, as well as in developing new products – thus laying the basis for future growth. In addition to strengthening the foundations for its operational business, United Internet tapped additional opportunities and growth potential with its takeovers of Strato AG, ProfitBricks GmbH and Drillisch AG with a variety of synergy effects in both reporting segments.

The financial position of United Internet AG remained strong in fiscal year 2017. Adjusted for tax effects, free cash flow was still high at € 424.4 million (comparable prior-year figure: € 426.9 million). This once again underlines the Group’s ability to generate very healthy levels of cash while at the same time achieving strong qualitative growth.

The change in the Group’s asset position was mainly caused by the takeovers of Strato and Drillisch.

As of the reporting date for the annual financial statements 2017, and at the time of preparing this management report, the Management Board believes that the United Internet Group as a whole is well placed for its further development. It regards the financial position and performance – subject to possible special items – as positive and is optimistic about the Group’s future prospects.

2.4 POSITION OF THE COMPANY

Earnings of United Internet AG

As a pure holding company, the earnings position of United Internet AG is usually dominated by its investment and financial result.

In the fiscal year 2017, **sales** of the parent company amounted to € 0.9 million (prior year: € 2.0 million) and result mainly from services rendered to the Group's subsidiaries.

Other operating income rose to € 1,434.8 million (prior year: € 6.2 million). The increase mainly results from extraordinary income of € 1,429.2 million in connection with the sale of shares in 1&1 Internet SE to 1&1 Internet Holding SE as part of the investment of Warburg Pincus in this division. Further income results from internal Group charges (€ 5.0 million) as well as income relating to other periods from the reversal of accruals (€ 0.6 million).

Adjusted for effects from employee stock ownership programs, **personnel expenses** in fiscal year 2017 amounted to € 1.4 million (prior year: € 1.3 million).

Other operating expenses decreased slightly to € 13.8 million (prior year: € 14.0 million) and mostly comprise legal, auditing and consulting fees of € 10.8 million (prior year: € 12.2 million).

Income from profit transfer agreements of € 141.5 million (prior year: € 103.2 million) result from the profit transfers of 1&1 Mail & Media Applications SE amounting to € 100.0 million, United Internet Investments Holding GmbH amounting to € 40.1 million, and United Internet Service Holding GmbH amounting to € 1.4 million.

Income from investments amounted to € 0 (prior year: € 120.0 million from a dividend paid from the balance sheet profit of 1&1 Internet SE).

Expenses for loss assumptions of € 10.5 million (prior year: € 249.1 million mainly from the writedown of Rocket Internet shares held by United Internet Ventures AG (now United Internet Investments Holding GmbH)) mainly result from the compensation expense of the service company United Internet Corporate Services GmbH.

The parent company's **result before taxes** amounted to € 1,620.3 million (prior year: € -17.7 million).

Income taxes of € 77.9 million (prior year: € 29.6 million) comprise current taxes of 2017 of € 80.6 million (of which € 40.3 million for corporation tax and the solidarity surcharge and € 40.3 million for trade tax), and € 2.8 million from previous years. There was an opposing effect from the reversal of deferred tax liabilities amounting to € 5.5 million.

The **net income** in the separate financial statements of United Internet AG for the fiscal year 2017 amounted to € 1,542.4 million (prior year: net loss of € 47.3 million).

Assets and financial position of United Internet AG

The parent company's **balance sheet total** rose from € 4,512.7 million on December 31, 2016 to € 5,834.0 million on December 31, 2017.

Non-current assets of the parent company of € 4,952.7 million (prior year: € 2,993.2 million) are dominated by **financial assets**. ***Shares in affiliated companies*** increased to € 3,101.0 million (prior year: € 1,558.4 million). The main reason for this rise – in connection with the overall transaction with Drillisch – were the contributions to 1&1 Telecommunication SE and its transfer to Drillisch AG as well as the contributions to United Internet Service GmbH in connection with the carve out of 1&1 Versatel GmbH from 1&1 Telecommunication. There was an opposing effect from the prorated contribution or sale of 1&1 Internet SE to 1&1 Internet Holding SE. ***Loans to affiliated companies*** rose to € 1,851.6 million (prior year: € 1,434.6 million). The increase results in particular from finance provided by United Internet for the acquisition of 1&1 Internet SE and Strato AG by 1&1 Internet Holding SE. There was an opposing effect from contributions to United Internet Service GmbH in connection with the carve out of 1&1 Versatel and a loan repayment by 1&1 Telecom GmbH.

Current assets of the parent company amounting to € 881.1 million (prior year: € 1,519.5 million) comprise receivables due from affiliated companies and other assets. The ***receivables due from affiliated companies*** declined to € 832.0 million (prior year: € 1,389.9 million). These mainly comprise receivables within the United Internet Group's internal cash management system. *Other assets* disclosed under current assets amounting to € 41.4 million (prior year: € 121.0 million) consist mainly of receivables due from the tax office.

Shareholders' equity of the parent company amounted to € 3,566.7 million as of December 31, 2017 (prior year: € 2,247.3 million). The increase in equity during the reporting period is mainly due to the net income for the year of € 1,542.4 million, with an opposing effect from the dividend payout of € 159.7 million. The purchase of treasury shares (€ 77.2 million) and use of treasury shares for employee stock ownership plans (€ 13.9 million) resulted in a total net reduction of shareholders' equity of € 63.3 million. As a result of the increase in shareholders' equity, the equity ratio rose from 49.8% in the previous year to 61.1% as of December 31, 2017.

The parent company's accruals mainly comprise *accrued taxes*, mostly for previous years, amounting to € 55.0 million (prior year: € 12.6 million) as well as *other accrued liabilities* for employee stock ownership plans, legal, auditing and consulting fees, as well as bonuses and commissions totaling € 9.5 million (prior year: € 17.1 million).

The liabilities of the parent company are dominated in particular by liabilities to banks and liabilities due to affiliated companies. Due in particular to the dividend payment, the purchase of treasury shares, and investments and acquisitions, *liabilities to banks* rose to € 1,952.8 million in the fiscal year 2017 (prior year: € 1,747.4 million). Bank liabilities comprise two promissory note loans totaling € 1,036 million, syndicated loans totaling € 876 million, and the short-term use of a bilateral credit facility totaling € 41 million. *Liabilities to affiliated companies* fell to € 233.7 million (prior year: € 458.4 million) and mainly comprise liabilities from balances within the United Internet Group's cash pooling system (€ 214.7 million), from service arrangements (€ 4.9 million), and from profit transfer agreements (€ 10.5 million). *Other liabilities* of € 10.8 million (prior year: € 18.7 million) mainly consist of sales tax liabilities.

Cash flow of the parent company's financial statements is dominated by cash flows from the profit transfer agreements and the assumption of additional financial liabilities. The dividend payment in fiscal year 2017 and the purchase of treasury shares disclosed under financial activities had the opposing effect.

Management Board's overall assessment of the current business situation of United Internet AG

Due to its role as the Group's holding company, the economic position of United Internet AG at parent company level is mainly influenced by its investment result. The above statements on the Group's economic position therefore also apply qualitatively for United Internet AG itself.

2.5 SIGNIFICANT NON-FINANCIAL PERFORMANCE INDICATORS

United Internet AG believes that its entrepreneurial activities are not solely restricted to the pursuit and implementation of economic objectives, but also involve a commitment and responsibility towards society and the environment. United Internet assumes this responsibility in a variety of ways. The most important aspects with regard to the management report, sustainable business policy, employees, green IT, and social responsibility, are summarized in the following sections.

Further information on these and other sustainability topics are included in the Sustainability Report 2017 of United Internet AG – based on the Global Reporting Initiative (GRI) framework – which will be published on the corporate website (www.united-internet.de) on April 10, 2018.

Sustainable business policy

United Internet AG is committed to pursuing a sustainable business policy. This sustainability is illustrated in particular by its high level of investment in customer relationships, in service, product and network quality, in security and data privacy, in customer retention and customer satisfaction – and thus also in sustainable growth.

Customer growth

In its fiscal year 2017, United Internet once again invested heavily in customer growth and raised the number of fee-based customer contracts in its current product lines organically by 0.88 million to 16.97 million contracts with basic monthly fees. Including the takeovers of Strato and Drillisch, the number of fee-based customer contracts grew by as much as 6.10 million to 22.89 million contracts (prior year: 16.79 million).

Apart from these customer contracts in the current product lines, United Internet's Access segment holds a further 0.47 million contracts without basic monthly fees and service provider contracts (volume-based tariffs / MSP tariffs) from the Drillisch acquisition, as well as 0.11 million DSL contracts (prior year: 0.18 million) in the phased-out T-DSL / R-DSL product lines.

In addition to these fee-based contracts, United Internet also operates 35.42 million active free accounts (prior year: 34.29 million) at its data centers that are refinanced via advertising revenue.

In total, therefore, United Internet manages a total of 58.89 million customer accounts (prior year: 51.26 million) globally.

Over the past few years, the high-value contracts of the current product lines with a basic monthly fee have been greatly expanded, while the less valuable contracts with no monthly fee and the old contracts have been reduced (exception: 2017 due to 0.49 million contracts without basic monthly fee / old contracts resulting from the Drillisch takeover). The number of customer relationships via ad-financed free accounts – which also offer United Internet important potential for up- and cross-selling – were steadily improved over the past years.

Multi-period overview: development of customer relationships
(Growth in million)

	2013[1]	2014[2]	2015[3]	2016	2017[4]
Contracts with basic fees in current product lines	+ 1.55	+ 1.41	+ 1.25	+ 1.06	+ 6.10
Contracts without basic fees / old contracts	- 0.14	- 0.08	- 0.06	- 0.06	+ 0.40
Free accounts	- 0.05	+ 0.61	+ 1.03	+ 1.14	+ 1.13
Total customer accounts	+ 1.36	+ 1.94	+ 2.22	+ 2.14	+ 7.63

(1) Including 0.33 million contracts with basic fees in current product lines from takeover of Arsys
(2) Including 0.42 million contracts with basic fees in current product lines from takeover of Versatel
(3) Including 0.34 million contracts with basic fees in current product lines from takeover of home.pl and an opposing 0.08 million from contract streamlining
(4) Including 3.35 million contracts with basic fees in current product lines and 0.49 million contracts without basic fees / old contracts from takeover of Drillisch as well as incl. 1.87 million contracts from takeover of Strato

Service quality

United Internet has also invested heavily in service quality with the introduction of the so-called 1&1 Principle in 2012, its international rollout in 2013, and further constant enhancements in the following years.

With the 1&1 Principle, customers are given five clear product-related performance promises. These include, for example, a one-month test phase and highly available expert hotline, as well as – in the case of DSL and mobile products – delivery of hardware within one working day or on-site replacement of faulty equipment on the next working day, and – for cloud products – a monthly product upgrade or downgrade and geo-redundancy for maximum data security.

The excellent hotline test results achieved in 2017 are proof that the investments in service quality are paying off.

As in the previous years, a major hotline test conducted by CHIP magazine (published in November 2017) in cooperation with the market research experts of Statista tested the customer hotlines of companies in a wide variety of sectors. The Statista interviewers pretended to be potential new customers and conducted 8,689 test calls with a total of 141 companies in 12 different industries. The test categories were Availability, Waiting Time, Service and Transparency. The maximum score in each category – and in the overall ranking – was 100 points. The 1&1 service hotline came first out of the 16 providers tested in the field of “Mobile Provider”. In the overall ranking, the 1&1 service hotline scored 95.1 points (“Very Good”). It also came first out of 12 providers tested in the field of “Landline & Internet”. The 1&1 service hotline also scored the 1&1 service hotline scored 97.3 points (“Very Good”) in the overall ranking of this category. In the categories Availability, Waiting Time, the 1&1 service hotline reached the maximum score of 100 points.

In addition to the above mentioned test victory, the 1&1 service hotline also won in the hotline test of the German magazine “connect”. In its 09/2017 issue, Europe’s largest specialist magazine for telecommunication tested broadband providers in Germany in the categories Quality, Reachability and Friendliness. With an overall score of 429 points from a maximum 500, the 1&1 service hotline was test champion with a rating of “Very Good”.

The test results of the 1&1 service hotline in Spain for Applications products shows that these excellent ratings are not limited to Germany and the Access segment. For the fourth time in a row, the hotline received the coveted service award “Elegido servicio de atencion al cliente”. This award honors companies with outstanding and top-quality customer service. In the Hosting category, 1&1 was lauded for its reliable customer service following a comprehensive test with over 200 calls by “mystery shoppers”.

Product quality

The product quality of the United Internet brands also received various accolades in the fiscal year 2017. For example, the US analyst firm Cloud Spectator rated the 1&1 Cloud Server as the best cloud solution for the second year running. As in the previous year, the 1&1 Cloud won the “Top 10 IaaS Providers Benchmark 2017” for North America and excelled on all counts with its outstanding value for money. The 1&1 Cloud Server reached the highest possible “CloudSpecs Score” of 100 points. This final average score resulted from individual tests in the vCPU, Memory Value and Block Storage Value sections.

Network quality

In terms of network quality, the United Internet brand 1&1 once again took first place in the prestigious landline network test of the respected German specialist magazine “connect” (published in July 2017). 1&1 was the only nationwide provider to receive an overall rating of “Very Good”, putting it ahead of competitors such as Deutsche Telekom, O2 and Vodafone, who were all rated “Good”.

connect holds its test annually and in 2017 checked the test connections of seven well-known providers in the categories Voice, Data, Web Services and Web TV.

1&1 uses its own fiber-optic network for the realization of complete DSL connections. At locations where the network is not yet available, 1&1 cooperates with other telecommunications companies. 1&1 provides its telephony services via its own voice-over-IP (VoIP) platform, which has proven its reliability over the past 10 years now and is constantly being enhanced.

The latter once again impressed in the test with excellent landline voice services. 1&1 achieved the best connection times in its own network and very fast connection times for calls to other all-IP networks. 1&1 scored particularly well in the categories Data and Video with “very good response times and upload transfer rates, especially in the highest broadband class”. The test also demonstrated that 1&1 offers the best Web Services compared to the competition and also impressed in the Web TV category. And of particular importance for gamers: 1&1 scored the fastest gaming pings.

The landline test was conducted in three bandwidth classes for the first time this year. In doing so, “connect” aims to reflect the actual market distribution more accurately. Class 1 comprises connections with speeds of up to 20 Mbit/s (downstream), Class 2 is for 25 to 50 Mbit/s, and Class 3 for 100 Mbit/s and more.

The landline test was carried out on behalf of “connect” by zafaco GmbH. According to “connect”, about 1.8 million measurements were carried out on 92 test connections at 45 locations throughout Germany over a four-week period. The test connections automatically initiated voice and data transfers.

Security and data privacy

With the launch of the “E-Mail made in Germany” initiative in 2013 (in cooperation with a network also comprising Deutsche Telekom and freenet), United Internet also offers its customers high standards with regard to the security and privacy of e-mail communication. This includes the encrypted transmission of all e-mails on all network routes, the processing and storage of all data in Germany according to German data protection regulations and the identification of secure e-mail addresses within the e-mail applications. As of April 29, 2014, only SSL keys certified in Germany are used within the “E-Mail made in Germany” network and all transmission routes are fully encrypted. As an important enhancement of the security standard “E-Mail made in Germany”, the United Internet e-mail services GMX and WEB.DE developed an encryption system based on the globally recognized “Pretty Good Privacy” (PGP) standard in 2015. The new e-mail security level works on all commonly used devices, is provided free to all customers of the two mail services, and is compatible with all previous PGP applications. In 2016, the PGP solution of GMX and WEB.DE was also rolled out in the foreign markets of France, Spain and the UK via the international e-mail brand mail.com.

Following end-to-end encryption for e-mails in the past few years, the United Internet portals GMX and WEB.DE also rolled out end-to-end encryption for the cloud content of its customers in the fiscal year 2017. In addition to the automatic uploading of photos from smartphones to the cloud and improved publishing and sharing functions, security has also been stepped up: all users of WEB.DE and GMX in Germany, Austria and Switzerland (DACH) can use their “safe” for free end-to-end encryption of their cloud data, thus offering protection from third parties. As a result, the portal brands are strengthening their “Cloud Made in Germany” initiative and clearly differentiating themselves from non-European solutions.

Customer retention and customer satisfaction

A high level of service, product and network quality combined with high standards of security and data privacy also have a positive impact on customer satisfaction/customer trust. For example, the United Internet brand GMX is the e-mail provider which Germans trust most. This was the result of a survey (published in October 2017) commissioned by the German magazine “Wirtschaftswoche” in which GMX received the “Highest Customer Trust” rating. Starting in 2014, “Wirtschaftswoche” has been examining the trust of German consumers in various companies once a year, in conjunction with the research company Service Value. The results are published in “Germany’s Largest Trust Ranking”. In 2017, around 275,000 customers of 972 companies in 77 sectors were interviewed. The survey’s academic advisor is Rolf van Dick, a professor at the University of Frankfurt / Main. For the fourth year running, GMX has thus taken first place in this ranking of e-mail providers and achieved a score in 2017 which was 16.1% above the average for all e-mail providers (64.8%).

Employees

The internet sector is a highly dynamic and globally networked industry with short innovation cycles. United Internet AG has risen to these challenges with great success over many years now. One of the key factors for the success and growth of the United Internet Group are its dedicated and highly competent employees and executives with their entrepreneurial and autonomous approach to work. The company therefore attaches great importance to a sustainable and balanced strategy across all aspects of its HR activities: from employee recruitment, to targeted entry-level and vocational training formats, tailored skills training programs, support with individual career paths, through to sustainable management development programs and the retention of high potentials and top performers.

United Internet AG was once again recognized as a top employer in 2017. Based on an independent study of the “Top Employers Institute”, United Internet received the “TOP Employers Germany” award – as in the preceding years. Certification is only awarded to organizations which offer staff attractive working conditions. Assessment is based on career opportunities, employer benefits, working conditions, training and development opportunities, and the corporate culture.

Headcount and key figures

In the highly competitive market for skilled workers in the IT sector, United Internet once again succeeded in recruiting top staff for its key positions and thus meeting the needs of its growing business. In addition to targeted employer branding, partnerships with education and training providers, and the positive impact of the company’s product brands on candidates, our successful recruitment efforts center around a candidate-friendly, highly competitive acquisition and selection process and the efforts of our executives.

There was a strong year-on-year increase in headcount in the fiscal year 2017. Specifically, the number of employees rose by 19.2% to 9,414 (prior year: 7,897). The main reason was the acquisition of Strato (Applications segment), ProfitBricks (Applications segment) and Drillisch (Access segment). There was an opposing effect from the deconsolidation of affilinet (Applications segment).

As a result of the above mentioned takeovers, headcount in Germany rose by 24.8% to 7,890 as of December 31, 2017 (prior year: 6,322). The number of employees at the Group’s non-German subsidiaries decreased by 3.2% to 1,524 (prior year: 1,575) – due in particular to the deconsolidation of affilinet.

There were 4,526 employees in the Access segment (prior year: 3,478), 4,547 in the Applications segment (prior year: 4,221) and 341 employed at the Group’s headquarters (prior year: 198). The strong increase in staff at the Group’s headquarters resulted from the transfer of employees from the segments (especially the Applications segment) who already worked in corporate functions.

Multi-period overview: headcount development (domestic/foreign and by segment) [(1)]

	2013	2014	2015	2016[(2)]	2017[(2)]	Change over 2016
Employees, total	6,723	7,832	8,239	7,897	9,414	+ 19.2%
thereof domestic	5,080	6,168	6,502	6,322	7,890	+ 24.8%
thereof foreign	1,643	1,664	1,737	1,575	1,524	- 3.2%
Access segment	2,025	2,965	3,142	3,478	4,526	+ 30.1%
Applications segment	4,664	4,829	4,945	4,221	4,547	+ 7.7%
Corporate	34	38	152	198	341	+ 72.2%

(1) Active employees as of December 31 of the respective fiscal year
(2) After deconsolidation of affilinet in 2017; previous year adjusted

Due in particular to the acquisition of Strato, ProfitBricks and Drillisch, personnel expenses rose to € 489.0 million in fiscal 2017 (prior year: € 433.8 million). The personnel expense ratio therefore rose to 11.6% (prior year: 11.4%).

Multi-period overview: development of personnel expenses
(in € million)

	2013	2014	2015	2016[(1)]	2017[(1)]	Change over 2016
Personnel expenses	306.1	351.7	429.7	433.8	489.0	+ 12.7%
Personnel expense ratio	11.5%	11.5%	11.6%	11.4%	11.6%	

(1) After deconsolidation of affilinet in 2017; previous year adjusted

Sales per employee, based on annual average headcount, amounted to approx. € 486k in fiscal year 2017 (prior year: approx. € 472k).

Targeted staff support and ongoing development

In order to keep pace with or even anticipate new technologies, competitive ideas and market trends, it is important to continuously develop the company’s employees. Pooling and retaining knowledge in-house requires a sustainable policy for aligning the company and market requirements for various functions with the individual career objectives and prospects of staff.

United Internet attaches great importance to giving all employees at all locations – regardless of departments and functions – the same opportunities for development. A transparent, group-wide framework for staff development was therefore defined from an early stage. The range comprises standard programs and support measures, as well as various function-based offerings which are tailored to the respective employee and skills profile. Specifically, this involves a gradual assumption of responsibility and an expansion of competencies within the specific field of work function – from beginner to expert.

Staff are supported both in their daily work (“on the job”) as well as with targeted training measures. United Internet is also moving with the times in this respect by offering a wide range of training via a digital platform (1&1 Campus) in addition to the existing program. Everybody recognizes it on a day-to-day basis: learning is no longer restricted to school and vocational education. Social, economic and above all technological developments both call for and enable a permanent learning process. This platform offers flexible learning opportunities, a wide range of formats, easy usage possibilities, and requires users to display a high degree of inner drive during the learning process.

In addition to vertical development paths, horizontal development is also possible between different functions. In addition, the organization's permeability allows transfers between products or segments and thus enables the interdisciplinary development of employees.

For employees who have reached the highest competency level ("senior") for their respective function and would like to assume more responsibility for a special topic or in a management role, the company offers two career models: the "management track" and the "expert track". Whereas employees choosing the "management track" gradually assume more and more staff responsibility, "experts" have a high degree of specialist knowledge. However, they have no direct line responsibility, but are top performers, "know-how owners", and advisors on strategic questions in their specific field and act as multipliers for their knowledge inside and outside the company. Both the management and expert tracks are "permeable", i.e. horizontal movement is also possible and an expert can become a manager and vice versa.

Discovering and nurturing potential and performance from an early stage

With the aid of junior management programs, such as the 1&1 Graduate Program, United Internet develops young talents fresh from university from an early stage. The main target is to be able to recruit and train future managers and specialists from within the company.

Further development programs are offered for staff with exceptional abilities and potential in all areas of the company. Such employees are then accompanied through a structured program of individual development and training plans in order to prepare them for their future personal challenges, and those of the company (MyWay+ for staff at Advanced/Senior level and 1&1 MOVEforward for "Entrepreneurial Types" at Executive and Expert level).

Specialist training by colleagues for colleagues

A particular training-on-the-job initiative in the United Internet Group's technical divisions is the TEC campus, which is now in its fourth, highly successful year. TEC Campus comprises a series of lectures ("Business Academy"), training on tools, processes and methods, as well as e-learning, and two internal conferences. The program is jointly designed by Technology and HR staff in coordination with the Management Board member responsible for "Technology". The aim is to create a framework in which staff can benefit from their mutual knowledge and networks.

PASK is a conference on all aspects of agility: technologies from development and operations are discussed here twice a year. Both events feature lectures and interactive formats, such as workshops, discussion rounds and open spaces. The wide-ranging topics and intensive pooling of topics within two days attract colleagues from all locations and departments and help expand networks and experience.

Thanks in part to the measures described above, the United Internet Group was able to recruit around 70% of managers from within its own ranks in fiscal year 2017.

Training held in high regard

The United Internet Group also attaches great importance to apprenticeships and initial vocational training. The company trains young people to meet its future needs and offers them a successful start to their professional lives. The company currently offers apprenticeships in commercial and technical professions, including IT specialist (application development/systems integration), IT systems clerk, dialogue marketing clerk, marketing communication clerk, and office management clerk. In cooperation with Baden-Wuerttemberg Cooperative State University (Duale Hochschule Baden-Württemberg - DHBW), United Internet also offers degree courses in Applied Computer Sciences, Information Management, Business Administration / Accounting and Business Administration / Services Marketing at the universities of Karlsruhe and Mannheim.

During their three-year training or DHBW studies, all participants experience a wide variety of different company departments. During these periods, they are fully integrated into the respective teams and daily processes. The apprentice workshops at the facilities in Karlsruhe and Montabaur have proved especially successful. Technical apprentices in particular spend part of their training period in the workshops in order to learn the basics for their later careers as early as possible. In addition to the provision of technical and methodological skills, the company also attaches great importance during training to behavior compliant with its corporate culture. The internalization of corporate culture, expertise, methodological skills and behavior in line with the corporate values form the basis for a successful transition to the post-training period. Many of those trained by the United Internet Group are thus ideally prepared for the transition to full-time employment.

In order to secure the number of high-caliber apprentices in spite of dwindling school-leaver numbers, United Internet is now starting its efforts even earlier: in addition to initial cooperation and school events, the company has also been offering one-on-one career advice for some time now. This service is also being used increasingly by the children of our employees. On specific information days, trainers provide information on apprenticeships and career opportunities within the company and are also available to give advice. In addition, internships are also offered to schoolchildren to give them an insight into working life.

At the beginning of the new apprenticeship year 2017, a total of nine refugees were given the opportunity of a future career (with an apprenticeship contract). Around 230 young people were serving their apprenticeships with Group companies at year-end 2017. After successfully passing their examinations, United Internet endeavors to take on as many apprentices as possible and to make an attractive job offer to every graduate. In fiscal year 2017, 51 apprentices and DHBW students were given full-time jobs

As part of the “Fair Company Initiative”, United Internet is committed to providing fair conditions for interns and thus guaranteeing a high level of benefit from their internships. In addition to adequate financial compensation, interns receive dedicated personal support from their respective departments and HR. Interns and former interns regularly emphasize this aspect and stress the high learning effect achieved during their internships. Internships are offered every year for students of IT, Product Management and Online Marketing, as well as Finance and HR.

United Internet is also a sponsor of the “Germany Scholarship” program, in which companies and the state play an equal role in promoting future graduates and helping them complete successful and challenging degree courses. The scholarship program supports students whose achievements promise future excellence in their studies and careers. Since the program was launched in 2011, United Internet has sponsored students at the two elite universities LMU and TU Munich. However, United Internet does not limit its activities to financial support, but also offers the current five students personal mentoring by colleagues in the respective departments. This often leads to internships or jobs as working students.

Diversity

Without the individual strengths of its employees, United Internet would not be what it is today – an internationally successful, innovative company on track for growth. United Internet attaches great importance to the constructive use of diversity management and the handling of social differences between its employees.

The United Internet Group’s corporate culture is based on mutual respect and a positive attitude toward individual differences with regard to culture, nationality, gender, age and religion – in other words, everything that makes the company’s employees unique and distinctive. A work force composed of diverse personalities offers ideal conditions for creativity and productivity. The resulting potential for new ideas and innovation strengthens United Internet’s competitive position and enhances its opportunities in future markets. In accordance with this principle, the company strives to find the field of activity and function for each employee which allows them to fully exploit their individual potential and talents. In addition to productivity, diversity also helps raise the general level of satisfaction among employees. These are key reasons for many applicants to select their future employer. As United Internet's customers also have a wide variety of needs and wishes, they appreciate a business partner who can live up to their own diversity.

However, the promotion of diversity is not simply a one-size-fits-all solution. Employees and applicants are recruited, employed and promoted on the basis of objective criteria, such as skills, aptitude and expertise. In corporate divisions in which women are structurally under-represented, United Internet seeks to raise their representation provided they have the same qualifications, skills and suitability. However, the company always decides on a case-by-case basis.

Multi-period overview: employees by gender

	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
Women	35%	33%	34%	34%	31%
Men	65%	67%	66%	66%	69%

The average age of the United Internet Group's employees at the end of fiscal year 2017 was around 39 (prior year: 38).

Multi-period overview: employee age profile

	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017
under 30	30%	32%	27%	28%	24%
30 – 39	46%	43%	40%	41%	36%
40 – 49	20%	20%	25%	23%	27%
over 50	4%	5%	8%	8%	13%

Employees of United Internet AG work in an international environment at some 40 sites around the world.

Multi-period overview: employees by country

	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016[1]	Dec. 31, 2017[1]
Employees, total	6,723	7,832	8,239	7,897	9,414
thereof Germany	5,080	6,168	6,502	6,322	7,890
thereof France	23	46	25	3	3
thereof UK	208	227	234	209	232
thereof Philippines	468	450	390	386	366
thereof Poland	6	6	263	258	251
thereof Romania	288	264	229	194	174
thereof Spain	329	341	339	322	319
thereof USA	303	300	239	197	174
thereof Other	18	30	18	6	5

(1) After deconsolidation of affilinet in 2017; prior-year figures adjusted

Green IT

In the wake of the global climate debate and rising energy consumption, the term “Green IT” is often used in the computer industry. The term basically comprises all measures that contribute toward reducing a company’s CO_2 emissions and energy consumption.

The ICT sector makes a significant contribution to global added value and is thus a strong economic factor. At the same time, it also emits a significant amount of CO_2 and consumes a lot of electricity. For internet service providers like United Internet, this applies in particular to the data centers where millions of cloud applications are managed for private and commercial users.

United Internet has been using electricity from renewable energy sources at its data centers in Germany since December 2007. The servers at our German data centers in Karlsruhe, Berlin and Baden Airpark, for example, are powered 100% by electricity from Norwegian and French hydroelectric power plants supplied by Stadtwerke Karlsruhe. The US data center in Lenexa was also converted to climate-neutral electricity in 2008. And the data centers in Spain and the UK also use power from regenerative sources.

The main elements of our energy-saving efforts at data centers in Germany are:

- An intelligent cooling system. The warm cooling water is first led through open-air coolers on the roof of the data center that do not require energy-hungry compressors and use the “natural” outdoor temperature for cooling.
- The server hardware. A proportion of our computers are built-to-order for United Internet. We leave out unnecessary components and specify, for example, energy-saving processors and power supplies with low heat loss. This means that less heat is radiated and data rooms do not have to be cooled as intensively.
- The software used. The webhosting operating system used by United Internet is our own development, based on Linux. The modification enables us to manage the data of several thousand customers on a single computer and at the same time and thus utilize our resources as sensibly as possible.
- The virtualization. The server hardware used in data centers is often only utilized at an average rate of 15% to 25%. With the aid of virtualization, efficiency can be increased significantly – thus saving energy.

Social responsibility

“United Internet for UNICEF” foundation

“United Internet for UNICEF” was set up in September 2006 as an independent foundation under German civil law. It primarily supports projects of UNICEF, the United Nation’s Children’s Fund.

Projects are carefully selected from the wide range of UNICEF topics and presented on the high-reach portals of the United Internet Group (1&1, GMX und WEB.DE) in order to attract as many donors as possible – for the particular project or as long-term UNICEF sponsors. During emergency situations, such as the famine in parts of Africa and Yemen in February 2017, newsletters can reach over 30 million people within 24 hours and thus facilitate the effective collection of donations.

For United Internet for UNICEF, 2017 was characterized by three major catastrophes: the acute famine situation in South-East Africa and Yemen, the refugee crisis of the Rohingya in Bangladesh and the ongoing emergency situation in Yemen.

In countries like South Sudan, Nigeria, Somalia and Yemen, millions of people – including countless children – risk fatal starvation. The causes include the effects of climate change, war, armed conflicts, and diseases such as HIV/AIDS and malaria.

In 2017, more than 600,000 Rohingya were forced to flee Myanmar, most of them to Bangladesh. Hundreds of thousands of children arrived at the emergency shelters of the neighboring country in terrible condition. Many were traumatized, injured or ill, and in urgent need of help.

Thanks to the generous support of donors, the United Internet for UNICEF foundation was able to provide several million euros for immediate on-site aid.

The single or repeat donations gained via United Internet’s portals are passed on 100% to UNICEF – thanks to the voluntary work of all foundation staff.

There were several reasons for us to set up a foundation devoted principally to supporting UNICEF:

- UNICEF makes a sustainable improvement to the lives of children. True to the principle of “Helping People Help Themselves”, UNICEF develops national programs around the world focusing on education, health, AIDS and child protection. UNICEF involves the local population in its development work and supports them in such a way that they can look after themselves and their children.
- UNICEF provides long-term aid, but also offers fast and reliable help in emergency situations. In the wake of earthquakes, floods or wars, UNICEF provides children with clean drinking water and drugs, sets up provisional schools and offers psycho-social care. UNICEF can draw on its many years of experience and global presence.
- UNICEF imposes strict controls on the use of donations. Both the UNICEF representatives in the program countries and the local partners are regularly inspected to ensure that funds are being used exactly as planned.

As a result of the foundation's appeals, approximately € 3.9 million (prior year: € 3.0 million) could be handed over to UNICEF in the fiscal year 2017 – according to preliminary figures. Since its creation, the foundation has so far collected € 39.4 million in donations and enlisted the support of around 12,327 active and long-term sustaining members of UNICEF via the 1&1, GMX and WEB.DE portals as of December 31, 2017 (prior year: 11,735).

Further information on the United Internet for UNICEF foundation can be found online at www.united-internet-for-unicef-stiftung.de.

“1&1 Welcome”, “1&1 Language”, “1&1 Fit for Job”, “We Together” initiative

In addition to the United Internet for UNICEF foundation, the United Internet Group has been active since 2015 in various activities to promote the sustainable integration of refugees in Germany on the three levels which typify United Internet: with its employees, as an employer and via the company’s products.

Several hundred United Internet employees work as volunteers in local projects as part of the **“1&1 Welcome”** campaign. Together with local organizers, our employees offer regular activities to facilitate the transition into everyday German life, such as sports activities, playing music together, day trips and childcare. In a second step, **“1&1 Language”** was set up at centers near refugee homes to offer German language courses.

Since March 2016, the main focus of activities has been a training program to prepare refugees for the German labor market. The **“1&1 Fit for Job”** program provides courses in addition to those offered by the state and local authorities. At United Internet’s facilities in Montabaur, Karlsruhe and Munich, a modular program gives participants a general overview of office work, the cultural environment, and possible careers at the company, as well as hands-on training units on job applications and PC skills. All courses are held by company employees, who can devote up to 10% of their working hours to the program.

Graduates of this program will then also be offered internships or entry-level jobs. Armed with the knowledge from this training program, graduates are able to successfully apply for jobs at German companies – whether at United Internet or other employers. United Internet also organizes network meetings at various locations to share its experiences with other companies.

Over 230 refugees and immigrants have so far participated in the program at our sites in Montabaur, Karlsruhe and Munich. More than 80 participants subsequently completed an internship at companies of the United Internet Group and 17 are currently doing apprenticeships. Two graduates have since been given full-time employment. Numerous employees volunteer to act as trainers, sponsors, and internship assistants in the “Fit for Job” program, in addition to their daily work.

With its various programs, United Internet is also active in the **“We Together”** initiative, in which over 200 companies so far pool their integration activities and exchange notes on their experiences.

3 SUBSEQUENT EVENTS

There were no significant events subsequent to the end of the reporting period on December 31, 2017 which had a material effect on the financial position and performance or the accounting and reporting of the parent company or the Group.

Information on the economic position of the Group and company at the time of preparing this Management Report are provided under point 4.3 in the “Forecast report”.

4 RISK, OPPORTUNITY AND FORECAST REPORT

The risk and opportunity policy of the United Internet Group is based on the objective of maintaining and sustainably enhancing the company’s values by utilizing opportunities while at the same time recognizing and managing risks from an early stage in their development. A risk and opportunity management system which is “lived” ensures that United Internet AG can exercise its business activities in a controlled company environment.

The risk and opportunity management system regulates the responsible handling of those uncertainties involved with economic activity.

4.1 RISK REPORT

Risk management

The concept, organization and task of United Internet AG’s risk management system are defined by the Management Board and Supervisory Board and documented in a risk management strategy and risk manual which is valid for and available to all members of the Group. These requirements are regularly adapted to changing legal conditions and continually developed. The Corporate Risk Management department coordinates the implementation and ongoing development of the risk management system and is responsible for the centrally managed risk management process on behalf of the Management Board of United Internet AG.

The Corporate Audit department regularly examines the functioning and efficiency of the risk management system. As part of his statutory auditing obligations for the annual financial statements and consolidated financial statements, the external auditor also examines whether the risk early recognition system is generally suitable for the early identification of risks and developments which might endanger the company so that suitable countermeasures can be swiftly introduced. The system complies with statutory requirements regarding risk early recognition systems, as well as with the German Corporate Governance Code. Its design is based on the specifications of the international ISO standard ISO/IEC 31000. In accordance with the regulations of the German Stock Corporation Act, the Supervisory Board also examines the efficacy of the risk management system.

Methods and objectives of risk management

The risk management system comprises those measures which enable United Internet AG to identify, classify in terms of money and scenario, steer and monitor from an early stage all possible risks for the attainment of its corporate objectives with the aid of assessments and early warning systems. The aim of the group-wide risk management system is to provide maximum transparency for management regarding the actual risk situation, its changes and the available options for action so that a conscious decision can be taken to accept or avoid such risks. There is always an established indirect connection to central Group-wide risk management via the regular reporting channels throughout the Group and a direct connection for all major divisions. This ensures the completeness of registered risks in the risk management system.

The current status of the main risks is communicated to the Management Board and Supervisory Board four times per year. Identified important risks with an immediate impact or significant changes in the risk situation trigger an ad-hoc reporting obligation. The respective risk is then communicated immediately to the CFO of United Internet AG, who in turn reports it to the Supervisory Board where necessary. In this way, significant risks can be addressed as quickly as possible. In order to support the centralized risk management system, additional local risk managers have been installed in business fields of particular importance for the Group’s business success (such as the areas “Technology & Development”). In order to facilitate the group-wide exchange and comparison of risk information, these local risk managers meet with the Group's central risk management team and – for cross-company issues – with the company-wide, cross-functional managers at regular Risk Manager Meetings. Risks are assessed with their net impact, i.e. effects from mitigating (corrective) measures are only considered in the risk assessment after implementation.

Risks for United Internet

Of the total risks identified for the Group, the following sections describe the main risk categories and individual risks from the company's point of view. Assessments which the company's Management Board makes regarding the likelihood of occurrence and the potential impact of the risks described below are provided at the end of this Risk Report.

Strategy

United Internet AG continues to seek increasingly international growth in European and non-European markets. As a result, the company faces a growing number of new challenges associated with different cultural backgrounds, different legal requirements, and the ethical and social expectations of customers and international staff with regard to the parent company. For both internal processes, such as the implementation of cross-company and international projects, and customer communications, business success also depends on the precise knowledge and consideration of country-specific characteristics of the parties involved. The company takes this into account by enhancing the cross-cultural skills and awareness of its employees and managers.

Market

Competition

Competition in both the Access and Application segments may increase further, for example, via the market entry of new competitors. This would have a negative impact on growth and/or the achievable margins of the respective segments.

In the course of diversifying its business model, United Internet occasionally enters new, additional markets with major competitors. Such entrepreneurial decisions for new products and business fields generally involve new risks which may result, for example, from the pricing of products, changes in the business strategies of pre-service providers, or from fraudulent use. United Internet attempts to minimize these risks with the aid of detailed planning based on past experience and external market studies, and by using various partners/suppliers and continually expanding its anti-fraud measures.

Following the decision of the UK to leave the European Union, the advertising market has been noticeably more cautious. This has implications for the Applications segment of United Internet. Further effects in the UK, such as the adoption of new regulations (regarding company or tax legislation etc.), are possible but cannot be reliably estimated with regard to their financial impact.

Business development and innovations

A key success factor for United Internet is the development of new and constantly improved products and services in order to constantly raise the number of our customer contracts and strengthen customer retention. There is always a risk, however, that new developments might be launched too late on the market or not accepted by the target group. United Internet counters such risks by closely observing market trends and the competition as well as by undertaking product development which constantly responds to customer feedback.

Legal & political

Regulation

In the Access segment, the decisions of the German Federal Network Agency and Federal Cartel Office have an influence on the pricing of internet access tariffs. Price increases of network providers from whom United Internet purchases pre-services for its own customers can have a negative impact on the profitability of tariffs. In the same way, there is also the possibility that a lack of regulation may lead to a deterioration of market circumstances for United Internet. United Internet attempts to counter this tendency toward an increasing regulation risk by cooperating with various pre-service providers and by actively participating in the activities of industry associations. With its complete takeover of Versatel on October 1, 2014, United Internet now also has its own network. This network infrastructure gives United Internet the possibility to gradually expand its vertical integration procure fewer internally produced DSL pre-services.

Data protection

United Internet stores the data of its customers on servers according to international security standards at its own and at rented data centers. The handling of these data is subject to extensive legal regulations. The company is aware of this great responsibility and attaches great importance and care to data protection. At the same time, however, the possibility can never be excluded that data protection regulations are contravened due to human error or technical weaknesses. By using state-of-the-art technologies, continually monitoring all data-protection and other legal regulations, providing extensive staff training on data protection regulations, and involving data protection aspects and requirements as early as possible in product development, the company continually invests in improving the standard of its data security.

The EU's General Data Protection Regulation (GDPR) was adopted by the EU Parliament on 14 April 2016 and published in the Official Journal of the European Union on 4 May 2016. The new rules will apply from May 2018 onwards and include increased sanctions for breaches of duty, a revision of the requirement for consent declarations and new obligations for reporting to authorities and those affected in the case of data loss.

Litigation

The United Internet Group is currently involved in various legal disputes and arbitration proceedings arising from its normal business activities. The outcome is by definition uncertain and thus represents a risk. Insofar as the size of the obligation can be reliably estimated, accruals are formed for such risks from litigation.

Personnel

If United Internet does not effectively manage the manpower resources of its national and international facilities, the company may not be able to run its business efficiently and successfully. It is therefore essential that human resources are effectively controlled so that the company can ensure its short- and long-term needs for staff and the requisite expertise.

The company specifically counters this risk with a number of measures. These include succession and manpower planning, outsourcing and temporary use of external resources.

Highly skilled employees form the basis for the economic success of United Internet. The competition for skilled and specialist technical and management personnel is intense, however. If we are not capable of attracting, developing and retaining managers and staff with specialist professional and technological knowledge, United Internet will not be able to effectively pursue its business and achieve its growth targets.

Despite these risks, the company regards itself as an attractive employer and is well placed to hire highly skilled specialists and managers with the potential to drive its business success in the future. The company also counters this risk by developing the skills of its staff and managers. Development activities, mentoring and coaching programs are offered, as well as special programs for high potentials, which are geared to the ongoing development of talent and especially leadership skills.

Further details on our human resources are provided under point 2.5 of this Management Report "Significant non-financial performance indicators" under "Employees".

Fraud

In order to meet the requirements of dynamic customer growth and provide services as quickly as possible in the interests of its customers, United Internet has largely automated its order and provision processes – as have many other companies in such mass market businesses. The nature of such automated processes provides possibilities for attacks from internet fraudsters. For example, United Internet may suffer damage from automated hosting and domain orders made under false names and not paid for.

The fraudulent use of SIM cards may also incur damage for United Internet due to large-scale call forwarding or roaming calls, for example.

United Internet attempts to prevent such fraud attacks – or at least to recognize and end them at a very early stage – by permanently expanding its fraud management capabilities, working closely with pre-service providers and taking account of such risks in the design of its products.

Provision of services

Threat potential of the internet

United Internet AG generates its commercial success largely within the environment of the internet. In order to provide products and services, the company uses information and telecommunication technologies (data centers, transmission systems, connection nodes etc.) in its business processes which are closely networked with the internet and whose availability may be endangered by threats from the internet. For example, there is a risk of DDoS attacks (DDoS = Distributed Denial of Service), which may lead to an overloading of technical systems and server downtime. In order to deal with such risks more quickly, the existing monitoring and alarm system, together with the necessary processes and documentation, is continually optimized.

There is also the risk of hacker attacks with the aim of stealing or deleting customer data or using services fraudulently. United Internet counters this risk with the aid of virus scanners, firewalling concepts, self-initiated tests and various technical monitoring mechanisms.

It was possible to observe an increasing professionalization of the attackers and their attack methods during the reporting period. According to Germany's Federal Office for Information Security (BSI), the number of known malicious program variants grew by around 280,000 per day in the period January to May 2017.

The threat potential of the internet represents the largest threat group for United Internet with regard to its effects, which are all monitored by numerous technical and organizational measures. Of particular relevance in this respect are the operation and continuous improvement of the security management system and the steady enhancement of system resilience.

Complexity and possible manipulation of hardware and software used

United Internet's products and related business processes are based on a complex technical infrastructure and a number of success-critical software systems (servers, customer relationship databases and statistics systems etc.). Constantly adapting this infrastructure to changing customer needs leads to greater complexity and regular changes. In addition to major events like the migration of databases, this may lead to various disruptions or defects. Should this affect our business systems or their databases, for example, daily account debiting may be delayed or no longer possible. Should this affect our performance systems, for example, United Internet may not be able to provide its customers with the promised service, on a temporary or longer-term basis. The company meets these risks by making targeted adjustments to the architecture, introducing quality assurance measures, and establishing spatially separated (geo-redundant) core functionalities.

For the operation of systems, there is a risk of targeted attacks from inside and outside the company, e.g. from hackers or manipulation by staff with access rights, which may result in non-availability or a deterioration of services. In order to counter this risk, the company takes a wide variety of software- and hardware-based safety precautions to protect the infrastructure and its availability. By dividing responsibilities, the company has made sure that activities or business transactions involving risks are not carried out by single employees but on the basis of the “double-check principle”. Manual and technical access restrictions also ensure that employees may only operate within their particular area of responsibility. As an additional precautionary measure against data loss, all data are regularly backed up and stored in separate, i.e. geo-redundant, data centers.

Complexity in development

The growing demands placed on the development of the overall portfolio by the ever-increasing complexity and interoperability of the products offered necessitate a higher degree of coordination for the internal work processes of United Internet. The particular challenge is to ensure quality standards especially in view of fast-changing market events which require the maintenance of a usually high-performance and robust development component – and on numerous differing domestic and foreign markets.

A further aspect in this context is the preservation and expansion of core skills within the company for the development of the product portfolio. In the case of time-critical projects, for example, the use of highly specialized service providers may lead to additional expenses and negative consequences – such as the delay of planned campaigns, or similar security vulnerabilities etc. – if these were temporarily unavailable.

The company minimizes these risks by continuously developing and enhancing its internal processes, pooling and retaining its experts and key personnel, and continuously improving the organizational structures of the development components.

Additional disclosures on risks, financial instruments and financial risk management

The main financial liabilities incurred by the parent company United Internet AG for the financing of its activities include bank loans, overdraft facilities and other financial liabilities.

United Internet holds various financial assets which result directly from its business activities. They consist mainly of shares in affiliated companies and investments, as well as receivables from affiliated companies. As of the balance sheet date, the company mainly held primary financial instruments.

The aim of financial risk management is to limit risks through ongoing operating and financial activities. The company is hereby exposed to certain risks with regard to its assets, liabilities and planned transactions, especially liquidity risks and financial market risks, as described below.

Liquidity

The general liquidity risk of United Internet consists of the possibility that the company may not be able to meet its financial obligations, such as the redemption of financial debts. The company's objective is to continually cover its financial needs and secure flexibility, for example by using overdraft facilities and loans.

Our group-wide cash requirements and surpluses are managed centrally by our cash management system. By netting these cash requirements and surpluses within the Group, we can minimize the amount of external bank transactions. Netting is managed via our cash pooling process. The company has established standardized processes and systems to manage its bank accounts and internal netting accounts as well as for the execution of automated payment transactions.

In addition to operating liquidity, United Internet also holds other liquidity reserves, available at short notice. These liquidity reserves consist of syndicated credit lines with varying terms.

The strong expansion of business over the past few years has increased the company's exposure to possible credit default. Despite the increased possibility of occurrence (due to customer growth), the effects on United Internet's liquidity are classified as very low. The company still has no significant concentration of liquidity risks.

Financial covenants

Some of the company's existing credit lines are tied to so-called financial covenants. An infringement of these covenants may cause the lender to terminate the financial arrangement and demand immediate repayment of the amounts drawn. The covenants contained in the loan agreements of United Internet require the company to maintain a specified net financial debt-to-EBITDA ratio and a specified EBITDA-to-interest ratio. These ratios are used to calculate the relative burden which the financial liabilities (e.g. from interest payments) place on the company. Compliance with the covenants is regularly monitored by the company's Management Board.

Financial market

The activities of United Internet AG are exposed in particular to financial risks from changes in interest rates, exchange rates and stock exchange prices.

- **Interest**

  The company is fundamentally exposed to interest risks as the major share of its borrowing bears variable interest rates with varying terms.

  As part of its liquidity planning, the company constantly monitors the various investment possibilities and debt conditions. Any borrowing requirements are met by using suitable instruments to manage liquidity. Surplus cash is invested on the money market to achieve the best possible return. Due to developments on the global finance markets, the interest risk remained largely unchanged.

Market interest rate changes might have an adverse effect on the interest result and are included in our calculation of sensitive factors affecting earnings. In order to present market risks, United Internet has developed a sensitivity analysis which shows the impact of hypothetical changes to relevant risk variables on pre-tax earnings. The reporting period effects are illustrated by applying these hypothetical changes in risk variables to the stock of financial instruments as of the balance sheet date.

- Currency

  United Internet's currency risk mainly results from its operations (if revenue and/or expenses are in a currency other than the Group's functional currency) and its net investments in foreign subsidiaries.

  The UK's decision to leave the European Union and the subsequent devaluation of the British pound (GBP) has increased the risk of currency losses. However, the possible effects are still judged to be very low.

- Stock exchange prices (valuation risk)

  A stock exchange risk mainly results from investments in listed companies. These investments are carried at amortized cost in the separate financial statements of the parent company and at fair value or at equity in the consolidated financial statements. Should the (proportional) stock exchange value of an investment permanently lie below its amortized cost, the company recognizes an impairment of the financial instrument in the income statement of its separate financial statements. Changes in fair value assessments are recognized in the income statement of the consolidated financial statements if there is any impairment due to a significant or persistent decline in the fair value.

  Further details are provided in the notes to the consolidated financial statements in section 2 "Accounting and valuation principles" and section 3 "Significant accounting judgments, estimates and assumptions".

Capital management

In addition to the legal provisions for stock corporations, the company has no further obligations to maintain capital according to its statutes or other agreements. The key financial indicators used by the company are mainly performance-oriented (sales, EBITDA, EBIT, EPS). The targets, methods and processes of capital management are thus subordinate to these performance-oriented financial indicators.

In order to maintain and adapt its capital structure, the company can adjust dividend payments or pay capital back to its shareholders, purchase treasury shares and where necessary place them again or issue new shares. As of December 31, 2017 and December 31, 2016, no changes were made to the company's targets, methods and processes.

Management Board’s overall assessment of the Group’s risk position

The assessment of the overall level of risk is based on a consolidated view of all significant risk fields and individual risks, also taking account of their interdependencies.

From the current perspective, the main challenges focus on the areas of “Market”, “Legal & Political”, and “Personnel”.

The continuous expansion of its risk management system enables United Internet to limit such risks to a minimum, where sensible, by implementing specific measures.

In non-operating business, impairment charges depending on the further share price development of listed United Internet investments may lead to (non-cash effective) burdens.

Although the assessment of key risk areas or individual risks changed over the course of fiscal year 2017 due to the development of external conditions or as a consequence of the company’s own countermeasures, the overall risk situation for United Internet is virtually unchanged compared to the previous year and against the background of corporate development. In the assessment of the overall risk situation, the opportunities which exist for United Internet were not taken into consideration. There were no risks which directly jeopardized the continued existence of the United Internet Group in the fiscal year 2017 nor as of the preparation date for this Management Report, neither from individual risk positions nor from the overall risk situation.

Probability of occurrence / possible impact of company risks

	Probability of occurrence	Possible impact
Risks in the field of “Strategy”		
Internationalization	High (2016: Low)	Very low (2016: High)
Risks in the field of “Market”		
Competition	Low (2016: High)	Very high (2016: High)
Business development and innovations	High (2016: Low)	Low (2016: High)
Risks in the field of “Legal & Political”		
Regulation	High (2016: High)	High (2016: High)
Data protection	Low (2016: Low)	High (2016: High)
Litigation	High (2016: High)	High (2016: High)
Risks in the field of “Personnel”		
Employees	High (2016: Low)	High (2016: High)
Risks in the field of “Fraud”		
Fraud	High (2016: High)	Low (2016: High)
Risks in the field of “Service Provision”		
Threat potential of the internet	Low (2016: Low)	Extremely high (2016: Extremely high)
Complexity / possible manipulation of hardware and software	Low (2016: Low)	Very high (2016: High)
Complexity in development	Low (2016: Low)	High (2016: High)
Risks in the field of “Financial Instruments and Financial Risk Management”		
Liquidity	High (2016: Very high)	Very low (2016: Very low)
Financial covenants	Very low (2016: Very low)	Very low (2016: Very low)
Financial market	Very low (2016: Low)	Very high (2016: High)
Capital management	Very low (2016: Very low)	Very low (2016: Very low)

Assessment categories of company risks in ascending order

Probability of occurrence	Possible impact
Very low	Very low
Low	Low
High	High
Very high	Very high
	Extremely high

4.2 OPPORTUNITY REPORT

Opportunity management

Opportunity management is based on strategic planning and the resulting measures for the development of products and their positioning for various target groups, markets and countries during the product life cycle.

The Group Management Board, as well as the operative management level of the respective business segments in the form of sub-group management boards and Managing Directors, have the direct responsibility for the early and continual identification, assessment, and steering of opportunities.

The management team of United Internet AG makes extensive use of detailed evaluations, models and scenarios on current and future trends regarding sectors, technologies, products, markets/market potential and competitors in the Group's fields of activity. The potential opportunities identified during these strategic analyses are then examined with regard to the critical success factors and existing external conditions and possibilities of United Internet AG in planning discussions between the Management Board, Supervisory Board and operational managers before being implemented in the form of specific measures, targets and milestones.

The progress and success of these measures is continually monitored by operational management and the Managing Directors and Management Board members of the respective companies.

Opportunities for United Internet

United Internet's stable and largely non-cyclical business model ensures predictable revenues and cash flows, thus providing the financial flexibility to grasp opportunities in new business fields and markets – organically or via investments and acquisitions.

Broad strategic positioning in growth markets

In view of its broad positioning in current growth markets, the company's purely strategic growth opportunities are clearly apparent: universally accessible, permanently available and increasingly powerful broadband connections are enabling new and more sophisticated cloud applications. From the current perspective, these internet-based programs for home users, freelancers and small companies are likely to be United Internet's growth drivers over the coming years – both as stand-alone products in the Applications segment as well as in combination with landline and mobile access products in our Access segment.

Participation in market growth

Despite the uncertain macroeconomic conditions, United Internet – as well as many of the sector's leading analysts – expects further progress in those markets of importance to the company. United Internet is one of the leading players in these markets. At home and abroad. With its highly competitive Access products, its growing portfolio of cloud applications, its strong and specialized brands, its high sales strength, and already established business relationships with millions of private and business customers (cross-selling and up-selling potential), United Internet is also well positioned to participate in the expected market growth of both its business segments.

Expansion of market positions

United Internet AG is now one of the leaders in many of its business fields. Based on its existing technological know-how, its high level of product and service quality, the widespread popularity of Group brands such as 1&1, GMX or WEB.DE, its business relationships with millions of private and business customers, and its high customer retention ratio, United Internet sees good opportunities to build on its current market shares.

Entry into new business fields

One of United Internet's core competencies is to recognize customer wishes, trends and thus new markets at an early stage. With its broadly based value chain (from product development and data center operation, to effective marketing, powerful sales organization and active customer support), United Internet is often faster at placing innovations on the market and – thanks to the high level of cash generation in its existing business fields – capable of providing them with strong marketing support.

When new opportunities appear on the horizon, such as De-Mail, United Internet is well prepared and also capable of financing many years of cost-intensive preparation thanks to its strong cash generation in existing business fields. With a market share of some 50% of all German e-mail users, the company is excellently placed to participate in the digital, legally secure post business (especially from "postal charges" and "ad mailings"). The same applies to the "electricity market" in Germany, in which the company has been active since mid-2016 via its high-reach GMX and WEB.DE portals.

Own landline infrastructure

Since its acquisition of 1&1 Versatel (2014), United Internet has had its own telecommunications network. With a length of over 44,000 km, it is Germany's second-largest fiber-optic network. With its own network infrastructure, United Internet has the opportunity to extend its vertical integration and also gradually reduce its purchases of wholesale DSL services.

In addition, having its own network also offers United Internet the opportunity to systematically expand its B2B data and infrastructure business with SMEs and large corporations. This scale of this opportunity is underlined by the fast-growing data consumption of private users and companies (according to Dialog Consult / VATM estimates: +33.2% to approx. 79.0 GB data volume consumption per broadband connection and month in 2017) and the considerable pent-up demand for direct fiber-optic connections in Germany. According to the latest survey of the OECD (Organization for Economic Co-operation and Development) in December 2016, only 1.8% of all broadband connections in Germany are fiber-optic connections. Germany thus lags well behind in 30th place among the 35 OECD countries surveyed (average: 21.2%).

Access to Telefónica mobile network

Following the merger with Drillisch (2017), United Internet – indirectly via 1&1 Drillisch – is the only MBA MVNO in Germany with a long-term claim to a specific share (rising to 30%) of the used network capacity of Telefónica Germany and thus extensive access to Germany's largest mobile network. As a result, United Internet also has contractually assured, unrestricted access not only to LTE (4G), but also to all further future technologies.

As a consequence of the merger between 1&1 Telecommunication and Drillisch, United Internet can use its coordinated branding and customer targeting to address the German premium and discount segments more precisely while achieving a high and comprehensive reach among its target groups with its differently positioned brands.

High vertical integration for applications

In its Applications segment, United Internet covers the entire value creation chain. Applications are developed at the company's own "Internet Factories" or in cooperation with partner firms and operated on around 90,000 servers at the company's 10 data centers. This enables United Internet to maintain high quality standards and to respond quickly to customer needs and changing market situations in order to win new customers and retain existing ones.

Internationalization

Cloud applications can be used anywhere in the world and work on the same principle in Frankfurt as they do in London, Rome or New York. In the past, United Internet has already successfully adapted cloud products – such as 1&1 MyWebsite – to various languages and country-specific features and gradually rolled them out in different nations.

Thanks to the high degree of exportability which these products offer, United Internet is already active in its Applications segment in numerous European countries (Germany, Austria, Switzerland, the UK, France, Spain, Italy, Poland and the Netherlands), as well as in North America (USA, Canada and Mexico). Further countries and product roll-outs will gradually follow.

Acquisitions and investments

In addition to organic growth, United Internet also constantly examines the possibility of company acquisitions and strategic investments. Thanks to its high and plannable level of free cash flow, United Internet also has a strong source of internal funding and good access to debt financing markets in order to utilize opportunities in the form of acquisitions and investments.

United Internet has enhanced its market standing in Germany and abroad, for example, by making several acquisitions and strategic investments while gaining considerable expertise in the field of mergers and acquisitions (M&A) and company integration. The most important M&A activities of recent years include the acquisition of WEB.DE's portal business (in 2005), the acquisitions of Fasthosts (2006) and united-domains (2008), the acquisition of freenet's DSL business (2009) and the acquisitions of mail.com (2010), Arsys (2013), Versatel (2014), home.pl (2015), Strato (2017), ProfitBricks (2017) and Drillisch (2017). The most important strategic investments include the investments in virtual minds (2008), Open-Xchange (2013), ePages (2014), uberall (2014), Rocket Internet (2014), Tele Columbus (2016), rankingCoach (2017) and Awin (2017 via contribution of affilinet).

4.3 FORECAST REPORT

Expectations for the economy

In its global economic outlook published in January 2018, the International Monetary Fund (IMF) updated its forecasts for the development of the global economies in 2018 and 2019. All in all, the IMF's outlook for the global economy is slightly more optimistic than in its previous forecasts.

According to the IMF, a major cause for the improved growth prospects is the current upswing in Europe and Asia, as well as the tax reform passed in the USA in December 2017. The IMF expects this tax reform to drive investment by US companies, which is likely to also benefit the USA's trade partners.

Despite the positive outlook, the IMF warned that this faster growth was largely based on factors which were not long-term by nature. If countries fail to remedy their structural deficiencies, achieve a fairer distribution of wealth, or equip themselves better for future challenges, the recovery could be over faster than expected.

Specifically, the IMF predicts that the **global economy** will grow by 3.9% in both 2018 und 2019, following growth of 3.7% in 2017. This is 0.2 percentage points more, for both years, than the IMF predicted in its outlook of October 2017.

The latest IMF forecasts for United Internet's target markets in North America (the USA, Canada and Mexico) are far more upbeat than before. After growth of 2.3% in 2017, the **US economy** is expected to grow by 2.7% in 2018 and 2.5% in 2019. The IMF has thus upgraded its previous forecasts (October- outlook 2017) by 0.4 and 0.6 percentage points. The **Canadian economy** is expected to grow by 2.3% and 2.0% in 2018 and 2019, respectively – following growth of 3.0% in 2017 – and thus 0.2 and 0.3 percentage points more than previously forecast. The economy in **Mexico** is expected to grow by 2.3% in 2018 and 3.0% in 2019, following growth of 2.0% in 2017. This is 0.4 and 0.7 percentage points more than previously forecast.

The IMF anticipates growth in the **eurozone** to reach 2.2% and 2.0% in 2018 and 2019 – compared to 2.4% in 2017. The previous forecasts for both years were thus upgraded by 0.3 percentage points.

The IMF expects diverging economic trends in United Internet's main European markets (France, Spain, Italy and the non-euro country UK). Following growth of 1.8% in 2017, the IMF forecasts an increase of 1.9% in both 2018 and 2019 for **France** – this is 0.1 and 0.0 percentage points more than previously predicted. **Spain** is expected to grow by 2.4% and 2.1% in 2018 and 2019 – after growth of 3.1% in 2017. This is 0.1 percentage point less for 2018 and 0.1 percentage point more for 2019 than previously forecast. The IMF forecasts growth in **Italy** of 1.4% and 1.1% in 2018 and 2019, following growth of 1.6% in 2017. This is 0.3 and 0.2 percentage points more than before. And after growing by 1.7% in 2017, the IMF forecasts growth for the **UK** of 1.5% in both 2018 and 2019. This is 0.0 and 0.1 percentage point less than previously expected.

For United Internet's most important market, **Germany**, the IMF forecasts economic growth of 2.3% in 2018 and 2.0% in 2019– following on from 2.5% in 2017. These forecasts are both 0.5 percentage point more than previously expected.

Market forecast: GDP development of most important economies for United Internet

	2019e	2018e	2017
World	3.9%	3.9%	3.7%
USA	2.5%	2.7%	2.3%
Canada	2.0%	2.3%	3.0%
Mexico	3.0%	2.3%	2.0%
Eurozone	2.0%	2.2%	2.4%
France	1.9%	1.9%	1.8%
Spain	2.1%	2.4%	3.1%
Italy	1.1%	1.4%	1.6%
UK	1.5%	1.5%	1.7%
Germany	2.0%	2.3%	2.5%

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

Market / sector expectations

At its annual press conference on February 14, 2018, the industry association Bitkom forecast that **global ICT sales** would grow by 2.9% to € 3.29 trillion in 2018.

Bitkom expects the **ICT market in Germany** to grow by 1.7% to € 164.0 billion in 2018.

With an increase of 3.1% to € 88.8 billion, the IT market is expected to show the strongest growth again in 2018. Within this sector, growth in the software segment will be the fastest by with an increase of 6.3% (prior year: +6.3%) to € 24.4 billion. IT services – which include project business and IT consulting – are also expected to reach growth of 2.6% (prior year: +2.3%) to € 40.0 billion. Only slight growth of 0.9% (prior year: +4.2%) to € 24.4 billion is expected for the IT hardware segment.

Growth in the telecommunications market is likely to remain modest. Sales are expected to grow by 0.4% (prior year: 0.1%) to € 65.9 billion. Sales of TC devices are set to grow by 1.3% (prior year: 4.7%) to € 10.7 billion. Smartphones are expected to account for € 10.1 billion of this total. Telecommunication infrastructure is forecast to grow by 1.4% (prior year: +0.5%) to € 6.7 billion (+0.5%), with growth of 0.1% (prior year: -1.0%) to € 48.5 billion for telecommunication services. A strong decline is anticipated for voice services in both the landline (-8.5%) and mobile (-8.3%) segments. By contrast, further growth is forecast for mobile data services (+ 6.0%).

Following growth in 2017, sales of consumer electronics are likely to fall again by 1.9% (prior year: +2.6%) to € 9.3 billion.

The most important ICT markets for United Internet’s business model are the German broadband and mobile internet markets for its mostly subscription-financed Access segment, and the global cloud computing and German online advertising markets for its subscription- and ad-financed Applications segment.

(Stationary) broadband market in Germany

In view of the comparatively high level of household coverage already achieved and the trend toward mobile internet, experts continue to forecast only moderate growth for the German broadband market (landline).

According to the survey “German Entertainment and Media Outlook 2017-2021”, PricewaterhouseCoopers expects sales of landline-based broadband connections to increase by just 1.1% to € 8.15 billion in 2018.

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

	2018e	2017	Change
Sales	8.15	8.06	+ 1.1%

Source: PricewaterhouseCoopers, October 2017

Mobile internet market in Germany

By contrast, all experts continue to predict further strong growth for the mobile internet market. Following market growth of 6.6% to € 7.77 billion in 2017, PricewaterhouseCoopers also forecasts an increase in mobile data services of 5.8% to € 8.22 billion in 2018.

This growth will be driven above all by favorable – and thus for the consumer attractive – prices, as well as by the boom in smartphones and tablet PCs and the respective applications (apps).

Market forecast: mobile internet access (cellular) in Germany
(in € billion)

	2018e	2017	Change
Sales	8.22	7.77	+ 5.8%

Source: PricewaterhouseCoopers, October 2017

Global cloud computing market

In an update of its study “Forecast Analysis: Public Cloud Services, Worldwide”, Gartner forecasts global growth for public cloud services of 21.2%, from $ 153.1 billion to $ 185.5 billion in 2018.

Market forecast: global cloud computing
(in $ billion)

	2018	2017	Change
Global sales of public cloud services	185.5	153.1	+ 21.2%
thereof business process services (BPaaS)	46.2	42.5	+ 8.7%
thereof application services (SaaS)	73.3	60.1	+ 22.0%
thereof application infrastructure services (PaaS)	14.9	11.9	+ 25.2%
thereof system infrastructure services (IaaS)	40.6	29.9	+ 35.8%
thereof management and security services	10.5	8.7	+ 20.7%

Source: Gartner, December 2017

Online advertising market in Germany

Advertisers continued to display a strong willingness to invest in online advertising activities in 2017.

And experts forecast further growth for 2018. PricewaterhouseCoopers expects an increase of 6.1% to € 7.50 billion. The strongest growth is expected for mobile online advertising and search marketing with increases of 22.2% and 6.4%, respectively.

Market forecast: online advertising in Germany
(in € billion)

	2018e	2017	Change
Online advertising revenues	7.50	7.07	+ 6.1%
thereof search marketing	3.68	3.46	+ 6.4%
thereof display advertising	1.54	1.52	+ 1.3%
thereof affiliate / classifieds	1.00	0.99	+ 1.0%
thereof mobile online advertising	0.88	0.72	+ 22.2%
thereof video advertising	0.40	0.38	+ 5.3%

Source: PricewaterhouseCoopers, October 2017

Expectations for the company

Conversion effects from IFRS 15

In May 2014, the International Accounting Standards Board (IASB) published the standard IFRS 15 “Revenue from Contracts with Customers”. Application is mandatory in reporting periods beginning on or after January 1, 2018. The new standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. In particular, it replaces the previous standards IAS 18 “Revenue” and IAS 11 “Construction Contracts”. United Internet will exercise its right to use the modified retrospective transitional method, i.e. in the consolidated financial statements for the fiscal year 2018, the prior-year figures are not adjusted. The conversion effects will be recognized directly in equity as of January 1, 2018.

The application of IFRS 15 has a significant impact on the financial position and performance of United Internet. The new regulations mainly concern the following aspects:

- Whereas under the previous regulations, revenue from sales of hardware (e.g. cellphones) as part of a multiple-element arrangement (e.g. mobile contract and cellphone) was only recognized in the amount billed to the customer, IFRS 15 requires a separation of the total price for the customer contract based on the relative standalone selling prices of the individual elements. The resulting revenue share allocated to hardware is recognized in total on delivery to the customer. As the allocated revenue share generally exceeds the amount charged to the customer in the first month, the new regulations lead to accelerated revenue recognition.
- Moreover, IFRS 15 requires the capitalization of contract costs. Provided that certain conditions are met, the costs of contract acquisition (e.g. sales commissions) and the costs of contract completion (e.g. provision fees) must be capitalized and amortized over the estimated period of use.

In the case of permanent application and consistent business performance, IFRS 15 has no material impact on the results of United Internet. However, when business fluctuates, temporary differences occur compared to the previous accounting method: initial relief in the case of strong growth (compared to IAS 18) or initial burden in the case of declining new business (compared to IAS 18).

Forecast for the fiscal year 2018

Approximately 1.2 million DSL and mobile internet contracts are expected to be added in 2018. Key growth drivers will be coordinated branding and customer targeting in the mobile internet business, as well as the greatly increased use of subsidized smartphones (mostly without initial additional payment) also when sold via GMX and WEB.DE, as well as the Drillisch discount brands of the 1&1 Drillisch brands (smartmobil.de, yourfone, winSIM etc.). This affects both new and existing customers. Additional hardware investments will be refinanced via higher mobile tariff prices within the minimum contractual terms.

Sales of United Internet according to IFRS 15 are expected to reach approx. € 5.2 billion in fiscal year 2018 (prior year: € 4.21 billion). In addition to planned contract growth and the full-year consolidation of Strato / ProfitBricks and 1&1 Drillisch, this strong revenue growth will result from the above mentioned increased usage of subsidized smartphones in connection with earlier recognition of hardware sales according to IFRS 15 (sales effect: approx. € 200 million).

Consolidated EBITDA of approx. € 1.2 billion is anticipated (prior year: € 980 million). This figure includes a burden on earnings of approx. € 300 million from the above mentioned additional smartphone subsidies and – with an opposing positive effect – approx. € 300 million from accounting according to IFRS 15. EBITDA will also include approx. € 50 million in synergy effects from the merger with Drillisch, especially via savings from the joint procurement of wholesale network services and smartphones. These savings will be offset by approx. € 50 million for permanent growth investments in increased marketing budgets and the repositioning of GMX and WEB.DE.

In addition, EBITDA will include approx. € 50 million one-off expenses for integration and rebranding projects.

Due to its role as a holding company, the earnings of United Internet AG at **parent company level** are mainly influenced by its investment result (profit transfers and dividends) and the interest result. In addition, United Internet AG will recognize additional interest income from the completed sale of shares in the Business Applications division to Warburg Pincus. Against this backdrop, the Management Board expects strongly positive net income for fiscal year 2018 (subject to possible special items).

United Internet AG plans to maintain its shareholder-friendly **dividend policy** based on continuity in the coming years. Dividend payouts will continue to represent 20-40% of adjusted net income from continued operations after minority interests (adjusted net income attributable to "shareholders of United Internet AG" – according to the consolidated statement of comprehensive income) in the future, unless funds are required for further company development.

Management Board's overall statement on the anticipated development

The Management Board of United Internet AG is upbeat about its prospects for the future. Thanks to a business model based predominantly on electronic subscriptions, United Internet believes it is largely stable enough to withstand cyclical influences. And with the investments made over the past few years in customer relationships, new business fields and internationalization, as well as via acquisitions and investments, the company has laid a broad foundation for its planned future growth.

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

In the Consumer Access division, the main focus in fiscal year 2018 – apart from the integration of 1&1 Drillisch – will be on the marketing of mobile internet products, as well as the synchronization of branding and customer targeting in the premium and discount segments of the mobile market. United Internet aims to participate in market growth and achieve above-average growth. The company also plans to leverage the strong positioning of its DSL products to generate further growth. In its Business Access division, the company's own fiber-optic network is to be expanded with further connections to the BNGs (access points) of Deutsche Telekom, in order to extend the company's value chain.

In addition to the German market, international business with cloud applications also promises strong potential for the medium- and long-term growth of the company. In 2018, the key topics in the Consumer Applications division will be the repositioning of GMX and WEB.DE, and the associated reduction in monetization via traditional advertising in favor of big data solutions, as well as a focus on high-quality customer relationships. In the Business Applications division, the focus will be expanding business with existing customers and gaining new high-quality customer relationships, as well as integration and rebranding projects.

Following a successful start to the year (at the time of preparing this Management Report), the company's Management Board believes that the company is on track to reach the forecast presented above in the section "Forecast for the fiscal year 2018".

Forward-looking statements

This Management Report contains forward-looking statements based on current expectations, assumptions, and projections of the Management Board of United Internet AG and currently available information. These forward-looking statements are subject to various risks and uncertainties and are based upon expectations, assumptions, and projections that may not prove to be accurate. United Internet AG does not guarantee that these forward-looking statements will prove to be accurate and does not accept any obligation, nor have the intention, to adjust or update the forward-looking statements contained in this report.

5 ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In accordance with Sec. 289 (4) and Sec. 315 (4) German Commercial Code (HGB), United Internet AG is obliged to describe the main features of its accounting-related internal control and risk management system in its Management Report.

United Internet AG regards risk management as part of its internal control system (ICS). The ICS is understood as an ongoing process comprising organizational, controlling and monitoring structures to ensure permanent compliance with legal and corporate requirements.

The Management Board of United Internet AG is responsible for the scope and structure of its ICS and takes account of the company's specific requirements. The monitoring of the ICS's effectiveness is one of the duties of the Supervisory Board of United Internet AG, which is regularly informed by the Management Board about the status of the ICS and the findings of the company's Internal Audit system. Within the United Internet Group, the Corporate Audit department is responsible for independently auditing the appropriateness, effectiveness and functionality of the ICS and has been granted extensive rights with regard to information, examination and access in order to exercise its duties. Its audits are based on a risk-oriented audit plan which also includes regular audits of subsidiaries. In addition, the Corporate Audit department conducts fundamental audits regarding the proper functioning of important asset and inventory stock-taking. In addition, those areas of ICS of relevance for financial reporting are audited with regard to efficiency by the external auditors as part of their risk-oriented audit approach.

The accounting-related ICS is continually being developed and comprises principles, procedures and measures to secure the effectiveness, economic efficiency and compliance of the accounting system and to ensure that the relevant laws and standards are observed. During preparation of the consolidated financial statements, the ICS is used in particular to ensure the application of International Financial Reporting Standards (IFRS), as endorsed by the European Union, and the additional provisions under commercial law pursuant to Sec. 315e of the German Commercial Code (HGB). When preparing the annual financial statements and management report, the ICS also helps ensure that regulations under commercial law are observed.

However, a fundamental aspect of every ICS, irrespective of its particular design, is that it cannot provide absolute safety that material misstatements in accounting are avoided or detected. This may be due, for example, to incorrect discretionary decisions of individuals, faulty controls or criminal acts.

The following statements refer solely to the fully consolidated subsidiaries included in the annual financial statements of United Internet AG, for which United Internet AG has the direct or indirect possibility of determining their financial and monetary policy in order to derive a benefit from the activity of these companies.

The task of United Internet AG's risk management system includes setting measures to detect and assess risks, reduce them to an acceptable level, and monitor recognized risks. A risk management system requires organized action to deal suitably with uncertainty and threats and urges employees to utilize the regulations and instruments required to ensure compliance with the risk management principles. In addition to operative risk management, it also includes the systematic early recognition, management and monitoring of risks. The accounting-related risk management system focuses on the risk of false statements in accounting and external reporting.

Specific accounting-related risks may arise, for example, from the conclusion of unusual or complex transactions. Business transactions which cannot be processed in a routine manner are also exposed to latent risks. It is necessary to grant a limited circle of people certain scope for discretion in the recognition and measurement of assets and liabilities, which may result in further accounting-related risks.

The accounting-related ICS comprises internal controls, defined on the basis of risk aspects, for those processes which are relevant for financial reporting as well as those processes that support the IT systems. Special emphasis is placed on IT security, change management and operational IT processes. Organizational, preventive and detective controls are applied, which can be conducted manually or with the aid of IT. The effectiveness and efficiency of the accounting-related ICS requires highly developed employee skills. Regular training, the “four-eye principle” and the functional separation of administrative, executive and approval processes are indispensable for the United Internet Group. The Corporate Accounting division and other accounting departments are responsible for the management of the accounting processes. Laws, accounting standards and other pronouncements are continuously analyzed with regard to their relevance and impact on accounting. The Group companies are responsible for the orderly and timely execution of the accounting-related processes and systems and are supported by the accounting departments accordingly.

If significant control weaknesses or opportunities for improvement are detected, they are assessed and countermeasures are developed with the persons responsible to improve the effectiveness of the ICS. Implementation of the measures is monitored by the Corporate Audit department and may be the subject of subsequent audits. In order to ensure the high quality of the accounting-related ICS, the Corporate Audit department is closely involved during all stages.

6 DISCLOSURES REQUIRED BY TAKEOVER LAW

The following disclosures according to Secs. 289a and 315a German Commercial Code (HGB) represent conditions as of the balance sheet date. As required by Sec. 176 (1) Sentence 1 AktG, the disclosures are explained in the sections below.

Composition of capital

The subscribed capital of United Internet AG as of December 31, 2017 amounts to € 205,000,000 divided into 205,000,000 no-par value, registered shares. Each share entitles the owner to one vote. There are no other share categories. In the case of a capital increase, the commencement of dividend entitlement for new shares may be determined separately from the moment of contribution. All shares are listed on the stock exchange.

Limitations affecting voting rights or the transfer of shares

There are legal limitations affecting voting rights of certain shares pursuant to Sec. 71b AktG and Sec. 71d S. 4 in conjunction with Sec. 71b AktG. At the end of the reporting period, United Internet holds 5,093,289 shares representing 2.48% of capital stock.

There are also legal limitations affecting voting rights regarding a conflict of interests pursuant to Sec. 136 (1) AktG for shares held by the Management Board and Supervisory Board .

Among the members of the Management Board, Mr. Ralph Dommermuth held 82,000,000 shares (40.00% of capital stock) as of December 31, 2017. Moreover, Mr. Robert Hoffmann held 211,907 shares (0.10% of capital stock), Mr. Jan Oetjen held 33,621 shares (0.02% of capital stock), and Mr. Frank Krause held 5,482 shares (0.00% of capital stock).

Among the members of the Supervisory Board, Mr. Michael Scheeren held 100,000 shares (0.05% of capital stock) at the end of the reporting period.

There are no limitations affecting the transfer of shares.

Direct and indirect participations in capital with over 10% of voting rights

The company’s CEO, Mr. Ralph Dommermuth, owns 82,000,000 shares or 40.00% of the 205,000,000 shares in United Internet AG as of December 31, 2017. The Management Board is not aware of further participations in capital exceeding 10% of voting rights.

Special rights

Mr. Ralph Dommermuth is personally entitled to nominate a member of the Supervisory Board. This right is exercised by naming a person for the Supervisory Board to the company’s Management Board. The nomination becomes effective as soon as the nominated person declares his acceptance of the Supervisory Board seat to the Management Board. A requirement for the aforementioned nomination right is that Mr. Ralph Dommermuth holds shares himself or via affiliated companies pursuant to Sec. 15 ff. German Stock Corporation Law (AktG) representing at least 25% of the company’s voting capital and can prove as much to the Management Board on nomination of the Supervisory Board member by providing depository account statements or similar documents. Mr. Dommermuth has so far not made use of this nomination right. The Management Board is not aware of any further shares with special rights.

Appointment and dismissal of Management Board members, amendments to company articles

The appointment and dismissal of Management Board members is determined by Secs. 84, 85 AktG in conjunction with section 1 of the rules of procedure for the Supervisory Board. According to Sec. 6 (1) of the company's articles, the Management Board consists of at least one person. The Supervisory Board appoints and dismisses the members of the Management Board, determines their number and can appoint one member of the Management Board as Chairman.

Each amendment of the company's articles requires the adoption of a shareholders' meeting resolution with a majority of at least three quarters of capital represented at the vote. Pursuant to Sec. 22 of the company's articles in conjunction with Sec. 179 (1) Sentence 2 AktG (Changes in capital stock and number of shares), the Supervisory Board is authorized to make amendments to the company's articles insofar as they only concern formulation.

Powers of the Management Board to issue new shares

The Management Board is entitled to issue new shares under the following circumstances:

The Management Board is authorized, subject to approval by the company's Supervisory Board, to increase the company's capital stock on one or more occasions before May 20, 2020 by a total of € 102,500,000.00 by issuing new no-par shares for cash and/or non-cash contributions (Authorized Capital 2015). The Management Board is also authorized, in certain cases stated in Sec. 5.4 of the company's articles, to exclude the statutory right of shareholders to subscribe to new shares. This applies in particular in the case of fractional amounts and when granting subscription rights for new shares to bearers of warrants, convertible bonds or warrant bonds. The Management Board is also authorized, subject to the approval of the Supervisory Board, to restrict subscription rights in the case that the issue price of the new shares is not substantially lower than the quoted market price and the issued shares do not exceed in total 10% of capital stock. The Management Board is authorized, subject to the approval of the Supervisory Board, to exclude subscription rights in the case of a capital increase in return for non-cash contributions, especially in connection with the acquisition of companies, investments or assets.

Capital stock has been conditionally increased by up to a further € 25,000,000.00, divided into 25,000,000 no-par shares (Conditional Capital 2015). The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds, which the shareholders' meeting on May 21, 2015 authorized the company or a subordinated Group company to issue in the period ending May 20, 2020, providing the issue is in return for cash and no cash settlement is granted or the warrant or convertible bonds are serviced from the stock of treasury shares or approved capital.

Powers of the Management Board to buy and use treasury shares

The authorization of the Annual Shareholders' Meeting granted on May 22, 2014 and originally limited until September 22, 2017 to acquire, sell or cancel treasury shares was cancelled by the Annual Shareholders' Meeting of May 18, 2017.

At the same time, the Annual Shareholders' Meeting of May 18, 2017 issued a new authorization limited to September 18, 2020 and pursuant to Sec. 71 (1) No. 8 AktG, to acquire, sell or otherwise use or cancel treasury shares.

The Management Board was authorized, for every permissible purpose within the scope of legal restrictions, to purchase treasury shares in the amount of up to ten percent of the current capital stock (or if this value is lower, the existing capital stock at the time the stated authorization was implemented) The company may implement the authorization for the pursuit of one or more purposes. It can also be exercised by dependent or majority-owned corporations of the company or by third parties for the company's or their own account. At no point in time may more than ten percent of capital stock be accounted for by the respective purchased treasury shares in combination with other treasury shares held by the company or attributable to it pursuant to Sec. 71a et seq. AktG. The authorization may not be used for the purposes of trading with company shares.

The purchase of treasury shares is made at the discretion of the Management Board by way of repurchase via the stock exchange and/or (bb) by means of a public purchase offer issued to all shareholders.

- In the event of a purchase through the stock exchange, the counter value for the purchase of United Internet shares (without ancillary purchase costs) may not exceed, or fall below, ten percent of the company's average share price, as listed on the last five trading days preceding the due date in the closing auction of the Frankfurt stock exchange's XETRA trading system (or any functionally equivalent successor of the XETRA system). The due date is deemed to be the day on which an obligation to purchase is incurred.
- When acquiring treasury shares by way of a public purchase offer to all shareholders, the company may publish an offer aimed at all shareholders or publicly request the submission of offers. The exclusion and/or limitation of the shareholder's right to tender requires a Management Board resolution and consent of the Supervisory Board.

In addition to a sale via the stock exchange or in another manner that ensures the equal treatment of all shareholders, the Management Board is also authorized, subject to the approval of the Supervisory Board, to use the treasury shares purchased based on this or any prior authorizations, pursuant to Section 71 (1) No. 8 AktG, for the following purposes:

- Sale for cash consideration that is not significantly below the Company's share price listed on the stock exchange at the time of sale (without ancillary purchase costs). The company's XETRA opening share price (or one of any functionally equivalent successor to the XETRA system) on the Frankfurt Stock Exchange on the day when the United Internet shares are sold is considered as the significant stock market price in terms of the above sales rule. This authorization, however, shall only apply on condition that this is a proportional amount of no more than ten percent, or if this value is lower, of the existing capital stock accounted for by the total sold shares when this authorization is implemented. Those shares with a subscription right which was excluded, by the direct or corresponding application of Sec. 186 (3) Sentence 4 AktG, for this authorization's duration at the same time should be counted toward the above-stated maximum threshold.
- Sale for payment in kind, particularly within the scope of the direct or indirect purchase of companies, parts of a company or equity shares therein, or other assets including receivables from the company, or entitlements to purchase assets, or as part of corporate combinations as a (partial) consideration.
- The granting of treasury shares as part of remuneration and/or employee stock ownership programs by which United Internet offers or transfers shares to United Internet AG Management Board members and/or to individuals who are in an employment relationship with the company or with one of its current or former affiliates and/or management board members of corporations affiliated with the company. Insofar as United Internet shares are to be transferred to members of the company's Management Board, the decision on this shall be incumbent upon the company's Supervisory Board.

- The fulfilment of conversion or option rights and/or conversion obligations stemming from convertible bonds or warrant bonds issued by the company or by corporations which are controlled or majority held by the company.
- Whole or partial cancellation without any further resolution of the Annual Shareholders' Meeting. The Management Board is authorized, subject to the approval of the Supervisory Board, to reduce the company's capital stock by the capital stock proportion attributable to the redeemed shares. Subject to the approval of the Supervisory Board, the Management Board may determine, in derogation herefrom, that the capital stock shall remain unchanged upon cancellation and that instead, by way of cancellation, the proportional ratio of remaining shares to the capital stock shall increase. The Supervisory Board is authorized to amend Section 5 of the company's by-laws in accordance with the respective utilization of its authorization to cancel shares.

The right of shareholders to subscribe to United Internet shares shall be excluded to the extent that these shares are used in accordance with the above authorizations. Furthermore, the Management Board may, with the approval of the Supervisory Board, exclude the subscription right of shareholders for fractional amounts, in the event of a disposal of treasury shares by way of an offer to all shareholders.

The authorization to purchase, sell or otherwise use, or cancel treasury shares, may be exercised independently of one another, on a one-off basis or multiple times, in whole or in part.

7 DECLARATION ON COMPANY MANAGEMENT / CORPORATE GOVERNANCE REPORT

As a German public company listed on the stock exchange, the management of United Internet AG is primarily determined by the German Stock Corporation Act (AktG) and the rules set forth in the currently valid version of the German Corporate Governance Code (GCGC).

The term Corporate Governance stands for responsible corporate management and control geared to long-term value creation. Efficient cooperation between Management Board and Supervisory Board, respect for stockholder interests, openness and transparency of corporate communications are key aspects of good corporate governance.

The Management Board and Supervisory Board of United Internet AG regard it as their duty to secure the company's continued existence and sustainable value creation through responsible corporate governance focused on the long term.

The following report contains the “Declaration on company management”, in accordance with Sec. 289f HGB for the parent company and in accordance with Sec. 315d HGB for the Group, as well as the “Corporate Governance Report” of the Management Board and Supervisory Board pursuant to Section 3.10 of the German Corporate Governance Code.

Management and corporate structure

In accordance with its legal status, United Internet AG operates a dual management and monitoring structure comprising two corporate bodies: the Management Board and the Supervisory Board. The third body is the Shareholders’ Meeting. All three bodies are committed to serving the company’s interests.

Supervisory Board

Working procedures of the Supervisory Board

The Supervisory Board is elected by the Annual Shareholders' Meeting and consisted of three members in fiscal year 2017. The members of the Supervisory Board are generally elected for a period of five years.

In accordance with German law, the company’s articles, its rules of procedure, and the corresponding recommendations of the German Corporate Governance Code – unless deviations are declared pursuant to Sec. 161 AktG – the Supervisory Board is in regular contact with the Management Board and monitors and advises it with regard to the management of business, and the company’s risk and opportunity management system.

The Supervisory Board meets at regular intervals to discuss with the Management Board all matters of relevance to the company regarding strategy and its implementation, as well as planning, the development of business, the risk position, risk management and compliance. Together with the Management Board, it discusses the quarterly and half-year reports before publication and approves annual budgets. It examines the annual financial statements of the parent company and the group and adopts them if it has no reservations. In doing so, it also takes the reports of the company’s external auditors into account.

The Supervisory Board’s responsibilities also include appointing members of the Management Board as well as determining and regularly monitoring their remuneration in compliance with the latest legal regulations and recommendations of the German Corporate Governance Code – unless deviations are declared pursuant to Sec. 161 AktG.

The Supervisory Board conducts regular tests to assess its own efficiency.

The members of the Supervisory Board complete the training and further education measures required for their tasks on their own, but receive appropriate support in this context from the company.

The Supervisory Board is convened at least once every quarter of a calendar year.

Supervisory Board meetings are convened in writing by its chairman at least 14 days in advance.

With meetings are convened, the Supervisory Board members are informed of the agenda items. If an agenda item has not been properly announced, a resolution concerning it may only be adopted if no Supervisory Board member objects prior to the vote.

Resolutions of the Supervisory Board are generally adopted at meetings. Meetings are chaired by the Chairman of the Supervisory Board. If so arranged by the Chairman, resolutions may also be adopted outside of meetings by other means, for example by phone or e-mail, if no member objects to this procedure.

The Supervisory Board has a quorum if all 3 members participate in the resolution. A member shall also be deemed to participate in a resolution if he abstains from voting.

Unless the law prescribes otherwise, resolutions of the Supervisory Board are adopted with a simple majority.

Minutes are kept of the Supervisory Board's discussions and resolutions.

The Chairman of the Supervisory Board is authorized to submit on behalf of the Supervisory Board the declarations of intent required for the implementation of the Supervisory Board's resolutions.

Targets for the composition of the Supervisory Board / status of implementation

The company's Supervisory Board aims to achieve a composition of the Supervisory Board that enables qualified supervision and advice for the company's Management Board.

In view of

- the size of the Supervisory Board (three members),
- the business in which the company operates,
- the size and structure of the company,
- the scope of the company's international activities
- its current shareholder structure

the company's Supervisory Board has adopted the following targets for its future composition. These take into account the statutory requirements both with regard to the requirements placed on individual Supervisory Board members and with regard to the composition of the entire Supervisory Board and – unless expressly stated otherwise – the requirements of the German Corporate Governance Code. In particular, a skills profile is planned with regard to the overall body.

The Supervisory Board will take these targets into account in the case of nomination proposals and make sure that the candidates meet the respective requirements. The specific situation of the company must be taken into consideration.

Requirements for individual members

The company's Supervisory Board aims to ensure that each Supervisory Board member meet the following requirements:

General requirement profile

Each member of the Supervisory Board should have the requisite knowledge and experience to enable them to carefully monitor and advise the company and to assess any risks for the company's business. Moreover, the Supervisory Board will ensure that all its members have a personal profile that enables them to maintain the company's public reputation.

Time availability

All members of the Supervisory Board must have sufficient time to exercise their duties with due care throughout the entire period of office. In particular, the members of the Supervisory Board should observe the legal requirements and those of the German Corporate Governance Code regarding the permissible number of Supervisory Board mandates.

Conflicts of interest

Supervisory Board members should not engage in any other activities likely to cause frequent conflicts of interest. These include management positions with key competitors.

Age limit for Supervisory Board members

As a rule, members of the Supervisory Board should not have reached the age of 70 at the time of their election or re-election.

No regular limit for duration of membership

There is no standard time limit to membership of the Supervisory Board – a recommendation of the current Corporate Governance Code – as the Supervisory Board believes that such a restriction is inappropriate compared to other criteria for nominating Supervisory Board members and that it is ultimately at the discretion of the Annual Shareholders' Meeting to elect those candidates to the Supervisory Board whom they believe are best suited to represent their interests.

Requirements regarding the composition of the Supervisory Board as a whole

In addition to the individual requirements for Supervisory Board members, the company's Supervisory Board aims to ensure that the Supervisory Board as a whole meets the following requirements:

Skills profile for the Supervisory Board as a whole

The members of the Supervisory Board must collectively have the knowledge, skills and professional experience necessary for them to carry out their tasks as required. The Supervisory Board strives to ensure that the Supervisory Board as a whole covers the widest possible range of knowledge and experience relevant to the company, and in particular meets the following requirements:

- In-depth knowledge and experience of the telecommunications and internet sector;
- Expertise or experience from other sectors of the economy;
- Entrepreneurial or operational experience;
- At least one member with several years of experience working abroad or working for a company with international activities;
- At least one member with special knowledge and experience in the application of accounting principles and internal control processes;
- In-depth knowledge and experience of controlling and risk management;
- In-depth knowledge and experience in the field of governance and compliance.

Diversity

The Supervisory Board aims to ensure that the Supervisory Board is composed of a wide variety of members so that the Supervisory Board as a whole has sufficient diversity of opinion and knowledge. In its nominations, the Supervisory Board will take into account the diversity concept established by the company.

Independence

The Supervisory Board aims to ensure that at least two of its three members are independent within the meaning of the criteria set out in Section 5.4.2 of the German Corporate Governance Code (GCGC).

Current composition of the Supervisory Board / implementation status

The company's Supervisory Board is of the opinion that the stated targets for the composition of the Supervisory Board are currently fulfilled. The Supervisory Board re-elected by the Annual Shareholders' Meeting 2015 continued to comprise the following three independent members – as defined by the criteria of Section 5.4.2 GCGC – in fiscal year 2017:

- Kurt Dobitsch, chair
- Michael Scheeren, deputy chair
- Kai-Uwe Ricke

Subject to the formation of short fiscal years, the current term of office of the Supervisory Board members ends on expiry of the Annual Shareholders' Meeting of the year 2020.

Management Board

Working procedures of the Management Board

The Management Board is the body charged with managing the Group's operations. In fiscal year 2016, it consisted of five persons (four persons as of October 1, 2017). The Management Board conducts operations in accordance with its legal and statutory obligations as well as the rules of procedure approved by the Supervisory Board and the corresponding recommendations of the German Corporate Governance Code – unless deviations are declared pursuant to Sec. 161 AktG.

It is responsible for preparing the interim and annual financial statements as well as for appointing key managers within the company.

Decisions of fundamental importance require the approval of the Supervisory Board. The

Management Board reports to the Supervisory Board in accordance with the statutory provisions of Sec. 90 AktG and provides the Chairman of the Supervisory Board at least once a month with an oral overview – and at the request of the Chairman of the Supervisory Board also in writing – of the current status of relevant reporting items pursuant to Sec. 90a AktG. The Chairman of the Supervisory Board is thus informed without delay by the Chairman or Speaker of the Management Board, or the Chief Financial Officer, about important events that are essential for assessing the company's situation and development, as well as for the management of the company. Important items also include any substantial deviation from the budget or other forecasts of the company. The Chairman or Speaker of the Management Board, or Chief Financial Officer, shall also inform the Chairman of the Supervisory Board, in advance where possible otherwise immediately thereafter, about all ad hoc announcements of the company pursuant to Art. 17 MAR.

There is also an age limit of 70 for members of the Management Board. This requirement is also currently complied with in full.

The Management Board conducts the company's business with joint responsibility and according to common objectives, plans and policies. Irrespective of the joint responsibility of the Management Board, each member bears responsibility for his assigned division, but is required to subordinate the interests of his assigned division to the overall good of the company.

The full Executive Board regulates the division of responsibilities in a business distribution plan.

The Management Board members inform each other about important events within their divisions. Matters of greater importance which are not approved in the budget must be discussed and decided by at least two Management Board members, whereby one of the two Management Board members must be responsible for the Finance division.

Irrespective of their areas of responsibility, all Management Board members constantly monitor those data which are crucial for the company's business development so they are always able to help avert potential disadvantages, or implement desirable improvements and expedient changes by drawing them to the attention of the full Management Board.

The full Management Board resolves on all matters of particular importance and scope for the company or its subsidiaries and investment companies.

Resolutions are adopted by the full Management Board with a simple majority. Should the vote result in a tie, the Chairman of the Management Board has a casting vote. The resolutions of the Management Board are recorded in the minutes.

The full Management Board meets regularly once a month and otherwise as required.

Each Management Board member immediately discloses any conflict of interest to the Supervisory Board.

Current composition of the Management Board

The Management Board of United Internet AG comprised the following five members in fiscal year 2017:

- Ralph Dommermuth, company founder and Chief Executive Officer
  (with the company since 1988)
- Frank Krause, Chief Financial Officer
  (with the company since 2015)
- Robert Hoffmann, Management Board member responsible for Business Applications – until December 31, 2017
  (with the company since 2006)
- Jan Oetjen, Management Board member responsible for Consumer Applications
  (with the company since 2008)
- Martin Witt, Management Board member responsible for Access – until September 30, 2017
  (with the company since 2009)

Targets for the share of women on the Supervisory Board, Management Board and in management positions / implementation status

The "Law on Equal Participation of Men and Women in Private-Sector and Public-Sector Management Positions" (FührposGleichberG) of April 24, 2015 resulted in amendments to the German Stock Corporation Law and a number of other laws.

The new legislation has led to the following obligations in particular for United Internet AG:

- setting of targets by the Supervisory Board for the share of women on the Supervisory Board of United Internet AG
- setting of targets by the Supervisory Board for the share of women on the Management Board of United Internet AG
- setting of targets by the Management Board for the share of women on the first and second management levels below the Management Board of United Internet AG

The first targets had to be set by September 30, 2015 for a period ending no later than June 30, 2017, during which time the targets should be met. The following targets are to be set for a period of no more than five years.

After careful examination, the Supervisory Board and Management Board of United Internet AG adopted the following based on a resolution of May 18, 2017:

- The Supervisory Board sets the deadline for the attainment of the targets for the share of women on the Supervisory Board and Management Board as the expiry of the Annual Shareholders' Meeting that decides on the discharge of the Supervisory Board for the fiscal year 2019 (probably May 2020). The Supervisory Board is to be re-elected at this Annual Shareholders' Meeting.
- A target of "0" is set for the Supervisory Board. The Supervisory Board currently comprises only men. No personnel changes or expansion of the Supervisory Board are planned or envisaged.

- A target of “0” is set for the Management Board. The Management Board also currently comprises only men. No personnel changes or expansion of the Management Board are planned or envisaged. The Supervisory Board believes that the government’s aim to raise the share of women is subordinate to the interests of the company to continue the successful work conducted by experienced Management Board members and a Management Board size which is tailored to the needs of the company.
- With regard to the share of women on the Supervisory Board and Management Board, the Supervisory Board reserves the right to resolve again on the target within the deadline period for attainment should there be any indication of a new appointment.

No target was set for the first and second management levels as United Internet AG does not have any management levels below the Management Board due to its holding structure.

The Supervisory Board and Management Board of United Internet AG regard the above mentioned targets as fulfilled without exemption at present.

Diversity concept (Secs. 289f (2) No. 6, 315d HGB)

The company aims to ensure that the Management Board and Supervisory Board are composed of many different types of people and that the bodies as a whole have a sufficiently wide variety of opinions and knowledge. In particular, the following criteria should be taken into account:

- The members of the Management Board and Supervisory Board should complement each other within their respective committees with regard to their experience, education and professional background in order to develop a good understanding of the current status and the longer term opportunities and risks associated with the company's business activities.
- For the reference period up to the expiry of the Annual Shareholders' Meeting that decides on the discharge of the Supervisory Board for the fiscal year 2019 (probably May 2020), the Management Board and Supervisory Board have each set a target value of "0" for the share of women, since at present both bodies are composed exclusively of men. In principle, however, both sexes should be treated equally on the basis of their qualifications, and in the case of new appointments the aim is to achieve a balanced composition of the Management Board and Supervisory Board.
- With the exception of an age limit of 70, no differentiation is made according to age for the members of the Management Board and Supervisory Board, and the sole differentiation should be according to the required knowledge and experience.
- In view of the current size of the Management Board and Supervisory Board, each consisting of just three members, no targets have been set with regard to geographical origin. In order to ensure international experience, the Supervisory Board already stipulates that at least one member of the Supervisory Board should have several years of experience abroad or have gained operational experience with an internationally active company.

The Management Board and Supervisory Board believe that the above diversity requirements for the Management Board and Supervisory Board are currently fulfilled. The company considers additional or more specific criteria to be inappropriate. In view of the size of the Management Board and Supervisory Board, each consisting of three members at present, more or more specific diversity aspects would create considerable difficulties to fill the positions taking into account all diversity criteria.

Annual Shareholders' Meeting

The Annual Shareholders' Meeting is the body which formulates and expresses the interests of the shareholders of United Internet AG. At the ordinary Annual Shareholders' Meeting, the annual financial statements of the parent company and consolidated financial statements are presented to the shareholders. The shareholders decide on the appropriation of the balance sheet profit and vote on resolutions concerning other statutory topics, such as releasing the Management Board members from their responsibility for the past fiscal year and appointing external auditors. Each share entitles the owner to one vote. All shareholders who register in time and are listed in the Share Register on the day of the Annual Shareholders' Meeting are entitled to attend. Shareholders may also exercise their rights at the Annual Shareholders' Meeting by means of a proxy vote. The company provides a proxy who votes according to the shareholder’s instructions, providing he receives the required order.

Compliance

Compliance is an integral component of corporate and management culture throughout the United Internet Group. For United Internet AG, compliance means ensuring its activities comply with all relevant laws for its business, as well as with its own principles and regulations.

This includes open and fair communication with our employees, customers, business partners, shareholders and the public. As an internet service provider with several million customers and a large number of business partners, United Internet’s legally and ethically compliant behavior is vital for retaining the trust of its customers and business associates.

To ensure conduct in line with our corporate culture, the Management Board has created a binding framework for the company’s ethical principles and values. Moreover, it has defined values and management guidelines, and compiled the most important rules of behavior in a Code of Conduct. This “culture of cooperation” provides guidance for employees in their everyday work and creates a secure framework for making the correct decisions. The framework applies equally to the Management Board, directors, managers and all employees.

The Management Board has established a Compliance Organization to ensure adherence to the legal and internal regulations.

The Compliance Organization is part of an holistic risk management system which not only includes the “GRC” functions Corporate Governance, Risk Management & Compliance, but also the Corporate Audit and Legal Department. These risk-mitigating functions are headed by the Group General Counsel, who reports directly to the CFO of United Internet AG.

The Compliance Organization is responsible for the creation of suitable structures and processes to support the implementation of compliance throughout the company and to align measures with the respective risks. The compliance processes include release procedures in the field of anti-corruption and trustworthy reporting paths that give employees the possibility to highlight possible misconduct or legal violations within the company.

The compliance organization is present and anchored in the business units via functional and local Compliance Managers (FCMs and LCMs). In addition to their normal functions, the FCMs and LCMs support the area of compliance.

The overarching element of the compliance system remains the responsibility of all managers for compliance. This includes acting as a role model, as enshrined in the company’s management guidelines, and goes beyond this: all managers of the company must set an example with regard to compliance and ensure that decisions and actions in their area of responsibility are always in line with the relevant legal provisions and the company’s own values and rules.

Financial disclosures / transparency

It is the declared aim of United Internet to inform institutional investors, private shareholders, financial analysts, employees and the public simultaneously and with equal treatment about the company’s situation by means of regular, open and up-to-date communication.

To this end, all important information, such as press releases, ad-hoc announcements and other mandatory disclosures (e.g. directors’ dealings and notifications of voting rights), as well as all financial reports, are published in accordance with statutory regulations. In addition, United Internet provides extensive information on its corporate website (www.united-internet.de), where documents and information on Annual Shareholders' Meetings and other economically relevant facts can be found.

United Internet provides shareholders, analysts and the press with four reports each fiscal year on the company’s business development and its financial and earnings position. The publication dates of these reports are stated in a binding financial calendar, which the company posts on its website and regularly updates in accordance with legal obligations.

The Management Board also provides immediate information in the form of ad-hoc announcements about any events not known to the public which might significantly affect the share price.

As part of its investor relations activities, the company’s management team regularly meets with analysts and institutional investors. We also hold analyst conferences to announce our semi-annual and annual figures, which investors and analysts can also participate in via telephone.

Accounting and auditing

The Group’s accounts are drawn up according to the principles of the International Financial Reporting Standards (IFRS, as applicable in the EU) with consideration of Sec. 315e HGB. However, the annual financial statements of the parent company – relevant for all dividend and tax matters – are drawn up according to the rules of the German Commercial Code (HGB). The annual financial statements and the consolidated financial statements are audited by independent auditors. The respective auditing company is selected by the Annual Shareholders' Meeting. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, was elected to audit the annual financial statements for the fiscal year 2017. The Supervisory Board issues the auditing mandate, determines auditing focal points, approves the auditing fee and examines the independence of the auditors.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft has audited the annual financial statements of United Internet AG and the Group since the fiscal year 2002. Mr. Andreas Grote has the responsible auditor since fiscal year 2012.

Remuneration of Management Board and Supervisory Board

The principles of remuneration for the Management Board and Supervisory Board are presented in section 8 of this Management Report. The disclosure of remuneration for members of the Management Board and Supervisory Board, according to person and its fixed and variable components (in line with legal regulations and the recommendations of the German Corporate Governance Code), is to be found in the Remuneration Report and section 41 of the notes to the consolidated financial statements.

Stock option plans

The principles of the stock-based compensation plan of United Internet AG are described in the Remuneration Report in section 8 of this Management Report. Further details are provided in section 36 of the notes to the consolidated financial statements.

Declaration of conformity with regard to the recommendations of the German Corporate Governance Code in accordance with Sec. 161 German Stock Corporation Act (AktG)

The corporate governance of United Internet is based on the German Corporate Governance Code, which the Government Commission set up by the Federal Justice Minister in September 2001 published for the first time on February 26, 2002.

In addition to formulating current best practice with regard to corporate governance, the Code aims to make the German corporate governance system transparent and understandable. It strives to promote confidence in the management and supervision of listed German companies among international and national investors, customers, employees and the public.

The Government Commission reviews the Code annually to check whether it still complies with current corporate governance best practice and, where necessary, adjusts it accordingly.

On February 7, 2017, the 14th and current version of the German Corporate Governance Code was finalized and published on April 24, 2017 by the Federal Ministry of Justice and Consumer Protection in the Federal Gazette (http://www.bundesanzeiger.de).

The Code contains three different elements:

- regulations describing currently valid legal standards in Germany
- recommendations which comply with internationally and nationally recognized standards of good and responsible corporate governance
- suggestions which comply with internationally and nationally recognized standards of good and responsible corporate governance

German corporations are obliged to observe the legal regulations.

With regard to the recommendations, the German Stock Corporation Act (Sec. 161) requires listed companies to publish a declaration of conformity once per year.

Companies are allowed to deviate from the suggestions without the need for disclosure.

The recommendations and suggestions of the Code become valid on publication in the Federal Gazette.

On February 20, 2018, the Management Board and Supervisory Board of United Internet AG submitted their current annual declaration of conformity (presented below) in accordance with Sec. 161 AktG and immediately published it on the company's website (www.united-internet.de), as well as in the Federal Gazette.

In accordance with Section 161 German Stock Corporation Act (AktG), the Management Board and Supervisory Board of United Internet AG declare that:

Since its last Declaration of Conformity issued on February 20, 2017, United Internet AG complied with the recommendations of the German Corporate Governance Code (the "Code") in the version dated May 5, 2015 with the stated exceptions, and will comply with the recommendations of the Code in the currently valid version dated February 7, 2017, which came into force with publication in the Federal Gazette on April 24, 2017, with the following exceptions:

Deductibles in the case of D&O insurance policies for Supervisory Board members (section 3.8 para. 3 of the Code)

The D&O insurance policy for Supervisory Board members does not include any deductible. This is also not planned in the future as United Internet AG does not generally believe that the motivation and responsibility with which the members of the Supervisory Board conduct their duties can be improved by such a deductible.

Capping Management Board compensation (section 4.2.3 para. 2 sentence 6 of the Code)

The agreements regarding Management Board compensation do not include payment caps for the total amount. Although provision is made for caps on variable components, these are not expressed as a total but as a percentage of a fixed amount. As the Supervisory Board believes that the general capping of Management Board compensation intended by the Code's recommendation is already suitably reflected by the provisions of the current compensation agreements, it does not intend to comply in full with the Code's recommendation acc. to section 4.2.3 para. 2 sentence 6 in the future.

Formation of committees (section 5.3 of the Code)

In view of its current size with only three members, the Supervisory Board has not formed any committees and fulfills all its duties as a whole. Under these circumstances, the Supervisory Board cannot recognize how the formation of committees would improve the efficiency of its work.

Targets for the composition of the Supervisory Board (section 5.4.1 para. 2 and 3 of the Code)

Following the resolution of past uncertainties in the regulatory environment, the Supervisory Board specified first concrete objectives regarding its composition in a resolution adopted on December 16, 2015 and will take these objectives into consideration when making election proposals at future Annual Shareholders' Meetings. It was decided not to set a regular limit for the duration of membership to the Supervisory Board as the Supervisory Board believes that such a limitation is not appropriate compared to other criteria for nominating Supervisory Board members and that it is ultimately at the discretion of the Annual Shareholders' Meeting to elect those candidates to the Supervisory Board whom they believe are best suited to representing their interests. The specific objectives of the Supervisory Board and the status of their implementation are published in the Company's Corporate Governance Report.

Consideration of the Deputy Chair when setting compensation for Supervisory Board members
(section 5.4.6 para. 1 sentence 2 of the Code)

When setting compensation for Supervisory Board members, the position of the Deputy Chair of the Supervisory Board is not considered. The Deputy Chair of the Supervisory Board does not currently undertake any additional duties which would represent a greater burden compared to those of a regular Supervisory Board member.

8 REMUNERATION REPORT

Principles of the Management Board remuneration system

The Supervisory Board is responsible for determining the remuneration of Management Board members. The total compensation of individual members of the Management Board is determined by the Supervisory Board based on a performance assessment, taking into account any payments made by Group companies. Criteria for determining the appropriateness of remuneration are based on the responsibilities of the individual Management Board member, their personal performance, the economic situation, the performance and outlook of the company, as well as a review of the comparability of compensation with peer companies and the remuneration structure in place in other areas of the company.

The size of the remuneration components is regularly reviewed, whereby the Supervisory Board also takes account of Management Board remuneration in relation to compensation for senior management and the workforce of United Internet AG as a whole over time.

The remuneration received by the members of the Management Board of United Internet AG is performance-oriented and consists of fixed and variable elements.

The fixed remuneration component is paid monthly as a salary.

The size of the variable remuneration component depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on key sales and earnings figures. The target attainment corridor is generally between 90% to 120%. No bonus is paid below 90% of the agreed target and the bonus calculation is capped at 120% of the agreed target. There is no provision for subsequent amendment of the performance targets. No minimum payment of the variable remuneration component is guaranteed.

There is a component providing long-term incentives in the form of a compensation program based on virtual shares (SARs). The exercise hurdle of this program is 120% of the share price. Payment of value growth is capped at 100% of the calculated share price when the virtual options were granted.

Fringe benefits generally include a company car commensurate with the respective position, which is taxable as a benefit in kind.

There are no retirement benefits from the company to members of the Management Board.

Management Board members do not receive compensation for seats on supervisory boards of subsidiaries.

With regard to severance pay for members of the Management Board, United Internet bases its regulations on the recommendations of the German Corporate Governance Code:

- Payments made to a Management Board member on premature termination of their contract, including fringe benefits, are limited to the value of two years' compensation (severance pay cap) and to the remaining term of the employment contract
- The severance pay cap is calculated on the basis of total compensation for the past fiscal year and the expected total compensation for the current fiscal year
- If the employment contract is terminated for a serious cause for which the Management Board member is responsible, no payments are made to the Management Board member

For the duration of the 12-month prohibition to compete on termination of the service contract, the respective Management Board member receives compensation up to the amount of their fixed remuneration.

As agreed with the Company's Supervisory Board, the CEO of United Internet AG, Mr. Ralph Dommermuth, has resolved to waive his claim to Management Board remuneration as of fiscal year 2016. As in the past, Mr. Ralph Dommermuth will continue to drive the Company's long-term development and value growth as CEO and participate in the Company's success as the major shareholder via dividends.

The following tables provide details on Management Board remuneration in accordance with the recommendations of the German Corporate Governance Code.

Value of benefits granted for the reporting period

The following table shows the value of benefits granted for the reporting period. It also shows the minimum and maximum values that can be achieved. For the one-year variable compensation, the target value (i.e. the value in the event of 100% target achievement) granted for the reporting period is stated. In addition, the multi-year variable compensation granted in the reporting period is broken down into different plans and the relevant periods of time are stated. For subscription rights and other share-based payments, the fair value at the time of granting is calculated.

Benefits granted (in €k)	Ralph Dommermuth				Frank Krause[1]			
	CEO				CFO			
	Since 2000				Since June 1, 2015			
	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)
Fixed compensation	0	0	0	0	360	360	360	360
Fringe benefits	0	0	0	0	111	311	311	311
Total	0	0	0	0	471	671	671	671
One-year variable compensation	0	0	0	0	140	140	0	168
Multi-year variable compensation	0	0	0	0	465	0	0	0
SAR program V 2016 (6 years)					465			
Total	0	0	0	0	1,076	811	671	839
Service cost	0	0	0	0	0	0	0	0
Total compensation	0	0	0	0	1,076	811	671	839

Benefits granted (in €k)	Robert Hoffmann				Jan Oetjen[2]				Martin Witt[2]			
	Business Applications				Consumer Applications				Access			
	From January 1, 2013 to December 31, 2017				Since October 1, 2014				From October 1, 2014 to September 30, 2017			
	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)	2016	2017	2017 (Min)	2017 (Max)
Fixed compensation	300	300	300	300	300	300	300	300	300	225	225	225
Fringe benefits	12	12	12	12	13	13	13	13	12	9	9	9
Total	312	312	312	312	313	313	313	313	312	234	234	234
One-year variable compensation	200	200	0	240	200	200	0	240	200	150	0	180
Multi-year variable compensation	0	0	0	0	0	0	0	0	0	0	0	0
SAR program V 2016 (6 years)												
Total	512	512	312	552	513	513	313	553	512	384	234	414
Service cost	0	0	0	0	0	0	0	0	0	0	0	0
Total compensation	512	512	312	552	513	513	313	553	512	384	234	414

(1) The fringe benefits of Mr. Krause in 2016 and 2017 in each case result from the benefit in kind of a company car and a special payment of € 100,000 in 2016 and € 300,000 in 2017; the size of the maximum multi-year compensation (SAR program V 2016) for Mr. Krause is calculated (based on 100,000 SARs) from an issue price of € 36.27 and a theoretical share price of at least € 72.54 for the respective exercise period and distributed over a term of 5 years

(2) The Management Board members Jan Oetjen and Martin Witt received their compensation for 2016 and 2017 via subsidiaries of United Internet AG

Allocation for the reporting period

The following table contains the allocation for the reporting period (disbursement) for fixed compensation and the one-year variable compensation. The table also shows the allocation (disbursement) of multi-year variable compensation exercised in the reporting period. The amounts are broken down into different plans.

Allocation (in €k)	Ralph Dommermuth		Frank Krause[(1)]		Robert Hoffmann		Jan Oetjen[(2)]		Martin Witt[(2)]	
	CEO		CFO		Business Applications		Consumer Applications		Access	
	Since 2000		Since June 1, 2015		From January 1, 2013 to December 31, 2017		Since October 1, 2014		From October 1, 2014 to September 30, 2017	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Fixed compensation	0	0	360	360	300	300	300	300	225	300
Fringe benefits	0	0	311	111	12	12	13	13	9	12
Total	0	0	671	471	312	312	313	313	234	312
One-year variable compensation	0	0	140	139	200	199	200	199	150	199
Multi-year variable compensation	0	0	700	0	4,015	4,917	2,314	0	2,315	1,681
SAR program A 2011 (6 years)										121
SAR program B 2011 (6 years)						902				
SAR program F 2012 (6 years)									199	199
SAR program H 2012 (6 years)					4,015	4,015			402	402
SAR program M 2012 (6 years)							2,314		1,714	959
SAR program O 2015 (6 years)			700							
Other	0	0	0	0	0	0	0	0	0	0
Total	0	0	1,511	610	4,527	5,428	2,827	512	2,699	2,192
Service cost	0	0	0	0	0	0	0	0	0	0
Total compensation	0	0	1,511	610	4,527	5,428	2,827	512	2,699	2,192

(1) The fringe benefits of Mr. Krause in 2016 and 2017 in each case result from the benefit in kind of a company car and a special payment of € 100,000 in 2016 and € 300,000 in 2017

(2) The Management Board members Jan Oetjen and Martin Witt received their compensation for 2016 and 2017 via subsidiaries of United Internet AG; the exercise of SARs in fiscal year 2017 by Mr. Martin Witt took place after his departure from the Management Board of United Internet AG and during his subsequent position as Management Board member of the subsidiary 1&1 Drillisch AG

In fiscal year 2017, the following Management Board members exercised SARs: Mr. Frank Krause (50,000 SARs with a strike price of € 40.00), Mr. Robert Hoffmann (250,000 SARs with a strike price of € 16.06), Mr. Martin Witt (115,000 SARs with a weighted strike price of € 25.54) and Mr. Jan Oetjen (150,000 SARs with a strike price of € 31.15). In fiscal year 2016, the following Management Board members exercised SARs: Mr. Robert Hoffmann (325,000 SARs with a weighted strike price of € 15.13) and Mr. Martin Witt (125,000 SARs with a weighted strike price of € 24.47). In the reporting period 2016, Mr. Frank Krause was granted 100,000 SARs with a strike price of € 36.27.

In the IFRS consolidated financial statements of the United Internet Group, the following expenses were recognized for share-based payments to Management Board members: Mr. Ralph Dommermuth (€ 0k, prior year: € 0k), Mr. Frank Krause: € 466k (prior year: € 394k), Mr. Robert Hoffmann: € 114k (prior year: € 258k), Mr. Jan Oetjen: € 211k (prior year: € 341k), Mr. Martin Witt: € 227k (prior year: € 381k).

Further details on Management Board remuneration are provided in section 41.

Principles of the Supervisory Board remuneration system

The members of the Supervisory Board of United Internet AG also served – in different constellations – on the supervisory boards of United Internet AG's most important subsidiaries, i.e. the supervisory boards of 1&1 Telecommunication SE, 1&1 Internet SE, 1&1 Mail & Media Applications SE and (until March 2017) United Internet Ventures AG (after renaming/change in legal form: United Internet Investments Holding GmbH) as well as (as of October 16, 2017) Drillisch AG (after renaming: 1&1 Drillisch AG). The Supervisory Board members each receive separate compensation for their work on behalf of the companies mentioned.

In each case, this compensation consists of a fixed element and an attendance fee. The fixed remuneration refers in each case to a full fiscal year. For parts of a fiscal year, compensation is paid on a prorated basis.

The remuneration system for the Supervisory Board of United Internet AG adopted by the Annual Shareholders' Meeting 2015 consists of a fixed remuneration component for an ordinary member and the Deputy Chairman of the Supervisory Board of € 15,000 each per full fiscal year and for the Chairman of the Supervisory Board of € 30,000 per full fiscal year. In addition, each member of the Supervisory Board receives a payment of € 1,000 for each meeting they attend in person, or via telephone, video conference or corresponding connection. There are no stock option plans for members of the Supervisory Board.

In the course of their duties for 1&1 Telecommunication SE, the fixed remuneration component for an ordinary member of the Supervisory Board is € 50,000 per full fiscal year, for the Deputy Chairman of the Supervisory Board € 55,000 per full fiscal year and for the Chairman of the Supervisory Board € 60,000 per full fiscal year. In addition, each member of the Supervisory Board receives a payment of € 1,000 for each meeting they attend in person, or via telephone, video conference or corresponding connection.

In the course of their duties for 1&1 Internet SE, the fixed remuneration component for an ordinary member and the Deputy Chairman of the Supervisory Board is € 30,000 each per full fiscal year, and for the Chairman of the Supervisory Board € 35,000 per full fiscal year. In addition, each member of the Supervisory Board receives a payment of € 1,000 for each meeting they attend in person, or via telephone, video conference or corresponding connection.

In the course of their duties for 1&1 Mail & Media Applications SE, the fixed remuneration component for an ordinary member of the Supervisory Board is € 15,000 per full fiscal year, and for the Deputy Chairman and Chairman of the Supervisory Board € 25,000 each per full fiscal year. In addition, each member of the Supervisory Board receives a payment of € 1,000 for each meeting they attend in person, or via telephone, video conference or corresponding connection.

In the course of their duties for United Internet Ventures AG (as of April 1, 2017 United Internet Investments Holding GmbH), the fixed remuneration component for an ordinary member and the Deputy Chairman of the Supervisory Board is € 10,000 each per full fiscal year, and for the Chairman of the Supervisory Board € 15,000 per full fiscal year. In addition, each member of the Supervisory Board receives a payment of € 1,000 for each meeting they attend in person, or via telephone, video conference or corresponding connection.

The remuneration system for the Supervisory Board of Drillisch AG adopted by the Annual Shareholders' Meeting 2013 consists of a fixed remuneration component for an ordinary member of € 25,000 each per full fiscal year, € 37,500 per full fiscal year for the Deputy Chairman of the Supervisory Board and Chairman of the Audit Committee, and € 50,000 per full fiscal year for the Chairman of the Supervisory Board. Insofar as a member of the Supervisory Board performs several functions, only the highest fixed remuneration is payable. Supervisory Board members who only belong to the Supervisory Board for part of the fiscal year or who chair the Supervisory Board or chair the Audit Committee receive the fixed compensation pro rata temporis, rounded up to full months. In addition, an attendance fee of € 2,000 is paid for each personal and physical attendance at a seated meeting of the Supervisory Board and as a member of its committees. For the Chairman of the

Supervisory Board and for the chairman of a committee, the attendance fee is € 3,000. If several meetings take place on one day, only the two highest-paid attendance fees are payable.

Specific details on Supervisory Board compensation is provided in section 41 of the notes to the consolidated financial statements.

Employee stock ownership plans

Virtual stock option program for management (SAR)

For many years now, United Internet AG has operated a stock-based compensation plan which enables its managers to participate in the company's success and is aimed at enhancing staff loyalty. The plan takes the form of a virtual stock option program.

Virtual stock options, or Stock Appreciation Rights (SARs), refer to the commitment of United Internet AG to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option and the share price on exercising the option. The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange over the ten days preceding issuance of the option. Payment of value growth to the entitled person is limited to 100% of the calculated share price when the virtual options were granted.

An SAR corresponds to a virtual subscription right for one share of United Internet AG. However, it is not a share right and thus not a (genuine) option to acquire shares of United Internet AG. United Internet AG retains the right to fulfill its commitment to pay the SAR in cash by also transferring United Internet AG shares from its stock of treasury shares to the beneficiary, at its own discretion. Employees may exercise their option rights after expiry of certain minimum retention periods. The increase in value represents a taxable gain for employees. The SARs have a maturity of no more than six years.

Option rights can be exercised as follows: up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% at the earliest 36 months after the date of issue of the option; a total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option.

Stock-based compensation for employees

In addition to its long-standing employee stock ownership program for management, United Internet AG introduced a wide-ranging program for its employees in Germany in the fiscal year 2016.

With the aid of this program, United Internet aims to
- involve its employees more directly in the development of the company and its share,
- raise staff motivation and performance,
- honor the loyalty of staff to the United Internet Group,
- and at the same time support the development of the company.

Against this backdrop, the new employee stock ownership program ("ESOP") was designed in the form of a stock-based compensation plan. The program consists of two components:

- Firstly, qualifying employees received the option to buy a specific number of shares in United Internet AG at a reduced price, which they must then hold for a period of two years (vesting period).
- On completion of the vesting period, participants are granted further shares for free, provided they are still working for the company – whereby employees of companies participating in "performance matching" receive additional shares if certain pre-defined targets are reached.

Both the discounted acquisition of the shares and the free allocation of additional shares after the end of the vesting period represent a taxable non-cash benefit.

Employees at international locations were offered a different (non-stock-based) incentive system for tax reasons.

Further details on employee stock ownership plans are provided in section 36 of the notes to the consolidated financial statements.

9 DEPENDENT COMPANY REPORT

In compliance with Sec. 312 (1) AktG, the Management Board declares that the company received adequate compensation (quid pro quo) for all legal transactions and measures listed in the report on relations with affiliated companies, in accordance with the circumstances known at the time when such transactions or measures were carried out, or the measure involved was executed or omitted, and that the company was not disadvantaged by such measures being executed or omitted.

Montabaur, March 16, 2018

The Management Board

Ralph Dommermuth Frank Krause Jan Oetjen

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS ACC. TO IFRS AS AT DECEMBER 31, 2017

CONTENTS

United Internet AG, Montabaur

Consolidated balance sheet acc. to IFRS as of December 31, 2017 in€k

ASSETS	Note	December 31, 2017	December 31, 2016
Current assets			
Cash and cash equivalents	17	238,522	101,743
Trade accounts receivable	18	289,995	228,025
Inventories	19	44,672	39,490
Prepaid expenses	20	92,291	111,172
Other financial assets	21.1	100,270	21,536
Other non-financial assets	21.2	58,166	129,427
		823,916	631,393
Non-current assets			
Shares in associated companies	22	418,048	755,546
Other financial assets	23	333,699	287,688
Property, plant and equipment	24	747,423	655,006
Intangible assets	25, 27	1,393,339	369,470
Goodwill	26, 27	3,579,780	1,087,685
Trade accounts receivable	18	53,576	55,841
Prepaid expenses	28	100,880	127,974
Deferred tax assets	14	155,151	103,131
		6,781,896	3,442,341
Total assets		**7,605,812**	**4,073,734**

LIABILITIES			
Current liabilities			
Trade accounts payable	29, 35	399,898	373,710
Liabilities due to banks	30, 35	248,185	422,236
Advance payments received	35	10,901	12,326
Income tax liabilities	31, 35	130,195	64,145
Deferred revenue	32, 35	262,480	235,503
Other accrued liabilities	33, 35	49,412	13,237
Other financial liabilities	34.1, 35	135,658	114,748
Other non-financial liabilities	34.2, 35	47,753	33,528
		1,284,482	1,269,433
Non-current liabilities			
Liabilities due to banks	30, 35	1,707,596	1,338,417
Deferred tax liabilities	14	390,734	94,211
Trade accounts payable	29, 35	9,023	9,479
Deferred revenue	32, 35	32,397	33,820
Other accrued liabilities	33, 35	33,485	39,671
Other financial liabilities	34.3, 35	97,537	90,891
		2,270,772	1,606,489
Total liabilities		**3,555,254**	**2,875,922**
EQUITY			
Capital stock	37	205,000	205,000
Capital reserves	38	2,709,203	377,550
Accumulated profit	38	1,204,603	724,213
Treasury stock		-189,384	-122,493
Revaluation reserves	38	74,923	30,988
Currency translation adjustment	38	-13,120	-17,794
Equity attributable to shareholders of the parent company		**3,991,226**	**1,197,464**
Non-controlling interests	39	59,332	348
Total equity		**4,050,559**	**1,197,812**
Total liabilities and equity		**7,605,812**	**4,073,734**

United Internet AG, Montabaur
Statement of comprehensive income acc. to IFRS
from January 1, 2017 to December 31, 2017 in €k

	Note	2017 January - December	2016 January - December*
Sales	5	4,206,302	3,808,131
Cost of sales	6, 10, 11	-2,689,100	-2,461,757
Gross profit		**1,517,202**	**1,346,374**
Selling expenses	7, 10, 11	-638,313	-521,177
General and administrative expenses	8, 10, 11	-185,106	-182,938
Other operating expenses	9.1	-100,632	-57,470
Other operating income	9.2	365,796	57,870
Operating result		**958,947**	**642,659**
Financial expenses	12	-44,245	-31,175
Financial income	13	3,428	4,802
Amortization of financial assets	23	-19,757	-254,905
Result from associated companies	22	-7,388	1,248
Pre-tax result		**890,986**	**362,629**
Income taxes	14	-242,497	-186,870
Net income		**648,489**	**175,759**
Net income after taxes from discontinued operations	4.2	38,578	3,403
Net income (after discontinued operations)		**687,067**	**179,162**
Attributable to			
non-controlling interests		36,651	164
shareholders of United Internet AG		650,416	178,998
Result per share of shareholders of United Internet AG (in €)			
- basic	15	3.25	0.88
- diluted	15	3.25	0.88
thereof result per share (in €) - from continued operations			
- basic	15	3.06	0.86
- diluted	15	3.05	0.86
thereof result per share (in €) - from discontinued operations			
- basic	15	0.19	0.02
- diluted	15	0.19	0.02
Weighted average of outstanding shares (in million units)			
- basic	15	199.86	203.26
- diluted	15	200.35	203.84
Reconciliation to total comprehensive income			
Net income		687,067	179,162
Items that may be reclassified subsequently to profit or loss			
Currency translation adjustment - unrealized	38	-1,103	-14,136
Currency translation adjustment - realized	38	-312	0
Market value changes of available-for-sale financial instruments before taxes - unrealized	38	46,203	21,059
Tax effect	38	0	38
Market value changes of available-for-sale financial instruments before taxes - realized	38	0	106,873
Tax effect	38	0	0
Items that are not reclassified subsequently to profit or loss			
Share in other comprehensive income of associated companies		483	-961
Other comprehensive income		45,271	112,873
Total comprehensive income		**732,338**	**292,035**
Attributable to			
non-controlling interests		35,983	164
shareholders of United Internet AG		696,355	291,871
- continued operations		657,824	288,622
- discontinued operations		38,531	3,249

*Prior year figures adjusted due to discontinued operations; please refer to note 4.2

United Internet AG, Montabaur

Consolidated Cash Flow Statement acc. to IFRS

from January 1, 2017 to December 31, 2017 in €k

	Note	2017 January - December	2016 January - December*
Cash flow from operating activities			
Net income (from discontinued operations)		38,578	3,403
Net income (from continued operations)		648,489	175,759
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of intangible assets and property, plant and equipment	10	187,512	146,809
Depreciation and amortization of assets resulting from company acquisitions	10	107,579	46,669
Amortization of financial assets	23	19,757	254,905
Share-based payment expense	36	5,180	4,433
Share of profit of associated companies	22	7,388	-1,247
Dividends received from associated companies	22, 45	19,823	19,309
Other non-cash items from tax adjustments	14	-31,350	1,459
Other non-tax items		-346,562	-7,296
Operative cash flow		**656,394**	**644,203**
Change in assets and liabilities			
Change in receivables and other assets		-54,792	-41,784
Change in inventories		1,245	3,019
Change in deferred expenses		52,520	-53,358
Change in trade accounts payable		-44,050	-16,715
Change in advance payments received		-543	-2,758
Change in other accrued liabilities		1,232	-3,586
Change in income tax liabilities		46,211	-65,441
Change in other liabilities		-7,128	9,028
Change in deferred income		4,617	14,375
Change in assets and liabilities, total		**-688**	**-157,220**
Cash flow from operating activities (before capital gains tax payments)		**655,706**	**486,983**
Capital gains tax refund		70,293	0
Cash flow from operating activities		**725,999**	**486,983**
Cash flow from investing activities			
Capital expenditure for intangible assets and property, plant and equipment		-233,480	-168,861
Payments from disposals of intangible assets and property, plant and equipment		2,205	4,894
Payments for company acquisitions less cash received	4.1	-528,125	309
Payments from company disposals less cash sold	4.2	-2,183	0
Purchase of shares in associated companies	4.1, 22	-127,949	-266,384
Investments in other financial assets	23	-8,156	0
Payments for loans granted		0	-657
Payments for the repayment of loans		0	3,548
Payments from the sale of financial assets		0	4,464
Cash flow from investment activities		**-897,688**	**-422,687**
Cash flow from financing activities			
Purchase of treasury stock	37	-77,214	-112,167
Sale of treasury stock in connection with an employee stock ownership plan	37	0	6,964
Taking out loans	30	615,294	360,000
Repayment of loans	30	-476,716	-135,849
Redemption of finance lease liabilities	44, 45	-16,684	-18,178
Dividend payments	16	-159,703	-142,857
Dividend payments to non-controlling interests		-164	-354
Payments from/to minority interests		427,337	-717
Cash flow from financing activities		**312,150**	**-43,158**
Net increase/decrease in cash and cash equivalents		140,461	21,138
Cash and cash equivalents at beginning of fiscal year		101,743	84,261
Currency translation adjustments of cash and cash equivalents		-3,681	-3,656
Cash and cash equivalents at end of fiscal year		**238,523**	**101,743**

*Prior year figures adjusted due to discontinued operations; please refer to note 4.2

United Internet AG, Montabaur - Consolidated Statement of Changes in Shareholders' Equity acc. to IFRS

from January 1, 2017 to December 31, 2017 in €k

	Capital stock		Capital reserves	Accumulated profit	Treasury shares		Revaluation reserves	Currency translation difference	Equity attributable to shareholders of United Internet AG	Non-controlling interests	Total equity
Note	37		38	38	37		38	38		39	
	Share	€k	€k	€k	Share	€k	€k	€k	€k	€k	€k
Balance as of January 1, 2016	205,000,000	205,000	372,203	695,799	917,859	-26,318	-96,021	-1,443	1,149,220	538	1,149,758
Net income				178,998					178,998	164	179,162
Other comprehensive income							127,009	-14,136	112,873		112,873
Total comprehensive income				178,998			127,009	-14,136	291,871	164	292,035
Purchase of treasury shares					3,000,000	-112,167			-112,167		-112,167
Issue of treasury shares			914	-9,942	-546,916	15,992			6,964		6,964
Employee stock ownership program			4,433						4,433		4,433
Dividend payments				-142,857					-142,857		-142,857
Profit distributions									0	-354	-354
Other				2,215				-2,215	0		0
Balance as of December 31, 2016	205,000,000	205,000	377,550	724,213	3,370,943	-122,493	30,988	-17,794	1,197,464	348	1,197,812
Balance as of January 1, 2017	205,000,000	205,000	377,550	724,213	3,370,943	-122,493	30,988	-17,794	1,197,464	348	1,197,812
Net income				650,416					650,416	36,651	687,067
Other comprehensive income							46,686	-747	45,939	-668	45,271
Total comprehensive income				650,416			46,686	-747	696,355	35,983	732,338
Purchase of treasury shares					2,000,000	-77,214			-77,214		-77,214
Issue of treasury shares				-10,323	-277,654	10,323			0		0
Employee stock ownership program			8,886						8,886	1,466	10,352
Dividend payments				-159,703					-159,703		-159,703
Profit distributions									0	-164	-164
Transactions with shareholders			2,322,767				-2,750	5,421	2,325,438	21,699	2,347,137
Balance as of December 31, 2017	205,000,000	205,000	2,709,203	1,204,603	5,093,289	-189,384	74,923	-13,120	3,991,226	59,332	4,050,559

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2017

1. General information on the company and accounting

United Internet AG (hereinafter referred to as the "United Internet Group" or the "Company") is Europe's leading internet specialist with its two business segments Access (landline and mobile internet access products) and Applications (applications for using the internet).

The Company is registered in 56410 Montabaur, Elgendorfer Strasse 57, Germany and is registered there at the District Court under HR B 5762. The Company has numerous branches and subsidiaries in Germany and around the world.

The consolidated financial statements of United Internet AG were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the relevant supplementary regulations of Section 315a (1) German Commercial Code (HGB).

The reporting currency is euro (€). Amounts stated in the notes to the consolidated financial statements are in euro (€), thousand euro (€k) or million euro (€m). The consolidated financial statements are always drawn up on the basis of historical costs. The exception to this rule are derivative financial instruments and available-for-sale financial assets, which are stated at fair value.

The balance sheet date is December 31, 2017.

The Supervisory Board approved the consolidated financial statements for 2016 at its meeting on March 22, 2017. The consolidated financial statements were published in the German Federal Gazette ("Bundesanzeiger") on May 2, 2017.

The consolidated financial statements for 2017 were prepared by the Company's Management Board on March 16, 2018 and subsequently submitted to the Supervisory Board. The consolidated financial statements will be presented to the Supervisory Board for approval on March 21, 2018. Theoretically, there may still be changes until the consolidated financial statements are approved and released for publication by the Supervisory Board. However, the Management Board expects that the consolidated financial statements will be approved in the present version. They are to be published on March 22, 2018.

2. *Accounting and valuation principles*

This section first presents all accounting policies which have been applied consistently in the periods presented in these consolidated financial statements. Following this, those accounting standards applied for the first time in these financial statements are explained, as are those accounting standards recently published but not yet applied.

2.1 Explanation of main accounting and valuation methods

Consolidation principles

The consolidated group comprises United Internet AG and all domestic and foreign subsidiaries (majority shareholdings) controlled by it. According to IFRS 10, control exists if an investor has the power to make decisions, is exposed to variable returns, and is able to use power to affect the amount of variable returns. The annual financial statements of subsidiaries are prepared as to the same balance sheet date and using the same standardized accounting and valuation methods as those applied by the parent company.

All intercompany balances, transactions, income, expenses, profits and losses from intercompany transactions contained in the carrying value of assets are fully eliminated.

Subsidiaries are fully consolidated from the point of acquisition, i.e. from the date on which the Company gained control. Consolidation ends as soon as the parent company no longer has control over the subsidiary.

Upon loss of control, a gain or loss from the disposal of the subsidiary is recognized in the consolidated statement of comprehensive income in the amount of the difference between the (i) proceeds from the disposal of the subsidiary, the fair value of the remaining shares, the carrying amount of the non-controlling interests, and the cumulative amounts of other comprehensive income attributable to the subsidiary, and (ii) the carrying amount of the subsidiary’s net assets to be disposed of.

Non-controlling interests represent the proportion of the result and net assets which is not attributable to the Group. Non-controlling interests are disclosed separately in the consolidated balance sheet. They are disclosed in the consolidated balance sheet as part of shareholders’ equity, but separate to the equity capital attributable to the shareholders of United Internet AG. For purchases of shares without a controlling influence (minority shareholding) or disposals of shares with a controlling influence but without loss of the controlling influence, the carrying values of shares with or without a controlling influence are adjusted to reflect the change in the respective shareholding. The amount by which compensation paid or received for the change in shareholding exceeds the carrying value of the respective share without a controlling influence is recognized directly in equity as a transaction with the shareholders.

Revenue recognition

Revenue is recognized separately for each of the Group's different segments (see also explanations on segment reporting in note 5).

Revenue is recognized when it is probable that the Group will receive an economic benefit and the amount of revenue can be reliably determined. Revenue is measured at the fair value of the compensation received. Sales tax or other charges are not considered. The recognition of revenue must also fulfill the measurement criteria described below.

Revenues in the separate segments are recognized according to the following principles:

Access segment

The Access segment mainly comprises the product lines DSL connections and mobile internet.

In these product lines, the Company generates revenue from the provision of the aforementioned access products, as well as from additional services such as internet and mobile telephony. Revenue consists of fixed monthly basic fees, as well as variable additional usage fees for certain services (e.g. for foreign calls and mobile phone connections not covered by any flat-rate), and proceeds from the sale of the respective hardware.

Revenue is recognized according to service provision, which generally corresponds to the receipt of monthly fees paid by customers (usage charges and basic fees). Revenue from the sale of hardware is recognized on transfer of risk at the invoiced amount. Payments on account received from customers are carried as deferred income.

The segment also includes revenues from various telecommunication products for business and wholesale customers. In addition to the provision of classic landline connections (DSL and ISDN), telecommunication services comprise broadband services, network solutions as telecommunications infrastructure (so-called leased lines) or VPNs, value-added services, interconnection and IP services. Certain products are provided on a leasing basis. In the case of such leases, the present value of the minimum lease payments from this economic sale is recognized as revenue from the beginning of the lease term if all material risks and rewards are transferred to the lessee; in subsequent accounting for the finance lease receivables, interest income is recognized in subsequent periods. The leased assets are derecognized through cost of sales. Provision fees are deferred over the lease term.

Applications segment

The Applications segment comprises United Internet's application business – whether ad-financed or via fee-based subscriptions. These applications include domains, home pages and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software. The Company also offers its customers performance-based advertising and sales possibilities via Sedo and affilinet.

In the field of fee-based subscriptions, revenue is mainly generated from fixed monthly fees for the usage, administration and storage of the above applications, as well as income from the brokerage and administration of domains. In addition to fixed monthly fees, one-off fees such as set-up services, SMS charges, and income from affiliate programs are also generated.

Customers generally pay in advance for a contractually fixed time period for the services to be provided by the Company. Revenue is recognized pro rata over the period of service provision.

In the field of ad-financed applications (generally free e-mail solutions from GMX and WEB.DE), the Company generates advertising income and e-commerce commission via the WEB.DE, 1&1, GMX and smartshopping portals. This business is based on the frequent use of free applications and the correspondingly high number of hits for the portals. In the field of online advertising, space is offered on the websites of portals. Realized revenues depend on the placing of advertising and number of screenings or according to click rates. In its e-commerce business, the Company receives commission for the sale of products or brokerage of customers.

Revenues are realized according to services rendered. Advance customer payments are carried as deferred income.

In addition to application revenues, the segment also generates revenue from the performance-based advertising format Domain Marketing.

In Domain Marketing, United Internet operates (via Sedo GmbH) a trading platform for the secondary domain market (domain trading). At the same time, the Company offers domain owners the possibility to market unused domains to advertisers (domain parking). In addition to these customer domains, the Company also holds its own portfolio of marketable and salable domains. In domain trading, the Company receives sales commission from the successful sale of domains via the platform and also generates revenue from services relating to domain value assessments and transfers. The sales commissions and services are generally based on a percentage of the sales price achieved, whereas fixed prices are generally charged for the other services. In domain parking, domains are mainly marketed using text links, i.e. links on the parked domains to offers of the advertisers (primarily via cooperation agreements with search engines). The Company receives performance-based payment on a monthly basis from the cooperation partner on a pay-per-click basis, according to the number of clicks registered by the cooperation partner.

The Company recognizes sales commissions as revenue when the service is rendered. Revenue is thus recognized on completion of the transaction or provision of the service. In the case of domain parking, the monthly payments credited by cooperation partners are recognized as revenue.

Until its contribution to Awin, United Internet operated an internet platform for Affiliate Marketing via the company affilinet GmbH. In the fiscal year 2017 and in the previous year, affilinet is carried as a discontinued operation. Please refer to note 4.2. An affiliate program (partner program) is an internet-based sales solution whereby a merchant (the advertiser) pays a performance-oriented commission to his sales partner (the affiliate). The advertiser places the respective advertising message on the platform, which the affiliate can then use on his website to promote the advertiser's offer.

The advertiser recruits, controls and remunerates affiliates via the common platform. As the platform operator, affilinet is compensated by the advertiser for the use of administration and management tools provided on the platform, as well as for the calculation of transactions and the monthly payments to affiliates. Invoicing is based on the commission to be paid to the affiliate. This can be on a cost-per-click, cost-per-action or cost-per-sale basis, or a mixture of these three.

Revenue is recognized on completion of performance. Amounts invoiced in advance are recognized less performance completed as advance payments received.

Disclosure of disposal gains and losses from the sale of investments

Insofar as they concern effects on the income statement, regular carrying amounts and valuations, especially of investments in associated companies and available-for-sale shares, are disclosed in the financial result (see explanations on the financial result).

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

Foreign currency translation

The consolidated financial statements are prepared in euro, the Company's functional and presentation currency. Each company within the Group determines its own functional currency. The items in the annual financial statements of the respective company are valued using this functional currency. Foreign currency transactions are initially translated to the functional currency at the prevailing spot rate on the day of transaction. Monetary assets and liabilities in a foreign currency are translated to the functional currency on every balance sheet date using the closing rate. All currency differences are expensed in the income statement. The exception to this rule are currency differences resulting from foreign currency loans, providing they are used to hedge against a net investment in a foreign operation. These are recognized directly in equity until the net investment is sold and only recognized in profit or loss on disposal. Deferred taxes arising from such currency differences are also recognized directly in equity. Non-monetary items valued at historical cost in a foreign currency, are translated at the exchange rate prevailing on the day of the transaction. Non-monetary items stated at fair value in a foreign currency are translated at the ex-change rate prevailing at the time fair value was assessed. All goodwill items resulting from the acquisition of a foreign operation and all adjustments to fair value of the carrying values of assets and liabilities resulting from the acquisition of this foreign operation, are carried as assets and liabilities of the foreign operation and translated at the closing rate.

The assets and liabilities of foreign operations are translated into euro at the closing rate. Income and expenditure is translated at the exchange rate prevailing on the date of the transaction (for practical considerations, a weighted average rate is used for translation). The resulting translation differences are recognized separately in equity. The cumulative amount for a foreign operation which is stated in equity is reversed with an effect on the income statement when the foreign operation is sold.

The exchange rates of major currencies developed as follows:

(in relation to 1 euro)	Closing rate		Average rate	
	Dec. 31, 2017	Dec. 31, 2016	2017	2016
US dollar	1.199	1.054	1.13	1.107
UK pound	0.887	0.856	0.877	0.819

Property, plant and equipment

Property, plant and equipment is always carried at cost less cumulative scheduled depreciation.

Items of property, plant and equipment are eliminated either on their disposal or when no further economic use is expected from the continued use or sale of the asset. Gains and losses from the disposal of an asset are recognized in the income statement.

The residual values, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted where necessary.

Property, plant and equipment assets are depreciated over their expected economic useful life using the straight-line method.

The useful life periods can be found in the following summary:

	Useful life in years
Leasehold improvements	Up to 10
Buildings	10 or 50
Vehicles	5 to 6
Telecommunication equipment	7 to 10
Distribution networks	20
Other operational and office equipment	3 to 10
Office furniture and fixtures	5 to 13
Servers	3 to 5

For property, plant and equipment acquired in connection with company acquisitions, the applicable remaining useful life is determined primarily on the basis of the aforementioned useful lives and the useful lives elapsed at the time of acquisition.

Impairment tests and the recognition of impairment losses or reversals are conducted in the same way as for intangible assets with limited useful lives (see below).

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, unless they are connected with the production or purchase of a qualifying asset. As in the previous year, there was no need to capitalize borrowing costs during the reporting period.

Business combinations and goodwill

Business combinations are accounted for using the purchase method. This involves the recognition of all identifiable assets and liabilities of the acquired operation at fair value.

Goodwill arising from a business combination is initially measured at cost, being the excess of the acquisition cost of the operation over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is valued at amortized cost. Goodwill is subjected to an impairment test at least once annually or whenever there is any event or change in circumstances which might indicate impairment.

In order to test whether there is any impairment, goodwill acquired in the course of a business combination must be allocated from the date of acquisition to each of the cash-generating units of the Group which are to profit from the synergy effects of the combination. This does not depend on whether other assets and liabilities of the Group are already allocated to these cash-generating units.

The impairment need is determined by comparing the recoverable amount of the cash-generating units to which goodwill refers with their carrying value. The recoverable amount of an asset, or a cash-generating unit, is the higher of fair value of the asset or cash-generating unit less transaction costs and its value-in-use. In order to determine the value-in-use, expected future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market expectations regarding the interest effect and the specific risks of the asset. A suitable valuation model is used to determine fair value less sales costs. This is based on DCF models, valuation multipliers, the share prices of listed subsidiaries or other available indicators for fair value. If the carrying amount of an asset, or cash-generating unit, exceeds its recoverable amount, the asset, or cash-generating unit, is regarded as impaired and is written down to the recoverable amount. An impairment loss recognized for goodwill may not be reversed in the following reporting periods. The Group performs its annual impairment test for goodwill on the balance sheet date.

Intangible assets

Individually acquired intangible assets are carried at cost on initial recognition. The acquisition cost of intangible assets resulting from the business combination corresponds to its fair value at the time of acquisition. In the following periods, intangible assets are valued at cost less cumulative amortization and cumulative impairment charges. With the exception of those development costs which can be capitalized, costs for internally generated intangible assets are expensed in the period incurred.

A difference is made between intangible assets with limited and those with indefinite useful lives.

Intangible assets with limited useful lives are amortized over their economic useful life using the straight-line method and tested for possible impairment if there is any indication that the asset may be impaired. The impairment test is conducted in the same way as for goodwill. The useful lives and amortization methods of intangible assets with limited useful lives are reviewed at least at the end of each fiscal year. Necessary changes to the depreciation method and useful life are treated as changes to assumptions. Amortization of intangible assets with limited useful lives are recognized in the income statement under the expense category corresponding to the function of the intangible asset in the Company.

Intangible assets with indefinite useful lives are not amortized in scheduled amounts. Instead, an impairment test is performed at least once annually on the balance sheet date for the individual asset or on the level of the cash-generating unit. The impairment test is conducted in the same way as for goodwill. The useful life of an intangible asset with an indefinite useful life is reviewed annually to ascertain whether the assumption of an indefinite useful life is still justified. If this is not the case, a prospective change is made from indefinite useful life to limited useful life.

The useful life periods can be found in the following summary:

	Useful life in years
Trademarks	Indefinite*
Customer base	4 to 25
Licenses and other rights	2 to 15
Software	3 to 5

* In deviation from the general principle, the Strato brand has an expected remaining useful life of 1.5 years

A review is also conducted on each balance sheet date to determine whether there is any indication that a previously recognized impairment loss no longer exists or has decreased in size. In the case of such an indication, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is only reversed if there has been a change in the assumption used to determine the recoverable amount since recognition of the last impairment loss. If this is the case, the asset's carrying value is raised to its recoverable amount. This amount may not exceed the carrying amount, less depreciation, that would have been determined had no impairment loss been recognized for the asset in prior years.

Investments in associated companies

Investments in associated companies are valued according to the equity method. An associated company is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

In the case of successive acquisition of company shares, the carrying value is measured using the equity method as of the date on which the prerequisites for accounting as an associated company are met. United Internet measures the old shares in the case of successive share purchases according to the retrospective method (cost-based approach). The original purchase cost of the old shares is included as acquisition cost using the equity method. Unrealized gains or losses previously recognized in the revaluation reserve are not considered.

Using the equity method, investments in associated companies are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associated company. Goodwill connected with an associated company is included in the carrying value of the investment and not subjected to scheduled amortization. The income statement includes the Company's portion of the success of the associated company. Changes recognized directly in the equity capital of the associated company are recognized by the Company in proportion to its shareholding and – where applicable – reported in "Changes in shareholders' equity". Profits and losses from transactions between the Company and the associated company are eliminated in proportion to the shareholding in the associated company.

Upon loss of significant influence, a gain or loss from the disposal of the associated company is recognized in the amount of the difference between the (i) proceeds from the disposal of the shares, the fair value of the remaining shares, and the cumulative amounts of other comprehensive income attributable to the associated company, and (ii) the carrying amount of the investment to be disposed of.

The annual financial statements of the associated company are generally prepared as to the same balance sheet date as those of the parent company. Where necessary, adjustments are made to bring the methods in line with standard group-wide accounting and valuation methods.

On application of the equity method, the Company ascertains whether it is necessary to recognize an additional impairment loss for the Company's investments in associated companies. On each balance sheet date, the Company assesses whether there are objective indications for the impairment of an investment in an associated company. With regard to the underlying criteria, please refer to the comments on impairment of financial assets. Impairment tests and the recognition of impairment losses or reversals are conducted in the same way as for intangible assets with limited useful lives.

Fair value measurement

In some cases, assets and liabilities are measured either on initial recognition or during subsequent valuations at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible for the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Leases

The determination of whether an arrangement contains a lease is based on the economic substance of the arrangement at the time of signing and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

- Group as lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease period. The leased property is carried at fair value or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are charged directly against income.

Capitalized leased assets are fully depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Significant agreements classified as finance leases relate to IRU agreements (Indefeasible Rights of Use) and the use of leased city networks of the Versatel Group. IRUs are amortized over the contract term or, if there is a favorable purchase option, over their economic useful life.

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

- Group as lessor

In those cases where Group companies agree finance leases as the lessor, a receivable is recognized at an amount equal to the net investment in the lease. The lease payments are apportioned between repayment of principal and finance income.

If the Group bears all substantial risks and rewards (operating lease), the leased asset is recognized in the balance sheet by the lessor. Measurement of the leased asset is then based on the accounting policies applicable to that asset. The lease payments are recognized in profit or loss by the lessor.

Financial instruments – financial assets

The Group's financial assets comprise cash and short-term deposits, trade receivables, receivables from loans and other receivables, as well as listed and non-listed financial instruments.

Financial assets are carried at fair value on initial recognition. In the case of other financial investments than those classified as held at fair value through profit or loss, transaction costs directly attributable to the acquisition of the asset are also considered.

Financial assets are classified according to the valuation categories

- loans and receivables
- available-for-sale financial assets

at the moment of initial recognition.

All standard market purchases and sales of financial assets are recognized on the trading day, i.e. on the day on which the Company entered into the obligation to purchase the asset. Standard market purchases and sales are purchases and sales of financial assets which prescribe the delivery of the assets within a period specified by market regulations or conventions.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market. Following initial recognition, loans and receivables are carried at amortized cost using the effective interest method less allowances for impairment. Profits and losses are recognized in the period when the loans and receivables or eliminated or impaired or as part of amortization.

Available-for-sale financial assets are non-derivative financial assets which are classified as being available for sale and which have not been assigned to any other category. After initial recognition, available-for-sale financial assets are carried at fair value, unless there is significant uncertainty in the estimation of value. Non-realized profits or losses are recognized directly in equity in the revaluation reserve. Impairment is recognized in profit or loss. On disposal of available-for-sale financial assets, the cumulative profit or loss previously recognized in equity is reclassified to the income statement. If the fair value of available-for-sale financial assets cannot be reliably calculated, they are measured at amortized cost. If they were previously classified as financial assets held at fair value through profit or loss, they are reclassified correspondingly in the case of is significant uncertainty in the estimation of value. Fair value at this moment represents the acquisition cost under the new valuation category.

Financial instruments – impairment of financial assets

On each balance sheet date, the Company assesses whether there has been any impairment of a financial asset or group of financial assets.

If there is an objective indication that financial assets carried at amortized cost are impaired, the loss is calculated as the difference between the asset's carrying value and the present value of the expected future cash flows (with the exception of expected future credit losses not yet occurred), discounted with the original effective interest rate of the financial asset (i.e. the effective interest rate on initial recognition). Allowances for trade receivables are made on the basis of experience values by classifying receivables according to age and on the basis of other information regarding the impairment of customer-specific receivables. The asset's carrying value is reduced using an impairment account. The impairment loss is recognized in the income statement. If the scale of the impairment is reduced in one of the following reporting periods and this reduction can be objectively attributed to an event occurring after recognition of impairment, the allowance is reversed. This write-back is limited in scale to amortized cost at the time of the write-back. The write-back is recognized in the income statement.

If the value of an available-for-sale financial asset is impaired, an amount recognized in equity amounting to the difference between acquisition cost (less any redemption and amortization) and current fair value of this financial asset is reclassified to the income statement.

In order to ascertain impairment requiring recognition, information concerning all adverse changes in the technological, market-related, economic or legal environment is considered. A significant or persistent decrease in the fair value of an equity instrument below its acquisition cost is also an objective indication of impairment.

A significant decrease is assumed if the decline in fair value of an equity instrument at the end of the reporting period is more than 25% below its average cost. This does not apply if the prevailing circumstances and situation in exceptional cases clearly indicate that there is no impairment.

If an impairment is recognized for an available-for-sale financial asset, all further declines in the fair value in subsequent periods must also be recognized as impairments. Consequently, in the case of available-for-sale financial assets, an impairment charge equal to the difference between the fair value and the original costs less impairment charges of previous periods must be recognized at the end of each reporting period.

Impairment charges recognized in profit or loss for available-for-sale equity instruments may not be reversed in profit or loss, but are reclassified from equity to the income statement as soon as the equity instrument is sold.

Write-backs of debt instruments classified as available-for-sale, are recognized in the income statement if the increase in the instrument's fair value objectively results from an event which occurred after recognizing an impairment charge.

Financial instruments – financial liabilities

The Group's financial liabilities mainly comprise trade accounts payable, liabilities due to banks, and liabilities from finance leases.

Financial liabilities are initially recognized at the fair value of the consideration received less transaction costs relating to the loan. Liabilities from finance leases are initially recognized at the present value of the minimum lease payments.

After initial recognition, they are measured at amortized cost using the effective interest method.

Financial instruments – derivative financial instruments and hedging relationships

The Group occasionally uses derivative financial instruments in order to hedge against interest and exchange rate risks. Derivative financial instruments are recognized at fair value on the date of the agreement and carried at fair value in the subsequent periods. The fair value of interest derivatives is calculated on the basis of present value models using market information (interest rate curves) as well as – where material – the individual credit risk of the Company. Derivative financial instruments are recognized as assets if their fair value is positive and as liabilities if their fair value is negative. Profit or loss resulting from changes in the fair value of derivative financial instruments which do not meet the criteria for recognition as hedging relationships are recognized immediately in the income statement.

When entering into a hedging relationship to hedge against the risk of cash flow fluctuations, certain derivatives are allocated to underlying transactions which can be attributed to a risk connected with a recognized asset or liability or the risk connected with the intended transaction (cash flow hedge). The hedging instruments in a hedge are also carried at market values. However, changes in value relating to the effective portion are recognized in the cash flow hedge reserve, a separate item under equity ("Cash flow hedge reserve"). Any ineffectiveness is recognized in profit or loss. Effectiveness is measured as at the end of the reporting period using the hypothetical derivative method. The amounts recognized in equity are reclassified to the statement of comprehensive income in the period in which the hedge influences the period result, e.g. when hedged financial income or expenses are recognized or when an expected sale is made.

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value comprises the estimated sales proceeds less estimated necessary selling costs. Adequate valuation allowances for excess inventories are made to provide for inventory risks.

Valuation is also based in part on time-related write-downs for inventories. Both the size and distribution over time of such write-downs represents a best-possible estimation of net realizable value and are thus subject to uncertainties. On indication of decreased net realizable value, inventories are corrected by recognizing suitable impairment charges.

Treasury shares

Treasury shares are deducted from shareholders' equity. The purchase, sale, issue or retirement of treasury shares is not recognized in the income statement.

The cancellation of treasury shares results in the pro rata reversal of the item "Treasury shares" disclosed in shareholders' equity at the expense of the remaining shareholders' equity. The Group uses the following application sequence:

- The cancellation of treasury shares is always deducted from share capital in the amount of the par value.
- The amount exceeding par value is first derecognized in the amount of the value contribution from employee stock ownership plans (SARs and convertible bonds) against capital reserves.
- Any amount exceeding the value contribution from employee stock ownership plans is derecognized against accumulated profit.

Cash and cash equivalents

Cash and cash equivalents consist of bank balances, other investments, checks and cash in hand, which all have a high degree of liquidity and maturities of less than 3 months – calculated from the date of purchase.

Pensions and other post-employment benefits

Payments to defined contribution retirement benefit plans are expensed on payment of salary to the employee.

Provisions

Provisions are formed if the Group has a current (legal or actual) obligation resulting from a past event which will probably give rise to the outflow of resources with an economic benefit to fulfill the obligation, provided that the level of the obligation can be reliably estimated. Such estimates are subject to significant uncertainties. If the Group expects at least partial compensation for a recognized provision (e.g. in the case of an insurance policy), this compensation is recognized as a separate asset if the reimbursement is virtually certain. The expense from forming the provision is recognized in the income statement after deducting the reimbursement. If the interest effect from discounting is significant, provisions are discounted at a pre-tax interest rate which reflects the specific risk of the debt, if so required by the individual case. In the event of a discount, the increase in provisions caused by the passage of time is recognized as a financial expense.

Share-based payment

Group employees receive share-based payments as remuneration for their work in the form of equity instruments and the granting of value growth rights, which may be settled in cash or via equity instruments at the Company’s discretion. As the United Internet Group has no agreements with a current obligation for cash settlement, all share-based payment transactions are carried in the balance sheet as equity-settled payment transactions.

The cost of granting equity instruments is measured using the fair value of such equity instruments on the date of granting. Fair value is measured using a suitable option price model. With the aid of the respective valuation process, the value component is determined at the time of granting, also for subsequent valuation until the end of the term. On every valuation date, however, the expected exercise volume is to be reassessed with a corresponding adjustment of the additional amount under consideration of additions already made. Any necessary adjustment bookings are to be made in the period in which new information about the exercise volume becomes available. The measurement of cost from the granting of equity instruments and the corresponding increase in equity occurs over the period in which the vesting or performance conditions have to be satisfied (the so-called vesting period). This period ends after the vesting date, i.e. the date on which the employee concerned has gained irrevocable entitlement. The cumulative expenses recognized on each balance sheet date for equity-settled transactions until the vesting date reflect the extent to which the vesting period has expired and the number of equity instruments which, according to the Group’s best-possible estimate, will actually be vested after the vesting period. The income or expense recognized in the income statement represents the development of cumulative expenses recognized at the beginning and end of the reporting period. No expense is recognized for payment rights which are not vested.

Earnings per share

Undiluted or basic earnings per share are calculated by dividing the result attributable to the holders of registered shares by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated similarly to basic earnings per share with the exception that the average number of shares outstanding increases by the portion which would result if the exercisable subscription rights resulting from employee stock participation programs had been exercised.

In addition, undiluted and diluted earnings per share are disclosed separately for continued and discontinued operations.

Financial income

Interest income is recognized as interest accrues (using the effective interest rate, i.e. the rate which discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset). Dividend income is recognized with the inception of the legal right to payment.

Government grants

Government grants are recognized where there is reasonable certainty that the grant will be received and the Company will satisfy all attaching conditions. Where the grants relate to an expense item, they are recognized as income in scheduled amounts over the period necessary to match the grants to the costs they are intended to compensate. Grants relating to an asset item reduce the carrying value of that item.

Current income tax and deferred taxes

The tax expense for a period comprises current taxes and deferred taxes. Taxes are recognized in the income statement, unless they relate to transactions that are recognized in other comprehensive income or directly in equity. In these cases, taxes are recognized accordingly in other comprehensive income or directly in equity.

Current taxes are valued at the amount at which a refund from the tax authorities or a payment to the tax authorities is expected. The amount is calculated on the basis of the tax rates and tax laws applicable on the reporting date.

The liability method is used to create deferred taxes on all temporary differences existing on the reporting date between the carrying value of an asset or a liability in the balance sheet and the fiscal carrying value.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit according to IFRS nor taxable profit or loss, and

- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss according to IFRS nor taxable profit or loss, and

- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted as of the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Discontinued operations

Discontinued operations are business fields that are either held for sale or have already been sold and that can be clearly separated from other business activities from a business perspective as well as for the purposes of financial reporting. In addition, the discontinued operation must represent a separate significant business field or geographical area of the Group. Non-current assets that are held for sale individually or together in a disposal group or that belong to a discontinued operation no longer undergo scheduled depreciation. They are carried at the lower of carrying amount and fair value less selling costs to be incurred. If this amount is below the carrying amount, an impairment cost is charged. The result from the measurement of divested business fields and the gains and losses from the disposal of discontinued operations, as well as the result from ordinary operations of these business fields, are disclosed separately in the consolidated income statement as the result from discontinued operations. Prior-year figures of the income statement are adjusted accordingly. The respective assets and liabilities are disclosed in a separate balance sheet item. Cash flows from discontinued operations are reported separately in the cash flow statement, and prior-year figures adjusted accordingly. However, the balance sheet of the previous year is not adjusted.

2.2 Summary of measurement principles

The Group's measurement principles can be summarized and simplified as follows – providing there is no impairment:

Balance sheet item	**Measurement**
ASSETS	
Intangible assets	
with limited useful lives	Amortized cost
with indefinite useful lives	Impairment-only recognition
Property, plant and equipment	Amortized cost
Shares in associated companies	Equity method
Available-for-sale financial assets	Fair value through other comprehensive income
Trade accounts receivable	Amortized cost
Inventories	Lower of cost and net realizable value
Prepaid expenses	Amortized cost
Other financial assets	Amortized cost
Other non-financial assets	Amortized cost
Deferred tax assets	Undiscounted valuation at tax rates valid in the period in which an asset is realized or a liability settled
LIABILITIES	
Liabilities due to banks	Amortized cost
Deferred tax liabilities	Undiscounted valuation at tax rates valid in the period in which an asset is realized or a liability settled
Income tax liabilities	Expected payment to the tax authorities based on tax rates applicable on the reporting date or in the near future
Trade accounts payable	Amortized cost
Deferred revenue	Amortized cost
Other accrued liabilities	Expected discounted amount that will lead to outflow of resources
Other financial liabilities	Amortized cost
Other non-financial liabilities	Amortized cost

2.3 Effects of new or amended IFRS standards

The following standards and interpretations amended or published by the IASB were mandatory in fiscal year 2017:

- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
  The amendments to IAS 12 are mainly aimed at clarifying accounting for deferred tax assets arising from unrealized losses on assets carried at fair value. The initial application of these amendments has no significant impact on the consolidated financial statements.

- IAS 7 Disclosure Initiative
  The amendments have the objective that an entity should provide disclosures that allow users of financial statements to evaluate changes in liabilities from financing activities. The initial application of these amendments resulted in additional disclosures in the notes to the consolidated financial statements.

- Annual Improvements 2014-2016
  The amendment clarifies the scope of the disclosure requirements of IFRS 12 relating to interests in subsidiaries, joint ventures or associates classified as held for sale. The clarification has no impact on the consolidated financial statements.

2.4 Accounting standards already published but not yet mandatory

Apart from the IFRSs mentioned above whose application is mandatory, the IASB has also published further IFRSs and IFRICs which have already partly received EU endorsement but which will not become mandatory until a later date. United Internet AG will probably only implement these standards when their adoption becomes mandatory.

Standard		Mandatory for fiscal years beginning on or after	Endorsed by EU Commission
IFRS 2	Classification and Measurement of Share-based Payment Transactions	Jan. 1, 2018	No
IFRS 9	Financial Instruments	Jan. 1, 2018	Yes
IFRS 9	Amendment: Prepayment Features with Negative Compensation	Jan. 1, 2019	No
IFRS 15	Revenue from Contracts with Customers (and amendment of initial date of application)	Jan. 1, 2018	Yes
IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	Jan. 1, 2018	Yes
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Jan. 1, 2018	No
IFRS 1, IAS 28	Annual Improvements 2014–2016	Jan. 1, 2018	No
IAS 12, IAS 28, IFRS 3	Annual Improvements 2015–2017	Jan. 1, 2019	No
IFRS 16	Leases	Jan. 1, 2019	Yes
IFRIC 23	Uncertainty over Income Tax Treatments	Jan. 1, 2019	No
IAS 28	Classification on IAS 28 Investments in Associates and Joint Ventures	Jan. 1, 2019	No
IFRS 10 / IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed until further notice	

In July 2014, the IASB issued the final version of **IFRS 9** - Financial Instruments which replaces IAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 combines the three project phases of accounting for financial instruments "Classification and Measurement", "Impairment", and "Hedge Accounting". IFRS 9 is mandatory for the first time in fiscal years beginning on or after January 1, 2018. Apart from Hedge Accounting, the standard is to be applied retroactively. However, the disclosure of comparative information is not required. The regulations concerning Hedge Accounting are generally to be used prospectively, with a few exceptions. United Internet has analyzed the effects on the presentation of its financial position and performance or cash flows. The assessment is based on currently available information and may change as a result of further reasonable and reliable information that the Group will become aware of in the fiscal year 2018 when IFRS 9 is first applied.

All in all, the Group does not expect any significant impact on its balance sheet and equity.

The main impact for the United Internet Group is expected to be from the classification and measurement of assets currently classified as "available-for-sale". The Company assumes that all financial assets held at fair value will continue to be measured at fair value. Assets that are currently held as "available-for-sale" and whose gains or losses are recognized in other comprehensive income are measured, on a case-by-case basis, either at fair value through profit or loss or recognized directly in equity and in other comprehensive income, but later no longer reclassified to profit or loss. Recognition through profit or loss increases the volatility of the reported profit or loss. The reserve for "available-for-sale" financial assets currently disclosed in accumulated other comprehensive income is reclassified to retained earnings insofar as it is measured at fair value through profit or loss in the future.

IFRS 15 - Revenue from Contracts with Customers provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. The new standard replaces the previous standards IAS 18 – Revenue and IAS 11 – Construction Contracts. For fiscal years beginning on or after January 1, 2018, either full or modified retroactive application is required. Premature application is permitted. In the fiscal year 2016, the Group made a preliminary assessment of IFRS 15, which was supplemented by a more detailed investigation continued in the fiscal year 2017.

The United Internet Group will exercise its right to use the modified retrospective transitional method. The prior-year figures in the consolidated financial statements for fiscal year 2018 will not therefore be adjusted. As of January 1, 2018, the conversion effects will be recognized in equity.

The application of IFRS 15 will have a significant impact on the financial position and performance of the United Internet Group. The effects mainly concern the accounting of so-called multiple-element arrangements. Whereas under the previous regulations, revenue from sales of hardware supplies as part of a multiple-element arrangement was only recognized in the amount billed to the customer, the new regulations require a separation of the total price for the customer contract based on the relative standalone selling prices of the individual elements. The resulting revenue share allocated to hardware is recognized on delivery to the customer. As the allocated revenue share generally exceeds the amount charged to the customer, the new regulations lead to accelerated revenue recognition. At the same time, the revenue share attributable to hardware rises at the expense of revenues from the services rendered. Within the context of initial application of IFRS 15, pro-rata revenues for all current service contracts on January 1, 2018 with previously supplied subsidized hardware are recognized directly in equity. However, the revenue from the respective service contract is reduced by the revenue share allocated for hardware.

Moreover, the new regulations require the capitalization of contract costs. Provided that certain conditions are met, the costs of contract completion (e.g. provision fees, expected termination fees) and the costs of contract acquisition (e.g. sales commissions) must also be capitalized in future and spread over the estimated period of use.

Customer acquisition costs were previously recognized immediately as an expense in the statement of comprehensive income. In the course of initial recognition, contract completion and contract acquisition costs are capitalized for all service contracts running on January 1, 2018, thus leading to future depreciation charges. Consequently, during the transitional period, customer acquisition costs already expensed under IAS 18 are expensed again in part due to IFRS 15.

The effects of applying IFRS 15 were analyzed as part of a Group-wide project.

The United Internet Group currently expects an effect of approx. half a billion euros (before deferred taxes) on the Group's equity from the transition to IFRS 15. The effect mainly results from the initial recognition of contractual assets, customer acquisition costs, and accrued contract completion costs. The contractual assets mainly result from the early recognition of revenue for hardware. The customer acquisition costs mainly comprise sales commissions and similar items. The accrued contract completion costs include the provision fees, changer fees, termination fees etc..

The accounting standard **IFRS 16** – Leases revises lease accounting and obliges lessees to disclose all leases in the balance sheet. No basic difference is made in future between an asset which is leased and one which is acquired on credit terms. IFRS 16 applies for the first time in fiscal years beginning on or after January 1, 2019. The new regulation will lead to an increase in non-current assets in the consolidated balance sheet (for right of use), and at the same time an increase in financial liabilities (due to the payment obligation). As a result, every leasing or rental arrangement is disclosed in the balance sheet. In the income statement, this leads to increased depreciation and interest expense. In turn, this results in increased EBITDA. However, as financial liabilities increase at the same time, the ratio of net financial liabilities to adjusted EBITDA (relative indebtedness) may change although there has been no economic change.

Leasing or rental arrangements with terms up to twelve months and low-value contracts are exempted from the recognition obligation.

In the field of operating leases, United Internet AG is predominantly a lessee at present, but is active as both lessor and lessee in the field of finance leases. The Group's operating leases mainly refer to rental obligations for network infrastructure, including subscriber lines, buildings, technical equipment and vehicles. The effects of IFRS 16 on the consolidated financial statements of United Internet AG are therefore likely to be mainly in the amount of operating leases and the resulting depreciation and interest effects, which will replace the current operating lease expenses (see note 44).

No significant impact is expected from the other IFRS amendments.

3. Significant accounting judgments, estimates and assumptions

The application of accounting and valuation methods in preparing the consolidated financial statements requires management to make certain accounting judgments, estimates and assumptions. These have an effect on the disclosed amounts of earnings, expenditure, assets and liabilities, as well as contingent liabilities, as of the balance sheet date. Actual amounts may differ from these estimates and assumptions, which may lead in future to significant adjustments to the carrying values of the assets and liabilities concerned.

Accounting judgments

In the application of accounting and valuation methods, management made the following accounting judgments which significantly affect amounts in the annual financial statements.

The consolidated financial statements are affected in particular by IRUs (Indefeasible Rights of Use). With this form of lease, management assesses whether all substantial risks and rewards related to the asset are transferred. If management concludes that all risks and rewards from usage are transferred to the Group company or to the customer, the contract is accounted for in accordance with IAS 17 as a finance lease. The carrying value of liabilities from finance leases amounted to € 91,787k as of December 31, 2017 (prior year: € 99,189k).

Determining whether the definition of a discontinued operation pursuant to IFRS 5 is met is a fundamentally discretionary decision as it must be a significant business division, among other things. In the course of the merger between affilinet and Awin, management has assessed affilinet GmbH as a significant business division and adjusted the statement of comprehensive income for the current and previous year. Furthermore, it was decided not to eliminate the deconsolidation result according to the equity interest in Awin.

Estimates and assumptions

The most important forward-looking assumptions and other major sources of uncertainty as of the balance sheet date, which involve the risk of significant adjustments to the carrying values of assets and liabilities in the coming fiscal year, are explained below.

Impairment of non-financial assets

Goodwill and other intangible assets with undefined useful lives are assessed at least once a year or on indication of impairment. Other non-financial assets are tested for impairment if there is any indication that the carrying value exceeds the recoverable amount. The recoverable value of the respective cash-generating unit to which the goodwill or intangible assets have been allocated is calculated either as "value-in-use" or fair value less cost of sell.

In order to estimate value-in-use or fair value less cost of sell, management must estimate expected future cash flows of the asset or cash-generating unit and select a suitable discount rate to assess the present value of these cash flows. Further details, including a sensitivity analysis of significant assumptions, are presented in the note “Impairment of goodwill and intangible assets with indefinite useful lives”.

The most important management assumptions for the measurement of the recoverable value of cash-generating units include assumptions regarding the development of sales, margins and the discount rate.

Carrying amounts and impairment test for investments in associated companies

As of the balance sheet date, the United Internet Group holds investments in various associated companies. If the consideration for the acquisition of the shares is made by contributing a subsidiary or other investment, the acquisition costs of the associated company are to be determined by means of a company valuation. This valuation is closely related to the assumptions and estimates made by management with respect to the future development of the respective company and the applicable discount rate.

In accordance with IAS 28.31, the Company examines on the balance sheet date whether the net investment of the United Internet Group in the respective associated company requires an additional impairment charge.

The carrying amount for shares in associated companies is measured on the basis of their prorated annual results. If the annual results for the fiscal year are not known, an estimate is made on the basis of the latest publicly available financial information of the respective associated company.

The recoverable amounts of listed associated companies is based on the respective share price. The recoverable amounts of non-listed companies consider both the available past experience for the respective company and expectations of its future development. As these expectations are based on numerous assumptions, the calculation of recoverable amounts depends on discretionary factors. As of December 31, 2017, the carrying value of investments in listed associated companies amounted to € 322,891k (prior year: € 724,921k). The carrying value of investments in non-listed associated companies as of December 31, 2017 amounted to € 95,157k (prior year: € 30,625k).

Share-based payments

The Group measures the cost of granting equity instruments to employees by using the fair value of these equity instruments at the moment they were granted. A suitable valuation model must be used to estimate fair value when granting equity instruments; this depends on the contractual terms. Suitable data must also be chosen for the valuation process, including the expected option term, volatility, exercise behavior and dividend yield, as well as the corresponding assumptions.

In the reporting period, expenses for share-based remuneration (stock appreciation rights and employee stock ownership plan) amounted to € 5,161k (prior year: € 4,433k).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates.

The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. The carrying value of income tax liabilities as of December 31, 2017 amounted to € 130,195k (prior year: € 64,145k).

Trade accounts receivable

Trade accounts receivable are carried in the balance sheet less impairment charges made. Allowances for doubtful claims are made on the basis of a systematic review as well as valuations conducted as part of credit monitoring. Assumptions concerning the payment behavior and creditworthiness of customers are subject to significant uncertainties. The carrying value of trade receivables amounted to € 343,571k as of December 31, 2017 (prior year: € 283,866k).

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value comprises the estimated sales proceeds less the necessary expected costs up to the time of sale. Valuation is also based in part on write-downs for inventories. The size of such write-downs represents a best-possible estimation of net realizable value and is thus subject to uncertainties. The carrying values of inventories as of the balance sheet date amounted to € 44,672k (prior year: € 39,490k). Please refer to note 19 for further information.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are valued at cost on initial recognition. After initial recognition, property, plant and equipment and intangible assets with limited useful lives are depreciated over their expected economic useful lives using the straight-line method. Expected useful lives are based on historical experience and thus subject to significant uncertainties, especially with regard to unforeseen technological developments. The carrying value of tangible and intangible assets amounted to € 1,954,761k as of December 31, 2017 (prior year: € 892,672k).

Accounting for business combinations

Business combinations are accounted for using the purchase method. Goodwill arising from a business combination is initially measured at cost, being the excess of the acquisition cost of the operation over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Costs accrued in the course of the business combination are recognized under other operating expense.

However, assumptions made to determine the respective fair value of the acquired assets and liabilities as of the date of acquisition are subject to significant uncertainties. For the identification of intangible assets, depending on the type of intangible asset and complexity of determining its fair value, the Company either uses independent appraisals of external assessors or fair value is determined internally using a suitable assessment technique for the respective intangible asset, generally based on a forecast of total expected future cash flow generation. These valuations are closely related to assumptions and estimates which management has made about the future development of the respective assets and the applicable discounted interest rate.

The carrying values of goodwill as of the balance sheet date amounted to € 3,579,780k (prior year: € 1,087,685k).

Provisions

Provisions are formed if the Group has a legal or actual obligation resulting from a past event which will probably give rise to the outflow of resources with an economic benefit to fulfill the obligation, provided that the level of the obligation can be reliably estimated. Such estimates are subject to significant uncertainties. The carrying value of provisions amounted to € 82,897k as of December 31, 2017 (prior year: € 52,908k).

4. Business combinations and investments

4.1. Business combinations in the fiscal year

Acquisition of the Drillisch Group

On May 12, 2017, the Management Boards of United Internet AG and Drillisch AG (each with the approval of their respective Supervisory Boards) entered into a business combination agreement governing the step-by-step acquisition of 1&1 Telecommunication SE by the former Drillisch AG (now 1&1 Drillisch AG) under the umbrella of United Internet.

The aim of the overall transaction (now completed) was to contribute 1&1 Telecommunication SE to Drillisch and thus create a more powerful full-service telecommunications provider under the umbrella of United Internet with considerable potential for synergies and growth. The combination of the two companies has now created a strong fourth player in the German telecommunications market alongside the three major full-service providers (Deutsche Telekom, Vodafone and Telefónica).

The merger of 1&1 Telecommunication and Drillisch was completed in two steps:

In the first step, United Internet contributed 9,372 shares of 1&1 Telecommunication SE (corresponding to around 7.75% of the share capital of 1&1 Telecommunication) to Drillisch in the course of a capital increase for non-cash contribution from approved capital under the exclusion of subscription rights conducted by Drillisch. In return, United Internet received 9,062,169 new Drillisch shares.

In a second step, the remaining 111,628 shares in 1&1 Telecommunication SE held by United Internet (corresponding to around 92.25% of the share capital of 1&1 Telecommunication) were contributed to Drillisch in return for the issue of 107,937,831 new Drillisch shares in total. This step required the approval of an Extraordinary General Meeting of Drillisch, which was held on July 25, 2017. At this general meeting, 97.85% of share capital represented voted in favor of the proposed capital increase for non-cash contribution. The majority of 75% required for approval was thus reached.

The transaction was accompanied by a voluntary public tender offer submitted by United Internet AG for all outstanding shares of Drillisch AG. United Internet offered to purchase the no-par value bearer shares, each representing a proportionate amount of Drillisch AG share capital of €1.10, from the current Drillisch shareholders. As compensation, United Internet offered to pay € 50 per no-par share – which is 8.2% more than the volume-weighted average domestic share price of Drillisch shares over the past three months as of May 11, 2017 (€ 46.18). The cash offer was made in accordance with the condition specified in the offer document published on May 26, 2017 regarding anti-trust approval. This condition was met with the approval of the

German Federal Cartel Office ("Bundeskartellamt") on June 9, 2017. There was no minimum acceptance threshold for the tender offer.

With the registration of the capital increase for non-cash contribution in the Commercial Register on September 8, 2017, Drillisch acquired the remaining stake of approx. 92.25% in 1&1 Telecommunication. The capital increase had been approved by the Extraordinary General Meeting of Drillisch on July 25, 2017. 1&1 Telecommunication is thus a wholly-owned subsidiary of Drillisch. In return, United Internet received 107,937,831 new Drillisch shares, increasing United Internet's stake in Drillisch to 73.29%. As a result, Drillisch has been consolidated in the financial statements of United Internet since the date of acquisition (September 8, 2017). Initial consolidation of Drillisch AG is made in accordance with IFRS 3 – Business Combinations using the acquisition method.

The measurement basis for the goodwill is calculated as follows:

Valuation basis goodwill Drillisch AG acquisition	**€k**
Pro-rated transfer of shares in 1&1 Telecommunication as part of non-cash capital increase Drillisch (September 8, 2017)	1,280,731
Existing shares in Drillisch valued at stock exchange price	1,248,154
Sub-total	2,528,885
Non-controlling interests at fair value of Drillisch net assets	167,150
Valuation basis for goodwill	**2,696,035**

The fair value of existing shares in Drillisch (including shares from the capital increase in May 2017) amounted to € 1,248,154k. Income from the revaluation of shares on the acquisition date amounted to € 302,951k.

Net cash inflow from the acquisition was as follows:

Cash flow from investing activity	**€k**
Assumed cash and cash equivalents	33,125
Net cash inflow	**33,125**

Total transaction costs of € 13,657k were expensed in the course of the business combination.

The assets and liabilities of Drillisch AG were recognized on the basis of purchase price allocation. Goodwill of € 2,070 million resulted from the purchase price allocation. The fair value of other intangible assets amounts to € 905.6 million. These mainly comprise customer relationships (€ 742 million), trademarks (€ 56 million) and a favorable purchasing contract (€ 71 million). Customer relationships were valued using the so-called MEEM approach (Multi-period Excess Earnings Method); an asset's fair value is derived from the calculation of the present value of post-tax earnings attributable to the asset. The valuation of the favorable purchasing contract is based on a comparison of the purchasing terms of Drillisch with those of a market participant. Trademarks are valued using the relief-from-royalty method.

The following table shows the assets and liabilities recognized using purchase price allocation (PPA):

Assets	**€k**
Current	
Cash and cash equivalents	33,125
Trade accounts receivable	64,604
Inventories	6,427
Other financial assets	27,280
Other non-financial assets	38
Non-current	
Other financial assets	1,095
Property, plant and equipment	7,532
Intangible assets	905,606
Deferred tax assets	42,536
Total assets	**1,088,243**
Liabilities	
Current	
Trade accounts payable	79,399
Advance payments received	3,267
Income tax liabilities	20,007
Other accrued liabilities	26,031
Other financial liabilities	22,372
Non-current	
Liabilities to banks	53,116
Deferred tax liabilities	255,805
Other accrued liabilities	1,993
Other financial liabilities	457
Total liabilities	**462,447**
Total identifiable net assets	**625,796**
Valuation basis for goodwill	**2,696,035**
Total identifiable net assets	-625,796
Goodwill from business acquisition	**2,070,239**

The non-controlling interests of 26.71% amount to € 167 million on the acquisition date and are valued with the corresponding share of the amount recognized for the purchased net assets (without goodwill).

The gross trade accounts receivable amounted to € 91.4 million. The fair value of assumed trade accounts receivable and expected cash flow amounted to € 64.6 million.

Non-tax-deductible goodwill is allocated above all to non-separable assets, such as expected synergy effects, strategic benefits, and employee know-how. No allocation to the benefiting cash-generating units has been made.

Due to the ongoing valuation of the favorable purchasing contract, the purchase price allocation of the Drillisch Group has not been completed yet. As a result of the short period since the company acquisition, goodwill has not yet been allocated to the cash-generating units Drillisch and 1&1 Access.

As a result of the initial consolidation of the Drillisch Group, sales revenue increased by € 221.1 million and earnings decreased by € 25.8 million in the fiscal year 2017. If the Drillisch Group had already been included in the consolidated group of the United Internet Group as of January 1, 2017, sales revenue would have increased by € 647 million and earnings after taxes – without consideration of the previous at-equity investment in the Drillisch Group – would have improved by € 13.8 million as of December 31, 2017.

Acquisition of the Strato Group

On December 15, 2016, United Internet AG signed an agreement with the owner of Strato AG, Deutsche Telekom AG, regarding the acquisition of Strato AG. Based in Berlin, Strato AG employs over 500 people with operations mainly in Germany and the Netherlands. With over 1.8 million customer contracts, Strato's annual revenue for fiscal year 2016 was around € 127 million with EBITDA in 2016 of around € 48.5 million. The German Federal Cartel Office ("Bundeskartellamt") granted approval in February 2017.

The share purchase was made via 1&1 Internet Holding SE. The Company paid € 557.6 million in cash for the purchase of the shares in Strato AG. A conditional purchase price component of up to € 34 million is due at a later point subject to reaching certain performance goals. After deduction of assumed cash amounting to € 4.2 million, the Group's net cash outflow was € 553.3 million.

With effect from April 1, 2017 (date of acquisition), 1&1 Internet Holding SE assumed control over Strato AG.

The purchase price tranche of € 557.6 million due in 2017 at the holding structure level is financed by an internal loan from United Internet AG of € 350 million, as well as by prorated equity capital contributions of United Internet AG and Warburg Pincus. In the course of the acquisition of Strato AG, Warburg Pincus will retain its 33.33% stake in the "Business Applications" division in accordance with the partnership agreement.

In the course of the business combination, total transaction costs of € 5,504k were expensed; the major share of these transaction costs was already incurred in the fiscal year 2016.

Strato AG was first included in the consolidated financial statements of United Internet AG as of the date of acquisition. Initial consolidation of Strato AG was made in accordance with IFRS 3 – Business Combinations using the acquisition method.

The transferred consideration and net cash outflow were as follows:

Transferred consideration for the acquisition of Strato AG	**€k**
Cash purchase price	557,551
Fair value of conditional purchase price component	5,520
Transferred consideration	**563,071**

The net cash outflow from the acquisition was as follows:

Cash flow from investing activities	**€k**
Cash purchase price	557,551
Less assumed cash	-4,249
Net cash outflow	**553,302**

The assets and liabilities of Strato AG were recognized on the basis of a purchase price allocation. Goodwill of € 401,570k resulted from this purchase price allocation. The fair value of other intangible assets amounts to € 225,617k. These mainly include customer relationships (€ 179,027k), trademarks (€ 23,000k) and self-produced software (€ 18,833k).

The following table, prepared on the basis of the preliminary purchase price allocation, presents an overview of the recognized assets and liabilities:

Assets	**€k**
Current	
Cash and cash equivalents	4,249
Trade accounts receivable	3,535
Prepaid expenses	7,233
Other financial assets	1,348
Non-current	
Other financial assets	2,625
Property, plant and equipment	33,967
Intangible assets	225,617
	278,574
Liabilities	
Current	
Trade accounts payable	5,073
Deferred revenue	25,501
Other accrued liabilities	67
Other financial liabilities	14,738
Other non-financial liabilities	2,543
Non-current	
Deferred tax liabilities	67,936
Other accrued liabilities	1,146
Other financial liabilities	69
	117,073
Total identifiable net assets	**161,501**
Goodwill from business acquisition	**401,570**
Transferred consideration	**563,071**

The gross trade accounts receivable amounted to € 6.2 million. The fair value of assumed trade accounts receivable and expected cash flow amounted to € 3.5 million.

Non-tax-deductible goodwill is allocated above all to non-separable assets, such as expected synergy effects, strategic benefits, and employee know-how.

No allocation to the benefiting cash-generating units has been made.

As a result of the initial consolidation of Strato AG, sales revenue increased by € 99.2 million and earnings increased by € 5.6 million in the fiscal year 2017. If Strato AG had already been included in the consolidated group of the

United Internet Group as of January 1, 2017, sales revenue would have increased by € 132.4 million and earnings after taxes would have decreased by € 0.7 million as of December 31, 2017.

Acquisition of the ProfitBricks Group

In a first step, the United Internet Group increased its existing stake in ProfitBricks GmbH from 30.2% to 44.4% GmbH with a purchase agreement dated June 26, 2017 between its subsidiary United Internet Investments Holding GmbH and Lakestar I LP. The purchase price for these shares amounted to € 7,920k.

With a purchase agreement dated July 24, 2017, 1&1 Internet SE – a subsidiary of the United Internet Group – subsequently acquired 100% of shares in ProfitBricks GmbH (from United Internet Investments Holding GmbH as well as the other outstanding shareholders) for a total purchase price of € 36,359k, of which € 4,416k was a variable purchase price component (conditional purchase price payment) and € 31,943k was paid in cash as fixed acquisition costs. On August 7, 2017, the German Federal Cartel Office ("Bundeskartellamt") stated that the transaction could be completed. The transaction was closed on August 8, 2017 with the purchase price payment.

The shares were purchased both internally from United Internet Investments Holding GmbH (44.4%) and from other shareholders (55.6%). The purchase price for shares acquired from the non-Group shareholders (55.6%) amounted to € 9,759k (payment in cash) as well as a conditional purchase price payment of € 4,416k.

In addition, transaction costs of € 130k were incurred, which were not capitalized.

The measurement basis for the goodwill is calculated as follows:

Valuation basis goodwill ProfitBricks acquisition	**€k**
Cash purchase price	9,759
Fair value of the conditional purchase price component	4,416
Old shares in ProfitBricks measured at fair value	22,184
Valuation basis for goodwill	**36,359**

The fair value of existing shares in ProfitBricks (including shares from the purchase from LakeStar) amounted to € 22,184k. Income from the revaluation of shares on the acquisition date amounted to € 16,053k.

Net cash outflow from the acquisition was as follows:

Cash flow from investing activity	€k
Cash purchase price	9,759
Less assumed cash and cash equivalents	-1,811
Net cash outflow	**7,948**

Due to the short period between the acquisition date and the preparation of these consolidated financial statements, the combination is only carried with preliminary amounts.

The following table shows the amounts of the preliminary purchase price allocation (PPA):

Assets	**€k**
Current	
Cash and cash equivalents	1,811
Trade accounts receivable	2,939
Prepaid expenses	181
Other financial assets	61
Non-current	
Other financial assets	95
Intangible assets and property, plant and equipment	1,556
	6,643
Liabilities	
Current	
Trade accounts payable	1,803
Other accrued liabilities	16
Other financial liabilities	1,001
Other non-financial liabilities	108
Non-current	
Liabilities due to affiliated companies	8,665
	11,593
Total identifiable net assets	**-4,950**
Goodwill from business acquisition	**41,309**
Transferred consideration	**36,359**

The gross trade accounts receivable amounted to € 2.9 million. The fair value of assumed trade accounts receivable and expected cash flow amounted to € 2.9 million.

The resulting goodwill from the business combination will not be tax-deductible.

As a result of the initial consolidation of ProfitBricks GmbH, sales revenue increased by € 4.8 million and earnings decreased by € 2.2 million in the fiscal year 2017. If ProfitBricks GmbH had already been included in the consolidated group as of January 1, 2017, sales revenue would have increased by € 6.1 million and earnings after taxes – without consideration of the previous at-equity investment in ProfitBricks GmbH – would have decreased by € 4.1 million as of December 31, 2017.

4.2. Other company transactions of the fiscal year

Merger of affilinet and Awin

United Internet and Axel Springer plan to create a joint affiliate network by merging their companies affilinet and Awin. A corresponding agreement was signed on August 1, 2017.

As part of the transaction, United Internet contributed its affiliate marketing business operated by its subsidiary affilinet GmbH to AWIN AG in return for 20% of AWIN shares. 80% of AWIN shares are held by Axel Springer. The investment in AWIN AG is carried as an associated company using the equity method. Due to the short period between the transaction and the preparation of these consolidated financial statements, the purchase price allocation required for equity is still provisional.

The merger enables United Internet and Axel Springer to significantly strengthen their competitive standing in affiliate marketing and thus lay the foundation for accelerated growth in Germany and abroad. By pooling the expertise, skills and respective reach of AWIN and affilinet, the companies also plan to drive new revenue models. In addition, the business combination will lay the foundation for the targeted IPO of AWIN AG.

The merger was approved by the relevant anti-trust authorities in Austria and Germany on September 12 and 15, 2017 and closed as of October 1, 2017. affilinet was already carried as a discontinued operation in accordance with IFRS 5 in the half-yearly figures 2017.

With the contribution of affilinet to AWIN and affilinet's qualification as a discontinued operation according to IFRS 5, the statement of comprehensive income of the current year and previous year must be adjusted. The revenue and expenses of the discontinued operation (Applications segment) are no longer included in the respective items. The net income after taxes of the discontinued operation is disclosed separately. However, the balance sheet as at December 31, 2016 is to be disclosed unchanged.

Earnings after taxes of discontinued operations are as follows:

€k	Until September 2017	2016
Current earnings after taxes of affilinet	2,308	3,403
Net income after taxes from the contribution of affilinet to AWIN	36,270	--
Result from discontinued operations	38,578	3,403

The eliminations between continued and discontinued operations were allocated to discontinued operations taking into account future supply and service relationships (economic perspective). As the (previously intra-Group) supplies and services will continue with either this company or third parties after the final disposal of the discontinued operation, the full allocation of the eliminations to the discontinued operation results in a more meaningful presentation of the financial impact in the statement of comprehensive income.

Current earnings after taxes of affilinet as follows:

€k	Until September 2017	2016
Sales	109,452	150,690
Expenses	-106,932	-146,651
Other operating expenses/ income	576	470
Financial result	54	-19
Result before taxes	**3,150**	**4,490**
Income taxes	-842	-1,087
Result after taxes	**2,308**	**3,403**

The result before taxes from the contribution of affilinet to AWIN is calculated from the difference between the fair value of the contributed investment and the carrying amount of the disposed assets and liabilities. On the basis of an accounting decision taken by United Internet, there was no prorated elimination of the deconsolidation result according to the stake in AWIN.

The fair value of the transferred consideration and thus the acquisition costs of United Internet for the shares in Awin amount to € 59,936k.

The net cash flows of the discontinued operation are as follows:

€k	Until September 2017	2016
Net cash flow from operating activities	-5,523*	7,262
Net cash flow from investing activities	-3,962	-586
Net cash flow from financing activities	4,208*	7,430**

* Net cash flow from operating activities results in part from a decline in trade accounts payable (€ -7,410k), which was partly financed by a reduction of the cash pool balance (part of financing activities). Net cash flow from financing activities includes a dividend (€ -9,705k) and a reduction of the cash pool balance (€ 17,232k).
** Net cash flow from financing activities refer to an increase in the cash pool balance (€ 7,430k).

In connection with the contribution of affilinet GmbH to AWIN, the United Internet Group received compensation of € 1,410k. Cash and cash equivalents of affilinet at the time of deconsolidation amounted to €3,593k.

In the course of deconsolidating affilinet, the following assets and liabilities were disposed of: current assets without cash and cash equivalents (€ 22,417k), cash and cash equivalents (€ 3,593k), non-current assets (€ 13,399k), current liabilities (€ 24,485k) and non-current liabilities (€ 265k).

Investment of Warburg Pincus

On November 8, 2016, United Internet AG and WP XII Venture Holdings S.a.r.l., Luxembourg, an affiliate of private equity funds managed by Warburg Pincus LLC (Warburg Pincus), signed an agreement regarding a 33.33% stake of Warburg Pincus in the United Internet division Business Applications.

Following approval by the German Federal Cartel Office ("Bundeskartellamt"), the transaction was closed over several stages in early 2017. United Internet AG contributed its shares in 1&1 Internet SE, Montabaur, initially to its subsidiary 1&1 Internet Holding SE, Montabaur, in the form of a mixed capital increase against the issue of new common shares and one preferred share, as well as a long-term vendor loan.

In a second step, United Internet AG contributed all common shares in 1&1 Internet Holding SE to a newly founded 1&1 Internet TopCo SE, Montabaur, against the issue of 66.67% of capital stock. The remaining 33.33% of shares in 1&1 Internet TopCo SE are held by Warburg Pincus. A purchase price of up to € 450 million was agreed for the 33.33% of shares held by Warburg Pincus.

In connection with the Warburg Pincus investment, a so-called Shareholders' Agreement and further contractual arrangements were concluded between United Internet and Warburg Pincus. Pursuant to IFRS 10, United Internet retains control over 1&1 Internet TopCo SE and its subsidiaries (Business Applications division) on the basis of the structure under company law as well as on the basis of the provisions of the Shareholders' Agreement.

The Warburg Pincus investment in the Business Applications division is disclosed in the consolidated financial statements of United Internet as a disposal of shares in a subsidiary without loss of control. Pursuant to IFRS 10, non-controlling interests in the sub-group 1&1 Internet TopCo SE were recognized for the first time, as was the contribution of Warburg Pincus. The difference was carried as an increase in capital reserves. The result of the sub-group 1&1 Internet TopCo SE is divided according to the respective stakes of United Internet (66.7%) and Warburg Pincus (33.3%).

Investment in rankingCoach

On March 28, 2017, United Internet AG announced that it had acquired – via United Internet Investments Holding GmbH (formerly: United Internet Ventures AG) – a stake of 29.93% in rankingCoach GmbH in the course of a capital increase. Based in Cologne, rankingCoach was founded in 2014 by the company's managers as a spin-off of a major online marketing agency. Today, an international team of over 60 specialists supports small and mid-size enterprises (SMEs) in 11 languages and 24 countries. rankingCoach markets its products both directly to end-users and agencies, as well as indirectly via international partners, such as hosting providers, telecommunications companies and publishers. Online visibility and online reputation have a major impact on the business success of SMEs. rankingCoach offers affordable, web-based solutions in the field of search engine marketing (SEM), search engine optimization (SEO) and social media which are tailored to the needs of its various target groups. The capital increase is aimed in particular at driving technical product development, the expansion of services, and the company's further internationalization. In addition to the equity stake, rankingCoach and the United Internet subsidiary 1&1 Internet SE have signed a long-term cooperation agreement for 1&1 to use the online marketing solutions of rankingCoach as part of its hosting and cloud products marketed in Europe and North America. At the time of its announcement, the transaction was still subject to approval by the relevant anti-trust authorities. This approval was granted on April 13, 2017. The acquisition costs for the share purchase amount to approx. € 5.0 million.

Investment in Tele Columbus

In the first quarter of 2017, United Internet increased its stake in Tele Columbus AG from 25.11% as of December 31, 2016 and holds around 28.52% of shares as of December 31, 2017. A total of € 34.9 million was paid for the purchase of additional shares.

Sale of yourfone Shop GmbH

With effect from December 31, 2017, Drillisch Online AG sold yourfone Shop GmbH with its 100 or so shops to aptus 1206. GmbH, Berlin, Germany. The sale of yourfone Shop GmbH resulted in a deconsolidation loss of € 15.1 million. In addition, one-off restructuring expenses for offline sales of € 13.2 million were incurred. The amount is disclosed in other operating expenses. The cash flow from disposal will not be carried until 2018.

4.3. Investments in the previous year

Via its subsidiary United Internet Ventures AG, United Internet contractually secured the acquisition of a share package amounting to approx. 15.31% of shares in Tele Columbus AG, Berlin, Germany, on February 10, 2016. At the time, the closing of the acquisition was subject to approval by the German anti-trust authority ("Bundeskartellamt"). This approval was granted on March 7, 2016. After closing the acquisition, United Internet has a total indirect shareholding – together with further shares acquired – of 25.11% in Tele Columbus and carries it as an associated company.

In the second quarter, United Internet sold its 430,454 shares (8.37% stake) in HiPay Group S.A., Paris / France, in an over-the-counter transaction at a price of € 10.37 per share and thus for a total of € 4.5 million. This share sale resulted in other operating income of € 935k.

Note

With the qualification of affilinet as a discontinued operation according to IFRS 5, items in the statement of comprehensive income of the previous year have been adjusted. The revenue and expenses of the discontinued operation (Applications segment) are no longer included in the respective items. The net income after taxes of the discontinued operation is disclosed separately. However, the balance sheet as at December 31, 2016 is to be disclosed unchanged.

5. Sales revenue / segment reporting

According to IFRS 8, the identification of operating segments to be included in the reporting process is based on the so-called management approach. External reporting should therefore be based on the Group's internal organization and management structure, as well as internal financial reporting to the Chief Operating Decision Maker. In the United Internet Group, the Management Board is responsible for assessing and controlling the success of the various segments.

Management and consolidated reporting is undertaken via the segments "Access" and "Applications". The sub-segments "Consumer" and "Business" are combined herein as the products and services within the segments do not fundamentally differ. A description of the products and services is provided in note 2.5 in the explanation of revenue recognition. The segment "Corporate" comprises mainly management holding functions.

The Management Board of United Internet AG mainly controls operations on the basis of key performance figures. It measures segment success primarily on the basis of sales revenues, earnings before interest, taxes, depreciation and amortization (EBITDA) and the result of ordinary operations (EBIT). Transactions between segments are charged at market prices. Information on sales revenues is allocated to the country in which the company is domiciled. Segment earnings are reconciled with the total amount for the United Internet Group.

Segment reporting of United Internet AG in fiscal year 2017 was as follows:

January - December 2017	Access segment €k	Applications segment €k	Corporate segment €k	Reconciliation/Consolidation €k	United Internet Group €k
Segment revenues	3,192,644	1,041,756	195	-28,293	4,206,302
- thereof domestic	3,192,644	660,762	195	-28,293	3,825,308
- thereof non-domestic	0	380,994	0	0	380,994
EBITDA	897,437	378,720	-22,852	0	1,253,305
EBIT	705,862	276,238	-23,153	0	958,947
Financial result					-40,817
Writedowns on investments					-19,757
Result from at-equity companies					-7,388
EBT					890,985
Tax expense					242,497
Net income (from continued operations)					648,488
Net income after taxes from discontinued operations					38,578
Net income (after discontinued operations)					687,066
Assets (non-current)	2,905,821	1,082,987	342,719	--	4,331,527
- thereof domestic	2,905,821	786,861	341,333	--	4,034,015
- thereof shares in associated companies	322,891	60,502	32,896	--	416,289
- thereof other financial assets	6,209	8,720	308,437	--	323,366
- thereof goodwill	2,576,721	717,639	0	--	3,294,360
- thereof non-domestic	0	296,126	1,386	--	297,512
- thereof shares in associated companies	0	1,759	0	--	1,759
- thereof other financial assets	0	8,947	1,386	--	10,333
- thereof goodwill	0	285,420	0	--	285,420
Investments in intangible assets, property, plant and equipment (without goodwill)	182,016	61,711	7,286	--	251,013
Amortization/depreciation	191,575	102,482	301	--	294,358
- thereof intangible assets and property, plant and equipment	112,921	73,557	301	--	186,779
- thereof assets capitalized during company acquisitions	78,654	28,925	0	--	107,579
Number of employees	4,526	4,547	341	--	9,414
- thereof domestic	4,526	3,023	341	--	7,890
- thereof non-domestic	0	1,524	0	--	1,524

Segment reporting of United Internet AG in fiscal year 2016 was as follows

January - December 2016	Access segment €k	Applications segment €k	Corporate segment €k	Reconciliation/Consolidation €k	United Internet Group €k
Segment revenues	2,917,169	922,512	189	-31,739	3,808,131
- thereof domestic	2,917,169	552,507	189	-31,739	3,438,126
- thereof non-domestic		370,005	0	0	370,005
EBITDA	525,564	329,741	-19,902	0	835,403
EBIT	389,890	274,253	-21,484	0	642,659
Financial result					-26,372
Writedowns on investments					-254,905
Result from at-equity companies					1,247
EBT					362,629
Tax expense					-186,870
Net income (from continued operations)					175,759
Net income after taxes from discontinued operations					3,403
Net income (after discontinued operations)					179,162
Assets (non-current)	1,236,115	593,156	301,648	--	2,130,919
- thereof domestic	1,236,115	297,949	299,406	--	1,833,470
- thereof shares in associated companies	724,726	0	29,208	--	753,934
- thereof other financial assets	4,907	738	270,198	--	275,843
- thereof goodwill	506,482	297,211	0	--	803,693
- thereof non-domestic	0	295,207	2,242	--	297,449
- thereof shares in associated companies	0	1,612	0	--	1,612
- thereof other financial assets	0	9,603	2,242	--	11,845
- thereof goodwill	0	283,992	0	--	283,992
Investments in intangible assets, property, plant and equipment (without goodwill)	133,411	43,247	341	--	176,999
Amortization/depreciation	135,674	55,488	1,582	--	192,744
- thereof intangible assets and property, plant and equipment	98,975	45,518	1,582	--	146,075
- thereof assets capitalized during company acquisitions	36,699	9,970	0	--	46,669
Number of employees	3,478	4,221	198	--	7,897
- thereof domestic	3,478	2,646	198	--	6,322
- thereof non-domestic	0	1,575	0	--	1,575

Segment revenues also include certain revenues between segments, but without internal Group allocations and charges. The segment revenue of the Applications segment thus also contains revenue of € 28,293k (prior year: € 31,739k) generated with the Access segment, mainly in connection with the marketing of the GMX and WEB.DE portals for Access products. Revenues generated with external customers of the Access segment and Applications segment amount to € 3,192,644k (prior year: € 2,917,169k) and € 1,013,463k (prior year: € 890,773k), respectively.

Non-current segment assets comprise shares in associated companies, other financial assets and goodwill.

In the periods under review, there was no significant concentration of individual customers in the customer profile. The United Internet Group does not generate more than 10% of total external sales revenues with one customer. Foreign sales accounted for 9.1% (prior year: 9.7%) of total Group revenues. As in the previous year, revenues of the Access segment from external customers were generated exclusively in Germany. Of total revenues of the Applications segment from external customers, an amount of € 632,469k (prior year: € 520,768k) was generated in Germany and an amount of € 380,994k (prior year: € 370,005k) was generated abroad.

The highest management committee only monitors shares in associated companies, other non-current financial assets and goodwill. The depreciation disclosed in the segments refers to other, non-monitored intangible assets and property, plant and equipment.

6. Cost of sales

	2017	2016
	€k	€k
Cost of services	1,797,412	1,636,460
Cost of goods	389,476	396,276
Personnel expenditure	191,778	176,728
Depreciation	186,667	135,203
Others	123,767	117,090
Total	**2,689,100**	**2,461,757**

Cost of sales in relation to sales revenue fell to 63.9% compared with the previous year (64.6%), resulting in a higher gross margin 36.1% (prior year: 35.4%).

7. Selling expenses

Selling expenses rose from € 521,177k (13.7% of sales) to € 638,313k (15.2% of sales). They include personnel expenses of € 209,267k (prior year: € 182,232k), depreciation of € 96,945k (prior year: € 23,475k) and other selling expenses of € 332,101k (prior year: € 315,470k). The increase in depreciation results mainly from depreciation in connection with company acquisitions in 2017. Other selling expenses mostly comprise customer acquisition costs, advertising, customer care and product management.

8. General and administrative expenses

Compared to the previous year, general and administrative expenses rose from € 182,938k (4.8% of sales) to € 185,106k (4.4% of sales). They include personnel expenses of € 87,923k (prior year: € 74,813k), depreciation of € 10,746k (prior year: € 34,065k) and other general and administrative expenses of € 86,437k (prior year: € 74,060k). The other general and administrative expenses mostly comprise expenses for accounts receivable management, rent, legal and consulting fees, and maintenance costs.

9. *Other operating income / expenses*

9.1 *Other operating expenses*

	2017	2016
	€k	€k
Losses due to accounts receivable	41,090	34,642
Restructuring of offline business	28,300	
Transaction costs	17,085	11,008
Expenses from foreign currency translation	4,869	5,291
Losses from the disposal of investment	789	302
Others	8,499	6,227
Total	**100,632**	**57,470**

Losses due to accounts receivable include expenses for valuation allowances on trade accounts receivable and expenses arising from the derecognition of such receivables.

The restructuring of offline business refers to the sale of yourfone Shop GmbH and the associated restructuring measures. With effect from December 31, 2017, Drillisch Online AG sold yourfone Shop GmbH with its 100 or so shops. The restructuring resulted in total other operating expenses of € 28.3 million. In addition to an amount of € 15.1 million for the deconsolidation of yourfone Shop GmbH, Düsseldorf, the expense includes restructuring costs of € 13.2 million.

Transaction costs mainly comprise expenses in connection with the purchase of the Drillisch Group and the ProfitBricks Group.

Transaction costs in the previous year mainly comprise expenses in connection with the acquisition of Strato and the investment of Warburg Pincus.

Expenses from foreign currency translation mainly comprise losses from exchange rate changes between the date of origination and time of payment of foreign currency receivables and payables as well as losses from valuation at the balance sheet date. Currency gains from these items are reported under other operating income. A net consideration of this item results in a net gain of € 527k (prior year: € 313k).

9.2 Other operating income

	2017	2016
	€k	€k
Income in connection with successive company acquisitions	319,002	0
Income from dunning and return debit charges	29,551	27,393
Income from foreign currency translation	4,342	5,604
Income from the reversal of accrued liabilities	2,921	2,361
Income from subsequent measurement of a purchase price liability	186	1,754
Income from the disposal of property, plant and equipment	158	269
Income from impaired accounts receivable	0	1,320
Income from the disposal of HiPay	0	935
Income from the processing of an investment transaction	0	7,827
Others	9,636	10,407
Total	**365,796**	**57,870**

Income in connection with successive company acquisitions refers to the revaluation of existing Drillisch shares during the successive acquisition of the Drillisch Group amounting to € 302,949k and the ProfitBricks Group amounting to € 16,053k.

Income from foreign currency translation mainly comprise gains from exchange rate changes between the date of origination and time of payment of foreign currency receivables and payables as well as gains from valuation at the balance sheet date. Currency losses from these items are reported under other operating expenses.

10. Depreciation and amortization

Depreciation and amortization of intangible assets and property, plant and equipment consist of the following:

	2017	2016
	€k	€k
Cost of sales	186,667	135,203
Selling expenses	96,945	23,475
General and administrative expenses	10,746	34,065
Total	**294,358**	**192,743**

Depreciation and amortization also includes the amortization of capitalized assets resulting from business combinations. These are divided between the capitalized assets as follows:

Intangible assets	2017 €k	2016 €k
Customer base / order backlog	71,355	25,521
Licenses	8,447	0
Software	7,971	1,191
Technology	1,442	1,442
	89,215	**28,154**
Tangible assets		
Network infrastructure	18,364	18,515
Total	**107,579**	**46,669**

Amortization of capitalized assets resulting from business combinations is divided between the business combinations as follows:

	2017 €k	2016 €k
Versatel	36,542	36,699
1&1 Drillisch	42,127	0
Strato	18,723	0
Arsys	5,082	5,096
home.pl	4,509	4,132
Fasthosts	559	705
WEB.DE portal business	37	37
	107,579	**46,669**

Moreover, an impairment test in the Applications segment resulted in an impairment charge of € 20,738k for the Strato trademark. For further details, please refer to section 27 Impairment of goodwill and intangible assets with indefinite useful lives. This amount is disclosed in amortization and selling expenses.

11. Personnel expenses

Personnel expenses are divided among the various divisions as follows:

	2017	2016
	€k	€k
Cost of sales	191,778	176,728
Selling expenses	209,267	182,232
General and administrative expenses	87,923	74,813
Total	**488,968**	**433,773**

Personnel expenses include wages and salaries of € 418,221k (prior year: € 370,397k) and social security costs of € 70,747k (prior year: € 63,376k).

The number of employees increased by 19.2%, from 7,897 in the previous year to 9,414 employees at year-end 2017:

	2017	2016
Germany	7,890	6,322
Outside Germany	1,524	1,575
thereof the Philippines	366	386
thereof Spain	319	322
thereof Great Britain	232	209
thereof Poland	251	258
thereof USA	174	197
thereof Romania	174	194
thereof France	3	3
Others	5	6
Total	**9,414**	**7,897**
thereof discontinued operations		
thereof women	31%	34%
thereof men	69%	66%

The average number of employees in fiscal year 2017 amounted to 8,788 (prior year: 7,905), of which 7,241 (prior year: 6,309) were employed in Germany and 1,547 (prior year: 1,596) abroad.

With regard to company pension plans, the Group only has defined contribution plans. The Company pays contributions to the state pension fund as a result of statutory obligations. There are no other benefit obligations for the Company after payment of the contributions. The current contribution payments are disclosed as an expense in the respective year. In fiscal year 2017, they amounted to € 28,197k (prior year: € 26,394k, thereof € 522k for affilinet) and mostly concerned contributions paid to the state pension fund in Germany.

As a result of contribution exemptions, an amount of € 0k (prior year: € 0k) of this total referred to contributions paid to related parties.

12. Financial expenses

	2017	2016
	€k	€k
Loans and overdraft facilities	34,525	27,742
Subsequent valuation of derivatives	5,290	
Financial expense from finance leases	2,093	2,266
Interest expense from tax audit	1,533	639
Other	804	529
	44,245	**31,176**

The year-on-year increase in borrowing costs results mainly from higher finance volumes.

The subsequent valuation of derivatives refers to the valuation through profit or loss of derivatives agreed in the course of the Warburg Pincus investment.

Please refer to note 44 for an explanation of the financial expense from finance leases.

13. Financial income

	2017	2016
	€k	€k
Interest income from finance leases	1,084	899
Income from dividends	730	589
Interest income from tax audit	606	2,409
Subsequent valuation of derivatives	250	
Income from loans to associated companies	221	306
Other	537	599
	3,428	**4,802**

Other financial income mainly comprises interest income from credit balances with banks.

With regard to income from loans to associated companies, please refer to note 41.

14. *Income taxes*

The income tax expense is comprised as follows:

	2017 €k	2016 €k
Current income taxes		
- Germany	262,284	177,556
- Abroad	10,516	8,539
Total (current period)	272,800	186,095
Deferred taxes		
- Due to tax loss carryforwards	4,073	411
- Tax effect on temporary differences	-32,419	254
- Due to tax rate changes	-1,957	110
Total deferred taxes	-30,303	775
Total tax expense	**242,497**	**186,870**

Under German tax law, income taxes comprise corporate income tax and trade tax, as well as the solidarity surcharge.

German trade tax is levied on a company's taxable income adjusted for certain revenues which are not subject to such tax and for certain expenses which are not deductible for purposes of trade tax. The effective trade tax rate depends on the municipality in which the company operates. The average trade tax rate in fiscal year 2017 amounted to approx. 15.3% (prior year: 14.4%).

As in the previous year, German corporate income tax was levied at 15% – irrespective of whether the result was retained or distributed. In addition, a solidarity surcharge of 5.5% is imposed on the assessed corporate income tax.

In addition to taxes on the current result, income taxes include tax expenses not relating to the period of € 3,675k (prior year: tax income € 5,417k).

Deferred tax assets are recognized for tax loss carryforwards and temporary differences if it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets for tax loss carryforwards in certain countries are shown in the table below:

	2017	2016
	€k	€k
Germany	17,566	21,826
France	0	282
	17,566	**22,108**

Deferred tax assets for loss carryforwards of German companies mainly refer to the Versatel Group.

The following time limits apply for the use of tax loss carryforwards in different countries:

- USA: 20 years
- Germany: indefinite, but minimum taxation
- France: indefinite, but minimum taxation
- Poland: 5 years

Tax loss carryforwards for which no deferred tax assets have been formed, refer to the following countries (excluding Germany):

	2017	2016
	€k	€k
USA Federal *	8,949	10,342
USA State **	9,998	11,532
Poland	305	11
	19,252	**21,885**

* Tax rate 21.0%

** Tax rate 10.0%

A breakdown of income tax types results in the following loss carryforwards for Germany for which no deferred taxes have been formed:

	2017		2016	
	Corporation tax in €k	**Trade tax in €k**	**Corporation tax in €k**	**Trade tax in €k**
Germany	87,194	47,342	90,315	31,553

Loss carryforwards in Germany for which no deferred tax assets have been formed mainly refer to loss carryforwards of the Versatel Group.

The so-called "interest cap" enshrined in German tax law limits the deductibility of interest expenses for the assessment of company income taxes. Interest expenses that cannot therefore be deducted are carried forward indefinitely to the following fiscal years (interest carryforward).

The Group's interest carryforward, for which no deferred taxes were formed, amounts to € 50,140k (prior year: € 0k).

In fiscal year 2017, loss carryforwards of € 10,325k were used (prior year: € 0k).

In fiscal year 2017, a deferred tax expense from the devaluation of deferred tax assets amounting to € 775k was recognized (prior year: € 1,527k).

Deferred taxes resulted from the following items:

In €k	Dec. 31, 2017 Deferred tax assets	Dec. 31, 2017 Deferred tax liabilities	Dec. 31, 2016 Deferred tax assets	Dec. 31, 2016 Deferred tax liabilities	
Trade accounts receivable	8,098	5,815	1,502	6,800	
Inventories	48	233	48	60	
Other financial assets - current	607	54	537	0	
Other financial assets - non-current	5,823	338	21,834	559	
Other assets	3,924	2,415	717	1	
Prepaid expenses	84,808	1,801	89,789	1,889	
Property, plant and equipment	3,108	45,724	3,262	53,209	
Intangible assets	41,821	397,351	4,083	108,535	*
Other provisions	19,059	3	6,832	0	
Other liabilities	26,238	2,834	27,998	4,257	
Deferred revenue	6,760	2,013	6,594	1,919	
Gross value	200,295	458,580	163,196	177,229	
Tax loss carryforwards	17,567	0	22,108	0	
Adjustments for consolidation	7,031	1,896	7,421	2,016	
Outside basis differences	0	0	0	4,560	
Offsetting	-69,742	-69,742	-89,594	-89,594	
Consolidated balance sheet	**155,151**	**390,734**	**103,131**	**94,211**	

The net balance of deferred tax assets of € 8,920k in the previous year changed to a net balance of deferred tax liabilities of € 235,583k. As a result, the total change in the net balance of deferred taxes amounted to € 244,502k (prior year: € -1,646k). This change was mainly due to the following factors:

- Increase in deferred tax liabilities from intangible assets in connection with the acquisition of the Drillisch and Strato Groups amounting to € 243,151k and € 54,845k in fiscal year 2017, respectively.
- Increase in deferred tax assets from intangible assets in connection with the acquisition of the Drillisch Group in fiscal year 2017 amounting to € 19,671k.
- Increase in deferred tax assets from trade accounts receivable in connection with the acquisition of the Drillisch Group in fiscal year 2017 amounting to € 7,172k.
- Increase in deferred tax assets from other provisions in connection with the acquisition of the Drillisch Group in fiscal year 2017 amounting to € 4,136k.
- Decrease in deferred tax assets from other financial assets of € 16,599k due to the use of a debtor warrant of the Versatel Group acquired in 2014.
- Decrease in deferred tax assets of € 4,560k due to a reduction of so-called outside-basis-differences in connection with the Warburg Pincus transaction in the reporting period.
- Decline in deferred tax assets for customer acquisition costs carried in the tax balance sheet (€ 5,057k).

In the USA, the decrease in the applicable federal tax rate from 35% to 21% as of 2018, results in non-cash deferred tax income of € 1,840k. This results from the revaluation of the net balance of deferred tax liabilities.

The change in the net balance of deferred taxes compared to the previous year is reconciled as follows:

In €k	2017	2016
Deferred tax income (prior year: tax expense)	30,302	-775
Discontinued activities	431	-683
Addition in connection with business combinations	-279,828	0
Deferred tax income recognized directly in equity (prior year: tax expense)	4,593	-188
Change in the net balance of deferred taxes	**-244,502**	**-1,646**

The net asset balance of deferred taxes recognized directly in equity amounted to € 3,216k as of December 31, 2017 (prior year: net liability balance € 1,377k).

In the previous year, deferred tax assets recognized directly in equity amounting to € 5,172k (prior year: € 0k) were in connection with employee stock ownership plans.

The aggregate tax rate is reconciled to the effective tax rate of continued operations as follows:

	2017	2016
	%	%
Anticipated tax rate	31.2	30.2
- Actual and deferred taxes for previous years	0.5	-1.5
- Costs in connection with business combinations	0.2	0.0
- Tax-free income/non-deductible expenses from the valuation of financial assets/liabilities at fair value	0.2	0.0
- Non-tax-deductible writedowns on financial assets	0.7	21.0
- Non-tax-deductible writedowns on intangible assets	-0.5	-0.8
- Tax-reduced profit from disposals and income from investments	0.3	-0.5
- Tax effects in connection with internal Group dividends and disposals	3.6	0.6
- Differences due to tax rate changes	-1.0	-0.5
- Employee stock ownership plans	-0.8	1.4
- Tax-free income from transitional consolidations	-10.6	0.0
- Tax losses and non-deductible interest of the fiscal year for which no deferred taxes have been capitalized	2.4	0.2
- Value adjustment of tax loss carryforwards and temporary differences capitalized in previous years	0.0	0.4
- Non-taxable at-equity results	0.3	-0.1
- Recognition of deferred tax liabilities for outside basis differences	0.0	1.2
- Balance of other tax-free income and non-deductible expenses	0.7	-0.1
Effective tax rate	**27.2**	**51.5**

Tax-free income from transitional consolidations refers to special income from the successive acquisitions of Drillisch AG and ProfitBricks.

The non-tax-deductible writedowns in the reporting period and in the previous year refer to the impairment of shares in Rocket Internet SE.

Tax effects in connection with internal Group dividends and disposals mainly refer to Group restructuring in the reporting period.

The non-tax-deductible amortization of intangible assets results from differences in assets recognized in equity on initial booking, for which no deferred taxes are formed pursuant to IAS 12.

The expected tax rate corresponds to the tax rate of the parent company, United Internet AG.

15. Earnings per share

As in the previous year, capital stock as of December 31, 2017 was divided into 205,000,000 registered no-par shares each with a theoretical share in the capital stock of € 1. On December 31, 2017, United Internet held 5,093,289 treasury shares (prior year: 3,370,943). These treasury shares do not entitle the Company to any rights or proportional dividends and are thus deducted from equity. The weighted average number of shares outstanding used for calculating undiluted earnings per share was 199,864,853 for fiscal year 2017 (prior year: 203,261,162).

A dilutive effect must be taken into consideration for option rights resulting from the employee stock ownership programs of United Internet AG which were contained in cash as of December 31, 2017. All option rights existing on December 31, 2017 were considered in the calculation of diluted earnings per share, using the treasury stock method, insofar as the option rights were in money and irrespective of whether the option rights were actually exercisable on the balance sheet date. The calculation of the dilutive effect from conversion is made by first determining the number of potential shares. On the basis of the average fair value of the shares, the number of shares is then calculated which could be acquired from the total amount of payments (par value of the rights plus additional payment). If the difference between the two values is zero, the total payment is exactly equivalent to the fair value of the potential shares and no dilutive effect need be considered. If the difference is positive, it is assumed that these shares will be issued in the amount of this difference without consideration.

The calculation of diluted earnings per share was based on 1,518,630 (prior year: 1,113,630) potential shares (from the assumed use of rights). Based on an average market price of € 47.55 (prior year: € 40.56), this would result in the issuance of 487,000 (prior year: 576,073) shares without consideration.

The following table shows the underlying amounts for the calculation of undiluted and diluted earnings:

	2017	2016
	€k	€k
Profit attributable to the shareholders of United Internet AG	650,416	178,998
- thereof earnings after taxes from discontinued operations	38,578	3,403
Earnings per share (in €) from continued operations		
- undiluted	3.25	0.88
- diluted	3.25	0.88
thereof earnings per share (in €) - from continued operations		
- undiluted	3.06	0.86
- diluted	3.05	0.86
thereof earnings per share (in €) - from discontinued operations		
- undiluted	0.19	0.02
- diluted	0.19	0.02
Weighted average number of outstanding shares (in million units)		
- undiluted	199.86	203.26
- diluted	200.35	203.84

16. Dividend per share

The Annual Shareholders' Meeting of United Internet AG on May 18, 2017 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.80 per share. The total dividend payment of € 159.7 million was made on May 19, 2017.

According to section 21 of the by-laws of United Internet AG, the Annual Shareholders' Meeting decides on the appropriation of retained earnings. For the fiscal year 2017, the Management Board proposes a dividend of € 0.85 per share to the Supervisory Board. The Management Board and Supervisory Board will discuss this dividend proposal for fiscal year 2017 at the Supervisory Board meeting on March 21, 2018.

Pursuant to Sec. 71b AktG, the Company does not accrue any rights from treasury shares and thus has no pro-rated dividend rights. As at the date of signing the consolidated financial statements, the United Internet Group holds 5,093,289 treasury shares (prior year: 3,370,943).

17. Cash and cash equivalents

Cash and cash equivalents consist of bank balances, checks and cash in hand. Bank balances generally bear variable interest rates for call money. Due to the current low interest rates – which is even negative at present for amounts denominated in euros – bank balances no not bear interest.

The development and application of cash and cash equivalents is stated in the consolidated cash flow statement.

18. Trade accounts receivable

	Dec. 31, 2017	Dec. 31, 2016
	€k	€k
Trade accounts receivable	372,761	303,403
less		
Bad debt allowances	-29,190	-19,537
Trade accounts receivable, net	**343,571**	**283,866**
thereof trade accounts receivable - **current**	289,995	228,025
thereof trade accounts receivable **- non-current**	53,576	55,841

As of December 31, 2017 bad debt allowances for trade accounts receivable amounted to € 29,190k (prior year: € 19,537k). The development of bad debt allowances can be seen below:

	2017	2016
	€k	€k
As of January 1	19,537	23,098
Utilization	-19,295	-17,000
Additions charged to the income statement	34,506	16,446
Reversals	-4,273	-3,051
Exchange rate differences	-484	44
Deconsolidation affilinet	-801	0
As of December 31	**29,190**	**19,537**

Additions charged to the income statement of each period under review do not comprise receivables arising during the year and eliminated before the balance sheet date.

As of the balance sheet date there is no recognizable indication that payment obligations for receivables not adjusted cannot be met. The maximum credit risk as of the balance sheet date corresponds to the net carrying value of the above trade accounts receivable. Overdue receivables are tested for possible impairment. Individual allowances are mainly formed by classifying receivables according to their age profile. We refer to note 42.

All overdue receivables not adjusted individually are subjected to lump-sum allowances.

As of December 31, the age profile of trade accounts receivable less the aforementioned allowances was as follows:

	2017	2016
	€k	€k
Trade accounts receivable, net		
< 5 days	296,933	256,489
6 - 15 days	7,475	5,733
16 - 30 days	9,389	10,103
31 - 180 days	19,091	10,576
181 - 365 days	9,519	861
> 365 days	1,164	104
	343,571	**283,866**

19. *Inventories*

As of December 31, inventories consisted of the following items:

	Dec. 31, 2017	Dec. 31, 2016
	€k	€k
Merchandise		
Mobile telephony / mobile internet	37,660	37,021
DSL hardware	9,936	4,970
IP-TV	1,487	4,043
SIM cards	2,368	761
Other	288	0
Domain stock held for sale	3,670	3,805
	55,409	**50,600**
less		
Allowances	-10,737	-11,110
Inventories, net	**44,672**	**39,490**

Goods recognized as material expense from inventories in cost of sales amounted to € 389,476k in the reporting period (prior year: € 396,152k). Of this total, an amount of € 689k refers to impairment of inventories (prior year: € 698k).

Allowances include € 7,187k for mobile telephony/mobile internet and IP-TV (prior year: € 7,508k) and € 3,550k for domain stock (prior year: € 3,602k).

20. Current prepaid expenses

Prepaid expenses of € 92,291k (prior year: € 111,172k) consist mainly of prepayments for domain registration fees and pre-service fees which were deferred and charged to the income statement on the basis of the underlying contractual period.

The current prepaid expenses of the previous year comprised expenses in connection with the Warburg Pincus transaction amounting to € 3,929k, which were netted with the contributions of Warburg Pincus in the fiscal year 2017 and reclassified to equity.

21. Other current assets

21.1 Other current financial assets

	Dec. 31, 2017 €k	Dec. 31, 2016 €k
Receivable from pre-service providers	71,350	3,329
Payments on account	7,140	5,435
Creditors with debit balances	4,127	2,851
Deposits	736	402
Other	16,917	9,519
Other financial assets	**100,270**	**21,536**

The receivable from pre-service providers as of December 31, 2017 also comprises a refund claim of € 66,781k from the return of certain DSL quotas to a pre-service provider. The amount was reimbursed in February 2018.

21.2 Other current non-financial assets

	Dec. 31, 2017 €k	Dec. 31, 2016 €k
Receivables from tax office	58,166	129,427
Other non-financial assets	**58,166**	**129,427**

The decline in receivables from the tax office of € 70.3 million refers to receivables from the payment of allowable capital gains tax including the solidarity surcharge in the previous year.

22. Shares in associated companies

Via its subsidiary United Internet Investments Holding GmbH (formerly United Internet Ventures AG), United Internet holds a stake in Tele Columbus AG, Berlin, Germany. In the fiscal year 2017, this stake was increased from 25.11% to 28.52%. Tele Columbus AG is an independent broadband cable network operator active in the German multimedia and communication sector with most of its network infrastructures in eastern Germany (Berlin, Brandenburg, Saxony, Saxony-Anhalt und Thuringia), as well as in North Rhine-Westphalia and Hesse. Tele Columbus offers its customers digital TV program packages, as well as internet and telephone connections. In the fiscal year 2017, a majority shareholding was acquired in Drillisch AG, Maintal, Germany. As a result, the shares held as of December 31 are no longer carried as shares in associated companies. Further details on the acquisition of the Drillisch Group are provided in the disclosures on Business Combinations of the Fiscal Year. Prior to the consolidation of Drillisch AG, the company paid dividends of € 19,823k in the fiscal year 2017.

The shareholding in Tele Columbus AG corresponds to the proportion of voting rights. As in the previous year, it is valued using the equity method.

The following table contains summarized financial information on Tele Columbus AG on the basis of a 100% shareholding

Summarized financial information on the main associated companies:	Tele Columbus AG €k
Current assets	127,801
Non-current assets	2,717,090
Current liabilities	-198,203
Non-current liabilities	-1,481,870
Shareholders' equity	1,164,818
Sales revenue	368,650
Other comprehensive income	-1,688
Net profit/loss	-15,314
Total comprehensive income	**-17,002**

As financial information on Tele Columbus AG as of December 31, 2017 had not yet been published at the time of preparation, the summarized financial information is estimated on the basis of the quarterly statements as of September 30, 2017, taking account of adjustments which the United Internet Group believe to be necessary at this time. There were no results from discontinued operations.

A reconciliation with the carrying amounts in the consolidated financial statements as of December 31, 2017 – with an estimation of investment results for the fourth quarter – is presented below:

	Tele Columbus AG €k
United Internet Group's share in the net asset values as of September 30, 2017	332,206
Closing date-related reconciliation effects	-9,315
Carrying amount as of December 31, 2017	**322,891**
Fair value of shares as of December 31, 2017	**336,515**
Dividend received in 2017	**0**

As of December 31, 2017, the other associated companies disclosed an aggregated carrying value of € 95,157k (prior year: € 30,625k) and an aggregated loss of € 487k (prior year: 1,901k) in fiscal year 2017. The earnings/loss contributions of AWIN and other associated companies are only included in the aggregated loss on a prorated basis.

The following table contains summarized financial information on the two main associated companies on the basis of a 100% shareholding as of December 31, 2016:

Summarized financial information on the main associated companies as of Dec. 31, 2016:	Drillisch AG €k	Tele Columbus AG €k
Current assets	203,798	136,204
Non-current assets	2,306,829	2,730,609
Current liabilities	-170,644	-159,708
Non-current liabilities	-215,657	-1,533,149
Shareholders' equity	2,124,326	1,173,956
Sales revenue	522,145	354,166
Other comprehensive income	0	-3,827
Net profit/loss	24,742	-29,421
Total comprehensive income	**24,742**	**-33,248**

As financial information of both investments as of December 31, 2016 had not yet been published at the time of preparation, the summarized financial information was estimated on the basis of the quarterly statements as of September 30, 2016, taking account of adjustments which the United Internet Group believed to be necessary at this time. There were no results from discontinued operations for the two companies.

A reconciliation of the main associated companies with the carrying amounts in the consolidated financial statements as of December 31, 2016 – with an estimation of investment results for the fourth quarter – is presented below:

	Drillisch AG €k	Tele Columbus AG €k
United Internet Group’s share in the net asset values as of September 30, 2016	427,202	294,780
Closing date-related reconciliation effects	3,066	-127
Carrying amount as of December 31, 2016	**430,268**	**294,653**
Fair value of shares as of December 31, 2016	**450,421**	**253,037**
Dividend received in 2016	**19,272**	**0**

The financial information is based in part on local accounting regulations as a reconciliation of this financial information with IFRS would incur disproportionately high costs.

23. *Other non-current financial assets*

The development of other non-current financial assets was as follows:

	Jan. 1, 2017	Additions	Amortization of revaluation reserve not recognized in income		Change affecting income/ Impairment	Reclassification	Disposals	Dec. 31, 2017
			Recycling	Change				
	€k	€k	€k	€k	€k	€k	€k	€k
AdUX shares	2,242			-856				1,386
Afilias shares	8,720							8,720
Rocket Internet shares	262,597			47,059	-19,757			289,899
Derivatives	0	23,180			-5,290			17,890
Other	14,129	9,268			0	415	-8,008	15,804
	287,688	**32,448**	**0**	**46,203**	**-25,047**	**415**	**-8,008**	**333,699**

	01.01.16	Zugang	Fortschreibung der Neubewertungsrücklage		Ergebniswirksame Änderung/ Wertminderung	Umbuchung	Abgang	31.12.16
			Recycling	Veränderung				
	T€	T€	T€	T€	T€	T€	T€	T€
AdUX shares	1,380			862				2,242
HiPay shares	3,792		-935	935	-263		-3,529	0
Afilias shares	8,720							8,720
Rocket Internet shares	387,448			129,785	-254,636			262,597
Tele Columbus shares	35,530	79,083		-2,715		-111,898		0
Other	12,089	657			-6	4,937	-3,548	14,129
	448,959	**79,740**	**-935**	**128,867**	**-254,905**	**-106,961**	**-7,077**	**287,688**

The additions mainly refer to derivatives agreed in the course of the Warburg Pincus investment.

After initial recognition of impairment on the shares of Rocket Internet AG classified as an available-for-sale financial asset in the first quarter of 2016, all further declines in the fair value in subsequent periods must also be recognized as impairments. In this connection, a further non-cash-effective writedown of shares in Rocket Internet of € 19.8 million was made in the first quarter of the reporting period. The share price of Rocket Internet increased again as of the reporting date. The impairment reversal of € 47.1 million was thus added to the revaluation reserve through other comprehensive income.

24. Property, plant and equipment

	Dec. 31, 2017	Dec. 31, 2016
	€k	€k
Acquisition costs		
– Telecommunication equipment	679,565	554,077
– Operational and office equipment	519,334	492,166
– Network infrastructure	200,456	187,323
– Payments on account	43,385	26,749
– Land and buildings	17,731	17,082
	1,460,471	**1,277,397**
Less		
Accumulated depreciation	-713,048	-622,391
Property, plant and equipment, net	**747,423**	**655,006**

An alternative presentation of the development of property, plant and equipment in the fiscal years 2017 and 2016 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

The carrying value of property, plant and equipment held as part of finance leases amounts to € 87.8 million as of December 31, 2017 (prior year: € 96.5 million).

As of balance sheet date, there are purchase obligations for non-current assets totaling € 49.9 million (prior year: € 32.6 million).

25. *Intangible assets (without goodwill)*

	Dec. 31, 2017	Dec. 31, 2016
	€k	€k
Acquisition costs		
- Customer base	1,226,387	308,379
- Software / technology	315,448	169,948
- Trademarks	208,539	131,915
- Payments on account	4,670	2,350
- Other intangible assets	7,535	1,468
	1,762,579	**614,060**
Less		
Accumulated amortization and impairment	-369,240	-244,591
Intangible assets, net	**1,393,339**	**369,469**

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

The layout of the disclosed intangible asset categories was adjusted in the fiscal year 2017; the prior-year figures were adjusted accordingly.

The carrying value of the customer base results from the following company acquisitions:

	Dec. 31, 2017	Dec. 31, 2016
	€k	€k
1&1 Drillisch	709,725	0
Strato	165,188	0
Versatel	128,031	146,208
home.pl S.A.	24,895	26,491
Arsys	17,070	20,710
Other	509	1,012
	1,045,418	**194,421**

The residual amortization period for the customer base from the acquisition of the Drillisch Group (now 1&1 Drillisch) amounts to 5 to 13 years, depending on the customer groups, whereby 8 years applies to the major share. The residual amortization period for the customer base from the acquisition of Strato AG amounts to 3 to 13 years, depending on the product groups, whereby 11 years applies to the major share. The residual amortization period for the customer base of the home.pl transaction amounts to 8 years and for Arsys 5 years. The residual amortization period for the customer base from the acquisition of the Versatel Group amounts to 1 to 22 years, depending on the products and services, whereby 22 years applies to the major share.

The carrying values of intangible assets with indefinite useful lives (trademarks) totaled € 186,001k (prior year: € 131,804k). Intangible assets with indefinite useful lives were subjected to an impairment test on the level of the cash-generating units as of the balance sheet date.

Based on findings from the internal integration project for the Business Applications division and subsequent internal considerations, United Internet expects that the STRATO brand will not be indefinitely continued. According to current considerations, it is expected that the STRATO brand will be discontinued in Q2/2019. Against this backdrop, an impairment amount of € 20,738k was recognized for the STRATO trademark (Applications segment) in the fiscal year 2017. The residual useful life of the trademark was thus defined as being 1.5 years. The carrying amount of the STRATO trademark as of December 31, 2017 is € 1,800k. There was no impairment in the previous year.

The following table provides an overview of trademarks:

	Dec. 31, 2017	Dec. 31, 2016
	€k	€k
1&1 Versatel	62,000	62,000
1&1 Drillisch	56,300	0
Mail.com	22,804	25,887
WEB.DE	17,173	17,173
home.pl	11,589	10,962
Arsys	7,553	7,553
united-domains	4,198	4,198
Fasthosts	3,921	4,031
Strato	1,800	0
Cronon	463	0
	187,801	**131,804**

With the exception of the Strato trademark, the useful life of trademarks is determined as being indefinite, as there are no indications that the flow of benefits will end in future.

Other intangible assets mainly refer to beneficial purchasing agreements of the Drillisch Group.

26. Goodwill

A presentation of the development of goodwill in the fiscal years 2017 and 2016 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

27. *Impairment of goodwill and intangible assets with indefinite useful lives*

Goodwill and intangible assets with indefinite useful lives are subjected to an impairment test at least once per year. With reference to its internal budgeting process, the Company has chosen the last quarter of its fiscal year to conduct its statutory annual impairment test.

Goodwill acquired in the course of business combinations is allocated for impairment test purposes to cash-generating units. Due to the short period between the acquisition and the preparation of these consolidated financial statements, no allocation of goodwill from the acquisition of Drillisch AG to the cash-generating units 1&1 Drillisch and 1&1 Telecom has been made so far. Moreover, no allocation of goodwill from the acquisition of Strato to cash-generating units has been made so far.

Impairment charges are always disclosed separately in the income statement and the consolidated assets movement schedule.

Goodwill as of December 31 is allocated to the cash-generating units as follows:

	Dec. 31, 2017 €k		Dec. 31, 2016 €k
Access segment			
1&1 Drillisch	2,070,239	*	0
1&1 Versatel	398,261		398,261
1&1 Telecom	108,221		108,221
	2,576,721		**506,482**
Applications segment			
Strato	401,570	**	0
1&1 Mail & Media	228,501		228,501
Home.pl	122,934		119,731
Arsys	100,495		100,495
UK (Fasthosts)	61,682		63,409
ProfitBricks	41,309	***	0
united-domains	35,924		35,924
InterNetX	5,237		5,237
Domain-Marketing	5,098		5,098
Mail.com	309		357
Affiliate-Marketing	0		22,451
	1,003,059		**581,203**
	3,579,780		**1,087,685**

* Due to the short period between the acquisition and the preparation of these consolidated financial statements, the purchase price allocation has not been fully completed yet. Allocation of goodwill to cash-generating units has also not been made so far. For further details, please refer to note 4.1.

** Due to the short period between the acquisition and the preparation of these consolidated financial statements, allocation of goodwill to cash-generating units has not been made so far. For further details, please refer to note 4.1.

*** At the time of preparing the consolidated financial statements, no purchase price allocation had been made for ProfitBricks. The complete differing amount from the transaction was therefore recognized as goodwill on a preliminary basis. For further details, please refer to note 4.1.

Goodwill after company acquisitions

The carrying values of goodwill according to cash-generating unit result from various transactions over the past years. The Group's goodwill is mainly the result of the following company acquisitions:

- The carrying value of the cash-generating unit 1&1 Drillisch results from the acquisition of the Drillisch Group in 2017.
- The carrying values of the cash-generating units Versatel and 1&1 Telecom reflect goodwill from the acquisition of the Versatel Group in 2014.
- The carrying value of the cash-generating unit Strato results from the acquisition of the Strato Group in 2017.
- The carrying value of the cash-generating unit 1&1 Mail & Media mainly comprises goodwill from the acquisition of the portal business of WEB.DE AG in 2005.
- The carrying value of the cash-generating unit home.pl results from the acquisition of home.pl S.A. in 2015.
- The carrying value of the cash-generating unit Arsys results from the acquisition of Arsys Internet S.L. in 2013.
- The carrying value of the cash-generating unit Fasthosts results from the acquisition of Fasthosts Internet Ltd. in 2006 and the acquisition of Dollamore Ltd. in 2008.
- The preliminary carrying value of the cash-generating unit ProfitBricks results from the acquisition of ProfitBricks GmbH in 2017.
- The carrying value of the cash-generating unit united-domains results from the acquisition of united-domains AG in 2008.
- The carrying value of the cash-generating unit InterNetX results from the acquisition of InterNetX GmbH in 2005.

Scheduled impairment test on December 31, 2017

The recoverable amounts of the cash-generating units are calculated on the basis of a calculation of fair value less disposal costs using cash flow forecasts. The hierarchy of fair value less disposal costs as defined by IFRS 13 is set at Level 3 for all impairment tests. The cash flow forecasts are based on the Company’s budgets for the fiscal year 2018. These budget calculations were extrapolated by management for a period of up to 23 years (prior year: up to 12 years) for the respective cash-generating units on the basis of external market studies and internal assumptions. Following this period, management assumes an annual increase in cash flow of 0.5% for the Access segment (prior year: 0.5%), and between 0.5% and 1.0% for the Applications segment (prior year: between 0.5% and 0.6%), corresponding to long-term average growth of the sector in which the respective cash-generating unit operates. The discount rates after tax used for cash flow forecasts are 5% for the Access segment (prior year: 5%), and between 5% and 8% for the Applications segment (prior year: between 5% and 8%).

The following table presents the basic assumptions used when checking impairment of individual cash-generating units, to which goodwill has been allocated, in order to determine their fair value less disposal costs:

	Reporting year	Total proportion of goodwill	Long-term growth rate	Discount rate after taxes
CGUs Access segment				
1&1 Drillisch	2017	57.8%	0.5%	5.2%
	2016	n/a	n/a	n/a
1&1 Versatel	2017	11.1%	0.5%	4.8%
	2016	36.6%	0.5%	4.5%
1&1 Telecom	2017	3.0%	0.5%	5.2%
	2016	9.9%	0.5%	4.9%
CGUs Application segment				
Strato	2017	11.2%	1.0%	6.1%
	2016	n/a	n/a	n/a
1&1 Mail & Media	2017	6.4%	0.5%	4.8%
	2016	21.0%	0.5%	5.3%
home.pl	2017	3.4%	0.5%	7.2%
	2016	11.0%	0.6%	7.3%
Arsys	2017	2.8%	0.5%	8.3%
	2016	9.2%	0.5%	8.7%
Fasthosts	2017	1.7%	0.5%	6.8%
	2016	5.8%	0.5%	6.7%

ProfitBricks	2017	1.2%	0.5%	6.1%
	2016	n/a	n/a	n/a
united-domains	2017	1.0%	0.5%	6.2%
	2016	3.3%	0.5%	6.1%
InterNetX	2017	0.1%	0.5%	6.1%
	2016	0.5%	0.5%	6.1%
Domain Marketing	2017	0.1%	0.5%	6.1%
	2016	0.5%	0.5%	6.1%
Affiliate Marketing	2017	n/a	n/a	n/a
	2016	2.1%	0.5%	5.3%

The cash flow forecasts depend heavily on the estimation of future sales revenues. The management of the respective cash-generating unit expects a varied development of sales within its planning horizon. Sales revenue figures in the detailed planning period of the cash-generating units for the Access segment are based on average annual sales growth rates of between 2.4% und 4.1% (prior year: between 0.4% and 5.8%). Sales revenue figures in the detailed planning period of the cash-generating units for the Applications segment are based on average annual sales growth rates of between 1.2% und 24.8% (prior year: between 0.5% and 8.1%).

Fair value less disposal costs is mainly based on the present value of the perpetual annuity, which is particularly sensitive to changes in assumptions on the long-term growth rate and the discount rate. For the calculation of fair value less disposal costs, disposal cost rates of between 0.2% and 3% were assumed (prior year: 3%).

In the Applications segment, trademarks recognized amount to € 69,501k (prior year: € 69,804k) and in the Access segment to € 118,300k (prior year: € 62,000k; see note 25). In the course of business combinations, the trademarks were valued at their fair values less disposal cost using appropriate valuation methods (generally the so-called "royalty relief" method; in the cash-generating unit mail.com using the residual value method) and tested again for impairment on the balance sheet date. The trademark-relevant cash flows were multiplied with the trademark-relevant royalty rates. These range from 0.25% to 2.5% (prior year: 0.75% to 2.5%). The forecast of trademark-relevant cash flows was based on the same assumptions regarding market development and discount rates as used for the calculation of fair values. The result of the test was an impairment need of € 20,738k for the Strato trademark in the Applications segment. The fair value of the Strato trademark at the end of the reporting period amounts to € 1,800k. In this connection, the residual useful life of the Strato trademark was defined as being 1.5 years. There was no impairment in the previous year.

Sensitivity of assumptions

The sensitivity of the assumptions made with respect to the impairment of goodwill or trademarks depends on the respective cash-generating units.

In the course of analyzing sensitivity for cash-generating units to which goodwill or trademarks have been allocated, an increase in the discount rates (after taxes) of 1 percentage point and a decline in the long-term growth rate in perpetuity of 0.25 percentage points was assumed, as in the previous year. These assumptions would not result in any changes to the impairment test.

As in the previous year, the Company’s management believes that, on the basis of reasonable judgment, no generally possible change in one of the basic assumptions used to determine fair value less disposal costs of a cash-generating unit could cause the carrying value to significantly exceed the recoverable amount.

28. Non-current prepaid expenses

Non-current prepaid expenses result mainly from advance payments relating to long-term purchasing agreements with pre-service providers and amount to € 100,880k as of December 31, 2017 (prior year: € 127,974k).

29. Trade accounts payable

Trade accounts payable amount to € 408,920k (prior year: € 383,189k), of which liabilities with terms of more than one year total € 9,023k (prior year: € 9,479k).

30. Liabilities due to banks

a) Liabilities due to banks

	Dec. 31, 2017	Dec. 31, 2016
	€k	€k
Bank loans	1,955,781	1,760,653
Less		
Current portion of liabilities due to banks	-248,185	-422,236
Non-current portion of liabilities due to banks	**1,707,596**	**1,338,417**
Short-term loans/overdrafts	248,185	422,236
Current portion of liabilities due to banks	**248,185**	**422,236**
Total	**1,955,781**	**1,760,653**

Bank liabilities of € 1,956 million as of December 31, 2017 result mainly from promissory note loans and syndicated loans.

Promissory note loans

In an agreement dated March 13, 2017, United Internet placed a new promissory note loan with a total amount of € 500 million for general company funding. The 5 tranches in total with terms from March 2022 to March 2025 were placed at the issuance amount and are 100% repayable.

By placing mainly fixed-interest tranches, the Group hedged the risk of rising interest rates and optimized the maturity profile with maturities of up to 8 years. The average interest rate of this new promissory note loan is 1.14% p.a.. The promissory note loan is not tied to any so-called covenants.

At the end of the reporting period, total liabilities from promissory note loans amounted to € 1,035 million. The outstanding 8 tranches from the promissory note loans 2014 and 2017 are mainly fixed-interest. Depending on the term, the fixed interest rates vary between 0.897% and 2.150% p.a. The interest rate for the variable-interest tranche of the promissory note loan of 2017 is tied to the respective 6-month EURIBOR rate plus a margin of 0.80% p.a..

Syndicated loans & syndicated loan facility

With effect from May 5, 2017, United Internet signed an agreement with its core banks regarding a consolidation and adjustment of its existing syndicated loan borrowing. The syndicated loan of € 750 million arranged in August 2014 and syndicated loan of € 810 million arranged in July 2015 were consolidated into a single loan arrangement. At the same time, the Company used the favorable market situation to renegotiate significant components of the loan agreements. In particular, existing covenants were relaxed, borrowing costs optimized, and some of the terms prolonged in order to further harmonize the maturity profile. No new debt was taken on as a result of this measure.

At the end of the reporting period, a total of € 400 million syndicated loans, redeemable on maturity, divided into two tranches with terms from August 2019 to August 2021 were outstanding, as well as various drawings from the revolving syndicated loan facility of € 810 million negotiated in July 2015 with a term until July 2020.

The two tranches of the syndicated loans have variable interest rates. The effective interest rates for interest periods of 3 and 6 months are tied to the respective EURIBOR rate plus a margin p.a.. This margin depends on the ratio of net liabilities to EBITDA (leverage) of the United Internet Group. At the end of the reporting period, the applicable interest rate for both loans was 0.90% p.a.. Redemption payments are possible at any time.

As of December 31, 2017, an amount of € 477 million had been drawn from the revolving syndicated loan facility (prior year: € 407 million). An amount of € 333 million is therefore still available from the portion of the revolving syndicated loan facility not yet drawn (prior year: € 403 million).

There are variable interest rates for drawings from the revolving syndicated loan of € 810 million in total. The effective interest rates for the interest periods of 1, 3 or 6 months are tied to the EURIBOR rate plus a margin p.a.. The margin depends on the ratio of net liabilities to EBITDA (leverage) of the United Internet Group. The applicable interest rate as of the reporting date amounts to 1.00% (prior year: 1.35%).

In addition, there was the short-term use of a bilateral credit facility totaling € 41 million by United Internet AG as at December 31, 2017. The credit facility with a total amount of € 75 million has been granted until further notice and bears interest at normal market rates. United Internet AG is liable as co-debtor for any drawings made by Group companies under this agreement.

1&1 Drillisch AG also has a revolving credit line of € 100 million in total granted by banks. This was not utilized as of the reporting date.

At the end of the reporting period, the United Internet Group has free credit lines totaling € 467 million.

	2017	**2016**
	€k	**€k**
Credit lines granted	175,000	75,000
Credit line utilization	41,000	5,000
Available credit lines	134,000	70,000
Average interest rate	0.43%	0.43%

No collateral was provided for any of the liabilities due to banks.

With the exception of the interest-bearing tranches of the promissory note loan, the fair values of bank liabilities mainly correspond to their carrying values. For further information on the promissory note loan, please refer to note 40.

A euro cash pooling agreement (zero balancing) has been in place between United Internet AG, certain subsidiaries and one of the Company's core banks, since July 2002. Under the agreement, credit and debit balances of the participating Group subsidiaries are pooled and netted via several cascades in a central account of United Internet AG and available each banking day.

b) Guaranty credit facilities

In addition to the above mentioned credit lines, the Group had the following guaranty credit facilities at the end of the reporting period, which in some cases can also be used by other Group companies.

	2017	2016
	€k	€k
Guaranty lines granted	91,000	67,800
Guaranty lines utilized	45,686	38,118
Available guaranty lines	45,314	29,682
Average interest rate	0.50%	0.57%

The guaranty credit facilities are available in particular for the provision of operational bank guarantees. The guaranty credit facilities granted are mostly for unlimited periods ("until further notice"). One agreement is limited until June 30, 2020. No collateral was provided to banks.

The stated average interest rate as of the reporting date is based on utilization.

31. *Income tax liabilities*

At the end of the reporting period, income tax liabilities consist of the following items:

	2017	2016
	€k	€k
Germany	126,290	60,816
UK	1,753	1,880
Poland	1,373	621
Spain	500	510
Others	279	318
Total	**130,195**	**64,145**

32. *Deferred revenue*

Customers pay for certain contracts in advance. These contracts are mostly for webhosting and internet access services, as well as one-off provision charges of the Versatel Group. The prepaid charges are allocated and recognized as revenues over the underlying contractual period.

33. Other accrued liabilities

The development of accruals in fiscal year 2017 was as follows:

	Restoration obligations	Litigation risks	Restructuring	Others	Total
	€k	€k	€k	€k	€k
January 1, 2017	**29,689**	**17,967**	**100**	**5,152**	**52,908**
Change in consolidated group	**1,203**	**18,118**	**0**	**863**	**20,184**
Utilization	107	2,574	0	4,532	7,213
Reversal	806	2,067	0	48	2,921
Addition	88	2,495	11,900	5,443	19,926
Addition of accrued interest	13	0	0	0	13
December 31, 2017	**30,080**	**33,939**	**12,000**	**6,878**	**82,897**

The accruals for restoration obligations mainly refer to possible obligations to remove active telecommunication technology in leased main distribution frames (MDFs).

Litigation risks consist of various legal disputes of Group companies.

Other accruals refer mainly to provisions for warranties and impending losses.

The accrual for restructuring refers to costs in connection with the sale of yourfone Shop GmbH.

Accruals of € 16,068k (prior year: € 16,426k) have a term of one to five years and accruals of € 17,417k (prior year: € 23,245k) a term of over five years. Long-term accruals mainly refer to restoration obligations.

34. Other liabilities

34.1 Other current financial liabilities

	Dec. 31, 2017	Dec. 31, 2016
	€k	€k
Other current financial liabilities		
- Salary liabilities	49,941	35,036
- Marketing and selling expenses / commissions	22,572	23,820
- Finance lease commitments	16,978	16,333
- Liabilities from usage rights	10,000	0
- Creditors with debit balances	7,132	6,621
- Legal and consulting fees, auditing fees	6,894	16,399
- Service / maintenance / restoration obligations	6,787	5,961
- Bonds	3,077	0
- Others	12,277	10,578
Total	**135,658**	**114,748**

34.2 Other current non-financial liabilities

Other current non-financial liabilities	Dec. 31, 2017 €k	Dec. 31, 2016 €k
- Liabilities to the tax office	37,693	27,867
- Others	10,060	5,661
Total	**47,753**	**33,528**

Liabilities to the tax office mainly refer to sales tax liabilities.

34.3 Other non-current financial liabilities

	Dec. 31, 2017	Dec. 31, 2016
	€k	€k
Other non-current financial liabilities		
- Finance lease commitments	74,809	82,855
- Conditional purchase price liabilities	9,686	0
- Liabilities from usage rights	5,000	0
- Liabilities from put option (InterNetX)	1,584	1,356
- Others	6,458	6,680
Total	**97,537**	**90,891**

Please refer to note 44 regarding finance lease commitments.

The conditional purchase price liabilities refer to variable purchase price components from the acquisition of Strato AG (€ 5,270k) and ProfitBricks GmbH (€ 4,416k).

On June 10, 2014, 1&1 Internet AG signed an option agreement with the other shareholders of InterNetX GmbH concerning the remaining 4.44% of shares in InterNetX. In the agreement, the two joint owners were granted a put option by 1&1 Internet AG for their remaining shares. The purchase price depends mainly on the development of the company’s earnings.

35. Maturities of liabilities

The maturities of liabilities are as follows:

	Dec. 31, 2017			
€k	Total	Up to 1 year	1 to 5 years	Over 5 years
Financial liabilities				
Liabilities due to banks				
-Revolving syndicated loan facility	476,184	7,185	468,999	0
-Syndicated loan	400,233	0	400,233	0
-Promissory note loan	1,038,364	200,000	435,500	402,864
-Current account overdrafts	41,000	41,000		
Trade accounts payable	408,920	399,897	9,023	0
Other financial liabilities				
-Finance leases	91,787	16,978	53,403	21,406
-Other	141,408	118,680	19,248	3,479
Total financial liabilities	**2,597,896**	**783,741**	**1,386,406**	**427,749**
Non-financial liabilities				
Advance payments received	10,901	10,901	0	0
Income tax liabilities	130,195	130,195	0	0
Deferred revenue	294,877	262,480	32,397	0
Other accrued liabilities	82,897	49,412	16,068	17,417
Other non-financial liabilities	47,753	47,753	0	0
Total non-financial liabilities	**566,623**	**500,741**	**48,465**	**17,417**
Liabilities	**3,164,519**	**1,284,482**	**1,434,871**	**445,166**

The maturities of liabilities in the previous year are as follows:

	Dec. 31, 2016			
€k	Total	Up to 1 year	1 to 5 years	Over 5 years
Financial liabilities				
Liabilities due to banks				
-Revolving syndicated loan facility	406,929	736	406,193	0
-Syndicated loan	749,338	351,207	398,131	0
-Promissory note loan	599,386	65,293	436,821	97,272
-Current account overdrafts	5,000	5,000	0	0
Trade accounts payable	383,189	373,710	4,480	4,999
Other financial liabilities				
-Finance leases	99,189	16,333	47,734	35,122
-Other	106,450	98,415	5,924	2,111
Total financial liabilities	**2,349,481**	**910,694**	**1,299,283**	**139,504**
Non-financial liabilities				
Advance payments received	12,326	12,326	0	0
Income tax liabilities	64,145	64,145	0	0
Deferred revenue	269,323	235,503	33,820	0
Other accrued liabilities	52,908	13,237	16,426	23,245
Other non-financial liabilities	33,528	33,528	0	0
Total non-financial liabilities	**432,230**	**358,739**	**50,246**	**23,245**
Liabilities	**2,781,711**	**1,269,433**	**1,349,529**	**162,749**

In the course of determining the maturities of liabilities due to banks, management assumed that the amount drawn from the revolving syndicated loan facility as at the respective balance sheet date would remain constant until the end of the term (July 9, 2020).

36. Share-based payment – employee stock ownership plans

There were three different employee stock ownership plans in the reporting period 2017. One model with so-called *Stock Appreciation Rights (SAR)* is aimed at the group of senior executives and managers and based on virtual stock options of United Internet AG. The second model, the *Employee Stock Ownership Plan (ESOP)*, was introduced in the second quarter of 2016 for active core employees of those Group companies in which United Internet AG holds a stake of at least 50%. The third program, the *Long-Term Incentive Plan (LTIP)* was introduced in the second half of 2017 and is aimed at the group of executives and employees in key positions in the Business Applications division.

36.1 Stock Appreciation Rights (SAR)

The SAR program 2006 to 2010 and 2010 to 2017 employs so-called Stock Appreciation Rights (SARs) and is treated as an equity-settled shared-based payment transaction. SARs refer to the commitment of United Internet AG (or a subsidiary) to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option (strike price) and the share price on exercising the option. The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange over the ten days preceding issuance of the option. Payment of value growth to the entitled person is limited to 100% of the calculated share price.

An SAR corresponds to a virtual subscription right for one share of United Internet AG. However, it is not a share right and thus not a (genuine) option to acquire shares of United Internet AG. United Internet AG retains the right, however, to fulfill its commitment (or the commitment of a subsidiary) to pay the SAR in cash by also transferring United Internet AG shares from its stock of treasury shares to the beneficiary, at its own discretion.

Up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% at the earliest 36 months after the date of issue of the option. A total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option.

Using an option pricing model on the basis of the Black-Scholes model in accordance with IFRS 2, the fair value of options issued was calculated as follows:

Valuation parameters				
Issue date	01.03.16	01.04.16	12.04.16	01.05.16
Fair value	1,142 €k	827 €k	971 €k	459 €k
Average market value per option	7.61 €	6.89 €	6.47 €	6.12 €
Strike price	43.76	43.49 €	44.06 €	43.51 €
Share price	46.19	44.54 €	43.97 €	42.83 €
Dividend yield	1.3 %	1.4 %	1.4 %	1.4 %
Volatility of the share	31 %	30 %	30 %	30 %
Expected term (years)	5	5	5	5
Risk-free interest rate	0 %	0 %	0 %	0 %

Issue date	01.06.16	13.07.16	02.12.16	06.04.17
Fair value	178 €k	118 €k	465 €k	480 €k
Average market value per option	5.94 €	5.89 €	4.65 €	4.80 €
Strike price	43.45 €	37.49 €	36.27 €	41.26 €
Share price	42.16 €	38.68 €	35.41 €	40.95 €
Dividend yield	1.4 %	1.8 %	2.0 %	2.0 %
Volatility of the share	30 %	31 %	29 %	24.86 %
Expected term (years)	5	5	5	5
Risk-free interest rate	0 %	0 %	0 %	0 %

The volatility used to determine fair value was calculated on the basis of historical volatility for the last 18 months prior to the valuation date. The strike price is calculated on the basis of the average share price of the last 10 days prior to the issuance date.

The total expense from the stock ownership plan amounts to € 33,874k (prior year: € 34,851k). The cumulative expense as of December 31, 2017 totaled € 31,710k (prior year: € 29,613k). Expenses of € 2,164k (prior year: € 5,238k) therefore relate to future years. The personnel expense for share options issued amounted to € 2,097k in the reporting period (prior year: € 2,945k).

Moreover, in fiscal year 2012 an individual commitment for the transfer of 100,000 shares of United Internet AG was granted. The total value of the commitment amounted to € 1,593 thousand on the grant date. On expiry of the blocking period, the shares were transferred in early 2018; the transfer was not linked to vesting conditions.

The changes in the virtual stock options granted and outstanding are shown in the following table:

	United Internet AG	
	SAR	Average strike price (€)
Outstanding as of December 31, 2015	**2,875,000**	**22.78**
issued	20,000	37.49
issued	150,000	43.76
issued	75,000	43.51
issued	250,000	44.06
issued	30,000	43.45
issued	100,000	36.27
issued	120,000	43.49
expired / forfeited	-100,000	44.06
exercised	-25,000	31.02
exercised	-20,000	12.12
exercised	-75,000	18.13
exercised	-15,000	30.11
exercised	-125,000	12.03
exercised	-325,000	16.06
exercised	-75,000	21.95
exercised	-100,000	13.43
exercised	-25,000	32.79
exercised	-15,000	13.30
exercised	-85,000	31.15
exercised	-75,000	16.24
Outstanding as of December 31, 2016	**2,560,000**	**29.46**
exercised	-325,000	16.06
exercised	-75,000	21.95
exercised	-235,000	31.15
exercised	-15,000	13.30
exercised	-75,000	18.13
exercised	-15,000	30.11
exercised	-25,000	32.79
exercised	-50,000	40.00
expired / forfeited	-75,000	31.02
expired / forfeited	-75,000	43.76
expired / forfeited	-100,000	44.06
expired / forfeited	-75,000	43.51
expired / forfeited	-30,000	43.45
expired / forfeited	-75,000	31.02
issued	100,000	41.26
Outstanding as of December 31, 2017	**1,415,000**	**31.51**
Exercisable as of December 31, 2016	75,000	31.15
Exercisable as of December 31, 2017	0	-
Weighted average remaining term		
Weighted average remaining term as of December 31, 2016 (in months)	42	
Weighted average remaining term as of December 31, 2017 (in months)	26	

The range of strike prices for stock options outstanding at the end of the reporting period is between € 16.06 and € 44.06 (prior year: € 13.30 and € 44.06).

36.2 Employee stock ownership plan (ESOP)

In fiscal year 2016, a new employee stock ownership plan (ESOP) was introduced for active core employees of those Group companies in which United Internet AG holds a stake of at least 50%. The ESOP is designed to involve employees more in the development of the United Internet Group and the United Internet AG share, while raising staff motivation and performance and in particular their ties with the United Internet Group, i.e. to honor their continued work for the company (loyalty). The ESOP consists of two components:

Firstly, qualifying employees will receive the option to buy a specific number of shares in United Internet AG at a reduced price, which they must then hold for a period of two years (vesting period). On completion of this period, participants will be granted further shares for free provided they are still working for the company. On achievement of defined "ambition figures", the qualifying employees will receive additional free shares. Of the 5,638 qualifying employees in total, 1,936 employees or 34% of those entitled have accepted the offer and subscribed for a total of 211,460 shares in United Internet AG. The fair value of commitments classified as equity instruments amounted to € 4,298k on the grant date.

The total expense from the employee stock ownership plan (ESOP) amounts to € 4,298k (prior year: € 4,298k). The cumulative expense as of December 31, 2017 totaled € 3,208k (prior year: € 1,488k). Expenses of € 1,090k (prior year: € 2,810k) therefore relate to future years. In fiscal year 2017, expenses of € 1,720k (prior year: € 1,488k) were incurred from the employee stock ownership plan.

Expenses for the employee stock ownership plan comprise both personnel expenses from the discounted sale of shares in United Internet AG to participating employees (investment expense) and from the granting of United Internet AG shares on expiry of 2 years (matching expense). the investment expense per share results from the difference between the stock exchange price of a United Internet share on the grant date (€ 36.22) and the purchase price (reference price less discount; € 32.96). On the basis of 211,460 shares, an expense of € 689k was recognized. The matching expense to be recognized over the service period is calculated on the basis of the following material valuation parameters: share price of a United Internet on the grant date (€ 36.22), expected dividend yield of approx. 2%, discount rate for dividend in 2017 and 2018: 0.1% p.a. and 0.2% p.a., and expected fluctuation of 7% p.a..

36.3 Long-Term Incentive Plan (LTIP)

An additional employee stock ownership plan (Long-Term Incentive Plan, LTIP) was introduced for the Business Applications division in the fiscal year 2017. The LTIP is designed to align the long-term interests of management board members and other key employees of the 1&1 Internet Group (Business Applications division) with the interests of the company, in order to raise the equity value of the company (1&1 Internet TopCo SE) and other companies of the 1&1 Internet Group.

Within the LTIP program, qualifying employees in the Hosting division will be allocated so-called *Management Incentive Plan* (MIP) units. The grant is made on a straight-line basis over a period of four years (beginning with the date of issue) and provided that the respective employee has not terminated his contract at the end of each year. A total of 300,000 MIP units were granted. As of December 31, 2017, all MIPs are still outstanding and not yet unforfeitable.

The entitlements under the LTIP program can be settled in the form of shares or cash. In the case of settlement in the form of shares, rights may be settled by the provision of shares or options to acquire shares. As there is no current obligation for cash settlement, the plan is carried as equity-settled.

Using an option pricing model based on a Black-Scholes model in accordance with IFRS 2, the fair value of the options issued was calculated using the following material valuation parameters: strike price € 114.7 per MIP unit, risk-free rate of 0%, dividend yield of 0%, volatility of 28.3%, and a remaining term as of December 31, 2017 of 3.8 years. The volatility used to calculate fair value was calculated using the price fluctuations of the past 180 days or last 360 days of the Business Applications division peer group.

Expense is recognized on a straight-line basis over the variable period until the anticipated occurrence of an event defined by the LTIP plan. This assessment is reviewed on each reporting date. Based on current estimates, a period of 4 years is used.

In fiscal year 2017, expenses of € 1,344k were incurred from the LTIP employee stock ownership plan. The fair value of commitments classified as equity instruments amounted to € 21,508k on the grant date.

37. Capital stock

As in the previous year, the fully paid-in capital stock of the balance sheet date amounted to € 205,000,000 divided into 205,000,000 (prior year: 194,000,000) registered no-par shares having a theoretical share in the capital stock of € 1 each.

Pursuant to Sec. 71 (1) No. 8 AktG, the Company is entitled to acquire treasury shares until September 18, 2020 up to a limit of ten percent of capital stock. The purchase price may be no lower than ten percent of the share's market price, nor higher than ten percent above its market price. The authorization may not be used for the purpose of trading with treasury shares.

As of the balance sheet date 5,093,289 treasury shares were held (prior year: 3,370,943).

Treasury shares reduce equity and have no dividend entitlement.

Authorized capital

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock in the period ending May 20, 2020 by a maximum of € 102,500,000.00 by issuing on one or more occasions new no-par value shares in return for cash and/or non-cash contributions, whereby the subscription rights of shareholders can be excluded under certain conditions (Authorized Capital 2015).

In the case of a capital increase, shareholders shall be granted subscription rights. Pursuant to Section 186 (5) AktG, shareholders can also be granted subscription rights indirectly. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the rights of shareholders to subscribe:

- in the case of fractional amounts arising from the subscription ratio;

- in the case of a capital increase in return for cash contribution if the new shares are issued at an issuance price which is not substantially below the market price (as defined by Section 203 (1) and (2) in conjunction with Section 186 (3) Sentence 4 AktG) of those Company shares already listed of the same type and with the same terms at the time of the final determination of the issuance price by the Management Board, which should be as near as possible to the share issue date, and the proportionate amount of the capital stock attributable to the new shares for which subscription rights are excluded does not exceed ten percent of the existing capital stock, neither at the time this authorization becomes effective nor when it is exercised. This amount includes the proportionate share of capital stock attributable to shares issued or used during the term of the authorization in direct or corresponding application of Section 186 (3) Sentence 4 AktG under exclusion of subscription rights. This amount also includes the proportionate share of capital stock attributable to shares issued or to be issued to serve conversion or warrant rights, providing the underlying bonds are issued during the term of this authorization under exclusion of subscription rights pursuant to Section 186 (3) Sentence 4 AktG;

- to the extent that this should be necessary in order to grant subscription rights for new shares to bearers of bonds with warrant or conversion rights or obligations issued by the Company or subordinated Group companies in the amount to which they are entitled on exercise of their warrant or conversion rights or fulfillment of their warrant or conversion obligation;

- in the case of capital increases in return for non-cash contribution to grant shares for the purpose of acquiring companies, parts of companies, interests in companies or other assets, including rights and receivables, or as part of business combinations.

Conditional capital

Capital stock is to be conditionally increased by up to € 25,000,000.00, divided into 25,000,000 no-par value shares (Conditional Capital 2015). The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds granted by the Company or a subordinated Group company in accordance with the above authorization. The new shares shall be issued at the warrant or conversion price to be determined in the bond terms and in accordance with the above authorization. The conditional capital increase shall only be implemented to the extent that the warrant or conversion rights pertaining to the bonds are exercised or warrant or conversion obligations pertaining to the bonds are fulfilled, or the Company exercises its right to tender shares, and unless other fulfillment possibilities for servicing are used. The new shares used for the issue shall participate in profits from the beginning of the fiscal year in which they are created by exercising the warrant or conversion right; to the extent that it is legally permissible, the Management Board may, with the approval of the Supervisory Board, determine the profit participation of new shares and, notwithstanding Section 60 (2) AktG, also for a fiscal year already expired. The Management Board is authorized to determine the further details of the implementation of the conditional capital increase.

38. Reserves

As of December 31, 2017, capital reserves amounted to € 2,709,203k (prior year: € 377,550k). € 1,671,860k of this increase results mainly from additions in connection with the acquisition of the Drillisch Group, and € 650,907k from additions in connection with the investment of Warburg Pincus in the Business Applications division.

The accumulated result includes the past results of consolidated companies, insofar as no dividends were paid, less expenses for share-based remuneration.

At the end of the reporting period, the revaluation reserve consisted of the following items:

	Dec. 31, 2017	Dec. 31, 2016
	€k	€k
Available-for-sale financial assets:		
- Rocket Internet shares	69,971	22,912
- Afilias shares	5,427	8,175
- AdUX shares	6	862
Share in other comprehensive income of associated companies:		
- Tele Columbus shares	-481	-961
Total	**74,923**	**30,988**

The revaluation reserve from available-for-sale financial assets includes gains and losses from subsequent measurement at fair value. Provided there is no indication of impairment, these are recognized directly in other comprehensive income net – i.e. less deferred taxes – and after non-controlling interests.

Translation differences from the annual financial statements of foreign subsidiaries without an effect on profit or loss are recognized in the currency translation adjustment.

An overview of the composition and changes in the reserves described above for the fiscal years 2017 and 2016 is provided in the statement of changes in shareholders' equity.

39. Non-controlling interests

Non-controlling interests as of December 31, 2017 developed as follows in the reporting period:

	Jan. 1, 2017	Addition via acquisition	Employee stock ownership plan	Pro-rated result	Pro-rated other comprehensive income	Dividend	Dec. 31, 2017
	€k	€k	€k	€k	€k	€k	€k
1&1 Drillisch AG (26.71)	0	231,350	0	31,768	0	0	263,118
1&1 Internet TopCo SE/Business Applications (33.33%)	0	-209,651	1,466	4,684	-648	0	-204,149
Other non-controlling interests	348	0	0	199	-20	-164	363
Total	**348**	**21,699**	**1,466**	**36,651**	**-668**	**-164**	**59,332**

The addition refers to the initial investment of non-controlling shareholders in the respective subsidiary.

The following financial information comprises summarized details on the assets, liabilities, profits or losses, and cash flows of the subsidiary with material non-controlling interests.

Drillisch Group

The current and non-current assets of the Drillisch Group amount to € 657 million and € 4,079 million as of December 31, 2017. The current and non-current liabilities of the Drillisch Group amount to € 675 million and € 255 million as of December 31, 2017. Equity amounts to € 3,805 million as of December 31, 2017. Revenue for the fiscal year 2017 amounts to € 2,812 million. Earnings before taxes amount to € 431k for the fiscal year 2017. Tax expenses amount to € 121 million. Consolidated net income from continued operations amounts to € 310 million. Net income after taxes from discontinued operations amounts to € 171 million. Consolidated net income after discontinued operations amounts to € 481 million. Cash flow from operating, investing and financing activities amounts to € 370 million (thereof cash flow from operating activities of continued operations € 294 million), € -49 million (thereof cash flow from investing activities of continued operations € 9 million) and € 153 million (thereof cash flow from financing activities of continued operations € -146 million) in the fiscal year 2017.

1&1 Internet TopCo SE (Business Applications)

The current and non-current assets of the sub-group 1&1 Internet TopCo SE amount to € 199 million and € 1,222 million as of December 31, 2017. The current and non-current liabilities of the sub-group 1&1 Internet TopCo SE amount to € 376 million and € 1,657 million as of December 31, 2017. Equity amounts to € -612 million as of December 31, 2017. Revenue for the fiscal year 2017 amounts to € 806 million. Net income after taxes amounts to € 23 million for the fiscal year 2017. Cash flow from operating, investing and financing activities amounts to € 125 million, € -648 million and € 519 million for the fiscal year 2017.

40. Additional details on financial instruments

The following table shows the carrying values for each category of financial assets and liabilities for fiscal year 2017:

(in € k)	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2017	Valuation acc. to IAS 39 Amortized cost	Fair value not through profit or loss	Fair value through profit or loss	Measurement acc. to IAS 17	Fair value on Dec. 31,.2017
Financial assets							
Cash and cash equivalents	lar	238,522	238,522				238,522
Trade accounts receivable	lar/n/a						
Receivables from finance leases	n/a	59,229				59,229	61,965
Others	lar	284,341	284,341				284,341
Other current financial assets	lar	100,270	100,270				100,270
Other non-current financial assets	lar/afs						
Investments	afs	300,005	8,720	291,285			300,005
Derivatives	fahft	17,890			17,890		17,890
Others	lar	33,694	33,694				33,694
Financial liabilities							
Trade accounts payable	flac	-408,920	-408,920				-408,920
Liabilities due to banks	flac	-1,955,781	-1,955,781				-1,956,201
Other financial liabilities	flac/n/a						
Finance leases	n/a	-91,787				-91,787	-95,871
Conditional purchase price obligation	flhft	-9,686			-9,686		-9,686
Others	flac	-131,722	-131,722				-131,722
Of which aggregated acc. to valuation categories::							
Loans and receivables (lar)	lar	656,828	656,828	0	0	0	656,828
Available-for-sale (afs)	afs	300,005	8,720	291,285	0	0	300,005
Financial assets held for trading (fahft)	fahft	17,890	0		17,890	0	17,890
Financial liabilities measured at amortized cost (flac)	flac	-2,496,423	-2,496,423	0		0	-2,496,423
Financial liabilities held for trading (flhft)	flhft	-9,686	0	0	-9,686	0	-9,686
Finance leases	n/a	-32,558	0	0	0	-32,558	-33,906

The following net results were stated for the individual categories of financial instruments acc. to IAS 39 in fiscal year 2017:

Net result acc. to valuation categories 2017 (in €k)	Valuation category acc. to IAS 39	From interest and dividends	Net profits and losses from subsequent valuation			
			Fair value	Currency translation	Value adjusted	Net result
Loans and receivables (lar)	lar	758	--	-369	-41,090	-40,701
Available for sale (afs)	afs					
- of which not affecting net income		--	46,203	--	--	46,203
- of which affecting net income		730	--	--	-19,757	-19,027
Financial liabilities measured at amortized cost (flac)	flac	-35,329	--	-158	--	-35,487
Financial assets held for trading						
- of which affecting net income		--	-5,290		--	-5,290
Financial liabilities held for trading (flhft)						
- of which affecting net income			250			250
Total		-33,841	41,163	-527	-60,847	-54,052

With the exception of trade accounts receivable in connection with finance leases, cash and cash equivalents, trade accounts receivable, and other current financial assets mostly have short remaining terms. Their carrying values on the balance sheet date are thus similar to fair value.

Investments and derivatives are carried at fair value. In the case of the remaining other non-current financial assets carried at amortized cost, it is assumed that their carrying values correspond to fair value.

Trade accounts payable mostly have short remaining terms. Their carrying values on the balance sheet date are thus similar to fair value. The same applies to current liabilities due to banks.

Non-current liabilities due to banks are loans which can be prematurely redeemed. In addition, both the basic interest rate and the margin are variable. The margin depends on predefined KPIs of the United Internet Group. Due to these factors, it is assumed that their carrying values of non-current liabilities correspond approximately to fair value.

In spite of the promissory note loans totaling € 1,035 million concluded in the fiscal years 2014 and 2017 at favorable conditions, the fair values of these liabilities amount to € 1,036 million, due to the positive risk assessment of the Group by the banks. The valuation is based on Level 3 assumptions.

Due to changed interest rates, there are slight deviations between the carrying value and fair value of receivables and liabilities in connection with finance leases.

The conditional purchase price liabilities are carried at fair value. In the case of the remaining other non-current financial liabilities carried at amortized cost, it is assumed that their carrying values correspond to fair value.

The following table shows the carrying values for each category of financial assets and liabilities for fiscal year 2016:

(in €k)	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2016	Valuation acc. to IAS 39: Amortized cost	Fair value not through profit or loss	Fair value through profit or loss	Measurement acc. to IAS 17	Fair value on Dec. 31, 2016
Financial assets							
Cash and cash equivalents	lar	101,743	101,743				101,743
Trade accounts receivable	lar/n/a						
Receivables from finance leases	n/a	61,775				61,775	64,551
Others	lar	222,091	222,091				222,091
Other current financial assets	lar	21,536	21,536				21,536
Other non-current financial assets	lar/afs						
Investments	afs	273,559	8,720	264,839			273,559
Others	lar	14,129	14,129				14,544
Financial liabilities							
Trade accounts payable	flac	-383,189	-383,189				-383,189
Liabilities due to banks	flac	-1,760,653	-1,760,653				-1,779,529
Other financial liabilities	flac/n/a						
Finance leases	n/a	-99,189				-99,189	-101,208
Others	flac	-106,450	-106,450				-106,450
Of which aggregated acc. to valuation categories:							
Loans and receivables (lar)	lar	359,499	359,499	0	0	0	359,914
Available-for-sale (afs)	afs	273,559	8,720	264,839	0	0	273,559
Financial liabilities measured at amortized cost (flac)	flac	-2,250,292	-2,250,292	0	0	0	-2,269,167
Finance leases	n/a	-37,414	0	0	0	-37,414	-36,657

The following net results were stated for the individual categories of financial instruments acc. to IAS 39 in fiscal year 2016:

Net result acc. to valuation categories 2016 (in €k)	Valuation category acc. to IAS 39	From interest and dividends	Net profits and losses from subsequent valuation: Fair value	Currency translation	Value adjusted	Net result
Loans and receivables (lar)	lar	905	--	219	-34,642	-33,518
Available for sale (afs)	afs					0
- of which not affecting net income		--	128,867	--	--	128,867
- of which affecting net income		589	--	--	-254,905	-254,316
Financial liabilities measured at amortized cost (flac)	flac	-28,271	--	94	--	-28,177
Financial assets held for trading	hd					
- of which affecting net income		--	6,592		--	6,592
Total		-26,777	135,459	313	-289,547	-180,552

The fair value of financial assets and liabilities is stated at the amount at which the instrument concerned might be exchanged in a current transaction (excluding a forced sale or liquidation) between willing business partners.

The methods and assumptions used to determine fair values are shown below:

- Cash and short-term deposits, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2016, and as in the previous year, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

- The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

- Fair values of available-for-sale financial assets are derived from quoted market prices in active markets, if available.

- The fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.

- Financial assets and liabilities measured at fair value are measured using appropriate valuation techniques. Where available, stock exchanges prices on active markets are used. The valuation of shares in non-listed companies is based mainly on present value models. The valuation of derivatives and conditional purchase price liabilities is based mainly option pricing models.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Assets and liabilities measured at fair value

	Dec. 31, 2017	Level 1	Level 2	Level 3
	€k	€k	€k	€k
Available-for-sale financial assets				
Listed shares	291,285	291,285		
Financial assets held for trading				
Purchase price receivable				17,890
Financial liabilities held for trading				
Conditional purchase price liability				-9,686

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

	Dec. 31, 2016	Level 1	Level 2	Level 3
	€k	€k	€k	€k
Available-for-sale financial assets				
Listed shares	264,839	264,839		

41. Transactions with related parties

IAS 24 defines related parties as those persons and companies that control or can exert a significant influence over the other party. Mr. Ralph Dommermuth, the major shareholder, as well as from the members of the Management Board and Supervisory Board of United Internet AG and their close relatives were classified as related parties. Moreover, companies over which the related parties exert a controlling influence are classified as related parties.

Mr. Martin Witt stepped down from the Management Board of United Internet AG at his own request as of September 30, 2017 in order to take up his role in the Drillisch Group. There were no other changes to the circle of related parties as compared with the consolidated financial statements as at December 31, 2016.

United Internet's premises in Montabaur and Karlsruhe are leased from Mr. Ralph Dommermuth, the Chief Executive Officer and a major shareholder of the Company. The corresponding lease agreements have different terms between the end of 2021 and June 2025. The resulting rent expenses are customary and amounted to € 8,730k in fiscal year 2017 (prior year: € 8,378k).

At the Annual Shareholders' Meeting on May 21, 2015, Mr. Kurt Dobitsch (chairman), Mr. Michael Scheeren (deputy chairman), and Mr. Kai-Uwe Ricke were re-elected as members of the Company's Supervisory Board. The Supervisory Board was elected for the period ending with the Annual Shareholders' Meeting which adopts the resolution to release the Supervisory Board members from their responsibility for fiscal year 2019.

In fiscal year 2017, the members of the Supervisory Board also held seats on supervisory boards or similar committees of the following companies:

Kurt Dobitsch

- 1&1 Internet SE, Montabaur (until March 16, 2017)
- United Internet Investments Holding GmbH, Montabaur (formerly: United Internet Ventures AG) (until March 1, 2017)
- 1&1 Telecommunication SE, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur
- 1&1 Drillisch Aktiengesellschaft, Maintal (formerly: Drillisch AG) (as of October 16, 2017)
- Nemetschek AG, Munich (chair)
- Graphisoft S.E., Budapest / Hungary
- Vectorworks Inc., Columbia / USA
- Bechtle AG, Gaildorf
- Singhammer IT Consulting AG, Munich
- Drillisch Online AG, Maintal (as of January 17, 2018)

Kai-Uwe Ricke

- 1&1 Internet SE, Montabaur
- United Internet Investments Holding GmbH, Montabaur (formerly: United Internet Ventures AG) (until March 1, 2017)
- 1&1 Telecommunication SE, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur (chair)
- STRATO AG, Berlin (as of May 17, 2017)
- 1&1 Drillisch Aktiengesellschaft, Maintal (formerly: Drillisch AG) (as of October 16, 2017)
- EUN Holdings LLP, Delaware / USA
- Delta Partners FZ-LLC, Dubai / Emirate of Dubai
- SUSI Partners AG, Zurich / Switzerland
- Zalando SE, Berlin (until May 31, 2017)
- Virgin Mobile CEE, Amsterdam / Netherlands
- Cash Credit Limited, Cayman Islands (as of November 1, 2017)
- 1&1 Internet TopCo SE, Montabaur (from March 3, 2017 to December 13, 2017)
- Drillisch Online AG, Maintal (as of January 1, 2018 – chair)

Michael Scheeren

- 1&1 Internet SE, Montabaur
- United Internet Investments Holding GmbH, Montabaur (formerly: United Internet Ventures AG) (until March 1, 2017 – chair)
- 1&1 Telecommunication SE, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur (chair)
- 1&1 Internet TopCo SE, Montabaur (from March 3, 2017 to December 13, 2017)
- 1&1 Drillisch Aktiengesellschaft, Maintal (formerly: Drillisch AG) (as of October 16, 2017 – chair)
- STRATO AG, Berlin (as of May 17, 2017)
- Drillisch Online AG, Maintal (as of January 17, 2018)

On May 21, 2015, the Annual Shareholders' Meeting adopted a new remuneration system which complies fully with the German Corporate Governance Code. It consists of a fixed remuneration component and an attendance fee per meeting. The fixed remuneration for an ordinary member of the Supervisory Board amounts to € 15k per full fiscal year. The Chairman of the Supervisory Board receives the double amount. The attendance fee amounts to € 1k for each meeting.

The members of the Supervisory Board of United Internet AG are also members of the supervisory board of various subsidiaries. As of fiscal year 2015, they also receive remuneration from these subsidiaries. The remuneration of the subsidiaries also consists of a fixed annual remuneration and an attendance fee for each meeting. The fixed annual remuneration varies between the subsidiaries, while the standard attendance fee amounts to € 1k for each meeting.

The following table provides details on the compensation received by members of the Supervisory Board of United Internet AG:

2017	United Internet AG			Subsidiaries of United Internet AG			Total		
	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total
	€k	€k	€k	€k	€k	€k	€k	€k	€k
Kurt Dobitsch	30	4	34	85	10	95	115	14	129
Kai-Uwe Ricke	15	4	19	115	15	130	130	19	149
Michael Scheeren	15	4	19	129	15	144	144	19	163
	60	12	72	329	40	369	389	52	441

2016	United Internet AG			Subsidiaries of United Internet AG			Total		
	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total
	€k	€k	€k	€k	€k	€k	€k	€k	€k
Kurt Dobitsch	30	4	34	110	16	126	140	20	160
Kai-Uwe Ricke	15	4	19	115	16	131	130	20	150
Michael Scheeren	15	4	19	135	16	151	150	20	170
	60	12	72	360	48	408	420	60	480

There are no subscription rights or share-based payments for members of the Supervisory Board.

The Supervisory Board is responsible for determining the remuneration of the Management Board. The members of the Management Board are compensated according to performance. This compensation consists of a fixed and a variable element (bonus). A target remuneration figure is agreed for the fixed component and the bonus, which is regularly reviewed. The last review was made in fiscal year 2017. The fixed remuneration component is paid monthly as a salary. The size of the bonus depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on sales and earnings figures. The target attainment corridor is generally between 90% to 120%. No bonus is paid below 90% of the agreed target and the bonus calculation ends at 120% of the agreed target. No subsequent amendment of the performance targets is allowed. There is no minimum guaranteed bonus. Payment is generally made after the annual financial statements have been adopted by the Supervisory Board.

There are no retirement benefits from the Company to members of the Management Board.

The following table provides details on the compensation received by members of the Management Board:

2017	Fixed €k	Variable €k	Fringe benefits €k	Total fixed, variable and fringe benefits €k	Market value of share-based payments granted in 2017* €k
Ralph Dommermuth	0	0	0	0	-
Robert Hoffmann	300	200	12	512	-
Frank Krause	360	140	311	811	-
Jan Oetjen	300	200	13	513	-
Martin Witt	225	150	9	384	-
	1,185	**690**	**345**	**2,220**	**-**

2016	Fixed €k	Variable €k	Fringe benefits €k	Total fixed, variable and fringe benefits €k	Market value of share-based payments granted in 2016* €k
Ralph Dommermuth	0	0	0	0	-
Robert Hoffmann	300	199	12	511	-
Frank Krause	360	139	111	610	465
Jan Oetjen	300	199	13	512	-
Martin Witt	300	199	12	511	-
	1,260	**736**	**148**	**2,144**	**465**

* Share-based payments (so-called Stock Appreciation Rights) are compensation components with a long-term incentive and paid out over a total period of 6 years.

Total Management Board remuneration as defined by Section 314 (1) No. 6 a and b HGB, i.e. including the market value of share-based payments, amounted to € 2,231 in the fiscal year (prior year: € 2,609k). Members of the Management Board were not granted any advances or loans in the reporting period nor in the previous year.

In fiscal year 2016, Mr. Ralph Dommermuth waived his claim in full to Management Board remuneration with effect from January 1, 2016. As a consequence, Mr. Ralph Dommermuth received no remuneration in the fiscal years 2016 and 2017.

As in the previous year, Mr. Frank Krause received a special payment of € 300k in fiscal year 2017 (prior year: € 100k). This special payment was included in the fringe benefits.

In the fiscal year 2017, Mr. Frank Krause exercised 50,000 (prior year: 0), Mr. Martin Witt 115,000 (prior year: 125,000), Mr. Jan Oetjen 150,000 (prior year: 0), and Mr. Robert Hoffmann 250,000 (prior year: 325,000) subscription rights. The rights exercised by Mr. Witt were after his departure from the Management Board of United Internet AG.

Reference is also made to the Remuneration Report, which is part of the Combined Management Report.

The number of shares in United Internet AG held by members of the Management Board and the Supervisory Board is given in the following table:

Shareholding	January 1, 2017			December 31, 2017		
Management Board	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
Ralph Dommermuth	---	82,000,000	82,000,000	---	82,000,000	82,000,000
Robert Hoffmann	211,907	---	211,907	211,907	---	211,907
Frank Krause	920	---	920	5,482	---	5,482
Jan Oetjen	14,033	---	14,033	33,621	---	33,621
Martin Witt	23,195	---	23,195		---	0
	250,055	**82,000,000**	**82,250,055**	**251,010**	**82,000,000**	**82,251,010**
Supervisory Board	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
Kurt Dobitsch	---	---	---	---	---	---
Kai-Uwe Ricke	---	---	---	---	---	---
Michael Scheeren	300,000	---	300,000	100,000	---	100,000
	300,000	**---**	**300,000**	**100,000**	**---**	**100,000**

The United Internet Group can also exert a significant influence on its associated companies.

Transactions with related parties

Sales to and purchases from related parties are conducted at standard market conditions. The open balances at year-end are unsecured, non-interest-bearing and settled in cash. There are no guarantees for receivables from or liabilities due to related parties. No allowances were recognized for receivables from related parties in fiscal year 2017 or the previous year. An impairment test is conducted annually. This includes an assessment of the financial position of the related party and the development of the market in which they operate.

At the end of the reporting period, there were two loan agreements with associated companies totaling € 8,600k (prior year: € 7,125k). Due to the complete purchase of the company ProfitBricks, the outstanding loan and corresponding outstanding interest of € 7,125k with this company in the previous year was eliminated in the course of consolidation. In connection with the contribution of affilinet to Awin, United Internet also acquired a loan to Awin. The loan comprises two tranches with terms of five and nine years. The tranches each have fixed interest rates of 2.5% p.a. to 3.0% p.a..

In addition, dividend income of DomainsBot S.r.l., Rome/Italy amounting to € 0k (prior year: € 37k) was received.

The following table presents the outstanding balances and total transactions volumes with associated companies in the respective fiscal year:

Purchases/ services from related parties		Sales/ services to related parties		Liabilities due to related parties		Receivables from related parties	
2017	2016	2017	2016	2017	2016	2017	2016
€k	€k	€k	€k	€k	€k	€k	€k
10,193	11,978	1,253	962	252	2,470	1,640	10,279

Receivables from other related parties mainly result from loans to AWIN. In the previous year, they mainly resulted from loans to ProfitBricks GmbH.

Financial income		Financial expenses	
2017	2016	2017	2016
€k	€k	€k	€k
221	306	0	0

42. *Objectives and methods of financial risk management*

Principles of risk management

The risk management system introduced by the United Internet Group is based on the COSO-ERM framework and is described in detail in the Management Report.

The principles of finance policy are set by the Management Board and monitored by the Supervisory Board. Certain transactions require the prior approval of the Supervisory Board.

The main financial liabilities used by the Group include bank loans, promissory note loans and overdraft facilities, trade accounts payable and other financial liabilities.

The Group holds various financial assets which result directly from its business activities. They consist mainly of trade accounts receivable, available-for-sale financial investments and short-term deposits.

As of the balance sheet date, the Group mainly held primary financial instruments.

The aim of financial risk management is to limit these risks through ongoing operating and financial activities. The Company is hereby exposed to certain risks with regard to its assets, liabilities and planned transactions, especially liquidity risks and market risks, as described below.

Liquidity risk

Liquidity risk constitutes the risk that a company will be unable to meet the financial obligations arising from its financial liabilities. As in the previous year, the general liquidity risk of United Internet consists of the possibility that the Company may not be able to meet its current financial obligations in due time. To ensure the solvency and financial flexibility of the United Internet Group at all times, short-term liquidity forecasts and longer-term financial planning are conducted.

As a result of the expected positive contribution to liquidity from operations and the interest-optimized use of the credit lines already granted, the Company is able to ensure the continual coverage of its financial needs for fiscal year 2018 at all times. The credit commitments granted to the Company by banks and the existing syndicated loan facility offer sufficient flexibility for these needs. In order to maintain financial stability, a balanced financial structure is sought which provides both a diversification of financial instruments and a balanced maturity profile.

Our global cash requirements and surpluses are managed by our central liquidity management system. The daily automatic pooling of bank balances held by the participating Group companies provides United Internet AG at all times with the predominant proportion of its cash denominated in euro. The Company has established standardized processes and systems to manage its bank and netting accounts as well as for the execution of payment transactions.

The following table shows all contractually fixed payments for redemption, repayments and interest for financial liabilities carried in the balance sheet as of December 31, 2017 and 2016:

	Carrying values as of Dec. 31, 2017	**2018**	**2019**	**2020**	**2021**	**> 2021**	**Total**
	€k	€k	€k	€k	€k	€k	€k
Liabilities to banks	1,955,781	277,331	219,613	724,270	208,965	608,545	2,038,724
Trade accounts payable	408,920	402,277	1,264	1,142	1,102	5,419	411,204
Other financial liabilities*	233,195	160,258	23,816	12,092	11,803	33,770	241,739
Total	**2,597,896**	**839,866**	**244,693**	**737,504**	**221,870**	**647,734**	**2,691,667**

Payments from other financial liabilities also comprise expected payments from derivatives of € 9.7 million in fiscal year 2021.

	Carrying values as of Dec. 31, 2016	**2017**	**2018**	**2019**	**2020**	**> 2020**	**Total**
	€k	€k	€k	€k	€k	€k	€k
Liabilities to banks	1,760,653	442,739	218,337	414,315	654,303	101,526	1,831,220
Trade accounts payable	383,189	373,709	1,238	1,189	1,055	5,998	383,189
Other financial liabilities	205,639	124,403	16,328	14,299	11,427	49,019	215,477
Total	**2,349,481**	**940,851**	**235,903**	**429,803**	**666,785**	**156,543**	**2,429,885**

For the calculation of cash flows from liabilities to banks, management assumed that the portion of the revolving syndicated loan facility currently used amounting to € 470,000k (prior year: € 406,991k) would remain unchanged until the end of its term (July 9, 2020).

Please refer to note 30 for details on interest and redemption payments for liabilities to banks.

The Company has no significant concentration of liquidity risks.

Market risk

The activities of United Internet are mainly exposed to financial risks from changes in interest rates, exchange rates, stock exchange prices, and credit or contingency risks.

<u>Interest risk</u>

The interest (rate) risk refers to the risk that fair values or future interest payments on existing and future financial liabilities may fluctuate due to changes in market interest rates.

The Group is fundamentally exposed to interest risks as the major share of its borrowing as of the balance sheet date bears variable interest rates with varying terms.

With the aid of the liquidity planning, various investment possibilities or possibilities to reduce surplus liquidity are constantly examined. The maturity profile and amount of the Group's variable-rate financial instruments are regularly reviewed and appropriate measures are taken to ensure liquidity and the management of interest risks.

Market interest rate changes might have an adverse effect on the interest result and are included in our calculation of sensitive factors affecting earnings. In order to present market risks, United Internet has developed a sensitivity analysis which shows the impact of hypothetical changes to relevant risk variables on pre-tax earnings. The reporting period effects are illustrated by applying these hypothetical changes in risk variables to the stock of financial instruments as of the balance sheet date.

Due to the ongoing expansionary interest policy of the European Central Bank, the relevant EURIBOR interest rate is negative at the end of the reporting period. The company does not expect any material changes in risk premiums in the foreseeable future. United Internet currently regards the interest risk for its existing variable-rate financial instruments as low.

The interest risk is negligible for other interest-bearing liabilities. At the end of the reporting period, there were no external interest-hedging transactions.

Currency risk

A currency risk is the risk that fair values or future cash flows of financial instruments may fluctuate due to changes in exchange rates. The Group companies are mainly exposed to currency risks as a result of their operations (if revenue and/or expenses are in a currency other than the functional currency of the respective company). In order to cover such foreign currency risks, United Internet strives to achieve an equilibrium between the incoming and outgoing payments of Group companies (so-called natural hedging). Currency risks which do not affect cash flows (i.e. risks from translating the assets and liabilities of the Group's foreign companies) are not hedged against. With regard to operating activities, individual Group companies perform their business mainly in their respective functional currencies. As in the previous year, the currency risk from operations is therefore regarded as low. In the reporting period, there were no currency risks which significantly affected cash flows. At the end of the reporting period, there were no external currency-hedging transactions.

The currency risks arising from original financial instruments in a currency and of a monetary nature other than that of the functional currency as of the balance sheet date were valued by the company. No material currency risks arose from this analysis.

Stock exchange risk (valuation risk)

The Company classifies certain (quoted) financial assets as available-for-sale and records changes in their fair value in equity via other comprehensive income in the revaluation account. If there is a significant or persistent decrease in the fair value of an equity instrument below its acquisition cost, the Company recognizes an impairment of the financial instrument in its income statement. The fair value of these listed financial assets amounted to € 291,285k as of the balance sheet date (prior year: € 264,839k).

The share price development of listed investments may lead to impairments or changes in equity without affecting income as of the balance sheet date. An increase in stock exchange prices of 10% as of the balance sheet date would have led to the recognition of € 28,990k through equity (prior year: € 26,484k). A decrease in stock exchange prices of 10% would have reduced the Group's equity by € 28,990k as of December 31, 2017 (prior year: reduced equity by € 23,774k and reduced financial result by € 2,710k). Valuations based on stock market prices continue to be made with the application of IFRS 9. In the future, however, United Internet will have the option of recognizing changes in the value of individual investments either directly in equity or through profit or loss. Please refer to the disclosures on expected effects from applying new accounting standards.

Credit and contingency risk

In the course of its operating activities, the Company is exposed to a contingency risk. A sophisticated and preventive fraud management system has therefore been established which is being permanently enhanced. Outstanding amounts are still monitored locally and on a continual basis. Individual and lump-sum allowances are made to account for such contingency risks. The Company sees a slight decrease in the contingency risk over the previous year.

With regard to trade accounts receivable, the maximum risk in the gross amount stated in the balance sheet is before allowances but after netting. Trade accounts receivable which are not impaired as of the balance sheet date, are classified according to periods in which they become overdue (see note 18).

Internal rating system

A pre-contractual fraud check is generally conducted and collection agencies are also used for the management of receivables. In addition, a pre-contractual check of creditworthiness is made in the media sales business and collection agencies are also used for the management of receivables.

Individual allowances for receivables overdue are generally made on the basis of the respective age profile. These allowances are mainly derived from success rates of the agencies used for collecting such debts. 100% individual allowances are made for all receivables overdue more than 365 days. In certain Group companies, individual allowances are made for each customer according to various criteria (e.g. dunning level, insolvency, fraud cases etc.).

The Company has no significant concentration of credit risks.

Risks from financial covenants

The existing loans of United Internet AG are tied to so-called financial covenants. The infringement of a certain net debt-to-EBITDA ratio could result in individual banks terminating outstanding loans with the Company. In view of the low net debt-to-EBITDA ratio of United Internet at present, the probability of infringement is regarded as low. Compliance with the covenants is regularly monitored by the Company’s Management Board and was met throughout the year.

Capital management

In addition to the legal provisions for stock corporations, the Company has no further obligations to maintain capital according to its statutes or other agreements. The key financial indicators used by the Company are mainly performance-oriented. The targets, methods and processes of capital management are thus subordinate to these performance-oriented financial indicators.

In order to maintain and adapt its capital structure, the Company can adjust dividend payments or pay capital back to its shareholders, can purchase treasury shares and place them again if required, or issue new shares. Please refer to the statement of changes in shareholders' equity. As of December 31, 2017 and December 31, 2016, no changes were made to the Company's targets, methods and processes.

43. Specific contingencies and commitments

Litigation

Litigation risks mainly relate to various legal disputes of Group subsidiaries.

Accruals for litigation were formed for any commitments arising from these disputes (see note 33).

Guarantees

As of the balance sheet date, the Company has issued no guarantees.

44. Leases, other financial commitments, guarantees and contingent liabilities

Group as lessee

Operating lease contracts

The obligations mainly comprise leased network obligations including subscriber lines, buildings, technical equipment and vehicles. The contracts generally include renewal options.

Most leases have options to prolong the contractual relationship. The terms of these prolongation options are negotiable or identical with the current terms.

As of December 31, the future minimum lease obligations were as follows:

	2017	2016
	€k	€k
Up to 1 year	88,799	75,612
1 to 5 years	116,408	118,524
Over 5 years	37,757	43,590
Total*	**242,964**	**237,726**

* Figures are based on minimum contractual terms.

In the reporting period, these operating leases incurred expenses of € 156,688k (prior year: € 165,297k).

Finance leases

The payment obligations resulting from finance leases as of the balance sheet date are carried as a liability at the present value of the future lease payments. Finance leases relate primarily to rent and lease agreements for the passive network infrastructure of the Versatel Group. Most leases include renewal options. Future minimum lease payments from finance leases can be reconciled to their present value as follows:

	Dec. 31, 2017		Dec. 31, 2016	
	Minimum lease payments	Present value of the minimum lease payments	Minimum lease payments	Present value of the minimum lease payments
	€k	€k	€k	€k
Up to 1 year	18,548	16,978	18,200	16,333
1 to 5 years	56,934	53,403	52,932	47,734
Over 5 years	24,850	21,406	37,895	35,122
Total	100,332	91,787	109,027	99,189
Less interest share	-8,545	--	-9,838	--
Present value of minimum lease payments	**91,787**	**91,787**	**99,189**	**99,189**

Group as lessor

Finance leases

The Group acts as the lessor of finance leases via the Versatel Group acquired in 2014. Receivables from finance leases are disclosed in trade accounts receivable. The following table shows a reconciliation of gross investments in leases and the present value of outstanding minimum lease payments, as well as their maturities:

	Dec. 31, 2017	Dec. 31, 2016
	€k	€k
Gross investment (thereof unguaranteed residual values)		
thereof due within 1 year	5,593	5,738
thereof due in 1-5 years	21,891	21,379
thereof due after more than 5 years	34,875	38,669
Unearned finance income	-6,800	-7,722
Net investment	55,559	58,064
Accumulated impairment	0	0
Receivables from sales taxes	3,670	3,711
Carrying amount of finance lease receivables	**59,229**	**61,775**
previously present value of unguaranteed residual values	0	0
Present value of outstanding minimum lease payments	**55,559**	**58,064**
thereof due within 1 year	5,593	5,738
thereof due in 1-5 years	20,665	20,154
thereof due after more than 5 years	29,301	32,172

Finance lease receivables relate solely to leases for the provision and use of dark fiber.

In fiscal year 2017, several new finance lease agreements were concluded with two lessees regarding the provision of fiber pairs. An amount of € 2.4 million (prior year: € 22.0 million) is recognized in gross investment less unrealized financial income for these leases. The maturities range from 10 to 19 years.

Guarantees and other obligations

The Company is jointly and severally liable for credit lines granted to companies of the United Internet Group by a bank. The credit facilities had only been utilized with regard to guarantees as of the balance sheet date.

The Management Board has no knowledge of any other facts which could have a significant, adverse effect on the business activities, the financial situation or the operating result of the Company.

Contingent liabilities

Contingent liabilities represent a possible obligation whose existence depends on the occurrence of one or more uncertain future events, or a current obligation whose payment is not likely or whose amount cannot be reliably estimated. As of the balance sheet date on December 31, 2017 and December 31, 2016, there were no significant contingent liabilities.

45. Statement of cash flows

In fiscal year 2017, cash flow from operating activities includes interest paid of € 37,923k (prior year: € 28,933k) and interest received of € 2,746k (prior year: € 1,291k). Income tax payments in fiscal year 2017 amounted to € 292,704k (prior year: € 250,502k) while income tax proceeds totaled € 158,752k (prior year: € 2,924k). Income tax proceeds of the year include the allowable capital tax including solidarity surcharge (€ 70,793k) in connection with a dividend distributed within the Group.

Cash and cash equivalents include bank balances of € 2,764k (prior year: € 2,764k) which are only usable under certain conditions as of the balance sheet date.

Cash inflows in connection with dividends received amounted to € 19,823k (prior year: € 19,309k) and mainly comprise dividends from Drillisch AG. Additions to intangible assets and property, plant and equipment of € 16,684k (prior year: € 10,546k) were in connection with finance leases without direct cash outflows.

Reconciliation of balance sheet changes in financial liabilities:

in € million	Promissory note loan	Syndicated loan	Other financial liabilities	Total
Balance as of January 1, 2017	**599**	**1,157**	**5**	**1,761**
Changes from acquisition or disposal of companies	0	0	53	53
Cash flow from financing activities				
Proceeds from taking out loans	500	80	36	616
Payments for the redemption of loans	-65	-359	-53	-477
Total cash-effective change	**436**	**-279**	**-17**	**140**
Exchange rate changes	0	-1	0	-1
Other non-cash-effective changes	3	0	0	3
Balance as of December 31, 2017	**1,038**	**877**	**41**	**1,956**

46. Exemption pursuant to Sec. 264 (3) HGB

The following subsidiaries of United Internet AG make use of the exempting provisions of Sec. 264 (3) HGB:

- 1&1 De-Mail GmbH, Montabaur
- 1&1 Internet SE, Montabaur
- 1&1 Internet Holding SE, Montabaur
- 1&1 Internet TopCo SE, Montabaur
- 1&1 Internet Service GmbH, Montabaur
- 1&1 Mail & Media GmbH, Montabaur
- 1&1 Mail & Media Development & Technology GmbH, Montabaur
- 1&1 Mail & Media Service GmbH, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur
- A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur
- Cronon AG, Berlin
- STRATO AG, Berlin
- United Internet Corporate Services GmbH, Montabaur
- United Internet Media GmbH, Montabaur
- United Internet Service SE, Montabaur
- United Internet Investments Holding GmbH, Montabaur (formerly: United Internet Ventures AG)
- United Internet Service Holding GmbH, Montabaur
- 1&1 Versatel GmbH, Berlin (formerly: Versatel GmbH)
- 1&1 Versatel Deutschland GmbH, Düsseldorf (formerly: Versatel Deutschland GmbH)
- Versatel Holding GmbH, Berlin
- Versatel Telecommunications GmbH, Düsseldorf

47. Subsequent events

There were no significant events subsequent to the end of the reporting period on December 31, 2017 which had a material effect on the financial position and performance of the Group.

48. Auditing fees

In fiscal year 2017, auditing fees totaling € 7,122k (prior year: € 6,258k) were calculated in the consolidated financial statements. These include auditing fees of € 4,479k (prior year: € 2,860k), other certification services of € 46k (prior year: € 65k), tax consultancy services of € 1,857k (prior year: € 2,264k), and other services of € 740k (prior year: € 1,069k). Auditing fees comprise both statutory audits as well as voluntary audits and audit reviews. Other services mainly refer to transaction-related due diligence services.

49. List of shareholdings of the United Internet AG Group acc. to Sec. 313 (2) HGB

As of December 31, 2017, the Group includes the following subsidiaries in which United Internet AG holds a direct or indirect majority interest (as indicated by the shareholdings in brackets). Unless otherwise stated, the shareholding corresponds to the proportion of voting rights:

- **1&1 Internet TopCo SE, Montabaur (66.67%)**
  - 1&1 Internet Holding SE, Montabaur (100.0%)
    - STRATO AG, Berlin (100.0%)
      - Cronon AG, Berlin (100.0%)
    - 1&1 Internet SE, Montabaur (100.0%)
      - 1&1 Datacenter SAS, Strasbourg / France (100.0%)
      - 1&1 Internet Development SRL, Bucharest / Romania (100.0%)
      - 1&1 Internet España S.L.U., Madrid / Spain (100.0%)
      - 1&1 Internet Inc., Chesterbrook / USA (100.0%)
        - A1 Media USA LLC, Chesterbrook / USA (100.0%)
        - 1&1 Cardgate LLC, Chesterbrook / USA (100.0%)
      - 1&1 Internet Ltd., Gloucester / UK (100.0%)
      - 1&1 Internet S.A.R.L., Saargemünd / France (100.0%)
      - 1&1 Internet Service GmbH, Montabaur (100.0%)
      - 1&1 Internet (Philippines) Inc., Cebu City / Philippines (100.0%)
      - 1&1 Internet Sp. z o.o., Warsaw / Poland (100.0%)
      - 1&1 UK Holdings Ltd., Gloucester / UK (100.0%)
        - Fasthosts Internet Ltd., Gloucester / UK (100.0%)
          - Fasthosts Internet Inc., Chesterbrook / USA in liquidation (100.0%)
      - Arsys Internet S.L., Logroño / Spain (100.0%)
        - Arsys Internet E.U.R.L., Perpignan / France (100.0%)
        - Tesys Internet S.L., Logroño / Spain (100.0%)
        - Nicline Internet S.L., Logroño / Spain (100.0%)
      - InterNetX GmbH, Regensburg (95.56%)
        - Schlund Technologies GmbH, Regensburg (100.0%)
        - PSI-USA, Inc., Las Vegas / USA (100.0%)
        - Domain Robot Enterprises Inc., Vancouver / Canada (100.0%)
        - InterNetX Corp., Miami / USA (100.0%)
      - ProfitBricks GmbH, Berlin (100.0%)
        - ProfitBricks Inc., San Antonio / USA (100.0%)
      - Sedo Holding GmbH, Montabaur (100.0%)
        - Sedo GmbH, Cologne (100.0%)
          - DomCollect Worldwide Intellectual Property AG in liquidation, Zug / Switzerland (100.0%)
          - DomCollect International GmbH, Montabaur (100.0%)
          - Sedo.com LLC, Cambridge / USA (100.0%)
            - Escrow.domains LLC, Washington / USA (75.0%)
      - united-domains AG, Starnberg (100.0%)
        - united-domains Reselling GmbH, Starnberg (100.0%)
        - United Domains Inc., Cambridge / USA (100.0%)
      - Immobilienverwaltung AB GmbH, Montabaur (100.0%)
      - Immobilienverwaltung NMH GmbH, Montabaur (100.0%)

      - home.pl S.A. , Stettin / Poland (100.0%)
        - AZ.pl Sp. z o.o., Stettin / Poland (100.0%)
        - HBS Cloud Sp. z o.o., Stettin / Poland (100.0%)
        - premium.pl Sp. z o.o., Stettin / Poland (75.0%)
          - DP EUROPE Sp. z o.o., Stettin / Poland (100.0%)
          - DP POLAND Sp. z o.o., Stettin / Poland (100.0%)
          - DP ASIA Sp. z o.o., Stettin / Poland (100.0%)

    - **1&1 Mail & Media Applications SE, Montabaur (100.0%)**
      - 1&1 Mail & Media GmbH, Montabaur (100.0%)
        - 1&1 De-Mail GmbH, Montabaur (100.0%)
        - 1&1 Energy GmbH, Montabaur (100.0%)
        - 1&1 Mail & Media Inc., Chesterbrook / USA (100.0%)
        - General Media Xervices GMX S.L., Madrid / Spain (100.0%)
        - GMX Italia S.r.l., Milan / Italy (100.0%)
      - 1&1 Mail & Media Development & Technology GmbH, Montabaur (100.0%)
      - 1&1 Mail & Media Service GmbH, Montabaur (100.0%)
      - United Internet Media GmbH, Montabaur (100.0%)
      - United Internet Media Austria GmbH, Vienna / Austria (100.0%)

- **Drillisch AG, Maintal (73.29%)**
  - Drillisch Netz AG, Maintal (100.0%)
  - Drillisch Online AG, Düsseldorf (100.0%)
    - Mobile Ventures GmbH, Maintal (100.0%)
  - IQ-optimize Software AG, Maintal (100.0%)
  - Drillisch Logistik GmbH, Münster (100.0%)
  - Blitz 17-665 SE, Munich (100.0%)
  - Blitz 17-666 SE, Munich (100.0%)
  - 1&1 Telecommunication SE, Montabaur (100.0%)
    - 1&1 Berlin Telecom Service GmbH, Berlin (100.0%)
    - 1&1 Logistik GmbH, Montabaur (100.0%)
    - 1&1 Telecom Holding GmbH, Montabaur (100.0%)
      1&1 Telecom GmbH, Montabaur (100.0%)
    - 1&1 Telecom Sales GmbH, Montabaur (100.0%)
    - 1&1 Telecom Service Montabaur GmbH, Montabaur (100.0%)
    - 1&1 Telecom Service Zweibrücken GmbH, Zweibrücken (100.0%)

  - **United Internet Service Holding GmbH, Montabaur (100.0%)**
    - Versatel Telecommunications GmbH, Düsseldorf (100.0%)
      - 1&1 Versatel GmbH, Berlin (100.0%)
        - Versatel Holding GmbH, Berlin (100.0%)
          - 1&1 Versatel Deutschland GmbH, Düsseldorf (100.0%)
            - Versatel Immobilien Verwaltungs GmbH, Düsseldorf (100.0%)
            - TROPOLYS Service GmbH, Düsseldorf (100.0%)
            - TROPOLYS Netz GmbH, Düsseldorf (100.0%)

Other:

- Atrium 113. Europäische VV SE, Düsseldorf (100.0%)
- Atrium 121. Europäische VV SE, Berlin (100.0%)
- MIP Multimedia Internet Park GmbH, Zweibrücken (100.0%)
- United Internet Corporate Services GmbH, Montabaur (100.0%)
  - A1 Marketing Kommunikation und neue Medien GmbH, Montabaur (100.0%)
- United Internet Investments Holding GmbH, Montabaur (100.0%)
- United Internet Service SE, Montabaur (100.0%)
  - United Internet Sourcing & Apprenticeship GmbH (100.0%)

Associated companies

Investments over whose financial and business policies the Company has a significant influence are carried as associated companies using the equity method pursuant to IAS 28 and comprise the following main companies:

- Intellectual Property Management Company Inc., Dover / USA (49.0%)
- DomainsBot S.r.l, Rome / Italy (49.0%)
- uberall GmbH, Berlin (30.34%)
- Open-Xchange AG, Nuremberg (25.39%)
- Tele Columbus AG, Berlin (28.52%)
- rankingCoach Int. GmbH, Cologne (29.93%)
- Virtual Minds AG, Freiburg (25.1%)
- ePages GmbH, Hamburg (25.01%)
- AWIN AG, Berlin (20.0%)

Other investments

Companies in which the Company has invested and over whose financial and business policies it has no significant influence (< 20% of voting shares) are included as financial instruments pursuant to IAS 39 and held as available-for-sale financial assets:

- MMC Investments Holding Company Ltd., Port Louis / Mauritius (11.36%)
- AdUX S.A., Paris / France (10.46%) (formerly: Hi-Media S.A., Paris / France)
- Afilias Ltd., Dublin / Ireland (9.82%)
- Rocket Internet SE, Berlin (8.31%)

Changes in the reporting unit

The following companies were founded by the Company in fiscal year 2017:

- United Internet Sourcing & Apprenticeship GmbH, Montabaur (100.0%)

The following companies were acquired in fiscal year 2017:

- Atrium 113. Europäische VV SE, Düsseldorf (100.0%)
- Atrium 121. Europäische VV SE, Berlin (100.0%)
- Blitz 17-665 SE, Munich (100.0%)
- Blitz 17-666 SE, Munich (100.0%)
- Escrow.domains LLC, Washington / USA (100.0%)
- ProfitBricks GmbH, Berlin (100.0%)
  - ProfitBricks Inc. San Antonio / USA (100.0%)
- STRATO AG, Berlin (100.0%)
  - Cronon AG, Berlin (100.0%)

The following companies were acquired by means of a capital increase in fiscal year 2017:

- 1&1 Internet TopCo SE (formerly: Blitz 16-612 SE) (66.67%)

- Drillisch AG, Maintal (73.29%)
  - Drillisch Logistik GmbH, Münster (100.0%)
  - Drillisch Netz AG, Maintal (100.0%)
  - Drillisch Online AG, Düsseldorf (100.0%)
    - Mobile Ventures GmbH, Maintal (100.0%)
    - yourfone Retail AG, Düsseldorf (100.0%)
    - yourfone Shop GmbH, Düsseldorf (100.0%)
  - IQ-optimize Software AG, Maintal (100.0%)

The following investments were acquired in fiscal year 2017:

- 20% in AWIN AG, Berlin

The following companies were deconsolidated by means of contribution or sale in fiscal year 2017:

- affilinet GmbH, Munich (100.0%)
    - affilinet Austria GmbH, Vienna / Austria (100.0%)
    - affilinet España S.L.U., Madrid / Spain (100.0%)
    - affilinet France SAS, Saint-Denis / France (100.0%)
    - affilinet Ltd., London / UK (100.0%)
    - affilinet Nederland B.V., Haarlem / Netherlands (100.0%)
    - affilinet Schweiz GmbH, Zurich / Switzerland (100.0%)
- yourfone Shop GmbH, Düsseldorf (100.0%)

The following companies were liquidated in the reporting period:

- VictorianFibre Holding & Co. S.C.A, Luxembourg (25.1%)
- InterNetX LAC S.A., Buenos Aires / Argentina (100.0%)
- Domain Robot Servicos de Hospedagem na Internet Ltda, Sao Paulo / Brazil (100.0%)
- DP AFRICA Sp. Z o.o., Szczecinie / Poland (100.0%)
- DP AMERiCAS Sp. Z o.o., Szczecinie / Poland (100.0%)
- DP AUSTRALIA Sp. Z o.o., Szczecinie / Poland (100.0%)

The following companies were merged or accreted with an existing Group company in the reporting period 2017:

- 1&1 Telecom Service Holding Montabaur GmbH, Montabaur (100.0%)
- GTCom GmbH, Düsseldorf (100.0%)
- myLLC GmbH, Regensburg (100.0%)
- myLLP GmbH, Regensburg (100.0%)
- Versatel Beteiligungs GmbH, Düsseldorf (100.0%)
- Versatel Service Süd GmbH & Co. KG, Düsseldorf (100.0%)
- yourfone AG, Maintal (100.0%)
- yourfone Retail AG, Düsseldorf (100.0%)

50. Corporate Governance Code

The declaration pursuant to Sec. 161 AktG on observance of the German Corporate Governance Code was submitted by the Management Board and Supervisory Board and has been made available to shareholders via the internet portal of United Internet AG (www.united-internet.de).

Montabaur, March 16, 2018

The Management Board

Ralph Dommermuth	Frank Krause	Jan Oetjen

United Internet AG - Development of non-current assets acc. to IFRS for the fiscal year 2017 and 2016 (€k)

2017	Acquisition and production costs							Accumulated depreciation							Net book value	
	Jan. 1, 2017	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2017	Jan. 1, 2017	Additions	Disposals	Reclassifications	Currency translation	Additions from initial consolidation	Dec. 31, 2017	Jan. 1, 2017	Dec. 31, 2017
Intangible assets																
Software / licenses	169,948	58,118	19,043	952	-1,466	-243	244,448	129,305	29,998	190	228	-246	-1,682	157,412	40,643	87,036
Trademark	131,915	80,259	0	959	-187	-2,488	208,539	111	20,738	959	-110	0	959	20,739	131,804	187,800
Customer base	308,379	916,866	0	431	0	1,573	1,226,387	113,958	70,766	431	0	61	-3,385	180,968	194,421	1,045,420
Goodwill	1,152,093	2,469,917	0	300	0	1,983	3,623,693	64,408	0	300	0	551	-20,746	43,912	1,087,685	3,579,780
Other intangible assets	1,468	71,000	3,844	528	2,664	87	78,535	1,216	9,372	483	0	16	0	10,121	252	68,414
Payments in advance	2,350	0	3,329	415	-594	0	4,670	0	0	292	292	0	0	0	2,350	4,670
Total (I)	**1,766,153**	**3,596,160**	**26,216**	**3,585**	**417**	**912**	**5,386,272**	**308,998**	**130,874**	**2,655**	**410**	**381**	**-24,853**	**413,153**	**1,457,155**	**4,973,119**
Property, plant and equipment																
Land and buildings	17,082	2,967	730	3,047	0	0	17,732	8,717	3,470	2,475	0	0	0	9,712	8,365	8,020
Telecommunication equipment	554,077	0	114,202	8,826	20,112	0	679,565	160,264	78,676	3,249	0	0	0	235,691	393,813	443,874
Network infrastructure	187,323	0	7,871	811	6,073	0	200,456	63,865	28,023	242	1,065	0	0	92,711	123,458	107,745
Operational equipment	492,166	35,415	63,480	54,367	-3,963	-13,397	519,334	385,607	52,965	50,854	-1,040	-11,457	-3,258	371,963	106,559	147,371
Payments in advance	26,749	813	38,515	33	-22,639	-20	43,385	3,938	350	882	-435	0	0	2,972	22,811	40,413
Total (II)	**1,277,397**	**39,195**	**224,798**	**67,084**	**-417**	**-13,417**	**1,460,472**	**622,391**	**163,484**	**57,702**	**-410**	**-11,457**	**-3,258**	**713,048**	**655,006**	**747,423**
Total	**3,043,550**	**3,635,355**	**251,014**	**70,669**	**0**	**-12,505**	**6,846,745**	**931,389**	**294,358**	**60,357**	**0**	**-11,076**	**-28,111**	**1,126,201**	**2,112,161**	**5,720,543**

2016*	Acquisition and production costs							Accumulated depreciation							Net book value	
	Jan. 1, 2016	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2016	Jan. 1, 2016	Additions	Disposals	Reclassifications	Currency translation	Additions from initial consolidation	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016
Intangible assets																
Software / licenses	150,192	0	18,080	1,459	3,151	-16	169,948	114,132	15,803	628	0	-1	0	129,305	36,060	40,643
Trademark	133,032	0	0	873	0	-244	131,915	984	0	873	0	0	0	111	132,048	131,804
Customer base	312,573	0	0	2,833	0	-1,361	308,379	91,301	25,504	2,833	0	-14	0	113,958	221,272	194,421
Goodwill	1,164,531	0	0	309	0	-12,129	1,152,093	64,408	0	0	0	0	0	64,408	1,100,123	1,087,685
Other intangible assets	919	0	549	0	0	0	1,468	785	431	0	0	0	0	1,216	134	252
Payments in advance	0	0	5,488	51	-3,087	0	2,350	0	0	0	0	0	0	0	0	2,350
Total (I)	**1,761,247**	**0**	**24,117**	**5,525**	**64**	**-13,750**	**1,766,153**	**271,610**	**41,737**	**4,334**	**0**	**-15**	**0**	**308,999**	**1,489,637**	**1,457,155**
Property, plant and equipment																
Land and buildings	17,144	0	68	0	-124	-6	17,082	7,705	1,039		-26	-1	0	8,717	9,439	8,365
Telecommunication equipment	474,050	0	90,842	12,531	1,716	0	554,077	92,498	74,247	5,457	-1,024	0	0	160,264	381,552	393,813
Network infrastructure	184,132	0	4,486	2,286	991	0	187,323	36,260	28,202	597	0	0	0	63,865	147,872	123,458
Operational equipment	466,093	0	42,229	15,574	674	-1,256	492,166	351,574	48,110	13,261	26	-842	0	385,607	114,519	106,559
Payments in advance	14,584	0	15,853	374	-3,321	7	26,749	2,771	143	0	1,024		0	3,938	11,813	22,811
Total (II)	**1,156,003**	**0**	**153,478**	**30,765**	**-64**	**-1,255**	**1,277,397**	**490,808**	**151,741**	**19,315**	**0**	**-843**	**0**	**622,391**	**665,195**	**655,006**
Total	**2,917,250**	**0**	**177,595**	**36,290**	**0**	**-15,005**	**3,043,550**	**762,418**	**193,478**	**23,649**	**0**	**-858**	**0**	**931,389**	**2,154,832**	**2,112,161**

Independent auditor's report

To United Internet AG

Report on the audit of the consolidated financial statements and of the management report for the company and the group

Opinions

We have audited the consolidated financial statements of United Internet AG, Montabaur, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2017, 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 United Internet AG for the fiscal year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the group declaration on company management contained in section 7 of the management report for the company and the group or the declaration pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] contained therein.

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 2017, and of its financial performance for the fiscal year from 1 January to 31 December 2017, 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 declaration on company management contained in section 7 of the management report for the company and the group or the declaration pursuant to Sec. 161 AktG contained therein.

Pursuant to Sec. 322 (3) Sentence 1 HGB ["Handelsgesetzbuch": German Commercial Code], 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 combined management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the 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 2017. 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. Merger of 1&1 Telecommunication SE with Drillisch AG

Reasons why the matter was determined to be a key audit matter

On 8 September 2017, the merger of 1&1 Telecommunication SE (United Internet's Consumer Access business) with Drillisch AG was executed. After this transaction the United Internet Group holds a 73% interest in Drillisch AG. In light of the magnitude and complexity of the transaction and the related significant risk of material misstatement and the assumptions and estimates made by the executive directors in connection with the purchase price allocation, the accounting for the merger was a key audit matter.

Auditor's response

As part of our group audit, among other procedures, we analyzed management's assertion that United Internet has control over the combined entity based on agreements under corporate law and the criteria defined in IFRS 10 *Consolidated Financial Statements*.

Our procedures in relation to the partly provisional purchase price allocation comprised the appraisal of the consideration paid by United Internet in the form of shares in 1&1 Telecommunication SE, the assessment of the methodology applied by the external expert consulted by the executive directors to identify the acquired assets and an assessment of the design of the valuation models with regard to the requirement of IFRS 3. In this context, we also assessed the competence, capabilities and objectivity of the expert, obtained an understanding of the expert's work and assessed the suitability of the expert opinion commissioned by the executive directors for the determination of fair values as audit evidence.

With the aid of our internal valuation specialists, we obtained an understanding of the valuation methods used with regard to the requirements of IFRS 13 *Fair Value Measurement*. We also analyzed the assumptions and estimates subject to judgment (such as growth rates, cost of capital or royalty rates) used to determine the fair values of the acquired identifiable assets and liabilities assumed (including contingent liabilities) on the acquisition date to determine whether they are consistent with general and industry-specific market expectations. In addition, we checked the clerical accuracy of the models.

We also considered the use of uniform accounting policies in the Access segment and the accounting for the initial consolidation of the Drillisch Group in the consolidation system, including non-controlling interests. In addition, we assessed the information in the notes to the consolidated financial statements about the merger of United Internet's Consumer Access business with Drillisch with regard to the requirements of IFRS 3.

Our procedures did not lead to any reservations relating to the accounting for the merger of 1&1 Telecommunication SE with Drillisch AG.

Reference to related disclosures

The Company's information on the purchase price allocation in connection with the acquisition of Drillisch AG and the related use of judgment is contained in Note 4.1 of the notes to the consolidated financial statements.

2. Acquisition of STRATO AG

Reasons why the matter was determined to be a key audit matter

On 1 April 2017, the acquisition of a 100% interest in STRATO AG was executed. The purchase price comprises an immediately payable fixed amount and a contingent consideration. In light of the magnitude and complexity of the transaction and the related significant risk of material misstatement and the assumptions and estimates made by the executive directors in connection with the purchase price allocation, the accounting for the merger was a key audit matter.

Auditor's response

Our procedures in relation to the purchase price allocation comprised the appraisal of the consideration paid by United Internet including the contingent consideration, the assessment of the methodology applied by the external expert consulted by the executive directors to identify the acquired assets and an assessment of the design of the valuation models with regard to the requirement of IFRS 3. In this context, we assessed the competence, capabilities and objectivity of the expert, obtained an understanding of the expert's work and assessed the suitability of the expert opinion commissioned by the executive directors for the determination of fair values as audit evidence.

With the aid of our internal valuation specialists, we obtained an understanding of the valuation methods used with regard to the requirements of IFRS 13 *Fair Value Measurement*. We also analyzed the assumptions and estimates subject to judgment (such as growth rates, cost of capital or royalty rates) used to determine the fair values of the acquired identifiable assets and liabilities assumed (including contingent liabilities) and the contingent consideration liabilities on the acquisition date to determine whether they are consistent with general and industry-specific market expectations. Furthermore, we examined the assumptions and estimates subject to judgment in relation to the underlying business plan plans to determine whether they are plausible in comparison with the historical development. In addition, we checked the clerical accuracy of the models.

We also considered the use of uniform accounting policies and the accounting for the initial consolidation of the STRATO Group in the consolidation system. In addition, we assessed the information in the notes to the consolidated financial statements about the acquisition of STRATO AG with regard to the requirements of IFRS 3.

Our audit procedures did not lead to any reservations relating to the accounting for the acquisition of STRATO AG.

Reference to related disclosures

The Company's information on the purchase price allocation in connection with the acquisition of STRATO AG and the related use of judgment is contained in Note 4.1 of the notes to the consolidated financial statements.

3. Investment of Warburg Pincus in the Business Applications business of the United Internet Group

Reasons why the matter was determined to be a key audit matter

On 2 March 2017 WP XII Venture Holdings S.à r.l., Luxembourg (Warburg Pincus) acquired an investment in the United Internet Group's Business Applications business. After this transaction the United Internet Group still holds a 66,67% interest in the Business Applications business. The Business Applications business is still fully consolidated in the United Internet Group's consolidated financial statements. Warburg Pincus' investment is accounted for as a non-controlling interest. In light of the arrangements in the shareholders' agreement and the significance of the Business Applications business for the United Internet Group, the audit of United Internet AG's continued control over the Business Applications business was a key audit matter. In light of complexity of the transaction structure and the related significant risk of material misstatement in the consolidated financial statements, the account for the investment of Warburg Pincus in the United Internet Group's Business Applications business was a key audit matter.

Auditor's response

Our procedures comprised an assessment of the shareholders' agreement between United Internet AG and WP XII Venture Holdings S.à r.l. and other contractual arrangements in the context of the transaction with regard to United Internet AG's continued control of the Business Applications business in accordance with the criteria of IFRS 10. We also checked whether the measurement of the non-controlling interests and the allocation of profit between the controlling and the non-controlling interests was in compliance with the requirements of IFRS 10. In addition, we assessed the presentation of the non-controlling interest and the disclosures in the notes to the consolidated financial statements in relation to the requirements of IFRS 12.

Our procedures did not lead to any reservations relating to the accounting for the investment of Warburg Pincus in the United Internet Group's Business Applications business.

Reference to related disclosures

The Company's information on the continued full consolidation of the Business Applications business and on the measurement of non-controlling interests is contained in Note 4.2, and Note 39 of the notes to the consolidated financial statements.

4. Impairment of goodwill

Reasons why the matter was determined to be a key audit matter

The goodwill presented in the consolidated financial statements of United Internet AG comprises 47% 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 using a long term growth rate. In light of the magnitude of the goodwill, the underlying complexity of the valuation and the judgment exercised during valuation, the goodwill impairment test was a key audit matter.

Auditor's response

We obtained an understanding of the methodology applied by the external expert for the valuations on the basis of the design requirements of IAS 36 and checked the clerical accuracy the calculations in the underlying valuation model. In this context, we also assessed the competence, capabilities and objectivity of the expert, obtained an understanding of the expert's work and assessed the suitability of the expert opinion commissioned by the executive directors for the determination of fair values as audit evidence. The focus of our audit was on appraising the key assumptions using for the valuation, such as planning assumptions and discount rates.

We assessed the financial planning in terms of the reliability of previous forecasts and used the historical development to support the underlying assumptions. The assumptions relating to future cash flows were assessed by obtaining supporting evidence and by questioning 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 27 of the notes to the consolidated financial statements.

5. Revenue recognition

Reasons why the matter was determined to be a key audit matter

The recognition and cut-off of revenue in the group companies' mass customer business are largely automated and uniform processes due to the use of special IT systems dedicated to revenue recognition which, owing to the extensive branching and interdependencies are highly complex in their structure. Owing to the logic implemented in the IT systems, adjustments triggered by changes in tariffs or the launch of new products, for example, made in certain IT systems have a direct effect on the entire revenue recognition process. In addition, there are postings are not generated by the system – especially cut-offs between periods – which entail a risk of errors associated with manual postings.

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 assessed in particular the mapping and processing of business processes, the possibilities for IT administrators to make changes and the access rights of individual employees. We examined relevant general IT controls and relevant IT application controls on a sample basis. Furthermore, we considered the risk of errors arising from manual posting by performing analytical procedures using internal analysis tools. For this, we analyzed – particularly in view of cut-offs between periods – revenue 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., trade receivables).

Our audit procedures did not lead to any reservations relating to the recognition of revenue.

Reference to related disclosures

The Company's information on revenue in the consolidated financial statements of United Internet AG is contained in Note 5 and in the Note 2.1 "Explanation of main accounting and valuation methods" in the notes to the consolidated financial statements.

Other information

The supervisory board is responsible for the report of the supervisory board pursuant to Sec. 171 (2) AktG. In all other respects, the executive directors are responsible for the other information. The other information comprises

- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code contained in section 7 of the management report for the company and the group,

- the declaration on company management pursuant to Sec. 289f HGB and Sec. 315d HGB contained in section 7 of the management report for the company and the group.

The other information also comprises the responsibility statement pursuant to Sec. 297 (2) Sentence 4 HGB included in the annual report, of which we obtained a version prior to issuing this auditor's report.

In addition, the other information comprises the following sections of the annual report that we expect to be provided to us after we have issued our auditor's report:

- Letter to the shareholders

- Report of the Supervisory Board pursuant to Sec. 171 (2) AktG

- Other elements of the annual report

Our opinions on the consolidated financial statements and on the management report for the company and the groupreport 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 for 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 with regard to the other information already provided to us.

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 applicable 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 this management report for 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 groupor, 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 Company'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 auditor by the Annual Shareholders' Meeting on 18 May 2017. We were engaged by the supervisory board on 18 May 2017. We have been the group auditor of United Internet AG without interruption since fiscal year 2002.

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 Andreas Grote.

Eschborn/Frankfurt am Main, 21 March 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Grote	Vorbrodt
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

RESPONSIBILITY STATEMENT

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 Management Report and 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.

Montabaur, March 16, 2018

Board of Management

Ralph Dommermuth Frank Krause Jan Oetjen