Annual Financial Statements 2016

MANAGEMENT REPORT FOR THE GROUP AND PARENT COMPANY

ANNUAL FINANCIAL STATEMENTS OF THE PARENT COMPANY ACC. TO HGB

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 2016

1 COMPANY AND GROUP PROFILE

1.1 BUSINESS MODEL

Group structure

Founded in 1988 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 and HR Management.

Compared to the previous year, the corporate structure as of December 31, 2016 was largely unchanged.

Within the sub-group 1&1 Telecommunication SE, the operating segment **Access** is managed in particular by 1&1 Telecom GmbH and 1&1 Versatel GmbH.

Operating activities in the **Applications** segment are primarily managed in the field of Business Applications by 1&1 Internet SE, including its main domestic and foreign subsidiaries. These include – 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) – especially Arsys Internet S.L. (Spain), Fasthosts Internet Ltd. (UK), home.pl S.A. (Poland), InterNetX GmbH, Sedo GmbH and united-domains AG. In the field of Consumer Applications, the main companies are those pooled under 1&1 Mail & Media Applications SE, namely 1&1 De-Mail GmbH, 1&1 Mail & Media GmbH, affilinet GmbH and United Internet Media GmbH.

In addition to these operative and fully consolidated subsidiaries, United Internet AG held a number of other **investments** as of December 31, 2016. These mainly consist of the equity interests held by United Internet Ventures AG in the listed companies Drillisch AG, Germany (20.11%), Hi-Media S.A., France (10.46%), Rocket Internet SE, Germany (8.31%), and Tele Columbus AG, Germany (25.11%), as well as investments in the strategic partners ePages GmbH, Germany (25.01%), Open-Xchange AG, Germany (27.28%), ProfitBricks GmbH, Germany (30.20%), uberall GmbH, Germany (30.34%), and virtual minds AG, Germany (25.10%).

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

Simplified illustration of the Group structure of United Internet (as of December 31, 2016) with significant operating subsidiaries and investments:

United Internet AG

- 1&1 Telecommunication SE (100%)
  - 1&1 Telecom (100%)
  - 1&1 Versatel (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%)
  - Sedo (100%)
  - united-domains (100%)
- 1&1 Mail & Media Applications SE (100%)
  - 1&1 De-Mail (100%)
  - 1&1 Mail & Media (100%)
  - affilinet (100%)
  - United Internet Media (100%)
- United Internet Ventures AG (100%)
  - Drillisch (20.11%)
  - Hi-Media (10.46%)
  - Rocket Internet (8.31%)
  - Tele Columbus (25.11%)
  - ePages (25.01%)
  - Open-Xchange (27.28%)
  - ProfitBricks (30.20%)
  - uberall (30.34%)
  - virtual minds (25.10%)

Business operations

With 16.97 million fee-based customer contracts and 34.29 million ad-financed free accounts, United Internet is Europe's leading internet specialist.

The Group's operating business is divided into the two reporting segments/business fields "Access" and "Applications".

Access segment

The Access segment comprises the Group's fee-based landline and mobile access products, including the respective applications (such as home networks, online storage, telephony, video-on-demand or IPTV). In addition to these products for home users and small firms, United Internet also offers data and network solutions for SMEs, as well as infrastructure services for large corporations. With a current length of 41,644 km (prior year: 40,825 km), United Internet owns Germany's second-largest fiber-optic network. It is being constantly expanded.

In its Access segment, United Internet operates exclusively in Germany where it is one of the leading providers. The company uses its network and also purchases standardized network services from various pre-service providers. These 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.

Access products are marketed by the well-known brands GMX, WEB.DE, and 1&1 which enable the company to offer a comprehensive range of products while also targeting specific customer groups.

Applications segment

The Applications segment comprises the Group's application business – whether ad-financed or via fee-based subscriptions. 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 by the company's "Internet Factory" or in cooperation with partner firms and operated at the company's data centers. United Internet also offers its customers performance-based advertising and sales platforms on the internet via the Sedo and affilinet brands.

In its Applications segment, United Internet is also a leading global player with activities in European countries (Germany, France, the UK, Italy, Austria, Poland, Switzerland and Spain) as well as 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, and united-domains.

Segments, target groups and brands (as of: December 31, 2016):

Segment	Target group	Brand
Access	Consumer	1&1
	Business	1&1 (1)
Applications	Consumer	GMX, mail.com, WEB.DE, 1&1, united internet media, affilinet
	Business	home.pl, fasthosts, arsys, 1&1, sedo, united domains, InterNetX

(1) Name changed from Versatel to 1&1 Versatel on July 1, 2016

Management

As in the previous year, the **Management Board** of United Internet AG comprised the following five members in fiscal year 2016:

- Ralph Dommermuth, company founder and Chief Executive Officer
  (with the company since 1988)
- Robert Hoffmann, deputy chair, Management Board member responsible for Business Applications
  (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
  (with the company since 2009)
- Frank Krause, Chief Financial Officer
  (with the company since 2015)

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 2016:

- 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 89% of total sales. In addition to Germany, the Group's other major sales markets include the UK, the USA, Spain, France, Poland, Austria, and Canada.

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 Germany's fastest growing companies with its mobile internet products.

United Internet is the market leader in Germany for hosting and cloud applications (in the globally aligned Applications segment).

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 five 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, 2016, the United Internet Group employed a total headcount of 8,082 at around 40 domestic and foreign facilities.

Main locations (by headcount)

Location	Main activity	Company / brand
Montabaur	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 Business	1&1
Karlsruhe	Development, Product Management, Data Center Operation, Marketing, Sales, Purchasing, Customer Service for Access & Applications Business	1&1, WEB.DE, GMX, mail.com
Zweibrücken	Customer Service for Access & Applications Business	1&1
Munich	Applications Business (Portals)	GMX, WEB.DE
	Applications Business (Affiliate Marketing)	affilinet
Cebu City (Philippines)	Customer Service for Applications Business	1&1
Madrid / Logroño (Spain)	Applications Business, DC Operation in Spain	1&1, Arsys
Stettin (Poland)	Applications Business in Poland	home.pl
Flensburg	Access Business (B-to-B and Wholesale)	1&1 Versatel
Gloucester (UK)	Applications Business and DC Operation in UK	1&1, Fasthosts
Berlin	Development, Customer Service for Applications Business	1&1
	Access Business (B-to-B and Wholesale)	1&1 Versatel
Dortmund	Access Business (B-to-B and Wholesale)	1&1 Versatel
Bucharest (Romania)	Development in Applications Business	1&1
Chesterbrook / Lenexa (USA)	Applications Business, DC Operation and Customer Service in North America	1&1
Düsseldorf	Access Business (B-to-B and Wholesale)	1&1 Versatel
Cologne	Applications Business (Domain Marketing)	Sedo
Stuttgart	Access Business (B-to-B and Wholesale)	1&1 Versatel
Essen	Access Business (B-to-B and Wholesale)	1&1 Versatel
Regensburg	Applications Business (Reselling)	InterNetX
Starnberg	Applications Business (Domains)	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 greater the customer demand for 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 products 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 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 over 51 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 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, EBITDA, EBIT, and EPS. 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 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 and Bucharest), around 2,600 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 2016

Access

Launch of 1&1 fiber-optic business tariff

In July 2016, 1&1 launched its first two fiber-optic business tariffs with speeds of up to 1 gigabit/s tailored to the needs of small and mid-sized companies. The new tariffs are offered in over 250 cities. Download speeds of 1,000 MBit/s and upload speeds of 200 MBit/s are possible. In contrast to DSL, the bandwidth of fiber-optic connections are guaranteed irrespective of the line quality.

The performance of the fiber-optic connections can be adapted in future to the customer's rising needs. If more performance is required, greater bandwidth can be provided via the same line – 1&1 currently offers customers up to 100 Gbit/s. Network connections are provided into the customer's premises.

Aggregator platform rolled out

As one of the leading DSL and mobile providers in Germany, 1&1 has developed an aggregator platform which enables existing fiber-optic connections of other network providers in Germany to be connected to 1&1's infrastructure. The company's own fiber-optic network – with a length of around 41,000 km, the second-largest in Germany – provides nationwide aggregation possibilities. For example, the networks of smaller providers can be connected "locally".

The first partner to be connected to the aggregator platform was wilhelm.tel based in Norderstedt, Schleswig-Holstein. In the metropolitan region of Hamburg, 1&1's private customers can therefore already benefit from modern fiber-optic connections. Negotiations are being held with further partners.

Fiber-optic house connections are offered in particular by several city network and regional network operators. Until recently, however, there was no nationwide offering for customers. This is where the new 1&1 aggregator platform with its open access design comes in. By using the standardized interface S/PRI 4.0 – in whose development and refinement 1&1 played a major role – existing fiber-optic networks can be connected to the platform. The use of standards known across the industry enables suppliers of fiber-optic networks to prepare for cooperation from an early stage while also reducing the technical complexity of network interconnection. In addition, subsidized areas in which new fiber-optic networks are created are obliged to grant other providers access to the network by means of open access. This creates more and more potential partners for the aggregator platform. In this way, the networks spread throughout Germany can be combined into a coherent infrastructure and all fiber-optic house connections they make available can be marketed.

With its aggregator platform, 1&1 ensures access to the best possible infrastructure in order to meet future customer requirements regarding the performance of their internet connections.

Business Applications

New design features for 1&1 MyWebsite

As of March 2016, customers of 1&1 MyWebsite have access to a premium library with over 20 million top-quality images. An intuitive search function and various filter options allow users to quickly find suitable images and integrate them into their website.

Also launched in March 2016 for business customers, there are now more than 10,000 templates optimized for mobile devices whose sector-specific text and image worlds simplify the creation of a professional web presence without losing individuality.

In April 2016, work started on standardizing the numerous features of 1&1 MyWebsite and simplifying their use. A bar at the top of the screen only displays those functions that are currently available and thus uses the available screen area much better. This also enhances ease-of-use on notebooks and tablets.

The response speed of the user interface was improved by changing to the most up-to-date technology – processes which previously ran on the server were shifted to the client. Industry standards such as React, Redux, Material UI and NodeJS are now used. A new design language (material design) has also been introduced which – together with a new visual language (animated illustrations) and textual tonality – makes the 1&1 MyWebsite editor appear even clearer and more modern. The toolbar, all dialogues and many assistants and menus have been presented in this style since the end of 2016.

As of August 2016, preconfigured sections are available to users. Unlike smaller-scale elements, sections automatically adopt the overall website design and provide an ideal mix of structural flexibility and high design value – an absolute first for modular website kits.

In October 2016 the MyWebsite set-up assistant was completely revamped. Users are guided through simple steps which help them set up and subsequently publish their website. As a first step, an online business card was launched which enables users to put their most important contact data online just minutes after ordering the product.

All of these product innovations are based on an ongoing analysis of market and customer needs and were brought to market with the aid of acceptance tests. By integrating feedback possibilities directly into the product or application context, users can express their criticism – or praise.

Numerous improvements were also made to operations during the course of the year. The use of modern container technology (CaaS) based on Docker, Kubernetes and OpenShift enables faster release cycles across all sites as well as the automated set-up of development and test environments with high comparability to live installation.

Launch of 1&1 Cloud App Center

In February 2016, the 1&1 Cloud App Center was introduced. It was developed in cooperation with Bitnami, an international supplier of server applications and development environments. Bitnami provides over 100 open source apps on the server infrastructures of selected partners as one-click installations. Thanks to the new partnership, 1&1 customers can now roll out and run web applications and development stacks in the cloud with a single click. As the apps are supplied centrally, they can be installed within minutes – thus simplifying access to the powerful 1&1 Cloud platform even more.

Introduction of 1&1 Marketing Toolbox for SMEs

In April 2016, a new online marketing package for small and mid-size enterprises (SMEs) was introduced. The new 1&1 Marketing Toolbox is a complete package comprising search engine optimization (SEO) and marketing (SEM), company entries in online directories, and email marketing. It thus bundles the most important marketing tools for companies seeking to attract new customers and increase their online success.

In order to ensure the best-possible interaction of the individual products, the 1&1 Control Panel also provides a new overview in which customers can quickly see the current status of their online marketing activities. This “center page” displays the relevant performance indicators. In addition, customers receive customized tips and help about online marketing and can also easily switch to any product from here. In the case of the performance indicators in particular, a possibility was created to enable data exchange between products and the 1&1 Control Panel in order to quickly provide customers with all relevant information – also outside the actual product.

1&1 Managed Cloud Hosting

In July 2016, the cloud portfolio was expanded with the addition of a new 1&1 Managed Cloud Hosting product. Customers will benefit in future from an easy-to-use, even more flexible cloud solution which in contrast to the previous root variant no longer requires any administrative effort.

1&1 Managed Cloud Hosting uses Docker container technology. Customers can choose between several preconfigured server stacks or assemble their own stack. At the time of launch, the product already provided over 20 combinations, which are constantly being expanded and tested for compatibility. In addition, the respective stack can be individually configured for each server and additional resources booked on a minute-by-minute basis. Moreover, users are free to customize server resources, such as CPU, memory, and SSD storage, and thus also the performance of their infrastructure. Components can even be expanded during operation.

Container technology not only enhances the performance of customer systems, but also their availability. Individual containers work independently and jointly access the same system software. In this way, for example, a container can be updated while the remaining components continue to run. In addition, it also significantly facilitates the migration of applications between different systems. The result is a further reduction in downtime and a high level of security of the services run on the cloud infrastructure.

Consumer Applications

Introduction of DNSSEC/DANE security standard

In May 2016, GMX and WEB.DE introduced the network protocol DANE (DNS-based Authentication of Named Entities) and thus once again raised the extremely high security level already achieved.

When using DANE, certificates for encrypting an e-mail are checked for authenticity before the connection is established. This improves secure transport between mail servers and prevents the interception of e-mails by third parties.

Previously, e-mail transport was only encrypted to such a high degree between providers within the “E-Mail made in Germany” network. However, this also meant that all participating servers had to be located in Germany. The introduction of DANE means it is now possible to securely communicate with providers who are not members of the “E-Mail made in Germany” network: DANE ensures that certificates used for the transport encryption of e-mails with SSL/TLS cannot be exchanged unnoticed by online criminals. To achieve this, the certificates are checked directly on the DNS servers involved. The server operator therefore no longer has to trust an external certification authority, which might have be compromised. With the aid of DANE, senders and receivers can unambiguously identify each other and unauthorized third parties can no longer read messages without being detected.

In the future, every transmission of an e-mail via WEB.DE and GMX will be automatically secured using DANE provided the other site also supports this security technology.

Roll-out of Big Data analytics platform

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 in detail, to be able to optimize the product portfolio and provide services more efficiently.

To this end, the existing infrastructure was expanded in 2016 with the addition of a Big Data platform and the implementation of new analysis processes.

2 ECONOMIC REPORT

2.1 GENERAL ECONOMIC AND SECTOR CONDITIONS

General economic development

The International Monetary Fund (IMF) repeatedly downgraded its forecasts for the global economy throughout 2016. In the latest update to its “World Economic Outlook” on January 16, 2017, the Fund calculated growth for the **global economy** of 3.1% in 2015 (compared to 3.2% in the previous year). This is 0.3 percentage points less than the IMF had forecast in January 2016. Global growth in the past year was thus the weakest since the global financial and economic crisis of 2008 / 2009.

The Fund named the following reasons for this weaker-than-expected trend in 2016:

- Slowdown in development of emerging and developing countries
- Strong decline in commodity prices
- Uncertainty surrounding Brexit

From the point of view of United Internet, the economies of its current target markets performed quite differently in the reporting period. Whereas the economic trend in the North American target countries was much worse than expected, the performance of the European target countries was more uneven.

With growth of 1.6% in 2016, the **US economy** fell short of its prior-year growth rate (2.6%) and was also 1.0 percentage point below the IMF forecast issued at the beginning of the year (outlook January 2016). Although economic growth of 1.3% in **Canada** was well above the prior-year figure (0.9%), it still fell 0.4 percentage points short of original expectations. **Mexico’s** growth rate of 2.2% was well down on the previous year (2.6%) and also 0.4 percentage points below the IMF’s original forecast.

Although growth in the **Eurozone** of 1.7% was slower than in the previous year (2.0%), it matched the original expectations of the IMF.

In **France**, the 1.3% increase in economic output was on a par with the previous year and in line with original expectations. **Spain** was able to build on its prior-year performance with growth of 3.2% and exceeded the original expectations by 0.5 percentage points. **Italy** also exceeded its prior-year level (0.7%) slightly with growth of 0.9%, but still fell 0.4 percentage points short of expectations.

The economic trend in the non-euro country **UK** was also weaker than expected. Growth of 2.0% was down on the previous year (2.2%) and also 0.2% below original expectations – in part due to the Brexit vote.

The IMF calculated economic growth of 1.7% for **Germany**, United Internet’s most important market (sales share 2016: around 89%), in 2016. This is 0.2 percentage points more than in 2015 and in line with original expectations. The IMF’s calculations for Germany largely correspond with the preliminary figures of the country’s Federal Statistics Office (Destatis), which calculated growth in gross domestic product (GDP) of 1.8% (after price and calendar adjustments). This growth was driven in particular by consumer spending, as well as public sector spending (including costs for the immigration of refugees).

Changes in growth forecasts made during 2016 for United Internet’s key target countries and regions

	January forecast	April forecast	July forecast	October forecast	Actual 2016	Change on January forecast
World	3.4%	3.2%	3.1%	3.1%	3.1%	- 0.3 %-points
USA	2.6%	2.4%	2.2%	1.6%	1.6%	- 1.0 %-points
Canada	1.7%	1.5%	1.4%	1.2%	1.3%	- 0.4 %-points
Mexico	2.6%	2.4%	2.5%	2.1%	2.2%	- 0.4 %-points
Eurozone	1.7%	1.5%	1.6%	1.7%	1.7%	+/- 0.0 %-points
France	1.3%	1.1%	1.5%	1.3%	1.3%	+/- 0.0 %-points
Spain	2.7%	2.6%	2.6%	3.1%	3.2%	+ 0.5 %-points
Italy	1.3%	1.0%	0.9%	0.8%	0.9%	- 0.4 %-points
UK	2.2%	1.9%	1.7%	1.8%	2.0%	- 0.2 %-points
Germany	1.7%	1.5%	1.6%	1.7%	1.7%	+/- 0.0 %-points

Source: International Monetary Fund, World Economic Outlook (Update), January 2017

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

	2012	2013	2014	2015	2016
World	3.1%	3.3%	3.4%	3.2%	3.1%
USA	2.8%	2.2%	2.4%	2.6%	1.6%
Canada	1.7%	2.0%	2.5%	0.9%	1.3%
Mexico	3.7%	1.4%	2.3%	2.6%	2.2%
Eurozone	- 0.7%	- 0.5%	0.9%	2.0%	1.7%
France	0.0%	0.3%	0.2%	1.3%	1.3%
Spain	- 1.6%	- 1.2%	1.4%	3.2%	3.2%
Italy	- 2.5%	- 1.9%	- 0.4%	0.7%	0.9%
UK	0.3%	1.7%	2.9%	2.2%	2.0%
Germany	0.9%	0.2%	1.6%	1.5%	1.7%

Source: International Monetary Fund, World Economic Outlook (Update), January 2017

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

	2012	2013	2014	2015	2016
GDP	0.7%	0.6%	1.6%	1.5%	1.8%

Source: German Federal Statistical Office, January 2017

Development of sector / core markets

The German ICT market (ICT = Information and Communication Technology) developed in line with expectations in fiscal year 2016. The industry association BITKOM announced expected sales growth of 1.7% to € 160.5 billion in October 2016 and thus confirmed its original forecast.

The most important ICT markets for United Internet’s business model are the German broadband and mobile internet markets for its 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 0.5 million to 31.2 million in 2016, the number of new connections was again well below previous record years and also 0.6 million below the previous year (prior year: 1.1 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 2016” (October 19, 2016).

In its survey “German Entertainment and Media Outlook 2016-2020” (October 25, 2016), PricewaterhouseCoopers (PWC) expected sales of landline broadband connections to rise by 1.3% to around € 7.97 billion in 2016.

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 17.0% to 37.2 GB (per connection and month).

Key market figures: broadband access (landline) in Germany

	2016	2015	Change
Broadband connections (in million)	31.2	30.7	+ 1.6%
Broadband revenues (in € billion)	7.97	7.87	+ 1.3%
Data volume per connection and month (in GB)	37.2	31.8	+ 17.0%

Source: Dialog Consult / VATM; PricewaterhouseCoopers

Mobile internet market in Germany

The German mobile internet market continues to display dynamic growth. According to PricewaterhouseCoopers (PWC), the number of mobile internet users rose by 14.0% to 70.2 million in 2016.

At the same time, sales of mobile data services grew by 7.9% to € 7.36 billion in 2016.

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 22.9% to 510 MB.

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

	2016	2015	Change
Mobile internet users (in million)	70.2	61.6	+ 14.0%
Mobile internet revenues (in € billion)	7.36	6.82	+ 7.9%
Data volume per connection and month (in MB)	510	415	+ 22.9%

Source: PricewaterhouseCoopers; Dialog Consult / VATM

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” (October 14, 2016), Gartner Inc. forecast global growth for public cloud services of 17.2% in 2016, from $ 177.6 billion to $ 208.2 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)

	2016	2015	Change
Global sales of public cloud services	208.2	177.6	+ 17.2%
thereof business process services (BPaaS)	40.9	38.6	+ 6.0%
thereof application infrastructure services (PaaS)	7.2	5.7	+ 26.3%
thereof application services (SaaS)	38.6	31.5	+ 22.5%
thereof management and security services	6.3	5.0	+ 26.0%
thereof system infrastructure services (IaaS)	24.9	17.5	+ 42.3%
thereof cloud advertising	90.3	79.4	+ 13.7%

Source: Gartner

German online advertising market

Despite the Brexit decision and resulting modest demand in the third quarter of 2016, PricewaterhouseCoopers expects an increase in (net) revenues of the German online advertising market of 7.4% to around € 6.55 billion in 2016.

As in the previous year, mobile online advertising and video advertising reported the strongest growth of 31.6% and 18.2%, respectively.

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

	2016	2015	Change
Online advertising revenues	6.55	6.10	+ 7.4%
thereof search marketing	3.24	3.01	+ 7.6%
thereof display advertising	1.44	1.41	+ 2.1%
thereof affiliate / classifieds	0.98	0.97	+ 1.0%
thereof mobile online advertising	0.50	0.38	+ 31.6%
thereof video advertising	0.39	0.33	+ 18.2%

Source: PricewaterhouseCoopers

Legal conditions / significant events

In 2016, the legal parameters for United Internet’s business activities remained largely unchanged from fiscal year 2015 and thus had no significant influence on the development of the United Internet Group.

There were also no significant events in fiscal 2016 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.

In order to ensure comparability with the guidance issued at the beginning of 2016, currency-adjusted sales and earnings figures are calculated by converting the sales and earnings figures of the current reporting period with the standard conversion rates used at year-end 2015.

Actual and forecast development

United Internet can look back on a successful fiscal year 2016. The forecasts published at the beginning of the year and updated during the year were met or exceeded.

Forecast development

United Internet published its guidance for the fiscal year 2016 in its annual financial statements 2015 and provided more specific guidance during the course of the year as follows.

	Fiscal year 2015	Forecast 2016 (of 03/2016)	Specification (of 08/2016)	Specification (of 11/2016)
Customer contracts	15.97 million	+ approx. 800,000	+ approx. 900,000	+ 940,000-960,000
Sales	€ 3.716 billion	approx. € 4 billion		€ 3.94 – € 3.96 billion (currency-adjusted: € 3.96 – € 3.98 billion)
EBITDA	€ 757.2 million[1]	approx. € 850 million		€ 835 – € 845 million (currency-adjusted: € 845 – € 855 million)

[1] Without special items from sale of Goldbach shares and part of stake in virtual minds (EBITDA effect: € +14.0 million)

Significant growth was also forecast for the financial KPIs EBIT and EPS (earnings per share) – in ordinary business (without special items) – compared to the key figures for fiscal year 2015 adjusted for proceeds from the sale of Goldbach shares and part of the company's stake in virtual minds.

Special items

In order to ensure the comparability of forecast KPIs 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 2015 and 2016 were influenced by special items with opposing effects:

- in fiscal year 2015, special items from the sale of shares (Goldbach shares and part of stake in virtual minds) had a positive impact on key earnings figures (EBITDA, EBIT, EBT effect = € +14.0 million; EPS effect = € +0.07), whereas

- in fiscal year 2016, special items from writedowns on financial assets (especially impairment of shares held by United Internet in Rocket Internet SE) had a negative impact on key earnings figures (EBT effect: € -254.9 million; EPS effect: € -1.25).

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

	Fiscal year 2016	Fiscal year 2015
EBITDA	840.6	771.2
Special items from share sales (2015)	-	- 14.0
EBITDA before special items	840.6	757.2
EBIT	647.2	555.7
Special items from share sales (2015)	-	- 14.0
EBIT before special items	647.2	541.7
EPS	0.88	1.80
Special items from writedowns (2016)	+ 1.25	-
Special items from share sales (2015)	-	- 0.07
EPS before special items	2.13	1.73

Actual development

United Internet continued to invest heavily in new customer relationships in fiscal year 2016 and succeeded in raising the number of fee-based customer contracts organically by 1 million contracts, thus easily exceeding its forecasts (March forecast: + approx. 800,000; August specification: + approx. 900,000; November specification: + 940,000 – 960,000).

Despite the further decline in the value of the British pound following the Brexit decision, consolidated sales rose by 6.3% (currency-adjusted: 6.8%) – from € 3.716 billion to the new record figure of € 3.949 billion. This figure is thus within the targeted range of the most recent forecast (€ 3.94 – € 3.96 billion).

Despite heavier than planned investment in customer growth and the related increase in customer acquisition costs, EBITDA rose by 11.0% (currency-adjusted: 11.8%), from € 757.2 million (comparable prior-year figure without special items) to € 840.6 million. This figure is thus also within the targeted range of the most recent forecast (€ 835 - € 845 million).

There was also a strong year-on-year improvement in EBIT and EPS, as forecast. EBIT increased by 19.5%, from € 541.7 million (comparable prior-year figure) to € 647.2 million, while EPS rose 23.1% from € 1.73 in the previous year (comparable prior-year figure) to € 2.13 (without special items).

The key earnings figures stated above also include costs for major M&A projects in fiscal year 2016, i.e. especially the investment of Warburg Pincus in the “Business Applications” division and the takeover of Strato (approval by the anti-trust authorities still pending at the end of the reporting period, but granted on February 10, 2017).

Summary: actual and forecast development of business in 2016

	Results fiscal year 2015	Forecast 2016 (of 03/2016)	Specification (of 08/2016)	Specification (of 11/2016)	Results fiscal year 2016
Customer contracts	15.97 million	+ approx. 800,000	+ approx. 900,000	+ 940,000-960,000	+ 1.00 million
Sales	€ 3.716 billion	approx. € 4 billion		€ 3.94 – € 3.96 billion (currency-adjusted: € 3.96 – € 3.98 billion)	€ 3.949 billion (currency-adjusted: € 3.967 billion)
EBITDA	€ 757.2 million(1)	approx. € 850 million		€ 835 – € 845 million (currency-adjusted: € 845 – € 855 million)	€ 840.6 million (currency-adjusted: € 846.7 million)

(1) Without effects from sale of Goldbach shares and part of stake in virtual minds (EBITDA and EBIT effect: € +14.0 million; EPS effect: € 0.07)

Segment development

Access segment

The **Access segment** comprises the Group's fee-based landline and mobile access products, including the respective applications (such as home networks, online storage, telephony, video-on-demand or IPTV). In addition to these products for home users and small firms, United Internet also offers data and network solutions for SMEs, as well as infrastructure services for large corporations. With a current length of 41,644 km (prior year: 40,825 km), United Internet owns Germany's second-largest fiber-optic network. It is being constantly expanded.

United Internet operates exclusively in Germany in its Access segment, where it is one of the leading providers. The company uses its own landline network and also purchases standardized network services from various pre-service providers. These 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.

Access products are marketed by the well-known brands GMX, WEB.DE and 1&1 which enable the company to offer a comprehensive range of products while also targeting specific customer groups.

United Internet continued to invest heavily in new customer relationships in its fiscal year 2016. The number of **fee-based contracts** in the Access segment rose by 920,000 contracts to a total of 8.72 million. In the company's Mobile Internet business, 830,000 contracts were added – raising the total number of customers to 4.31 million. The number of complete DSL contracts was raised by 150,000 to a total of 4.23 million customer contracts. As expected, the number of customer contracts for those business models being phased out (T-DSL and R-DSL) continued to fall slightly (-60,000 customer relationships). In total, the number of DSL contracts therefore grew by 90,000 contracts to 4.41 million.

Development of Access contracts in fiscal year 2016
(in million)

	Dec. 31, 2016	Dec. 31, 2015	Change
Access, total contracts	8.72	7.80	+ 0.92
thereof Mobile Internet	4.31	3.48	+ 0.83
thereof DSL complete (ULL)	4.23	4.08	+ 0.15
thereof T-DSL / R-DSL	0.18	0.24	- 0.06

Development of Access contracts in the 4th quarter of 2016
(in million)

	Dec. 31, 2016	Sep. 30, 2016	Change
Access, total contracts	8.72	8.50	+ 0.22
thereof Mobile Internet	4.31	4.10	+ 0.21
thereof DSL complete (ULL)	4.23	4.20	+ 0.03
thereof T-DSL / R-DSL	0.18	0.20	- 0.02

Thanks to this dynamic customer growth, **sales of the Access segment** rose in line with expectations by 6.4% in 2016, from € 2,742.6 million in the previous year to € 2,917.2 million.

In the fiscal years 2015 and 2016, key earnings figures were affected by **various factors**. Earnings in 2015 were positively influenced by a disproportionately high EBITDA contribution from key account business (1&1 Versatel) in the fourth quarter of the previous year, while there was an opposing burden on key earnings figures for 2016 from one-off expenses for the migration of DSL connections purchased as a pre-service from the Telefónica landline network to other DSL networks started in the fourth quarter of 2016. This migration was necessitated by Telefónica Deutschland's decision to scale down its own landline network, meaning that it can no longer be considered as a pre-service provider in the future.

Specifically, **segment EBITDA** increased by 6.8% from € 492.1 million in the previous year to € 525.6 million, while **segment EBIT** rose by 15.9% from € 336.4 million in the previous year to € 389.9 million.

As a result, the **EBITDA margin** improved from 17.9% in the previous year to 18.0% in fiscal year 2016 and the **EBIT margin** from 12.3% to 13.4%.

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 staff transfers from the Applications segment, the number of **employees** in this segment rose by 10.7% to 3,478 as of December 31, 2016 (prior year: 3,142).

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

	2016	2015	Change
Sales	2,917.2	2,742.6	+ 6.4%
EBITDA	525.6	492.1	+ 6.8%
EBIT	389.9	336.4	+ 15.9%

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

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q4 2015	Change
Sales	709.7	725.0	732.5	750.0	707.4	+ 6.0%
EBITDA	124.3	124.7	135.5	141.1	147.5	- 4.3%
EBIT	90.5	90.6	101.4	107.4	109.5	- 1.9%

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

	2012	2013	2014(1)	2015	2016
Sales	1,586.1	1,788.3	2,135.1	2,742.6	2,917.2
EBITDA	191.8	245.4	330.8	492.1	525.6
EBITDA margin	12.1%	13.7%	15.5%	17.9%	18.0%
EBIT	164.3	217.4	267.8	336.4	389.9
EBIT margin	10.4%	12.2%	12.5%	12.3%	13.4%

(1) 2014 without one-off income from Versatel acquisition (EBITDA and EBIT effect: €+112.6 million)

Applications segment

The **Applications segment** comprises the Group's application business – whether ad-financed or via fee-based subscriptions. 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 by the company's "Internet Factory" or in cooperation with partner firms and operated at the company's data centers. United Internet AG also offers its customers performance-based advertising and sales platforms on the internet via the Sedo and affilinet brands.

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

Applications are marketed via the differently positioned brands GMX, mail.com, WEB.DE, 1&1, Arsys, Fasthosts, home.pl, InterNetX, and united-domains.

In the field of Business Applications, the main focus in fiscal year 2016 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 contracts for Business Applications** was also increased by 60,000 contracts to 6.05 million in fiscal year 2016.

Development of Business Applications contracts in fiscal year 2016
(in million)

	Dec. 31, 2016	Dec. 31, 2015	Change
Business Applications, total contracts	6.05	5.99	+ 0.06
thereof "domestic"	2.34	2.35	- 0.01
thereof "foreign"	3.71	3.64	+ 0.07

Development of Business Applications contracts in the fourth quarter of 2016
(in million)

	Dec. 31, 2016	Sep. 30, 2016	Change
Business Applications, total contracts	6.05	6.05	+/- 0.00
thereof “domestic”	2.34	2.34	+/- 0.00
thereof “foreign”	3.71	3.71	+/- 0.00

In the field of **Consumer Applications**, the main focus in fiscal year 2016 was on monetizing ad-financed accounts. United Internet therefore limited ad space for its own pay products once again in 2016. Despite this limitation, the number of pay accounts was raised by 20,000 contracts to 2.20 million. At the same time, the number of free accounts rose by 1.14 million to 34.29 million in the reporting period. Consequently, the total number of **Consumer Accounts** increased by 1.16 million to 36.49 million accounts in fiscal year 2016.

Development of Consumer Applications contracts in fiscal year 2016
(in million)

	Dec. 31, 2016	Dec. 31, 2015	Change
Consumer Applications, total accounts	36.49	35.33	+ 1.16
thereof with Premium Mail subscription	1.72	1.77	- 0.05
thereof with Value-Added subscription	0.48	0.41	+ 0.07
thereof free accounts	34.29	33.15	+ 1.14

Development of Consumer Applications contracts in the fourth quarter of 2016
(in million)

	Dec. 31, 2016	Sep. 30, 2016	Change
Consumer Applications, total accounts	36.49	35.64	+ 0.85
thereof with Premium Mail subscription	1.72	1.73	- 0.01
thereof with Value-Added subscription	0.48	0.47	+ 0.01
thereof free accounts	34.29	33.44	+ 0.85

By successfully expanding business with existing customers, focusing on high-quality customer relationships, increasingly monetizing free accounts via advertising, and the first-time consolidation of home.pl, **sales of the Applications segment** rose by 6.9% in fiscal year 2016 (currency-adjusted: 8.8%), from € 1,001.2 million in the previous year to € 1,070.7 million in 2016 – despite the further devaluation of the British pound following the Brexit decision. As already announced in the interim statement on the first nine months of 2016, weaker than expected revenues from online advertising in the third quarter of 2016 were largely offset by “catch-up effects” on the part of advertisers in the final quarter of the year. **Foreign business** grew by 10.7% (currency-adjusted: 15.5%), from € 383.6 million to € 424.7 million.

Key earnings figures easily outpaced this growth in sales: for example, **segment EBITDA** rose by 18.8% (currency-adjusted: 21.0%) from EUR 281.9 million in the previous year to € 335.0 million, and **segment EBIT** by 25.1% from € 222.5 million in the previous year to € 278.3 million.

As a result, the **EBITDA margin** improved from 28.2% in the previous year to 31.3% in fiscal year 2016 and the **EBIT margin** from 22.2% to 26.0%.

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

Due in part to internal staff transfers to the Access segment, the number of **employees** in this segment fell by 10.9% to 4,406 (prior year: 4,945).

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

	2016	2015	Change
Sales	1,070.7	1,001.2	+ 6.9%
EBITDA	335.0	281.9	+ 18.8%
EBIT	278.3	222.5	+ 25.1%

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

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q4 2015	Change
Sales	268.8	266.2	258.5	277.2	259.5	+ 6.8%
EBITDA	80.4	75.0	81.2	98.4	73.3	+ 34.2%
EBIT	65.9	61.1	67.5	83.8	58.9	+ 42.3%

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

	2012	2013	2014	2015	2016
Sales	810.2	867.0	929.4	1,001.2	1,070.7
EBITDA	132.1	168.7	228.6	281.9	335.0
EBITDA margin	16.3%	19.5%	24.6%	28.2%	31.3%
EBIT(1)	66.6	102.1	170.9	222.5	278.3
EBIT margin	8.2%	11.8%	18.4%	22.2%	26.0%

(1) 2012 without special items (Sedo impairment charges: EBIT effect: € -46.3 million)

Group investments

United Internet AG continued to optimize its investment portfolio in the fiscal year 2016. New strategic investments were made (Tele Columbus; Strato), stakes in existing holdings were decreased (investment of Warburg Pincus in the “Business Applications” division), and investments sold (Hipay).

Significant changes in investments

Acquisition of a 25.11% stake in Tele Columbus

Following the purchase of a 9.8% stake in Tele Columbus AG, United Internet contractually secured the acquisition of a further share package amounting to approx. 15.31% of shares in Tele Columbus on February 10, 2016 via the subsidiary United Internet Ventures AG. At the time, the closing of the acquisition was subject to approval by the German Federal Cartel Office (“Bundeskartellamt”). This approval was granted on March 7, 2016.

After closing the acquisition, United Internet has a total indirect shareholding of 25.11% in Tele Columbus as of December 31, 2016.

United Internet believes that Tele Columbus AG is well positioned with attractive market opportunities. As a strategic investor, it plans to accompany the company’s ongoing development and benefit from its growth in value.

United Internet AG does not, however, currently intend to acquire an equity stake of 30% or more in Tele Columbus AG – which would oblige it to submit a mandatory bid to all other shareholders of Tele Columbus AG – nor to make a voluntary takeover bid.

Sale of Hipay shares

On May 2, 2016, United Internet sold its stake (8.37%) in the listed company Hipay Group S.A., France. The share sale resulted in proceeds of around € 4.5 million.

Warburg Pincus acquires stake in United Internet’s “Business Applications” division as part of strategic alliance

On November 8, 2016, United Internet AG and WP XII Venture Holdings S.à.r.l., an affiliate of private equity funds managed by Warburg Pincus LLC (together: “Warburg Pincus”), signed an agreement regarding a 33.33% stake of Warburg Pincus in the United Internet division Business Applications.

The transaction values the business currently pooled by United Internet within the company 1&1 Internet SE at € 2.55 billion. This corresponds to a multiple of approx. 12.5 times the division’s planned EBITDA result for fiscal 2016.

The “Business Applications” division pooled under 1&1 Internet SE (part of the overall “Applications” segment of United Internet) includes the hosting business with domains, home pages, webhosting, servers and e-shops, professional e-mail solutions, online storage and marketing tools. 1&1’s Business Applications products are mainly targeted at freelancers and SMEs in numerous European countries (Germany, France, UK, Italy, Austria, Poland, Spain) as well as North America (Canada, Mexico, USA). The “Business Applications” division also comprises the foreign companies belonging to 1&1 Internet SE as well as their subsidiaries (e.g. Fasthosts, Arsys, home.pl, InterNetX, united-domains and Sedo) and the respective service companies.

The investment of Warburg Pincus was made via a newly founded holding company in the first quarter of 2017. A purchase price of up to € 450 million has been agreed for the 33.33% stake. This is based on the division's equity value of € 1.35 billion. This corresponds to the division's enterprise value after deducting internal loan receivables of United Internet AG totaling € 1.20 billion which arose from United Internet AG's transfer of the business to the new structure and are subject to standard market interest rates.

After closing the transaction, United Internet AG remains the majority shareholder with a 66.67% stake in the newly founded holding company and will continue to fully consolidate its Business Applications division in its annual and quarterly financial statements.

As part of its strategic alliance, Warburg Pincus will support the management team of the "Business Applications" division. To this end, Mr. René Obermann, Managing Director of Warburg Pincus International LLC, will join the Supervisory Board of the Business Applications division.

The common goal of the partnership is to extend the division's market leadership in Europe with top-quality and innovative webhosting products and cloud applications, as well as first-class customer service. With its global market expertise and access to experts in the sector, Warburg Pincus is expected to make a valuable contribution to the division's organic growth, its development of new products and services, and any potential mergers and acquisitions in the future.

The transaction offers 1&1 Internet SE flexibility with regard to its future strategic options, including a potential IPO in the coming years.

The transaction was subject to approval by the relevant anti-trust authorities. The last outstanding approval was granted by the authorities on December 16, 2016. The transaction could therefore be closed as planned in the first quarter of 2017.

Complete takeover of competitor Strato

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 employs over 500 people with operations mainly in Germany and the Netherlands. Strato's annual revenue for fiscal year 2016 is expected to be around € 127 million with anticipated EBITDA in 2016 of around € 48.5 million.

The Strato product portfolio ranges from domains, e-mail packages, complete website packages, webshops, and servers, to online storage and individual high-end hosting solutions. The business operates from the company's two own high-performance data centers in Berlin and Karlsruhe.

The purchase price for 100% of Strato's shares is around € 600 million and will be settled in cash. A partial amount of up to € 566 million is payable after the expected closing in the first half of 2017. A further amount of up to € 34 million is payable at a later point, but subject to certain performance goals.

The acquisition of 100% of shares in Strato AG will be made via a newly founded holding structure as part of the recently announced investment of Warburg Pincus in United Internet's Business Applications division. The purchase price tranche of € 566 million due in 2017 at the holding structure level will be financed by an internal loan from United Internet of € 350 million as well as by prorated equity capital contributions of United Internet and Warburg Pincus. In the course of the Strato acquisition, Warburg Pincus is to retain its 33.33% stake in United Internet's "Business Applications" division in accordance with the partnership agreement.

By acquiring its competitor Strato, United Internet will be able to expand its leading market position in the European hosting and cloud application business and drive the consolidation of a market which is currently still strongly fragmented.

At the end of the reporting period on December 31, 2016, the share purchase was still subject to approval by the German Federal Cartel Office (approval granted on February 10, 2017).

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, 2016.

Significant investments in listed companies

United Internet has held a stake in Hi-Media S. A., Paris / France since the transfer of the Group's Display Marketing business "AdLINK Media" to Hi-Media in July 2009. As of December 31, 2016, this shareholding amounted to 10.46%. The company's market capitalization on December 31, 2016 amounted to around € 21 million (prior year: € 13 million).

United Internet has held an investment in Rocket Internet SE since August 2014. As of December 31, 2016 the share of voting rights amounted to 8.31%. The company's market capitalization as of December 31, 2016 was around € 3.161 billion (prior year: € 4.664 billion).

In April 2015, United Internet announced that it had acquired an equity stake in Drillisch AG. As of December 31, 2016, the share of voting rights amounted to 20.11%. The company's market capitalization as of December 31, 2016 was around € 2.240 billion (prior year: € 2.141 billion).

In February 2016, United Internet announced its investment in Tele Columbus AG. As of December 31, 2016, the share of voting rights amounted to 25.11%. The company's market capitalization as of December 31, 2016 was around € 1.003 billion (prior year: € 1.193 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, 2016, 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 once again in its fiscal year 2016.

In November 2010, United Internet acquired a stake in ProfitBricks GmbH (main activity: IaaS solutions: IaaS = Infrastructure-as-a-Service). As of December 31, 2016, United Internet's share of voting rights amounted to 30.20%. ProfitBricks closed its fiscal year 2016 with a negative result.

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, 2016, United Internet's share of voting rights amounted to 27.28%. Open-Xchange closed its fiscal year 2016 with a positive result.

In February 2014, United Internet acquired a stake 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, 2016, United Internet's share of voting rights amounted to 25.01%. ePages posted a slightly positive result in its fiscal year 2016.

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, 2016, 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 2016.

Share and dividend

Share

The strong decline in the price of the United Internet **share** failed to reflect the company's successful performance in fiscal year 2016. Specifically, the share price fell by 27.1% to € 37.10 in fiscal year 2016 (December 31, 2015: € 50.91). The share thus underperformed in relation to both the DAX (+6.9%) and TecDAX (-1.0%) indices.

There was a corresponding decrease in the **market capitalization** of United Internet AG from around € 10.44 billion in the previous year to around € 7.61 billion as of December 31, 2016.

In fiscal year 2016, average daily trading via the XETRA electronic computer trading system amounted to around 407,000 shares (prior year: 355,000) with an average value of € 16.30 million (prior year: € 15.28 million).

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

	2012	2013	2014	2015	2016
Year-end	16.31	30.92	37.49	50.91	37.10
Performance	+ 18.2%	+ 89.6%	+ 21.2%	+ 35.8%	- 27.1%
Year-high	17.55	31.00	37.95	51.94	49.89
Year-low	12.49	16.11	28.35	36.17	34.42
Average daily turnover	4,906,732	8,554,509	13,731,799	15,279,407	16,301,156
Average daily turnover (units)	332,898	367,102	420,640	354,904	407,372
Number of shares at year-end	215 million	194 million	205 million	205 million	205 million
Market value at year-end	3.51 billion	6.00 billion	7.69 billion	10.44 billion	7.61 billion
EPS	0.56	1.07	2.28	1.80	0.88
Adjusted EPS(1)	0.70	1.07	1.46	1.73	2.13

(1) Without special items: 2012 without negative one-off effect from impairment charges (EPS effect: € -0.23) and without positive one-off effect from sale of freenet shares (EPS effect: € +0.09); 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)

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%
Flossbach von Storch	3.09%
BlackRock	3.05%
United Internet (treasury stock)	1.64%
Free float	47.44%

As of December 31, 2016; figures based on the last respective notification of voting rights

Dividend

In fiscal year 2016, United Internet continued to pursue its shareholder-friendly dividend policy based on continuity. The company’s Annual Shareholders' Meeting on May 19, 2016 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.70 per share for fiscal year 2015 (prior year: € 0.60). The total dividend payment of € 142.9 million (prior year: € 122.3 million) was made on May 20, 2016. The dividend payout ratio amounted to 39.0% of consolidated net income after minority interests for 2015 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 taxes, unless funds are required for further company development).

For fiscal year 2016, the Management Board will propose to the Supervisory Board a dividend of € 0.80 per share. The Management Board and Supervisory Board will discuss this dividend proposal at the Supervisory Board meeting on March 22, 2017 (and thus after the preparation deadline for this Management Report of March 17, 2017). The Annual Shareholders' Meeting of United Internet AG on May 18, 2017 will then vote on the joint proposal of the Management Board and Supervisory Board.

On the basis of 201.6 million shares with dividend entitlement (as of December 31, 2016), the total dividend payment for fiscal year 2016 would amount to € 161.3 million. This would correspond to 37.2% of consolidated net income after minority interests for 2016 (€ 433.9 million) and thus lie at the upper end of the targeted payout range. Based on the year-end 2016 price of the United Internet share, the dividend yield would amount to 2.2%.

Multi-period overview: dividend development

	For 2012	For 2013	For 2014	For 2015	For 2016[1]
Dividend per share (in €)	0.30	0.40	0.60	0.70	0.80
Dividend payment (in € million)	58.0	77.5	122.3	142.9	161.3
Payout ratio	53.6%	37.4%	27.3%	39.0%	90.0%
Adjusted payout ratio[2]	37.5%	37.4%	43.0%	39.0%	37.2%
Dividend yield[3]	1.8%	1.3%	1.6%	1.4%	2.2%

(1) Subject to approval of Supervisory Board and Annual Shareholders' Meeting 2017

(2) Without special items: Sedo impairment charges (2012); one-off income from Versatel acquisition and portfolio optimization (2014); Rocket impairment charges (2016)

(3) As of: December 31

Annual Shareholders' Meeting 2016

The Annual Shareholders' Meeting of United Internet AG was held in Frankfurt am Main on May 19, 2016. A total of 67% of capital stock was represented. The shareholders adopted all resolutions on the agenda requiring voting with large majorities.

Capital stock and treasury shares

On June 30, 2016, the Management Board of United Internet AG resolved to launch a new share buyback program. In the course of this new share buyback program, up to 5,000,000 company shares (corresponding to approx. 2.44% of capital stock) are to be bought back via the stock exchange.

The buyback is based on the authorization of the Annual Shareholders' Meeting of May 22, 2014 to buy back treasury shares representing up to 10% of the company's capital stock. The authorization was issued for the period up to September 22, 2017. At the same time, the previous share buyback program adopted by the company's Management Board on June 13, 2014 – also on the basis of the authorization granted by the Annual Shareholders' Meeting of May 22, 2014 – was ended.

Within the framework of these two share buyback programs, a total of 3,000,000 treasury shares were repurchased in fiscal year 2016 at an average price of € 37.39 and with a total volume of € 112.17 million.

As of December 31, 2016, United Internet held 3,370,943 treasury shares (December 31, 2015: 917,859), corresponding to 1.64% of the current capital stock of € 205 million. The net increase in treasury stock over the year results from the aforementioned buyback of treasury shares and – with an opposing effect – the issue of shares for employee stock ownership plans.

Investor Relations

In fiscal 2016, 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, the Netherlands, 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).

2.3 POSITION OF THE GROUP

Group’s earnings position

Consolidated sales of the United Internet Group rose by 6.3% in the fiscal year 2016 (currency-adjusted: 6.8%), from € 3.716 billion in the previous year to the new record figure of € 3.949 billion – despite the further decline in the value of the British pound following the Brexit decision. **Sales outside Germany** increased by 10.7% (currency-adjusted: 15.5%), from € 383.6 million in the previous year to € 424.7 million.

United Internet once again invested heavily in new customer relationships in its fiscal year 2016. As a result, the number of **fee-based customer contracts** was increased by 1.00 million (prior year: 0.93 million organic growth, without the home.pl takeover and contract streamlining). This customer growth was driven in particular by the Access segment, in which United Internet achieved an increase of 920,000 customer contracts (830,000 Mobile Internet contracts and 90,000 DSL connections). In the Applications segment, a further 80,000 fee-based customer contracts and 1.14 million **ad-financed free accounts** were added.

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.

The **cost of sales** increased almost in line with sales from € 2,437.2 million (65.6% of sales) in the previous year to € 2,594.6 million (65.7% of sales) in fiscal year 2016. Consequently, **gross margin** was also virtually unchanged at 34.3% (prior year: 34.4%).

Sales and marketing expenses decreased from € 557.2 million (15.0% of sales) in the previous year to € 523.6 million (13.3% of sales).

General and administrative expenses rose more slowly than sales, from € 182.2 million (4.9% of sales) in the previous year to € 183.6 million (4.7% of sales) in 2016.

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

	2012	2013	2014	2015	2016
Cost of sales	1,574.7	1,742.8	2,034.5	2,437.2	2,594.6
Cost of sales ratio	65.7%	65.6%	66.4%	65.6%	65.7%
Gross margin	34.3%	34.4%	33.6%	34.4%	34.3%
Selling expenses	461.7	481.4	481.3	557.2	523.6
Selling expenses ratio	19.3%	18.1%	15.7%	15.0%	13.3%
Administrative expenses	112.1	120.4	136.9	182.2	183.6
Administrative expenses ratio	4.7%	4.5%	4.5%	4.9%	4.7%

Key earnings figures for the fiscal years 2015 and 2016 were influenced by special items with opposing effects:

- in fiscal year 2015, special items from the sale of shares (Goldbach shares and part of stake in virtual minds) had a positive impact on key earnings figures (EBITDA, EBIT, EBT effect = € +14.0 million; net income effect = € +13.7 million; EPS effect = € +0.07), whereas
- in fiscal year 2016, special items from writedowns on financial assets (especially impairment of shares held by United Internet in Rocket Internet SE) had a negative impact on key earnings figures (EBT, net income effect: € -245.9 million; EPS effect: € -1.25).

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

	Fiscal year 2016	Fiscal year 2015
EBITDA	840.6	771.2
Special items from share sales (2015)	-	- 14.0
EBITDA before special items	840.6	757.2
EBIT	647.2	555.7
Special items from share sales (2015)	-	- 14.0
EBIT before special items	647.2	541.7
EBT	367.1	535.1
Special items from writedowns (2016)	+ 254.9	-
Special items from share sales (2015)	-	- 14.0
EBT before special items	622.0	521.1
Net income	179.2	366.6
Special items from writedowns (2016)	+ 254.9	-
Special items from share sales (2015)	-	-13.7
Net income before special items	434.1	352.9
EPS	0.88	1.80
Special items from writedowns (2016)	+ 1.25	-
Special items from share sales (2015)	-	- 0.07
EPS before special items	2.13	1.73
EPS before PPA	1.04	1.96
Special items from writedowns (2016)	+ 1.25	-
Special items from share sales (2015)	-	- 0.07
EPS before PPA before special items	2.29	1.89

Despite stronger than planned customer growth and the related increase in customer acquisition costs, **EBITDA** rose by 11.0% (currency-adjusted: 11.8%), from € 757.2 million (comparable prior-year figure) to € 840.6 million. **EBIT** increased by 19.5%, from € 541.7 million (comparable prior-year figure) to € 647.2 million.

As a result, the **EBITDA margin** improved from 20.4% in the previous year to 21.3% in the fiscal year 2016 and the **EBIT margin** from 14.6% to 16.4%.

Without consideration of special items in 2016, **EBT** rose by 19.4% from € 521.1 million (comparable prior-year figure) to € 622.0 million and **net income** by 23.0% from € 352.9 million (comparable prior-year figure) to € 434.1 million. **EPS** rose correspondingly by 23.1% from € 1.73 (comparable prior-year figure) to € 2.13. Before amortization from purchase price allocations (PPA), which mainly relate to the Versatel acquisition, EPS grew by 21.2% from € 1.89 (comparable prior-year figure) to € 2.29.

The key earnings figures stated above also include costs for major M&A projects in fiscal year 2016, i.e. especially the investment of Warburg Pincus in the “Business Applications” division and the takeover of Strato (still subject to approval by the anti-trust authorities as of the end of the reporting period).

Including special items in 2016 from writedowns on financial assets, EBT fell to € 367.1 million, net income to € 179.2 million, EPS to € 0.88 and EPS before PPA to € 1.04.

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

	2016	2015	Change
Sales	3,948.9	3,715.7	+ 6.3%
EBITDA	840.6	757.2[1]	+ 11.0%
EBIT	647.2	541.7[1]	+ 19.5%

[1] 2015 without effects from sale of Goldbach shares and part of stake in virtual minds (EBITDA and EBIT effect: € +14.0 million)

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

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q4 2015	Change
Sales	968.6	982.6	981.1	1,016.6	960.9	+ 5.8%
EBITDA	202.7	197.6	212.9	227.4	216.2	+ 5.2%
EBIT	154.0	149.4	164.8	179.0	163.7	+ 9.3%

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

	2012	2013	2014	2015	2016
Sales	2,396.6	2,655.7	3,065.0	3,715.7	3,948.9
EBITDA[1]	325.9	406.9	551.5	757.2	840.6
EBITDA margin	13.6%	15.3%	18.0%	20.4%	21.3%
EBIT[1]	232.7	312.2	430.6	541.7	647.2
EBIT margin	9.7%	11.8%	14.0%	14.6%	16.4%

[1] Without special items: 2012 without Sedo impairment charges (EBIT effect: € -46.3 million) and sale of freenet shares (EBITDA and EBIT effect: € +17.9 million); 2014 without one-off income from Versatel acquisition and portfolio optimization (EBITDA and EBIT effect: € +186.1 million); 2015 without effects from sale of Goldbach shares and part of stake in virtual minds (EBITDA and EBIT effect: € +14.0 million)

Group’s financial position

Thanks to the positive development of earnings, **operative cash flow** rose significantly from € 554.5 million in the previous year to € 644.2 million in fiscal year 2016.

Net cash inflows from operating activities in fiscal year 2015 and fiscal year 2016 were dominated by various tax effects. Whereas in fiscal year 2015, a tax refund on a capital gains tax payment made in late 2014 in connection with corporate restructuring and – with an opposing effect – a further capital gains tax payment had a net positive effect on net cash inflows of € 242.7 million in 2015, an income tax payment of around € 100.0 million (originally due in the fourth quarter of 2015) had a negative effect on net cash inflows in 2016. Without consideration of these opposing tax effects, **net cash inflows from operating activities** rose from € 533.2 million (comparable prior-year figure) to € 587.0 million in fiscal year 2016.

Net cash outflows from investing activities amounted to € 422.7 million in the reporting period (prior year: € 766.0 million). This resulted mainly from capital expenditures of € 168.9 million (prior year: € 140.4 million) and disbursements for the acquisition of shares in associated companies of € 266.4 million (especially for the stake in Tele Columbus). Apart from capital expenditures, net cash outflows from investing activities in the previous year were dominated by payments for the acquisition of shares in affiliated companies of € 154.5 million (acquisition of home.pl), disbursements for the acquisition of shares in associated companies of € 417.8 million (especially for the stake in Drillisch), and investments in other financial assets of € 93.9 million (especially for the increase in shares held in Rocket Internet SE during the company’s capital increase). There was an opposing effect in the previous year from payments received for the sale of associated companies amounting to € 13.3 million (from part of the shareholding in virtual minds), and proceeds from the sale of financial assets totaling € 18.2 million (especially from the sale of shares in Goldbach).

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, fell from € 400.5 million (comparable prior-year figure without the aforementioned capital gains tax refund of € 242.7 million net) to € 323.0 million in fiscal year 2016. This decline was due to the shift of an income tax payment of € 100.0 million planned for the fourth quarter of 2015 to the first quarter of 2016. Without consideration of this purely closing-date effect, free cash flow rose from € 300.5 million in the previous year to € 423.0 million in fiscal year 2016 – whereby free cash flow in 2016 was positively influenced by closing-date effects from the purchase of pre-services.

Net cash flow for financing activities in fiscal year 2016 was dominated by the purchase of treasury shares amounting to € 112.2 million (prior year: € 0), the assumption of loans totaling € 224.2 million (prior year: € 161.4 million) – especially for the purchase of Tele Columbus shares – and the dividend payment of € 142.9 million (prior year: € 122.3 million).

Cash and cash equivalents amounted to € 101.7 million as of December 31, 2016 – compared to € 84.3 million on the same date last year.

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

	2012	2013	2014	2015	2016
Operative cash flow	214.1	280.1	380.6	554.5	644.2
Cash flow from operating activities	260.5	268.3	454.0(2)	533.2(2)	587.0(2)
Cash flow from investing activities	1.9	-207.8	-1.349.8	-766.0	-422.7
Free cash flow(1)	204.7	211.6	386.6(2)	300.5(3)	423.0(3)
Cash flow from financing activities	-284.4	-59.2	1.240.9	23.1	-43.2
Cash and cash equivalents on December 31	42.8	42.8	50.8	84.3	101.7

(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; 2015 without consideration of a capital gains tax refund (net) of € 242.7 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; 2016 without consideration of the aforementioned income tax payment (originally planned for the fourth quarter of 2015) of around € 100.0 million

Group’s asset position

The Group’s balance sheet total rose from € 3,885.4 million as of December 31, 2015 to € 4,073.7 million on December 31, 2016.

Current assets increased from € 564.9 million as of December 31, 2015 to € 631.4 million on December 31, 2016. *Cash and cash equivalents* disclosed under current assets rose from € 84.3 million to € 101.7 million. *Trade accounts receivable* increased from € 218.1 million to € 228.0 million. Due to closing-date effects and the expansion of business, *current prepaid expenses* rose from € 82.6 million to € 111.2 million. *Other non-financial assets* increased from € 114.6 million to € 129.4 million and mainly comprise receivables from the tax office.

Non-current assets rose from € 3,320.5 million as of December 31, 2015 to € 3,442.3 million on December 31, 2016. The main reason for this was the increase *shares in associated companies*, which rose strongly from € 468.4 million to € 755.5 million – mainly due to the investment in Tele Columbus. There was an opposing decrease in non-current *other financial assets* from € 449.0 million to € 287.7 million – due to the subsequent valuation of listed shares in Rocket Internet and Hi-Media as of December 31, 2016 and the sale of Hipay. Within the items *property, plant and equipment and intangible assets*, additions of € 168.9 million (mainly for furniture and fixtures, as well as software), were opposed by depreciation and amortization of € 193.5 million. There was a slight change in *goodwill* from € 1,100.1 million to € 1,087.7 million as a result of currency effects. Due to closing-date effects and the expansion of business, *trade accounts receivable* rose from € 37.4 million to € 55.8 million. Prepaid expenses, which mainly result from advance payments made in connection with long-term purchasing agreements, increased from € 102.4 million to € 128.0 million.

Current liabilities rose from € 967.9 million as of December 31, 2015 to € 1,269.4 million on December 31, 2016. Current *trade accounts payable* fell from € 395.9 million to € 373.7 million. Short-term *bank liabilities* rose from € 29.3 million to € 422.2 million. The increase mainly results from a planned reclassification of non-current bank liabilities to current bank liabilities for a tranche due in August 2017 to reduce bank liabilities. As a result of the planned income tax payment made in the first quarter of 2016, *income tax liabilities* fell strongly from € 129.6 million to € 64.1 million.

Non-current liabilities decreased from € 1,767.7 million as of December 31, 2015 to € 1,606.5 million on December 31, 2016. The main reason was a decline in ***long-term bank liabilities*** from € 1,507.2 million to € 1,338.4 million. The above mentioned reclassification to current bank liabilities was opposed in particular by the investment in Tele Columbus, the income tax payment, and the acquisition of treasury stock.

Despite the dividend payment and acquisition of treasury stock, the Group's **equity capital** rose from € 1,149.8 million on December 31, 2015 to € 1,197.8 million on December 31, 2016. However, as a result of the strong increase in the balance sheet total, the ***equity ratio*** fell slightly from 29.6% to 29.4%. At the end of the reporting period on December 31, 2016, United Internet held 3,370,943 **treasury shares** (December 31, 2015: 917,859 treasury shares).

Due in particular to the investment in Tele Columbus, the income tax payment, and the acquisition of treasury stock, **net bank liabilities** (i.e. the balance of bank liabilities and cash and cash equivalents) increased from € 1,452.2 million as of December 31, 2015 to € 1,658.9 million on December 31, 2016.

Multi-period overview: development of relative indebtedness

	2012	2013	2014(1)	2015	2016
Net bank liabilities(2) / EBITDA	0.75	0.73	1.79	1.88	1.97
Net bank liabilities(2) / free cash flow(3)	1.26	1.40	3.42	3.63	3.92

(1) 2014: increase in net bank liabilities mainly due to Versatel acquisition, Rocket investment and closing-date effects from capital gains tax payment

(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)

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)

	2012	2013	2014	2015	2016
Total assets	1,107.7	1,270.3	3,673.4	3,885.4	4,073.7
Cash and cash equivalents	42.8	42.8	50.8	84.3	101.7
Shares in associated companies	90.9(1)	115.3	34.9(1)	468.4(1)	755.5(1)
Other financial assets	70.1	47.6	695.3(2)	449.0(2)	287.7(2)
Property, plant and equipment	109.2	116.2	689.3(3)	665.2	655.0
Intangible assets	151.8	165.1	385.5(3)	389.5	369.5
Goodwill	356.2(4)	452.8(4)	977.0(4)	1,100.1(4)	1,087.7
Liabilities due to banks	300.3(5)	340.0	1,374.0(5)	1,536.5(5)	1,760.7(5)
Capital stock	215.0	194.0(6)	205.0(6)	205.0	205.0
Treasury stock	263.6	5.2(6)	35.3	26.3	122.5
Equity	198.1	307.9	1,204.7(7)	1,149.8	1,197.8
Equity ratio	17.9%	24.2%	32.8%	29.6%	29.4%

(1) Repurchase of Versatel shares via Versatel's holding company (2012); 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)
(2) Increase due to investment in Rocket (2014), decrease due to sale of Goldbach shares and subsequent valuation on shares in listed companies (2015); decrease due to subsequent valuation of shares in listed companies (2016)
(3) Increase due to complete takeover of Versatel (2014)
(4) Decrease due to impairment charges for Sedo Holding (2012); increase due to Arsys acquisition (2013); increase due to complete takeover of Versatel (2014); increase due to acquisition of home.pl (2015)
(5) Decrease due to repayment of loans (2012); increase due to Rocket investment and takeover of Versatel (2014); increase due to increased stake in Rocket, Drillisch investment, and acquisition of home.pl; increase due to investment in Tele Columbus
(6) Decrease due to share cancellations (2013); increase due to capital increase (2014)
(7) Increase due to capital increase (2014)

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

On the whole, the macroeconomic conditions in the main target countries of the United Internet Group developed more negatively than expected during the reporting period. Whereas the economies of the USA, Canada and Mexico, as well as the UK and Italy, lagged well behind the IMF’s original forecast in some cases, only Spain actually exceeded expectations. France and Germany – United Internet’s most important market – at least developed within the expected range. The German ICT market trended in line with the German economy during fiscal year 2016 and also exceeded the original expectations with growth of 1.7%.

Although the macroeconomic trend in the target countries as a whole fell short of expectations and sector growth was modest, United Internet enjoyed dynamic growth in fiscal year 2016 once again with the addition of 1 million customer contracts to 16.97 million, revenue growth of 6.3% to € 3.949 billion and an increase in EBITDA of 11.0% to € 840.6 million. With the milestones in customer contracts, sales and earnings reached in fiscal year 2016, United Internet was able to meet its original forecasts and the more specific guidance issued during the year and, in some cases, even easily surpass them.

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 2016, 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 strategic investment in Tele Columbus, the investment of Warburg Pincus in the Business Applications division, and the takeover of Strato AG.

The financial position of United Internet AG remained strong in fiscal year 2016. Adjusted for tax effects, free cash flow was still high at € 423.0 million (comparable prior-year figure: € 300.5 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.

In addition to the purchase of treasury shares, the change in the Group’s asset position was mainly caused by the increase in shares held in associated companies following the investment in Tele Columbus and – with an opposing effect – the decline in other financial assets due to the subsequent valuation of listed shares in Rocket Internet.

As of the reporting date for the annual financial statements 2016, 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 dominated by its investment and financial result.

In the period under review, **sales** of the parent company amounted to € 2.0 million (prior year: € 1.4 million) and result mainly from services rendered to the Group's subsidiaries.

Other operating income rose to € 6.2 million (prior year: € 1.9 million) and mainly comprises income relating to other periods from the reversal of accruals (especially for the employee stock ownership program) as well as foreign currency effects.

Adjusted for effects from employee stock ownership programs, **personnel expenses** in fiscal year 2016 amounted to € 1.3 million (prior year: € 1.8 million). The decline results from the decision of CEO Ralph Dommermuth to waive his right to Management Board remuneration for the fiscal year 2016 and the following years. As in the past, Mr. Ralph Dommermuth will continue to drive the company's long-term development and value growth, and will participate in the company's success as the major shareholder via dividends.

Other operating expenses increased to € 14.0 million (prior year: € 9.3 million) and mostly comprise legal, auditing and consulting fees (€ 12.2 million; prior year: € 4.4 million).

Income from profit transfer agreements of € 103.2 million (prior year: € 80.4 million) result from the profit transfer of 1&1 Mail & Media Applications SE.

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

Expenses for loss assumptions of € 249.1 million (prior year: € 15.1 million) mainly result from the compensation expense of United Internet Ventures AG (€ 229.7 million – especially from the writedown of shares held by the company in Rocket Internet), as well as United Internet Corporate Services GmbH (€ 6.7 million) and 1&1 Telecommunication SE (€ 12.5 million).

The parent company's **result before taxes** amounted to € -17.7 million (prior year: € 74.3 million).

Income taxes of € 29.6 million (prior year: € 23.0 million) comprise deferred tax expenses of € 10.6 million, current taxes of 2016 of € 24.9 million (of which € 12.5 million for corporation tax and the solidarity surcharge and € 12.3 million for trade tax). There was an opposing effect from tax income not relating to the period amounting to € 5.8 million.

The **net loss** in the separate financial statements of United Internet AG amounted to € -47.3 million (prior year: net income of € 51.3 million).

Assets and financial position of United Internet AG

The parent company's **balance sheet total** rose from € 4,225.3 million on December 31, 2015 to € 4,512.7 million on December 31, 2016.

Non-current assets of the parent company of € 2,993.2 million (prior year: € 2,993.0 million) are dominated by **financial assets**. ***Shares in affiliated companies*** increased slightly to € 1,558.4 million (prior year: € 1,558.3 million). ***Loans to affiliated companies*** were unchanged at € 1,434.6 million.

Current assets of the parent company amounting to € 1,519.5 million (prior year: € 1,232.3 million) comprise receivables due from affiliated companies and other assets. The ***receivables due from affiliated companies*** rose to € 1,389.9 million (prior year: € 1,134.4 million). These mainly comprise receivables within the United Internet Group's internal cash management system. The increase results in particular from the purchase of Columbus shares by United Internet Ventures AG. *Other assets* disclosed under current assets amounting to € 121.0 million (prior year: € 89.9 million) consist mainly of receivables due from the tax office.

Shareholders' equity of the parent company amounted to € 2,247.3 million (prior year: € 2,527.5 million). The change in the reporting period is mainly due to the dividend payout of € 142.9 million and the net loss for the year (€ 47.3 million). The purchase of treasury shares (€ 112.2 million) and use of treasury shares for employee stock ownership plans (€ 22.1 million) resulted in a total net reduction of shareholders' equity of € 90.1 million. As a result of the decline in shareholders' equity, the equity ratio fell from 59.8% in the previous year to 49.8% as of December 31, 2016.

The parent company's accruals mainly comprise *accrued taxes*, mostly for previous years, amounting to € 12.6 million (prior year: € 7.0 million) as well as *other accrued liabilities* for employee stock ownership plans, legal, auditing and consulting fees, as well as bonuses and commissions totaling € 17.1 million (prior year: € 18.5 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 the investment in Columbus, *liabilities to banks* rose to € 1,747.4 million in fiscal 2016 (prior year: € 1,409.2 million). Bank liabilities result mainly from a syndicated loan totaling € 750 million concluded in August 2014, a promissory note loan of € 600 million concluded in December 2014, and a revolving syndicated loan of € 810 million, which had been utilized in an amount of € 390 million as of the reporting date. *Liabilities to affiliated companies* rose to € 458.4 million (prior year: € 242.3 million) and mainly comprise liabilities from balances within the United Internet Group's cash pooling system (€ 194.6 million), from service arrangements (€ 14.7 million), and from profit transfer agreements (€ 249.1 million). *Other liabilities* of € 18.7 million (prior year: € 20.8 million) 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 2016 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 are summarized in the following sections.

Sustainable business policy

United Internet 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 quality, customer retention and customer satisfaction, in product and network quality, as well as in security and data privacy – and thus also in sustainable growth.

Customer growth

In its fiscal year 2016, United Internet once again invested heavily in customer growth and raised the number of fee-based customer contracts organically by 1.00 million to 16.97 million contracts.

In addition to these fee-based contracts, United Internet also operates 34.29 million active free accounts (prior year: 33.15 million) at its data centers that are refinanced via advertising revenue.

In total, therefore, United Internet manages a total of 51.26 million customer accounts (prior year: 49.12 million) globally.

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

	2012	2013(1)	2014(2)	2015(3)	2016
Growth of “fee-based contracts”	+ 1.18	+ 1.41	+ 1.33	+ 1.19	+ 1.00
Growth of “free accounts”	+ 1.00	- 0.05	+ 0.61	+ 1.03	+ 1.14
Growth of “total accounts”	+ 2.18	+ 1.36	+ 1.94	+ 2.22	+ 2.14

(1) Including 0.33 million fee-based contracts from the takeover of Arsys
(2) Including 0.42 million fee-based contracts from the takeover of Versatel
(3) Including 0.34 million fee-based contracts from the takeover of home.pl and an opposing 0.08 million from contract streamlining

Service quality, customer retention and customer satisfaction

United Internet has also invested heavily in service quality, and thus also in customer retention and customer satisfaction, since the launch of the DSL quality drive in 2009 and the introduction of the so-called 1&1 Principle in 2012 with its international rollout in 2013.

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 our recent history are proof that the investments in service quality are having an impact: for example, the 1&1 service hotline for new mobile customers came first in a major hotline test conducted by CHIP magazine (November 2016), ahead of 15 competitors. In over 9,000 test calls, CHIP evaluated the providers' service in the categories Availability, Waiting Time, Service and Transparency. In the "Mobile Provider" category, the 1&1 service hotline was rated "Very Good" in all four aspects. 1&1 also received the "Very Good" accolade for all four aspects in the "Landline & Internet" category. And also in the "Hosting" category, the 1&1 service hotline for new customers received both "Good" and "Very Good" ratings.

The same applies to the field of 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 (November 2016) commissioned by the 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 2016, 253,895 customers of 894 companies in 67 sectors were interviewed. The survey's academic advisor is Rolf van Dick, a professor at the University of Frankfurt / Main. For the third year running, GMX has thus taken first place in this ranking of e-mail providers and achieved a score in 2016 which was 17.4% above the average for all e-mail providers (62.8%).

Product quality

United Internet's products once again received numerous accolades in fiscal year 2016.

For example, the US analyst firm Cloud Spectator rated our hosting services high in a number of categories. 1&1 Cloud Server came first in the Top 10 "Cloud Vendor Benchmark 2016" for North America and Europe. With its strong performance and excellent value-for-money, 1&1 Cloud Server beat off all relevant competitors. The 1&1 E-Shops were also rated very high in the Cloud Spectator benchmark. As test winner, they scored top marks for speed and security. For example, the landing page of the 1&1 E-Shops loads 1.5 seconds faster than competitor sites.

In October 2016, the German consumer test organization "Stiftung Warentest" reported on the strengths and weaknesses of e-mail providers. A total of 15 fee-based and free services were tested during concealed usage in June and July 2016. The focus was on handling, data security and general e-mail features, like mailbox size and cloud storage. GMX and WEB.DE were rated the best free providers thanks to their security features and easy-to-use, end-to-end encryption.

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.

With the introduction of the De-Mail standard in 2012, a legally secure e-mail communication system was established in Germany. It can be used, for example, to make official registrations with local authorities or legally binding business transactions. WEB.DE, GMX and 1&1 have been accredited De-Mail service providers since 2013. With the certification received in 2016 according the EU regulation eIDAS, WEB.DE, GMX and 1&1 can also offer their users legally secure e-mail communication in all other EU member states in future on the basis of this certified infrastructure. The eIDAS ("electronic Identification and Signature") regulation provides an EU-wide standard for the unambiguous identification of all participants and the digital signing of electronic, cross-border data transmission. This creates uniform conditions for trustworthy, verifiable document traffic and legally secure communication between citizens, authorities and companies in all EU member states.

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 2016. 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.

The company is particularly proud of its "HR Excellence Award 2016". The HR Excellence Awards honor innovative lighthouse projects in the field of HR management in Germany. United Internet won in the category "Employee Development and Feedback Culture (Group)" for its multi-strategy aimed at strengthening the company's feedback culture. The jury were particularly impressed by the modern aspects of the company's approach to HR work: focus on feedback and appreciation, iterative implementation (on which colleagues worked from the first day onwards), and digital implementation.

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 slight year-on-year decline in headcount in the fiscal year 2016. Specifically, the number of employees fell by 1.9% to 8,082 (prior year: 8,239).

There were 3,478 employees in the Access segment (prior year: 3,142), 4,406 in the Applications segment (prior year: 4,945) and 198 employed at the Group's headquarters (prior year: 152). 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.

Headcount in Germany fell by 1.0% auf 6,438 as of December 31, 2016 (prior year: 6,502). The number of employees at the Group's non-German subsidiaries decreased by 5.4% to 1,644 (prior year: 1,737).

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

	2012	2013[1]	2014	2015	2016	Change over 2015
Employees, total	6,254	6,723	7,832	8,239	8,082	- 1.9%
thereof domestic	4,904	5,080	6,168	6,502	6,438	- 1.0%
thereof foreign	1,350	1,643	1,664	1,737	1,644	- 5.4%
Access segment	1,928	2,025	2,965	3,142	3,478	+ 10.7%
Applications segment	4,292	4,664	4,829	4,945	4,406	- 10.9%
Corporate	34	34	38	152	198	+ 30.3%

(1) The headcount statistics of United Internet AG were revised as of June 30, 2014 and now disclose only active employees. The comparative figures as of December 31, 2013 were adapted retroactively.

Personnel expenses rose to € 445.7 million in fiscal 2016 (prior year: € 429.7 million). The personnel expense ratio therefore fell to 11.3% (prior year: 11.6%).

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

	2012	2013	2014	2015	2016	Change over 2015
Personnel expenses	275.1	306.1	351.7	429.7	445.7	+ 3.7%
Personnel expense ratio	11.5%	11.5%	11.5%	11.6%	11.3%	

Sales per employee, based on annual average headcount, amounted to approx. € 484 thousand in fiscal year 2016 (prior year: approx. € 461 thousand).

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 new 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 or Master+ plans, 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 and 1&1 MOVE for management and experts).

Specialist training by colleagues for colleagues

A particular training-on-the-job initiative in the Group’s technical divisions is the TEC campus, which is now in its third, highly successful year. TEC Campus comprises a series of lectures (“Business Academy”), training on tools, processes and methodologies, 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 68% of managers from within its own ranks in fiscal year 2016.

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 2016, a total of eight refugees were given the opportunity of a future career (with an apprenticeship contract). Over 160 young people were serving their apprenticeships with Group companies at year-end 2016. 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 2016, 32 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
Women	35%	33%	34%	34%
Men	65%	67%	66%	66%

The average age of the United Internet Group's employees at the end of fiscal year 2016 was around 37.6 (prior year: 35.4).

Multi-period overview: employee age profile

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

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
Employees, total	6,723	7,832	8,239	8,082
thereof Germany	5,080	6,168	6,502	6,438
thereof France	23	46	25	24
thereof UK	208	227	234	235
thereof Philippines	468	450	390	386
thereof Poland	6	6	263	258
thereof Romania	288	264	229	194
thereof Spain	329	341	339	333
thereof USA	303	300	239	197
thereof Other	18	30	18	17

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 and Baden Airpark, for example, are powered 100% by electricity from Norwegian and French hydroelectric power plants supplied by Stadtwerke Karlsruhe. The data centers in the USA were 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.

We carefully select projects from the wide range of UNICEF topics and present them 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 hurricane Matthew in Haiti in October 2016, our newsletters can reach over 30 million people within 24 hours and thus facilitate the effective collection of donations.

In 2016, United Internet for UNICEF celebrated its ten-year anniversary. Since its foundation, it has already collected over € 35 million and is thus one of the most important partners of UNICEF Germany. Various interviews and events were held throughout the anniversary year to mark the occasion.

One highlight was the “Donated Day” campaign on February 29, 2016 together with patron Mats Hummels and UNICEF. The additional day was to be used to help children in crisis-ridden countries. From the donations received, five lucky donors and their friends were given the opportunity to meet German national soccer team player and UNICEF patron Mats Hummels in person and watch the match between Borussia Dortmund and VfL Wolfsburg.

Despite all the reasons to celebrate 10 successful years, there were once again devastating natural catastrophes in 2016 that required rapid emergency relief. For example, the severe earthquake in Ecuador in April (7.8 on the Richter scale), which created a state of acute emergency for around 250,000 children.

In October, the coast of Haiti was hit by hurricane Matthew with wind speeds of over 200 kilometers per hour. It cost hundreds of lives and caused damage in the billions. United Internet for UNICEF was able to collect over € 200,000 and together with UNICEF provide essential aid for the children affected.

A further focus area remains the consequences of the climate phenomenon El Niño, which has brought hunger, water deficiency and diseases to large parts of eastern and southern Africa. In the past year, € 120,000 was raised for children suffering from distress in these regions.

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 € 3.0 million (prior year: € 3.7 million) could be handed over to UNICEF in the fiscal year 2016 – according to preliminary figures. Since its creation, the foundation has so far collected € 35.4 million in donations and enlisted the support of around 11,700 active and long-term UNICEF sponsors via the 1&1, GMX and WEB.DE portals as of December 31, 2016 (prior year: 11,400).

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

“1&1 Welcome”, “Fit for Job” and “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.

In 2016, many United Internet employees worked as volunteers in local projects as part of the **“1&1 Welcome”** campaign. United Internet AG acts as a sponsor for selected integration offerings and refugee homes at its major German locations Karlsruhe, Montabaur, Munich and Zweibrücken. Together with local organizers, our employees offered regular activities to facilitate the transition into everyday German life, such as sports activities, playing music together, day trips and childcare. United Internet employees can use up to 10% of their working time for such activities. In addition, United Internet provided funds to enable the purchase of items needed quickly in refugee homes. Mobile classrooms with free internet access were also provided to enable e-learning programs for language acquisition.

Since April 2016, the main focus of activities has been a training program to prepare refugees for the German labor market. Together with local authorities and social institutions, United Internet developed a modular program called **“Fit for Job”**. Participants are given a general overview of office work, the cultural environment, and possible careers in the IT industry. 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. Over 140 refugees and immigrants have so far participated in the program at our sites in Montabaur, Karlsruhe and Munich. Around 40 participants subsequently completed an internship at companies of the United Internet Group. Numerous employees volunteer to act as trainers 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 150 companies so far pool their integration activities and exchange notes on their experiences.

3 SUBSEQUENT EVENTS

The following significant events for United Internet occurred after the end of the reporting period on December 31, 2016:

- United Internet purchased treasury shares once again in the first quarter of 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) can be bought back via the stock exchange. The buyback follows 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 of June 30, 2016 has thus been completely exhausted.

  At the time of preparing this management report on March 17, 2017, United Internet held 5,370,943 treasury shares (December 31, 2016: 3,370,943). This corresponds to 2.62% of the current capital stock of € 205,000,000 (December 31, 2016: 1.64%).

- 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.

  United Internet can therefore close the transaction as planned in the first quarter of 2017 and can include Strato in its consolidated financial statements as of April 1, 2017. A partial payment amount of up to € 566 million for the acquisition (of the total purchase price of up to € 600 million) is due in fiscal year 2017.

- The acquisition of a 33.33% stake in the Business Applications division by **Warburg Pincus** announced on November 8, 2016, was closed on February 15, 2017. United Internet expects to receive a partial payment of approx. € 370 million from the share purchase in fiscal year 2017 (of the total purchase price of up to € 450 million).

  In the course of the Strato acquisition, United Internet will also receive a further approx. € 57 million in fiscal year 2017 from the partnership with Warburg Pincus.

- 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 tranches of the new promissory note loan have terms of 5 to 8 years and are repayable at the issuance amount on the respective due dates. The average interest rate is 1.14% p.a. The new promissory note loan is not tied to any so-called covenants.

Further details on the events above are provided in the notes to the consolidated financial statements in section 47.

Apart from these items, there were no other significant events subsequent to the end of the reporting period on December 31, 2016 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

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

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.

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.

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.

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.

There was a significant increase in fraud attempts across all product lines in fiscal 2016. Despite the improvement in fraud detection and prevention achieved in the fiscal year 2016, this development is also reflected in risk assessment.

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.

Over the past years there has been a steady increase in the amount of spam e-mails on the internet. There is a risk that spammer abuse the company's e-mail systems and that these are then blocked by other e-mail providers. In order to counter this risk, various precautions are taken to keep spam to a minimum. United Internet's active participation in cross-border working groups also enables it to play a role in the ongoing development of mail security standards.

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 was 560 million in August 2016. The threat posed by so-called ransomware, i.e. the danger of encryption trojans, has grown significantly in Germany since the end of 2015.

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. When selecting and controlling strategic outsourcing partners, care is taken to ensure that their reliability and expertise is proven in accordance with international criteria and no partnerships are formed for critical business areas which could not be maintained without delay by skilled staff within the company.

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 Subsequent Events section, as well as 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, 2016 and December 31, 2015, 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 "Potential threats via the internet", as well as risks from the areas "Political and legal risks", "Market" and "Fraud".

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 2016 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 2016 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	Low (2015: Low)	High (2015: High)
Risks in the field of "Market"		
Competition	High (2015: Low)	High (2015: High)
Business development and innovations	Low (2015: Low)	High (2015: High)
Risks in the field of "Law & Politics"		
Regulation	High (2015: High)	High (2015: High)
Data protection	Low (2015: Very low)	High (2015: High)
Litigation	High (2015: High)	High (2015: High)
Risks in the field of "Personnel"		
Employees	Low (2015: Low)	High (2015: High)
Risks in the field of "Fraud"		
Fraud	High (2015: Low)	High (2015: Low)
Risks in the field of "Service Provision"		
Threat potential of the internet	Low (2015: Low)	Extremely high (2015: Very high)
Complexity / possible manipulation of hardware and software	Low (2015: Low)	High (2015: High)
Complexity in development	Low (2015: Low)	High (2015: High)
Risks in the field of "Financial Instruments and Financial Risk Management"		
Liquidity	Very high (2015: Low)	Very low (2015: Very low)
Financial covenants	Very low (2015: Very low)	Very low (2015: Very low)
Financial market	Low (2015: Very high)	High (2015: Very high)
Capital management	Very low (2015: Very low)	Very low (2015: 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 fixed-line 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, WEB.DE, united-domains, InterNetX and Fasthosts, 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 infrastructure

United Internet has its own telecommunications network. With a length of over 41,000 km, it is Germany’s second-largest fiber-optic network. With its own network infrastructure, United Internet has the opportunity to gradually extend its vertical integration and also reduce its purchases of DSL pre-services.

In addition, having its own network also offers United Internet the opportunity to enter the 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 figures: +17.0% data volume consumption per broadband connection and month in 2015) 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 2015, only 1.5% of all broadband connections in Germany are fiber-optic connections. Germany thus lags well behind in 30th place among the 34 OECD countries.

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 and Poland), 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) and home.pl (2015). The most important strategic investments include the investments in virtual minds (2008), ProfitBricks (2010), Open-Xchange (2013), ePages (2014), uberall (2014), Rocket Internet (2014), Drillisch (2015) and Tele Columbus (2016).

4.3 FORECAST REPORT

Expectations for the economy

In its global economic outlook published in January 2017, the International Monetary Fund (IMF) updated its forecasts for the development of the global economies in 2017 and 2018. 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 ongoing recovery of those major emerging and developing countries which suffered economic crises in 2016. The IMF also believes that growth prospects have improved in the USA, China, Europe and Japan. At the same time, the IMF refers to the current considerable uncertainty surrounding the future economic direction of the new US government.

Specifically, the IMF still predicts (compared to its outlook of October 2016) that the **global economy** will grow by 3.4% in 2017 and 3.6% in 2018 – following growth of 3.1% in 2016.

The latest IMF forecasts paint a varied picture for United Internet's target markets in North America (the USA, Canada and Mexico). The **US economy** is expected to grow by 2.3% in 2017 and 2.5% in 2018 – after growth of 1.6% in 2016. The IMF has thus upgraded its previous forecasts by 0.1 and 0.4 percentage points. Following growth of 1.3% in 2016, the **Canadian economy** is expected to grow by 1.9% and 2.0% in 2017 and 2018, respectively (and thus 0.0 and 0.1 percentage point more than previously forecast). The economy in **Mexico** is expected to grow by 1.7% in 2017 and 2.0% in 2018, following growth of 2.2% in 2016. For both years, this is 0.6 percentage points less than previously forecast.

The IMF anticipates growth in the **eurozone** to reach 1.6% in both 2017 and 2018 – compared to 1.6% in 2016. The IMF has thus upgraded its forecast for 2017 slightly by 0.1 percentage points and left 2018 unchanged.

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 1.3% in 2016, the IMF's forecast for **France** remains unchanged at 1.3% for 2017 and 1.6% for 2018. By contrast, **Spain** is expected to grow by 2.3% and 2.1% in 2017 and 2018 – after growth of 3.2% in 2016 – and thus by 0.1 and 0.2 percentage points more than previously forecast. The IMF forecasts growth in **Italy** of 0.7% in 2017 and 0.8% in 2018, following growth of 0.9% in 2016. This is 0.2 and 0.3 percentage points less than previously expected. And after growing by 2.0% in 2016, the IMF forecasts growth for **the UK** in 2017 and 2018 of 1.5% and 1.4%, respectively. This corresponds to 0.4 and 0.3 percentage points less than previously expected.

For United Internet's most important market, **Germany**, the IMF forecasts economic growth of 1.5% in both 2017 and 2018 – following on from 1.7% in 2016. These forecasts are both 0.1 percentage point more than previously expected.

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

	2018e	2017e	2016
World	3.6%	3.4%	3.1%
USA	2.5%	2.3%	1.6%
Canada	2.0%	1.9%	1.3%
Mexico	2.0%	1.7%	2.2%
Eurozone	1.6%	1.6%	1.7%
France	1.6%	1.3%	1.3%
Spain	2.1%	2.3%	3.2%
Italy	0.8%	0.7%	0.9%
UK	1.4%	1.5%	2.0%
Germany	1.5%	1.5%	1.7%

Source: International Monetary Fund, World Economic Outlook (Update), January 2017

Market / sector expectations

At the beginning of fiscal year 2017, the mood amongst Germany's digital economy companies was predominantly optimistic. 80% of companies expect year-on-year revenue growth in the first half of 2017. Only 9% expect a decline in business. These are the findings of a semi-annual economic survey of German ICT companies presented by the industry association Bitkom in January 2017.

However, business confidence varies within the sector. 85% of software providers and 83% of IT service providers expect increased revenues. By contrast, only 65% of IT hardware producers and 62% of communication technology manufacturers expect growth in sales.

All in all, the companies are also optimistic for the full year 2017: 83% (prior year: 81%) of all ICT companies surveyed expect rising sales, while only 8% (prior year: 5%) expect a decrease. In terms of sales figures, companies expect growth of 1.2% to € 162.4 billion in 2017.

Of particular importance to United Internet are the German broadband and mobile internet market in its subscription-financed Access segment and the global cloud computing market and German online advertising market in 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 2016-2020", PricewaterhouseCoopers expects sales of landline-based broadband connections to increase by just 0.6% to € 8.02 billion in 2017.

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

	2017e	2016	Change
Sales	8.02	7.97	+ 0.6%

Source: PricewaterhouseCoopers

Mobile internet market in Germany

By contrast, all experts continue to predict further strong growth for the mobile internet market. Following market growth of 7.9% to € 7.36 billion in 2016, PricewaterhouseCoopers also forecasts an increase in mobile data services of 6.8% to € 7.86 billion in 2017.

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)

	2017e	2016	Change
Sales	7.86	7.36	+ 6.8%

Source: PricewaterhouseCoopers

Cloud computing market

In an update of its study “Forecast Analysis: Public Cloud Services, Worldwide”, Gartner forecasts global growth for public cloud services of 18.2%, from $ 208.2 billion to $ 246.0 billion in 2017.

Market forecast: global cloud computing
(in $ billion)

	2017e	2016	Change
Global sales of public cloud services	246.0	208.2	+ 18.2%
thereof business process services (BPaaS)	44.2	40.9	+ 8.1%
thereof application infrastructure services (PaaS)	8.9	7.2	+ 23.6%
thereof application services (SaaS)	46.5	38.6	+ 20.5%
thereof management and security services	7.7	6.3	+ 22.2%
thereof system infrastructure services (IaaS)	34.2	24.9	+ 37.3%
thereof cloud advertising	104.5	90.3	+ 15.7%

Source: Gartner

Online advertising market in Germany

Despite the uncertainties surrounding Brexit, advertisers continued to display a strong willingness to invest in online advertising activities in 2016.

Experts also forecast further growth for 2017. PricewaterhouseCoopers expects an increase of 6.6% to € 6.98 billion. The strongest growth is expected once again for mobile online advertising and video advertising with increases of 16.0% and 17.9%, respectively.

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

	2017e	2016	Change
Online advertising revenues	6.98	6.55	+ 6.6%
thereof search marketing	3.48	3.24	+ 7.4%
thereof display advertising	1.46	1.44	+ 1.4%
thereof affiliate / classifieds	1.00	0.98	+ 2.0%
thereof mobile online advertising	0.58	0.50	+ 16.0%
thereof video advertising	0.46	0.39	+ 17.9%

Source: PricewaterhouseCoopers

Expectations for the company

Focus areas in fiscal year 2017

United Internet AG will maintain its policy of sustainable growth in the future and continue to invest in new customers, in new products and business fields, as well as in its continued internationalization.

In view of its strong brands, product strategy based on flexibility, customer-oriented services, innovative products and excellent value for money, United Internet believes it is very well positioned in its Access segment.

In the fiscal year 2017, contract and revenue growth for consumer products is likely to result once again from the marketing of Mobile Internet products and DSL connections. The main focus will be on the further expansion of V-DSL coverage, and the use of the new transmission technology “vectoring” (with speeds of up to 100 Mbit/s).

In the field of Business solutions under the 1&1 Versatel brand, the focus will lie on voice, data and network solutions for small and medium-sized companies, as well as infrastructure services for large corporations.

With its strong and specialized brands, a steadily growing portfolio of cloud applications, and existing relations with millions of small businesses, freelancers and private users, United Internet is also well positioned in its Applications segment to utilize the opportunities offered by cloud computing.

In the case of Consumer Applications, the main focus in 2017 will continue to be on monetizing free accounts via advertising, and on secure e-mail communication.

In the field of Business Applications, the recently acquired Strato AG is to be gradually integrated into the United Internet Group. In addition, the existing target markets are to be exploited further. The main focus will be placed on expanding business with existing customers through sales of additional products, such as new top-level domains or marketing tools like 1&1 List Local, and gaining new high-quality customer relationships, e.g. via the 1&1 Cloud Server.

In addition to organic growth, United Internet continuously examines the possibility of company acquisitions, investments and alliances. Thanks to its high and plannable level of cash flow, United Internet has a strong source of internal funding and good access to debt financing markets in order to finance its future growth – whether organic or via acquisitions and investments.

Forecast for the fiscal year 2017

In the fiscal year 2017, regulations introduced by the German Federal Network Agency and the European Union (EU) will impact the sales trends of telecommunication providers such as United Internet (in its Access segment). In particular, these include reduced charges for mobile and landline termination (as of December 1, 2016) and the abolition of roaming charges within the EU (as of June 15, 2017). United Internet expects these regulation effects to burden sales by approx. € 60 million in 2017.

At the same time, United Internet expects a net burden on earnings of around € 30 million in 2017 from these regulation issues, as well as from the migration of DSL connections purchased as a pre-service from the Telefónica landline network to other DSL networks. This migration was necessitated by Telefónica Deutschland’s decision to scale down its own landline network, meaning that it can no longer be considered as a pre-service provider in the future.

Against this backdrop, United Internet expects the following growth at Group level for its fiscal year 2017 – including the consolidation of Strato as of April 1, 2017:

- Consolidated sales are expected to rise by approx. 7% in fiscal year 2017 from € 3.95 billion in the previous year. This includes sales of approx. € 95 million from the first-time consolidation of Strato and an opposing effect from the burden on sales of approx. € 60 million from regulation issues (roaming / termination charges).
- EBITDA is expected to improve by approx. 12% in fiscal year 2017 from € 841 million in the previous year. This includes EBITDA of approx. € 36 million from the first-time consolidation of Strato as of April 1, 2017 as well as an opposing effect from the net burden on EBITDA of around € 30 million from regulation issues and the Telefónica DSL migration.
- The number of fee-based customer contracts is expected grow organically by approx. 800,000 contracts. With the takeover of Strato, approx. 1.8 million further fee-based customer contracts will be added.

The company also anticipates significant year-on-year growth in EBIT – in its operating business – in the fiscal year 2017.

The expected increase in earnings in fiscal 2017 will not impact EPS, which is likely to be virtually unchanged from the previous year (€ 2.13) for the Group’s operating business. This is due to several reasons. The initial earnings contribution of Strato (as of April 1, 2017) will be opposed by PPA writedowns from the Strato takeover which will largely offset the earnings contribution at EPS level. In addition, there will be a negative impact on EPS growth from the strong rise in minority interests in fiscal year 2017 (“non-controlling interests” – according to the income statement) due to the 33.33% stake of Warburg Pincus in the “Business Applications” division completed in the first quarter of 2017 and a one-off tax effect arising from this transaction.

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. The net income of United Internet AG for fiscal year 2017 according to German commercial law will be dominated by proceeds from the sale of shares in 1&1 Internet SE to 1&1 Internet Holding SE within the Group. This transaction is likely to produce one-off, non-cash income of € 1.4 billion before taxes. In addition, United Internet AG will recognize additional interest income from a vendor loan resulting from the sale of shares. Against this backdrop, the Management Board expects strongly positive net income for fiscal year 2017.

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 after minority interests (net income attributable to “shareholders of United Internet AG” – according to the income statement) 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 case of Access products, marketing and sales activities will focus mainly on mobile internet products in fiscal year 2017. In this business, the market shares in Germany are currently being allocated. 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 visible growth. In addition to marketing Access products to consumers, the company will continue to expand its business with Access solutions for business clients via the 1&1 Versatel brand.

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 2017, however, the company will again focus on the key topics of “monetization of free accounts via advertising” (Consumer Applications), “expanding business with existing customers” and “gaining new high-quality customer relationships” (Business Applications).

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 forecasts presented above in the section “Forecast for the fiscal year 2017” and summarized again in the table below.

2017 forecast for United Internet AG

	Forecast Fiscal year 2017	Actual figures Fiscal year 2016
Fee-based customer contracts	+ approx. 800,000(1) + approx. 1.8 million(2)	16.97 million
Sales	+ approx. 7%(3)	€ 3.95 billion
EBITDA	+ approx. 12%(4)	€ 841 million

(1) Organic growth

(2) Expected contract growth from Strato takeover

(3) Including approx. € 95 million from first-time consolidation of Strato as of April 1, 2017 and opposing burden on sales of approx. € 60 million from regulation issues (roaming / termination charges)

(3) Including approx. € 36 million EBITDA from first-time consolidation of Strato as of April 1, 2017 and opposing net burden on EBITDA of approx. € 30 million from regulation issues and Telefónica DSL migration

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 (5) and Sec. 315 (2) No. 5 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. 315a 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

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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. 289 (4) and 315 (4) 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, 2016 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 3,370,943 shares representing 1.64% 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 holds 82,000,000 shares (40.00% of capital stock) as of December 31, 2016. Moreover, Mr. Robert Hoffmann holds 211,907 shares (0.10% of capital stock), Mr. Jan Oetjen holds 14,033 shares (0.01% of capital stock), Mr. Martin Witt holds 23,195 shares (0.01% of capital stock), and Mr. Frank Krause holds 920 shares (0.00% of capital stock).

Among the members of the Supervisory Board, Mr. Michael Scheeren holds 300,000 shares (0.15% 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, 2016. 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 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 back shares

The authorization of the Annual Shareholders' Meeting granted on May 23, 2013 and originally limited until November 22, 2014 to acquire, sell or cancel treasury shares was cancelled by the Annual Shareholders' Meeting of May 22, 2014 on expiration of May 22, 2014 with a future effect.

In accordance with Sec. 71 (1) No. 8 AktG, the Annual Shareholders' Meeting of May 22, 2014 at the same time authorized the Management Board to acquire, sell or cancel treasury shares of up to ten percent of its capital stock in the period directly following the expired authorization and ending on September 22, 2017.

The authorization may be exercised by the company wholly or in installments, once or several times for the pursuit of one or more purposes; it can, however, also be exercised by dependent or majority-owned corporations of the company or by third parties for the company’s or their own account. The authorization may not be used for the purposes of trading with company shares.

United Internet shares may be purchased in all legally permissible manners, especially via the stock exchange and/or by means of a public bid. In the case of a purchase via the stock exchange, the price for the acquisition of United Internet shares (excluding transaction costs) may not be more than ten percent lower or higher than the stock market price.

The price for the purchase of United Internet shares by means of bids can be settled by a cash payment or by transfer of shares in a listed company pursuant to Sec. 3 (2) AktG (“exchange shares”).

The Management Board is authorized, subject to the approval of the Supervisory Board, to use these and previously acquired shares for all legally permissible purposes, in particular a sale of treasury shares other than via the stock exchange or by offering to all shareholders or for cash compensation. The authorization to sell for cash contribution is reduced by that proportion of capital stock attributable to shares excluded from subscription rights in direct or corresponding application of Sec. 186 (3) Sentence 4 AktG.

Moreover, the Management Board is authorized to use the acquired treasury shares, subject to the approval of the Supervisory Board, to grant shares to members of the Management Board and other company employees, as well as the management and employees of affiliated companies pursuant to Secs. 15 ff. AktG, should such persons be entitled to subscription on the basis of employee stock ownership plans. Insofar as treasury shares are to be transferred to members of the company’s Management Board, the decision shall be incumbent upon the Supervisory Board.

The Management Board is further authorized to use the acquired treasury shares, subject to the approval of the Supervisory Board, to fulfill conversion and warrant rights or conversion obligations.

The Management Board is also authorized to retire and cancel acquired treasury shares in full or in part, subject to the approval of the Supervisory Board, without any further resolution of the Annual Shareholders' Meeting.

The right of shareholders to subscribe to treasury shares shall be excluded to the extent that these shares are used in accordance with the aforementioned authorizations.

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. 289a HGB for the parent company and in accordance with Sec. 315 (5) 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 2016. 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

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 represent their interests.

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
- the company's stock market listing and
- its current shareholder structure,

the Supervisory Board of United Internet AG has adopted the following targets for its future composition:

The members of the Supervisory Board must collectively have the knowledge, skills and professional experience necessary for them to carry out their tasks in the correct manner. The Supervisory Board will take this and the following targets into consideration when making its nomination proposals to the Annual Shareholders' Meeting.

In consideration of this requirement, the following targets apply for the composition of the Supervisory Board. The specific situation of the company at the time must always be considered when implementing these targets.

- The Supervisory Board aims to ensure that it always includes at least one member with several years of experience working abroad or working for a company with international activities.
- Supervisory Board members should not have any activities elsewhere which are likely to result in frequent conflicts of interest. This includes executive positions held with major competitors.
- The Supervisory Board aims to ensure that at least two of its three members are independent within the meaning of Section 5.4.2 of the German Corporate Governance Code (GCGC).
- At the time of their election or re-election, members of the Supervisory Board should not have reached the age of 70.
- The Supervisory Board aims to achieve a composition which reflects as wide a spectrum of relevant experience for the company as possible. With regard to the representation of women, reference is made to the separate targets set in accordance with mandatory guidelines.
- The Supervisory Board aims to ensure that at least one of its members has special knowledge and experience in the application of accounting principles and internal control processes.
- The Supervisory Board aims to ensure that all its members have sufficient time to exercise their duties with due care throughout the entire period of office. It will take this aspect into consideration when making its nomination proposals and check with the respective candidates that this is the case.

The Supervisory Board of United Internet AG is of the opinion that the stated targets for the composition of the Supervisory Board are currently fulfilled without exception.

Current composition of the Supervisory Board

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 2016:

- 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. 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 Sec. 15 WpHG.

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

As in the previous year, the Management Board of United Internet AG comprised the following five members in fiscal year 2016:

- Ralph Dommermuth, company founder and Chief Executive Officer
  (with the company since 1988)
- Robert Hoffmann, deputy chair, Management Board member responsible for Business Applications
  (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
  (with the company since 2009)
- Frank Krause, Chief Financial Officer
  (with the company since 2015)

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

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 August 12, 2015:

- For the reference period (until June 30, 2017), a target of "0" is set for the Supervisory Board which was only elected by the Annual Shareholders' Meeting of May 21, 2015. The Supervisory Board currently comprises only men. The period of office for all Supervisory Board members extends well beyond the end of the reference period. No personnel changes or expansion of the Supervisory Board are planned or envisaged.
- For the reference period (until June 30, 2017), 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 reference period should there be any indication of a new appointment during the reference period.
- No target has been 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.

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.

In the interest of all employees and the company, compliance violations are investigated, resolved and punished by taking the appropriate measures. To this end, the company's Management Board has established a Compliance Organization to ensure adherence to legal and internal regulations, including the company's values, and to anchor them firmly in the organization.

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 efficiently introduce measures. The compliance organization 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.

With its three levels of action Prevent, Detect, and Respond, 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. 315a 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 2016. 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.

Directors' Dealings

According to Sec. 15a of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG) and Article 19 of the Market Abuse Regulation (MAR), members of the Management Board and Supervisory Board of United Internet AG are legally obliged to declare their purchase and sale of shares or debt instruments in United Internet AG traded on the financial markets, or financial instruments related to them, whenever the transaction conducted by an executive body or related persons reaches or exceeds the amount of € 5,000 within one calendar year.

In fiscal year 2016, the Management Board and Supervisory Board of United Internet AG conducted the following securities transactions (in chronological order):

- On June 13, 2016, Mr. Martin Witt sold 12,000 shares at a price of € 38.258875 each. The total volume amounted to € 459k.
- On August 12, 2016, Mr. Martin Witt sold 5,000 shares at a price of € 40.1449160 each. The total volume amounted to € 201k.
- On November 189, 2016, Mr. Martin Witt exercised 15,000 subscription rights and received in return 5,331 shares in United Internet AG at a price of € 37.420 each. The total volume amounted to € 199k.
- On December 19, 2016, Mr. Martin Witt sold 2,000 shares at a price of € 36.6010 each. The total volume amounted to € 73k.

No further directors' dealings were reported to the company by its executive bodies.

The following table shows the number of shares held by members of the Management Board and Supervisory Board (in shares, corresponding to voting rights and the notional share of capital stock in €).

As of December 31, 2016, the capital stock amounted to € 205,000,000 with the same number of voting rights. Total shareholdings of Management Board members amounted to 40.12% of capital and votes, the total shareholdings of Supervisory Board members amounted to 0.15% of capital and votes. Of the executive bodies, only Mr. Dommermuth held a shareholding of more than 1% (specifically 40.00%) of capital and votes.

Shareholdings of Management Board and Supervisory Board members

Shareholding Management Board	Jan. 1, 2016			Dec. 31, 2016		
	Direct	Indirect	Total	Direct	Indirect	Total
Ralph Dommermuth	0	82,000,000	82,000,000	0	82,000,000	82,000,000
Robert Hoffmann	100,000	0	100,000	211,907	0	211,907
Frank Krause	920	0	920	920	0	920
Jan Oetjen	14,033	0	14,033	14,033	0	14,033
Martin Witt	3,139	0	3,139	23,195	0	23,195
	118,092	82,000,000	82,118,092	250,055	82,000,000	82,250,055

Supervisory Board	Direct	Indirect	Total	Direct	Indirect	Total
Kurt Dobitsch	---	---	---	---	---	---
Michael Scheeren	300,000	---	300,000	300,000	---	300,000
Kai-Uwe Ricke	---	---	---	---	---	---
	300,000	---	300,000	300,000	---	300,000

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. The 13th and currently valid version of the German Corporate Governance Code was completed on May 5, 2015 and published by the Ministry of Justice in the Federal Gazette (http://www.bundesanzeiger.de) on June 12, 2015.

The Code contains three types of standard:

- regulations describing currently valid legal standards in Germany
- recommendations
- suggestions

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.

On February 20, 2017, 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 submitting its last Declaration of Conformity issued on March 5, 2016, United Internet AG complied with the recommendations of the "Government Commission German Corporate Governance Code" in its applicable version dated May 5, 2015 ("Code") and plans to continue to comply with these recommendations 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.

Publications on accounting (section 7.1.2 sentence 4 of the Code)

Due to organizational, internal reasons, United Internet AG published its interim report for the first quarter of 2016 and its report for the first nine months of 2016 on May 17, 2016 and November 15, 2016, respectively.

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. In the case of four Management Board members, 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.

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 for fiscal year 2016 and for the following years. 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				Norbert Lang [1]				Frank Krause [2]			
	CEO				CFO				CFO			
	Since 2000				Since 2000 until June 30, 2015				Since June 1, 2015			
	2015	2016	2016 (Min)	2016 (Max)	2015	2016	2016 (Min)	2016 (Max)	2015	2016	2016 (Min)	2016 (Max)
Fixed compensation	300	0	0	0	150				210	360	360	360
Fringe benefits	0	0	0	0	11				106	111	111	111
Total	300	0	0	0	161				316	471	471	471
One-year variable compensation	240	0	0	0	95				82	140	58	168
Multi-year variable compensation	0	0	0	0	0	0	0	0	1.213	465	0	-
SAR program O 2015 (6 years)									1.213			
SAR program V 2015 (6 years)										465	0	-
Total	540	0	0	0	256				1.611	1.076	529	639
Service cost	0	0	0	0	0				0	0	0	0
Total compensation	540	0	0	0	256				1.611	1.076	529	639

Benefits granted (in €k)	Robert Hoffmann				Jan Oetjen [3]				Martin Witt [3]			
	Business Applications				Consumer Applications				Access			
	Since January 1, 2013				Since October 1, 2014				Since October 1, 2014			
	2015	2016	2016 (Min)	2016 (Max)	2015	2016	2016 (Min)	2016 (Max)	2015	2016	2016 (Min)	2016 (Max)
Fixed compensation	300	300	300	300	300	300	300	300	300	300	300	300
Fringe benefits	12	12	12	12	13	13	13	13	12	12	12	12
Total	312	312	312	312	313	313	313	313	312	312	312	312
One-year variable compensation	200	200	0	240	200	200	0	240	200	200	0	240
Multi-year variable compensation	0	0	0	0	0	0	0	0	0	0	0	0
SAR program O 2015 (6 years)												
SAR program V 2015 (6 years)												
Total	512	512	312	552	513	513	313	553	512	512	312	552
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	512	312	552

(1) 2015 without settlement of paid leave entitlements of € 13k

(2) The fringe benefits of Mr. Krause in 2015 and 2016 in each case result from the benefit in kind of a company car and a one-off payment of € 100,000; 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

(3) The Management Board members Jan Oetjen and Martin Witt received their compensation for 2015 and 2016 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		Norbert Lang[1]		Frank Krause[2]		Robert Hoffmann		Jan Oetjen[3]		Martin Witt[3]	
	CEO		CFO		CFO		Business Applications		Consumer Applications		Access	
	Since 2000		Until June 30, 2015		Since June 1, 2015		Since January 1, 2013		Since October 1, 2014		Since October 1, 2014	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Fixed compensation	0	300		150	360	210	300	300	300	300	300	300
Fringe benefits	0	0		11	111	106	12	12	13	13	12	12
Total	0	300		161	471	316	312	312	313	313	312	312
One-year variable compensation	0	240		95	139	82	199	130	199	207	199	201
Multi-year variable compensation	0	0		0	0	0	4.917	4.917	0	896	1.681	722
SAR program I 2010 (6 years)										896		
SAR program A 2011 (6 years)											121	121
SAR program B 2011 (6 years)							902	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)											959	
Other	0	0		0	0	0	0	0	0	0	0	0
Total	0	540		256	610	398	5.428	5.359	512	1.416	2.192	1.235
Service cost	0	0		0	0	0	0	0	0	0	0	0
Total compensation	0	540		256	610	398	5.428	5.359	512	1.416	2.192	1.235

(1) 2015 without settlement of paid leave entitlements of € 13k

(2) The fringe benefits of Mr. Krause in 2015 and 2016 result from the benefit in kind of a company car and a one-off payment of € 100,000

(3) The Management Board members Jan Oetjen and Martin Witt received their compensation for 2015 and 2016 via subsidiaries of United Internet AG

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 fiscal year 2015, the following Management Board members exercised SARs: Mr. Robert Hoffmann (325,000 SARs with a weighted strike price of € 15.13), Mr. Jan Oetjen (100,000 SARs with a weighted strike price of € 8.96) and Mr. Martin Witt (50,000 SARs with a weighted strike price of € 14.44). In the reporting period 2015, Mr. Frank Krause was granted 200,000 SARs with a strike price of € 40.

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. Norbert Lang (€ 0k, prior year: € 0k), Mr. Frank Krause (€ 394k, prior year: € 191k), Mr. Robert Hoffmann (€ 258k, prior year: € 464k), Mr. Jan Oetjen (€ 341k, prior year: € 458k) and Mr. Martin Witt (€ 381k, prior year: € 523k).

Further details on Management Board remuneration are provided in section 40 of the notes to the consolidated financial statements.

Principles of the Supervisory Board remuneration system

The 3 members of the Supervisory Board of United Internet AG also form the supervisory board of the most important subsidiaries, i.e. the sub-groups 1&1 Telecommunication SE, 1&1 Internet SE and 1&1 Mail & Media Applications SE, as well as United Internet Ventures 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 new 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, 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.

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)

United Internet AG operates 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 second and wide-ranging program for its employees in Germany in May 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 17, 2017

The Management Board

Ralph Dommermuth   Robert Hoffmann   Frank Krause   Jan Oetjen   Martin Witt

ANNUAL FINANCIAL STATEMENTS OF THE PARENT COMPANY ACC. TO HGB AS AT DECEMBER 31, 2016

CONTENTS

United Internet AG, Montabaur

Balance sheet as of December 31, 2016

Assets		December 31, 2016	December 31, 2015
	EUR	EUR	EUR
A. Non-current assets			
I. Intangible assets			
Concessions, industrial and similar rights and assets as well as licenses in such rights and assets acquired for consideration		30,013.00	0.00
II. Property, plant and equipment			
Other equipment, operational and office equipment		103,381.00	134,503.00
III. Financial assets			
1. Shares in affiliated companies	1,558,389,772.94		1,558,257,772.94
2. Loans to affiliated companies	1,434,629,585.82		1,434,629,585.82
		2,993,019,358.76	2,992,887,358.76
		2,993,152,752.76	2,993,021,861.76
B. Current assets			
I. Accounts receivable and other assets			
1. Receivables due from affiliated companies	1,389,942,667.67		1,134,357,722.45
2. Other assets	121,030,829.67		89,915,479.32
		1,510,973,497.34	1,224,273,201.77
II. Cash in hand and bank balances		8,546,888.88	8,004,533.20
		1,519,520,386.22	1,232,277,734.97
C. Prepaid expenses		44,998.00	40,000.00
		4,512,718,136.98	4,225,339,596.73

Equity and liabilities		12/31/2016	December 31, 2015
	EUR	EUR	EUR
A. Equity			
I. Capital stock (conditional capital: EUR 25,000,000.00)	205,000,000.00		205,000,000.00
less treasury shares	-3,270,943.00		-817,859.00
		201,729,057.00	204,182,141.00
II. Capital reserves		457,976,677.74	457,976,677.74
III. Revenue reserves			
Other revenue reserves		425,910,087.86	513,500,706.35
IV. Balance sheet profit		1,161,684,818.97	1,351,860,510.83
		2,247,300,641.57	2,527,520,035.92
B. Accruals			
1. Accrued taxes	12,595,174.48		6,955,336.80
2. Other accrued liabilities	17,146,510.57		18,486,811.31
		29,741,685.05	25,442,148.11
C. Liabilities			
1. Liabilities due to banks	1,747,359,827.00		1,409,185,319.00
2. Trade accounts payable	610,610.13		77,462.17
3. Liabilities due to affiliated companies	458,438,773.07		242,313,852.50
4. Other liabilities	18,691,238.06		20,800,779.03
thereof from taxes EUR 18,691,238.06 (prior year: EUR 20,800,504.03)			
		2,225,100,448.26	1,672,377,412.70
D. Deferred tax liabilities		10,575,362.10	0.00
		4,512,718,136.98	4,225,339,596.73

United Internet AG, Montabaur
Income Statement for 2016

	EUR	EUR	2015 EUR
1. Sales	1,960,634.71		1,355,810.29
2. Other operating income thereof income from the application of Art. 66 and 67 (1) to (5) EGHGB (transitonal regulations for BilMoG) EUR 0 (prior year: EUR 0)	6,249,430.61		1,935,803.06
		8,210,065.32	3,291,613.35
3. Cost of materials			
Cost of purchased services	884,414.01		302,932.24
4. Personnel expenses			
a. Wages and salaries	1,232,912.49		3,832,888.77
b. Social security contributions	32,352.48		35,517.38
5. Depreciation of property, plant and equipment	37,675.89		31,131.28
6. Other operating expenses	14,023,781.10		9,252,003.49
		16,211,135.97	13,454,473.16
7. Income from profit transfer agreements	103,246,223.30		80,433,623.67
8. Income from investments	120,000,000.00		0.00
9. Income from loans in financial assets thereof from affiliated companies EUR 18,223,591.72 (prior year: EUR 26,124,788.00)	18,223,591.72		26,124,788.00
10. Other interest and similar income thereof from affiliated companies EUR 20,332,472.69 (prior year: EUR 13,353,495.65)	22,992,590.98		13,852,042.73
11. Expense from loss transfer	249,140,689.64		15,116,313.23
12. Interest and similar expenses thereof to affiliated companies EUR 1,022,048.15 (prior year: EUR 671,988.69) thereof expenses from the application of Art. 66 and 67 (1) to (5) EGHGB (transitonal regulations for BilMoG) EUR 0 (prior year: EUR 0)	24,988,759.86		20,784,202.43
		-9,667,043.50	84,509,938.74
13. Taxes on income thereof income from the change in disclosed deferred taxes EUR 10,575,362.10 (prior year: EUR 2,785,037.32)		29,648,854.01	22,999,576.46
14. Result after taxes		-47,316,968.16	51,347,502.47
15. Other taxes		1,225.00	1,178.00
16. Net profit for the year		-47,318,193.16	51,346,324.47
17. Profit carried forward		1,209,003,012.13	1,300,514,186.36
18. Balance sheet profit		1,161,684,818.97	1,351,860,510.83

UNITED INTERNET AG, MONTABAUR

Notes to the Financial Statements for Fiscal Year 2016

GENERAL PROVISIONS

The annual financial statements for fiscal year 2016 were prepared in accordance with Sections 242 ff. and Sections 264 ff. German Commercial Code (HGB) in the version of the German Accounting Directive Implementation Act (BilRUG), as well as with the respective provisions of the German Stock Corporation Law (AktG).

United Internet AG, Montabaur, is registered under number 5762 in Commercial Register B of the Local Court of Montabaur and is classified as a large corporation pursuant to Sec. 267 (3) HGB due to its capital market orientation.

The annual financial statements are based on the provisions of the German Commercial Code and Stock Corporation Act, as amended.

The income statement is prepared according to the cost summary method.

In order to enhance the clarity of presentation, disclosures on the composition of line items, and in some cases “thereof” references, are included in these notes.

Reference is made to the fact that consolidated financial statements have been prepared according to International Financial Reporting Standards (IFRS), as applied in the EU, to comply with the listing requirements for the Prime Standard segment of the Frankfurt Stock Exchange and have been disclosed in accordance with Sec. 325 HGB with reference to Sec. 315 a HGB.

INFORMATION ABOUT THE COMPANY

The business activities of United Internet AG (United Internet) go back to "Eins & Eins EDV Marketing GmbH”, which was founded by Mr. Ralph Dommermuth and two other shareholders in 1988. The name of this marketing company was changed to "1&1 EDV Marketing GmbH”, before being finally renamed as "1&1 Holding GmbH” in 1993.

United Internet AG was founded on January 29, 1998 as a new holding company for the 1&1 Group, with the name 1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien, a partnership limited by shares. The company was entered into the commercial register at the Local Court of Montabaur against HRB 5762 on February 16, 1998. 1&1 Holding GmbH was subsequently merged into the company with effect from January 1, 1998.

On March 20, 1998 the company's shares were admitted to the regulated market with a listing in the Neuer Markt segment of the Frankfurt Stock Exchange. The shares were traded for the first time on March 23, 1998.

The extraordinary shareholders' meeting on February 22, 2000 adopted a resolution to change the name of the company to United Internet Aktiengesellschaft & Co. KGaA. The new name was entered in the commercial register on February 23, 2000.

The change of legal form to a stock corporation by the name of United Internet AG, also decided on February 22, 2000, was entered in the commercial register on March 23, 2000.

PURPOSE OF THE COMPANY

The purpose of the company is to provide marketing, selling and other services, especially in the fields of telecommunications, information technology, including the Internet, and data processing or related areas. The company's purpose also includes the acquisition, holding and management of investments in other companies, especially those operative in the aforementioned business segments. The company is entitled to bring companies in which it holds an investment under its common control and may restrict itself to the management or administration of its investments.

The company is authorized to acquire or hold investments in all types of companies in Germany and other countries and to transact all business that is conducive to its purpose. The company is also authorized to conduct its business through subsidiaries, associated companies and joint ventures. It may outsource or transfer all or part of its operations to affiliated companies.

MANAGEMENT AND REPRESENTATION OF THE COMPANY

The company's Management Board manages and represents the company. According to its by-laws, the Management Board has one or more members, the number of which is determined by the Supervisory Board. If the Management Board has only one member, the company is represented by this person. If it has more than one member, the company is represented by two members of the Management Board or by one member of the Management Board collectively with a person holding power of attorney; however, the Supervisory Board may authorize particular members of the Management Board to represent the company on their own.

ACCOUNTING AND VALUATION METHODS

All figures are in euro (€), thousand euro (€k), million euro (€m) or billion euro (€bn).

In the year under review, the provisions of the German Accounting Directive Implementation Act (BilRUG) were observed for the first time. The amendments mainly relate to the structure of the income statement as well as additional disclosures in the notes. There were no significant changes in sales revenues due to the first-time application of the BilRUG regulations. Otherwise, the following accounting and valuation methods continued to be used in the preparation of the annual financial statements.

Purchased intangible assets are carried at cost and amortized in scheduled amounts over their useful lives (3 years, straight-line method) insofar as they are subject to wear and tear.

Property, plant and equipment are carried at cost and depreciated over their expected useful lives using the straight-line method. Depreciation of additions to property, plant and equipment is always made pro rata temporis. Individual items with a low net value of up to € 150.00 are fully expensed in the year of acquisition; it is assumed that they are disposed of immediately.

Operational equipment is usually depreciated over 4 to 5 years. Leasehold improvements are generally written off over a period of 10 years or the shorter lease period. The expected useful life of office furniture and equipment is 8 to 13 years, that of the vehicles is 6 years.

Shares in affiliated companies disclosed under **financial assets** are reported at the lower of cost or – in the case of permanent impairment – market value, while loans are always stated at the lower of nominal or – in the case of permanent impairment – market value.

Receivables and other assets are stated at nominal value. All risk-bearing items, which are significant in terms of amount, are covered by reasonable allowances.

Tax accruals and **other accruals** consider all contingent liabilities, recognizable risks, and impending losses. They are carried at the settlement amount computed in accordance with prudent commercial practice (i.e. including future cost and price increases). Accruals with a remaining term of more than one year are discounted. As of the balance sheet date, the employee stock ownership program of the United Internet Group was carried for the first time at the prorated fair value of the obligation. The obligations are measured on each balance sheet date from the grant date until their settlement. Fair value is calculated with the aid of recognized financial models and is recognized pro rata temporis as a personnel expense over the vesting period. In the previous year, obligations from share-based payment were measured using the so-called intrinsic value method. The valuation method was changed as part of efforts to standardize valuation methods within the United Internet Group. Moreover, prorated fair value measurement results in a more accurate presentation of the financial position and performance of United Internet AG. The change in valuation method led to income of € 1.2m for the United Internet Group.

Liabilities are stated at their settlement amount.

Deferred taxes are calculated due to temporary or quasi-permanent differences between the commercial law valuation of assets, liabilities and prepaid expenses and their tax valuation, or due to tax loss carryforwards. They are measured using the company’s individual tax rates at the point in time when the differences reverse. The amounts of the resulting tax burden or relief are not discounted. Deferred tax assets and liabilities are netted.

Assets and liabilities denominated in foreign currencies are translated at the average spot rate on the balance sheet date. In the case of remaining terms of over one year, the realization principle (Sec. 252 (1) No. 4 Half-sentence 2 HGB) and the acquisition cost principle (Sec. 253 (1) Sentence 1 HGB) are applied. The “thereof-currency-translation” comments stated in the notes include both recognized and unrecognized exchange rate differences.

NOTES TO BALANCE SHEET ITEMS

NON-CURRENT ASSETS

Reference is made to the non-current asset movement schedule (exhibit 1 of the notes) for the classification and development of non-current assets and disclosure of depreciation and amortization in the fiscal year.

Intangible assets

Investments in intangible assets during the reporting period mainly concern licenses.

Property, plant and equipment

In the reporting period, investments in this area solely concern furniture and fixtures.

Financial assets

Information on the equity situation and results of operations of the affiliated companies, stating the respective shareholding, is included in the list of shareholdings (exhibit 2 of the notes).

In the fiscal year, 1&1 Internet Holding SE, Montabaur (formerly Atrium 93. Europäische VV SE, Berlin) was acquired for a purchase price of € 132k.

CURRENT ASSETS

Receivables and other assets

The classification and maturities of receivables and other assets are shown in the following table (€k):

	31.12.2016	31.12.2016			31.12.2015
		Remaining term			
	Total	up to 1 year	of 1 to 5 years	over 5 years	Total*
Accounts receivable from affiliated companies	1,389,942	1,389,942	0	0	1,134,358
Other assets	121,031	121,031	0	0	89,915
	1,510,973	**1,510,973**	**0**	**0**	**1,224,273**

* All remaining terms up to 1 year.

Receivables from affiliated companies mainly comprise receivables due from United Internet Ventures AG (€ 826,924k) and 1&1 Telecommunication SE (€ 403,186k). Receivables from United Internet Ventures AG and 1&1 Telecommunication SE in both cases result mainly from balances of the United Internet Group's internal cash management system.

Other assets consist mostly of receivables due from the tax office (€ 118,037k).

EQUITY

The company has the legal form of a stock corporation (“Aktiengesellschaft”).

Capital stock and shares

As in the previous year, the fully paid-in capital stock on December 31, 2016 amounted to € 205,000,000.00 divided into 205,000,000 registered no-par shares having a theoretical share in the capital stock of € 1.00 each.

As of December 31, 2016 the company held 3,270,943 treasury shares, which in accordance with Sec. 272 (1)a HGB are deducted from capital stock on the face of the balance sheet.

Approved capital

The company’s Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by a maximum of € 102,500,000.00 in the period ending May 20, 2020 by issuing on one or more occasions new no-par common shares in return for cash and/or non-cash contributions.

In the case of a capital increase in return for cash contributions, the shareholders shall be granted subscription rights. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right to subscribe in the case of fractional amounts and also to exclude the right to subscribe to the extent that this should be necessary in order to grant subscription rights for new shares to bearers of warrants, convertible bonds or warrant bonds issued by the company or subordinated Group companies in the amount to which they are entitled on conversion of their conversion or warrant rights or fulfillment of their conversion obligation. The Management Board is also authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case that the issue amount of the new shares is not substantially lower than the quoted market price of company shares with the same terms at the time of finalizing the issue amount and the shares issued in accordance with Sec. 186 (3) Sentence 4 AktG do not exceed in total 10% of capital stock. Shares sold or issued due to other authorizations in direct or corresponding application of Sec. 186 (3) Sentence 4 AktG under exclusion of subscription rights are to be accounted for in this limitation.

Furthermore, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case of capital increases in return for non-cash contributions, especially in connection with the acquisition of companies, shareholdings or assets.

Conditional capital

Capital stock has been 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 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.

Authorization of Annual Shareholders' Meeting to acquire treasury shares

Pursuant to Sec. 71 (1) No. 8 AktG, the company is entitled to acquire treasury shares until September 22, 2017 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. As of the balance sheet date 3,270,943 treasury shares were held.

The company’s Management Board is authorized, subject to the approval of the Supervisory Board, to sell treasury stock it has acquired in other ways than through the stock exchange or by offering to all shareholders, if the acquired treasury stock is sold for cash contribution at a price not significantly below the market price for such shares at the time of sale, or for reasonable non-cash consideration.

Subject to approval by the Supervisory Board, the Management Board is authorized to use the own shares acquired on the basis of this authorization to grant shares to members of the Management Board, to other company employees as well as to the management and employees of affiliated companies acc. to Sec. 15 ff. AktG, who are entitled to them on the basis of employee stock ownership plans. The company’s Supervisory Board shall decide in all cases where own shares are to be transferred to members of the Management Board.

The Management Board is also permitted, subject to the approval of the Supervisory Board, to use the acquired treasury shares to meet conversion or option rights, or option commitments.

The Management Board is further permitted, subject to the approval of the Supervisory Board, to call in shares without a further resolution of the general meeting of shareholders.

The shareholders' subscription rights to treasury shares are excluded insofar as these shares are used according to the above authorizations. The authorization to purchase, sell or withdraw treasury shares can be exercised once or severally and either in total or in parts.

Total shareholders' equity developed as follows (€):

Development of total shareholders' equity

Capital stock		
- Capital stock - December 31, 2015		205,000,000.00
- Open deduction of treasury shares acc. to Sec. 272 (1)a HGB - 31 December 2015	-817,859.00	
- Issue of treasury shares due to employee stock ownership plans	546,916.00	
- Purchase of treasury shares	-3,000,000.00	
- Open deduction of treasury shares acc. to Sec. 272 (1)a HGB 31 December 2016		-3,270,943.00
- Balance as of December 31, 2016		**201,729,057.00**
Capital reserves		
- Balance as of December 31, 2015		**457,976,677.74**
- Balance as of December 31, 2016		**457,976,677.74**
Other revenue reserves		
- Balance as of December 31, 2015		**513,500,706.35**
- Transfer to other revenue reserves (employee stock ownership plans)		21,576,212.84
- Purchase of treasury shares		-109,166,831.33
- Balance as of December 31, 2016		**425,910,087.86**
Balance sheet profit		
- Balance as of December 31, 2015		**1,351,860,510.83**
- Dividend payment		-142,857,498.70
- Net loss for the year		-47,318,193.16
- Balance as of December 31, 2016		**1,161,684,818.97**
Total shareholders' equity		**2,247,300,641.57**

As of fiscal year 2010, treasury shares are treated in the same way as a capital reduction. The nominal amount is deducted from subscribed capital on the face of the balance sheet, the difference is offset with other revenue reserves. The nominal value of shares held on the balance sheet date December 31, 2016, amounting to € 3,270,943.00 was therefore deducted from capital stock and disclosed in a sub-column on the face of the balance sheet.

The Annual Shareholders' Meeting of May 19, 2016 followed the proposal of the Management Board and Supervisory Board to carry forward part of the balance sheet profit 2015 amounting to € 1,209,003,012.13 and to distribute another part totaling € 142,857,498.70 as a dividend.

As of the reporting date, the balance sheet profit amounts to € 1,161,684,818.97. The balance sheet profit contains a carryforward from the previous year amounting to € 1,351,860,510.83. This amount was reduced under consideration of the dividend paid in fiscal year 2016 to € 1,209,003,012.13.

For fiscal year 2016, The Management Board will propose to the Supervisory Board a dividend of € 0.80 per share. The Management Board and Supervisory Board will discuss this dividend proposal at the Supervisory Board meeting on March 22, 2017. According to Sec. 21 of the by-laws of United Internet AG, the Annual Shareholders' Meeting decides on the appropriation of the balance sheet profit.

Pursuant to Sec. 71b AktG, the company does not accrue any rights from treasury shares and thus has no pro-rated dividend rights.

Treasury shares

As of December 31, 2016 the company held 3,270,943 treasury shares, representing 1.6% of the capital stock of 205,000,000 shares. The average purchase cost per share amounted to € 36.61. 1&1 Internet SE holds a further 100,000 shares in United Internet AG.

With a resolution adopted on May 22, 2014, the Annual Shareholders‘ Meeting authorized United Internet AG to buy back treasury shares representing up to 10% of the company's capital stock. The authorization was issued for the period up to September 22, 2017. With a resolution of the Management Board adopted on June 13, 2014, up to 2,000,000 company shares were to be bought back via the stock exchange. With a resolution adopted on June 30, 2016, the Management Board ended the buyback program of June 13, 2014.

Moreover, the Management Board resolved to launch a new buyback program amounting to up to 5,000,000 treasury shares.

A total of 3,000,000 treasury shares were purchased in the reporting period.

ACCRUALS

Accrued taxes of € 9,167k refer to corporation tax, the solidarity surcharge and trade tax for previous years.

Other accrued liabilities contain appropriate accruals formed for all foreseeable liabilities whose amount and nature are uncertain as well as for pending losses. They were formed mainly for the employee stock ownership plan (€ 6,779k), for legal, auditing and consulting fees (€ 8,189k), and for bonuses and commissions (€ 338k).

The effect from discounting accruals recognized in interest expenses amounts to € 456k (prior year: € 667k).

LIABILITIES

The classification and maturities of the liabilities are shown in the following table (€k):

	31.12.2016	31.12.2016			31.12.2015		
	Total	Up to 1 year	Remaining term of 1 to 5 years	over 5 years	Total	Remaining term Up to 1 year	Remaining term Over 1 year
Bank liabilities	1,747,360	421,860	1,228,000	97,500	1,409,185	29,185	1,380,000
Trade payables	611	611			77	77	0
Liabilities due to affiliated companies	458,439	458,439			242,314	229,817	12,497
Other liabilities	18,691	18,691			20,801	20,801	0
thereof for taxes € 18,691k (prior year: € 20,801k)							
	2,225,101	**899,601**	**1,228,000**	**97,500**	**1,672,377**	**279,880**	**1,392,497**

Bank liabilities as of December 31, 2016 mainly result from a syndicated loan totaling € 750 million concluded in August 2014, comprising two tranches with terms to 2017 and 2019, and a promissory note loan of € 600 million divided into 4 tranches with varying terms from 2017 to 2022.

In addition, there is a revolving syndicated loan of € 810 million with a term until July 9, 2020, which had been utilized as of December 31, 2016 in an amount of € 390 million.

No collateral was provided for any of the loans.

Liabilities to affiliated companies mainly consist of liabilities from balances of the United Internet Group’s internal cash management system (€ 194,551k), from services received from these companies (€ 14,747k), and from profit transfer agreements (€ 249,141k).

Other liabilities consist of sales tax liabilities of € 18,691k.

DEFERRED TAXES

Due to existing direct and indirect tax pooling, the measurement of deferred taxes is made across the entire tax pooling group of United Internet AG.

In the reporting period, there was a negative balance of deferred taxes of € 10,575k as of December 31, 2016. In the previous year, there was a positive balance of deferred tax assets which was not recognized. The amount of deferred tax liabilities as of December 31, 2016 thus corresponds to the change over the previous year. Deferred tax assets as of the reporting date of € 1,637k result mainly from intangible assets, investments, and accruals. Deferred tax liabilities of € 12,212k result from temporary differences due to valuation differences between the trade and tax balance sheets, especially from investments, as well as from trade receivables. The calculation is based on a tax rate of 30.22%.

NOTES TO THE INCOME STATEMENT

SALES

The company's sales revenues were generated in Germany and mainly comprise services rendered to subsidiaries of € 1,961k.

OTHER OPERATING INCOME

Other operating income mainly results from income not relating to the period from the reversal of accruals (€ 4,079k). These reversals mostly concern the partial reversal of accruals for the employee stock ownership plan (€ 3,321k). In addition, other operating income results from income from foreign currency translation (€ 1,212k; prior year: € 137k).

PERSONNEL EXPENSES

Adjusted for the effects from employee stock ownership plans, personnel expenses amounted to € 1,250k in the reporting period (prior year: € 1,831k). The decline is mostly due to the waiving of remuneration by the CEO Mr. Ralph Dommermuth. As agreed with the Company's Supervisory Board, Mr. Ralph Dommermuth has resolved to waive his claim to Management Board remuneration for fiscal year 2016 and for the following years. As in the past, Mr. Ralph Dommermuth will continue to drive the Company's long-term development and value growth, and will participate in the Company's success as the major shareholder via dividends.

OTHER OPERATING EXPENSES

Other operating expenses mainly comprise the expenses for legal, consulting and audit fees (€ 12,163k; prior year: € 4,421k), as well as expenses from foreign currency translation (€ 0k; prior year: € 2,142k).

INCOME FROM PROFIT TRANSFER AGREEMENTS

Income from profit transfer agreements refers to the profit transfers of 1&1 Mail & Media Applications SE (€ 103,246k).

INCOME FROM INVESTMENTS

Income from investments relates to a dividend of € 120,000k which 1&1 Internet SE paid to United Internet AG.

EXPENSES FOR LOSS ASSUMPTIONS

Expenses for loss assumptions mainly comprise the compensation expense for United Internet Ventures AG (€ 229,665k), United Internet Corporate Services GmbH (€ 6,696k), and 1&1 Telecommunications SE (€ 12,498k).

The losses of United Internet Ventures AG mainly result from extraordinary expenditure (Sec. 285 No. 31 HGB) from the writedown of shares in Rocket Internet SE amounting to € 231,724k.

INCOME TAXES

Income taxes of € 29,649k comprise deferred tax expenses of € 10,575k, current taxes of 2016 of € 24,915k (of which € 12,522k for corporation tax and the solidarity surcharge and € 12,393k for trade tax). There was an opposing effect from tax income not relating to the period amounting to € 5,841k.

OTHER DISCLOSURES

Average number of employees

An average of 2 (prior year: 2) permanent salaried staff were employed in the past fiscal year (without Management Board members, apprentices, part-time staff and employees on maternity leave).

Executive bodies of United Internet AG

As of December 31, 2016, the Management Board consisted of the following members:

Ralph Dommermuth (CEO), Montabaur
Robert Hoffmann (COO), Kelkheim
Frank Krause (CFO), Kronberg/Taunus
Jan Oetjen (Management Board member for Consumer Applications), Karlsruhe
Martin Witt (Management Board member for Access), Reichertshausen

The members of the Management Board also belong to the supervisory boards of the following companies:

Ralph Dommermuth

- Versatel Telecommunications GmbH, Düsseldorf, chair of the advisory committee

Robert Hoffmann

- United-domains AG, Starnberg, member of the supervisory board (since October 26, 2016), chair of the supervisory board (since November 1. 2016)
- home.pl S.A., Stettin / Poland, member of the supervisory board

Frank Krause

- Versatel Telecommunications GmbH, Düsseldorf member of the advisory committee
- home.pl S.A., Stettin /Poland, member of the supervisory board

Martin Witt

- 1&1 Versatel Deutschland GmbH, Düsseldorf, chair of the supervisory board
- Versatel Telecommunications GmbH, Düsseldorf, member of the advisory board
- VATM e.V., Verband der Anbieter von Telekommunikations- und Mehrwertdiensten, Köln, president
- WIK Wissenschaftliches Institut für Infrastruktur, Bad Honnef, member of the economic committee
- ECTA (The European Competitive Telecommunications Association), Brüssel / Belgium, co chair

Jan Oetjen

- Affilinet GmbH, München, chair of the supervisory committee

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 2015. 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 the 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 made after the annual financial statements have been adopted by the Supervisory Board.

As agreed with the Company's Supervisory Board, Mr. Ralph Dommermuth has resolved to waive his claim to Management Board remuneration for fiscal year 2016 and for the following years.

In fiscal year 2016, total remuneration for the Management Board without share-based payments amounted in total to € 1,121k (prior year: € 1,649k). Of this total, € 660k or 59% was fixed, € 338k or 30% was variable, and € 123k or 11% were fringe benefits.

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

Stock Appreciation Right (SARs) refer to the company's commitment 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 of 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 strike 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. The company retains the right, however, 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.

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.

In fiscal year 2013, Mr. Robert Hoffmann was granted 1,000,000 SARs at an exercise price of € 16.06. At the time these virtual stock options were issued, the fair value amounted to € 2,060k. The fair value at the time of issue of subscription rights not exercised which were granted to Mr. Robert Hoffmann by 1&1 Internet AG (now 1&1 Internet SE), Montabaur, in previous years and at the time of his appointment to the Management Board amounted to € 1,738k on January 1, 2013. The exercise prices laid between € 6.07 and € 12.85. United Internet AG entered into these obligations on January 1, 2013. The intrinsic value of the 750,000 SARs at this time amounted to € 4,295k. In the fiscal year 2016, Mr. Robert Hoffmann exercised 250,000 of the subscription rights granted in previous years at a strike price of € 16.06 and 75,000 subscription rights at a strike price of € 12.03.

In fiscal year 2015, Mr. Frank Krause was granted 200,000 SARs at an exercise price of € 40.00. At the time these virtual stock options were issued, the fair value amounted to € 1,213k.

In fiscal year 2016, Mr. Frank Krause was granted 100,000 SARs at an exercise price of € 36.27. At the time these virtual stock options were issued, the fair value amounted to € 465k.

The following table provides details on the compensation received by members of the Management Board (€k):

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
	660	338	123	1,121	465

2015	Fixed €k	Variable €k	Fringe benefits €k	Total fixed, variable and fringe benefits €k	Market value of share-based payments granted in 2015 €k *
Ralph Dommermuth	300	240	0	540	-
Robert Hoffmann	300	130	12	442	-
Frank Krause since June 1, 2015	210	82	106	398	1,213
Norbert Lang until June 30, 2015	150	95	24	269	-
	960	547	142	1,649	1,213

*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.

In fiscal year 2016, Mr. Frank Krause received a special payment of € 100k. This special payment is included in the fringe benefits.

Mr. Jan Oetjen and Mr. Martin Witt receive salaries from subsidiaries of United Internet AG.

As in the previous year, no advances or loans were granted to members of the Management Board. No remuneration was paid to former members of the Management Board.

In fiscal year 2016, the Supervisory Board of United Internet AG consisted of the following members:

Kurt Dobitsch, chair
resident in Markt Schwaben
Business owner, Chairman of the Supervisory Board of United Internet AG

Kai-Uwe Ricke
resident in Stallikon, Switzerland
Chairman of the Board of Directors of Delta Partners, Dubai, Emirate of Dubai

Michael Scheeren, deputy chair
resident in Frankfurt am Main
Banker, Member of the Supervisory Board of United Internet AG

In fiscal year 2016, 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
United Internet Ventures AG, Montabaur
1&1 Telecommunication SE, Montabaur
1&1 Mail & Media Applications SE, Montabaur
Nemetschek AG, Munich (chair)
Bechtle AG, Gaildorf
Graphisoft S.E., Budapest / Hungary
Singhammer IT Consulting AG, Munich
Vectorworks Inc., Columbia / USA

Kai-Uwe Ricke

1&1 Internet SE, Montabaur
United Internet Ventures AG, Montabaur
1&1 Telecommunication SE, Montabaur
1&1 Mail & Media Applications SE, Montabaur
SUSI Partners AG, Zurich / Switzerland (chair)
euNetworks Group Ltd., Singapore / Singapore (until October 31, 2016)
EUN Holdings LLP Delaware/ USA (from October 19, 2016)
Delta Partners FZ-LLC, Dubai / Emirate of Dubai (chair)
Zalando SE, Berlin
Virgin Mobile CEE, Amsterdam / Netherlands

Michael Scheeren

1&1 Internet SE, Montabaur (chair)
United Internet Ventures AG, Montabaur (chair)
1&1 Telecommunication SE, Montabaur (chair)
1&1 Mail & Media Applications SE, Montabaur (chair)

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 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 (€k):

2016	Fixed €k	Attendance fee €k	Total €k
Kurt Dobitsch	30	4	34
Kai-Uwe Ricke	15	4	19
Michael Scheeren	15	4	19
	60	12	72

2015	Fixed €k	Attendance fee €k	Total €k
Kurt Dobitsch	30	4	34
Kai-Uwe Ricke	15	4	19
Michael Scheeren	15	4	19
	60	12	72

There are no subscription rights or share-based payments for members of the Supervisory Board.

Contingent liabilities

The company is jointly and severally liable for a credit line granted by banks to companies of the United Internet Group. As of the balance sheet date, the credit facility was used for credit guaranties of € 32,138k, while no credit line drawings were made. With regard to other bank liabilities, reference is made to the explanations under “Liabilities”.

Due to the stable business position of the borrowing subsidiaries of the United Internet Group, the risk involved in the contingent liabilities is currently regarded as very low.

Transactions with related parties

In the period under review, no transactions were made with related parties at non-standard market conditions.

Publication of voting right announcements acc. to Sec. 26 WpHG

Please refer to Appendix 3 of the Notes for details on voting rights disclosures.

Auditing and consulting fees

Total auditing and consulting fees charged for the fiscal year are not disclosed as they are included in the details provided in the consolidated financial statements of United Internet AG.

Corporate Governance Code

The declaration of conformity with the German Corporate Governance Code acc. to Sec. 161 AktG was filed by the Management Board and Supervisory Board and is available to shareholders via the internet portal of United Internet AG (www.united-internet.de).

SUBSEQUENT EVENTS

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, New York City / USA (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 February 2017. United Internet AG contributed its shares in 1&1 Internet SE initially to its subsidiary 1&1 Internet Holding SE 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. The sale of shares in 1&1 Internet SE to 1&1 Internet Holding SE is expected to result in one-off, non-cash income of € 1.4 billion in fiscal year 2017. The long-term vendor loan of United Internet AG to 1&1 Internet Holding SE amounting to € 1.2 billion has a fixed interest rate and a term of 10 years.

In a second step, United Internet AG contributed all common shares in 1&1 Internet Holding SE to a newly founded 1&1 TopCo SE against the issue of 66.67% of capital stock. The remaining 33.33% of shares in 1&1 TopCo SE are held by Warburg Pincus. The second step has no significant impact on the annual financial statements of United Internet AG.

Acquisition of Strato

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 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 is expected to be around € 127 million with anticipated EBITDA in 2016 of around € 48.5 million.

The share purchase will be made via 1&1 Internet Holding SE. The purchase price for 100% of Strato's shares is around € 600 million and will be settled in cash. A partial amount of up to € 566 million is payable after the expected closing in the first half of 2017. A further amount of up to € 34 million is due at a later point subject to certain performance goals.

The purchase price tranche of € 566 million due in 2017 at the holding structure level will be financed by an internal loan from United Internet 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.

The German Federal Cartel Office ("Bundeskartellamt") granted approval in February 2017.

Treasury shares

United Internet purchased treasury shares once again in the first quarter of 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 company shares (corresponding to approx. 2.44% of capital stock) could be bought back via the stock exchange. The buyback follows 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 of June 30, 2016 has thus been completely exhausted.

At the time of preparing these statements on March 17, 2017, United Internet held 5,370,943 treasury shares (December 31, 2016: 3,370,943). This corresponds to 2.62% of current capital stock of € 205,000,000 (December 31, 2016: 1.64%).

Promissory note loan

In an agreement dated March 13, 2017, the Company placed a new promissory note loan with a total amount of € 500 million for general company funding. The tranches of the new promissory note loan have terms of 5 to 8 years and are repayable at the issuance amount on the respective due dates. The average interest rate is 1.14% p.a. The new promissory note loan is not tied to any so-called covenants.

Montabaur, March 17, 2017

The Management Board

Ralph Dommermuth	Robert Hoffmann	Frank Krause	Jan Oetjen	Martin Witt

exhibit 1 to Notes

Development of Non-Current Assets of United Internet AG in Fiscal Year 2016

	Acquisition and production costs				Accumulated depreciation				Net book value	
	1.1.2016 EUR	Additions EUR	Disposals EUR	31.12.2016 EUR	1.1.2016 EUR	Additions EUR	Disposals EUR	31.12.2016 EUR	31.12.2016 EUR	12/31/2015 EUR
I. Intangible assets										
Concessions, industrial and similar rights and assets as well as licenses in such rights and assets acquired for consideration	0.00	36,240.00	0.00	36,240.00	0.00	6,227.00	0.00	6,227.00	30,013.00	0.00
II. Property, plant and equipment										
Other equipment, operational and office equipment	263,951.94	326.89	0.00	264,278.83	129,448.94	31,448.89	0.00	160,897.83	103,381.00	134,503.00
III. Financial assets										
1. Shares in affiliated companies	1,558,257,772.94	132,000.00	0.00	1,558,389,772.94	0.00	0.00	0.00	0.00	1,558,389,772.94	1,558,257,772.94
2. Loans to affiliated companies	1,434,629,585.82	0.00	0.00	1,434,629,585.82	0.00	0.00	0.00	0.00	1,434,629,585.82	1,434,629,585.82
	2,992,887,358.76	132,000.00	0.00	2,993,019,358.76	0.00	0.00	0.00	0.00	2,993,019,358.76	2,992,887,358.76
	2,993,151,310.70	168,566.89	0.00	2,993,319,877.59	129,448.94	37,675.89	0.00	167,124.83	2,993,152,752.76	2,993,021,861.76

United Internet AG, Montabaur

Statement of investments as of December 31, 2016

	Capital share	Company equity as of Dec. 31, 2016	Net income / loss FY 2016
	in %	€k	€k
Shares held directly			
1&1 Internet SE, Montabaur (2)	100.00	372,104	122,053
1&1 Mail & Media Applications SE, Montabaur (1)	100.00	968,686	0
1&1 Telecommunication SE, Montabaur (1)	100.00	176,256	0
1&1 Telecom Service Holding Montabaur GmbH, Montabaur (1)	100.00	25	0
MIP Multimedia Internet Park GmbH, Zweibrücken	100.00	336	-180
United Internet Corporate Services GmbH, Montabaur (1)	100.00	25	0
United Internet Service SE, Montabaur (1)	100.00	120	0
United Internet Service Holding GmbH, Montabaur (1)	100.00	25	0
United Internet Ventures AG, Montabaur (1)	100.00	128,439	0
1&1 Internet Holding SE, Montabaur, formerly Atrium 93. Europäische VV SE, Berlin	100.00	117	-3
Shares held indirectly			
1&1 Berlin Telecom Service GmbH, Berlin (1)	100.00	25	0
1&1 Cardgate LLC, Chesterbrook / USA	100.00	597	397
1&1 Datacenter SAS, Straßburg / France	100.00	1,486	172
1&1 De-Mail GmbH, Montabaur (1)	100.00	25	0
1&1 Internet Development SRL, Bucharest / Romania	100.00	1,700	1,587
1&1 Energy GmbH, Montabaur	100.00	-1,112	-1,137
1&1 Internet Espana S.L.U., Madrid / Spain	100.00	997	993
1&1 Internet Inc., Chesterbrook / USA	100.00	20,651	2,447
1&1 Internet Ltd., Gloucester / UK	100.00	1,690	1,905
1&1 Internet (Philippines) Inc., Cebu City / Philippines	100.00	784	207
1&1 Internet S.A.R.L., Saargemünd / France	100.00	1,429	1,319
1&1 Internet Service GmbH, Montabaur (7)	100.00	927	0
1&1 Internet Sp.z o.o, Warsaw / Poland	100.00	256	110
1&1 Logistik GmbH, Montabaur (1)	100.00	25	0
1&1 Mail & Media Development & Technology GmbH, Montabaur (1)	100.00	1,748	0
1&1 Mail & Media GmbH, Montabaur (1)	100.00	212,665	0
1&1 Mail & Media Inc., Chesterbrook / USA	100.00	5,195	-288
1&1 Mail & Media Service GmbH, Montabaur (1)	100.00	25	0
1&1 Telecom GmbH, Montabaur (4)	100.00	1,143	0
1&1 Telecom Holding GmbH, Montabaur (2)	100.00	1,447,513	257,198
1&1 Telecom Sales GmbH, Montabaur (1)	100.00	25	0
1&1 Telecom Service Montabaur GmbH, Montabaur (1)	100.00	967	0
1&1 Telecom Service Zweibrücken GmbH, Zweibrücken (1)	100.00	544	0
1&1 UK Holdings Ltd., Gloucester / UK	100.00	74,271	14,045
1&1 Versatel Deutschland GmbH, Düsseldorf, formerly Versatel Deutschland GmbH, Düsseldorf (5)	100.00	320,390	0
1&1 Versatel GmbH, Berlin, formerly Versatel GmbH, Berlin (6)	100.00	136,231	0
A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur (1)	100.00	1,152	0
A1 Media USA LLC, Chesterbrook / USA	100.00	137	14
affilinet Austria GmbH, Vienna / Austria	100.00	62	13
affilinet España S.L.U., Madrid / Spain	100.00	189	1
affilinet France SAS, Saint-Denis / France	100.00	-258	288
affilinet GmbH, Munich	100.00	9,745	3,217
affilinet Ltd., London / UK	100.00	1,294	548
affilinet Nederland B.V., Haarlem / Netherlands	100.00	259	21
affilinet Schweiz GmbH, Zurich / Switzerland	100.00	118	47
Arsys Internet E.U.R.L., Perpignan / France	100.00	134	-44
Arsys Internet S.L., Logroño / Spain	100.00	85,905	-420
AZ.pl Sp. Z o.o, Szczecinie / Poland	100.00	703	642
DomCollect International GmbH, Montabaur (8)	100.00	25	0
DomCollect Worldwide Intellectual Property AG, Zug / Switzerland (12)	100.00	290	38
Fasthosts Internet Inc., Chesterbrook / USA (12)	100.00	-365	--
Fasthosts Internet Ltd., Gloucester / UK	100.00	3,213	12,584
General Media Xervices GMX S.L., Madrid / Spain	100.00	n/a	n/a
GMX Italia S.r.l., Milan / Italy	100.00	n/a	n/a
HBS Cloud Sp. z o.o., Szczecinie / Poland	100.00	9	0
home.pl S.A., Szczecinie / Poland	100.00	40,426	5,990
Immobilienverwaltung AB GmbH, Montabaur	100.00	732	76
Immobilienverwaltung NMH GmbH, Montabaur	100.00	321	57
Nicline Internet S.L., Logroño / Spain	100.00	349	95
Sedo GmbH, Cologne (8)	100.00	13,428	0
Sedo Holding GmbH, Montabaur	100.00	19,358	1,734
Sedo.com LLC, Cambridge / USA	100.00	4,857	1,017
Tesys Internet S.L., Logroño / Spain	100.00	1,190	10
TROPOLYS Netz GmbH, Düsseldorf	100.00	-32,626	-14
TROPOLYS Service GmbH, Düsseldorf	100.00	-20,245	-10
United Domains Inc., Cambridge / USA	100.00	375	41
UIM United Internet Media Austria GmbH, Vienna / Austria	100.00	104	-80
United Internet Media GmbH, Montabaur (1)	100.00	50	0
united-domains AG, Starnberg	100.00	11,130	10,698
united-domains Reselling GmbH, Starnberg (9)	100.00	25	0
Versatel Beteiligungs GmbH, Düsseldorf	100.00	19	-1
Versatel Holding GmbH, Berlin (5)	100.00	151,637	0
Versatel Immobilien Verwaltungs GmbH, Düsseldorf	100.00	-4,011	-3

exhibit 2 to Notes

United Internet AG, Montabaur

Statement of investments as of December 31, 2016

	Capital share	Company equity as of Dec. 31, 2016	Net income / loss FY 2016
	in %	€k	€k
Versatel Service Süd GmbH & Co. KG, Düsseldorf	100.00	3	-2
Versatel Telecommunications GmbH, Düsseldorf (3)	100.00	265,886	0
Domain Robot Enterprises Inc., Vancouver / Canada (11)	95.56	n/a	n/a
Domain Robot Servicos de Hospedagem na Internet Ltda., Sao Paulo / Brazil (11)	95.56	1	-19
InterNetX Corp., Miami / USA	95.56	-25	-190
InterNetX GmbH, Regensburg	95.56	9,692	3,694
InterNetX LAC S.A., Buenos Aires / Argentina (11)	95.56	5	0
myLLC GmbH, Regensburg (11)	95.56	10	-3
myLLP GmbH, Regensburg (11)	95.56	10	-3
PSI-USA, Inc., Las Vegas / USA	95.56	591	8
Schlund Technologies GmbH, Regensburg (10)	95.56	25	0
DP AFRICA Sp. z o.o., Szczecinie / Poland (11)	75.00	1	0
DP AMERICAS Sp. z o.o., Szczecinie / Poland (11)	75.00	1	0
DP ASIA Sp. z o.o., Szczecinie / Poland (11)	75.00	1	0
DP AUSTRALIA Sp. z o.o., Szczecinie / Poland (11)	75.00	1	0
DP EUROPE Sp. z o.o., Szczecinie / Poland (11)	75.00	1	0
DP POLAND Sp. z o.o., Szczecinie / Poland (11)	75.00	1	0
premium.pl Sp. z o.o., Szczecinie / Poland	75.00	264	62
DomainBot Inc., Dover / USA	49.00	433	-11
Intellectual Property Management Company Inc., Dover (Delaware) / USA	49.00	281	137
ProfitBricks GmbH, Berlin (13)	30.20	-1,687	-11,695
uberall GmbH, Berlin (13)	30.34	-129	-2,029
Open-Xchange AG, Nuremberg (13)	27.28	-5,387	933
Tele Columbus AG, Berlin (13)	25.11	580,932	-158,897
ePages GmbH, Hamburg (14)	25.01	3,082	30
VictorianFibre Holding & Co. S.C.A, Luxembourg (12,15)	25.10	235,555	-96
Virtual Minds AG, Freiburg (13)	25.10	8,996	1,426
Drillisch AG, Maintal (13)	20.11	687,545	32,625
Afilias plc, Dublin / Ireland	< 20,00	--	--
Hi-media S.A., Paris / France	< 20,00	--	--
MMC Investments Holding Company Ltd., Port Louis / Mauritius	< 20,00	--	--
Rocket Internet SE, Berlin	< 20,00	--	--

(1) profit transfer to United Internet AG (direct/indirect)
(2) loss assumption by United Internet AG
(3) loss assumption by 1&1 Telecommunication SE
(4) profit transfer to 1&1 Telecom Holding GmbH
(5) profit transfer to 1&1 Versatel GmbH
(6) loss assumption by Versatel Telecommunications GmbH
(7) profit transfer to 1&1 Internet SE
(8) profit transfer to Sedo Holding GmbH (direct/indirect)
(9) profit transfer to united-domains AG
(10) profit transfer to InterNetX GmbH
(11) no operating business
(12) in liquidation
(13) based on published figures as of December 31, 2015
(14) based on published figures as of June 30, 2015
(15) based on published figures as of December 31, 2013

Publication of voting right announcements acc. to Sec. 26 WpHG

Publication on December 22, 2009

In accordance with Sec. 21 (1) WpHG, Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft, Montabaur, Germany, has informed us that its proportion of voting rights in United Internet AG, Montabaur, exceeded the threshold of 30% due to a reduction in the total number of voting rights as of December 21, 2009, and amounted to 31.00% on this day (74,400,000 voting rights). Of this amount, 1.67% of voting rights (4,000,000 voting rights) are attributable to Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft according to Sec. 22 (1) Sentence 1 No. 1 WpHG.

In accordance with Sec. 21 (1) WpHG, Ralph Dommermuth Verwaltungs GmbH, Montabaur, Germany, has informed us that its proportion of voting rights in United Internet AG, Montabaur, exceeded the threshold of 30% due to a reduction in the total number of voting rights as of December 21, 2009, and amounted to 31.00% on this day (74,400,000 voting rights). Of this amount, 31.00% of voting rights (74,000,000 voting rights) are attributable to Ralph Dommermuth Verwaltungs GmbH according to Sec. 22 (1) Sentence 1 No. 1 WpHG. Voting rights attributed to Ralph Dommermuth Verwaltungs GmbH are held by the following companies it controls, whose voting rights in United Internet AG amounted to 3% or more: Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft.

Publication on March 26, 2013

On March 22, 2013, RD Holding-Verwaltungs GmbH, Montabaur, Germany, informed us according to Sec. 21 (1) WpHG of the following:

In accordance with Sec. 21 (1) WpHG, we hereby inform you that the voting rights of RD Holding-Verwaltungs GmbH, Montabaur, Germany, in United Internet AG, Elgendorfer Str. 57, 56410 Montabaur, Germany, exceeded the 5%, 10%, 15%, 20%, 25% and 30% thresholds on March 21, 2013 and on this day amount to 45.36% (88,000,000 voting rights). According to Sec. 22 (1) Sentence 1 No. 1 WpHG, 4.12% (8,000,000 voting rights) are attributable to RD Holding-Verwaltungs GmbH and according to Sec. 22 (2) WpHG 41.24% (80,000,000 voting rights) are attributable. The name of the company it controls, of which 3% or more are attributed, is as follows:

- RD Holding GmbH & Co. KG.

The name of the shareholder whose shares are attributed 3% or more is as follows:

- Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft.

On March 22, 2013, RD Holding GmbH & Co. KG, Montabaur, Germany, informed us according to Sec. 21 (1) WpHG of the following:

In accordance with Sec. 21 (1) WpHG, we hereby inform you that the voting rights of RD Holding GmbH & Co. KG, Montabaur, Germany, in United Internet AG, Elgendorfer Str. 57, 56410 Montabaur, Germany, exceeded the 5%, 10%, 15%, 20%, 25% and 30% thresholds on March 21, 2013 and on this day amount to 45.36% (88,000,000 voting rights). According to Sec. 22 (2), 41.24% (80,000,000 voting rights) are attributable to

RD Holding GmbH & Co. KG. Voting rights are attributable to the following shareholder whose voting rights in United Internet AG exceed 3%:

- Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft.

On March 22, 2013, RD Holding-Verwaltungs GmbH, Montabaur, Germany, informed us according to Sec. 27a (1) WpHG of the following in connection with the exceeding or reaching of the 10% threshold or a higher threshold on March 21, 2013:

Objectives of purchasing the voting rights (Sec. 27a (1) Sentence 1 and Sentence 3 WpHG)

The acquisition was made by attribution in the course of an internal restructuring and serves neither the implementation of strategic objectives nor the generation of trading profits.

RD Holding-Verwaltungs GmbH does not intend to acquire further voting rights in United Internet AG via purchase or other means within the next twelve months.

RD Holding-Verwaltungs GmbH is not seeking to influence the composition of administrative, management or supervisory bodies of United Internet AG.

RD Holding-Verwaltungs GmbH is not seeking to significantly alter the company's capital structure, especially with regard to the ratio between equity and debt or its dividend policy.

Source of funds used for voting rights (Sec. 27a (1) Sentence 1 and Sentence 4 WpHG)

The acquisition of voting rights was made by attribution acc. to Sec. 22 (1) Sentence 1 No. 1 WpHG as well as Sec. 22 (2) WpHG. With regard to the purchase of voting rights in United Internet AG, no equity or debt was therefore used.

On March 22, 2013, RD Holding GmbH & Co. KG, Montabaur, Germany informed us according to Sec. 27a (1) WpHG of the following in connection with the exceeding or reaching of the 10% threshold or a higher threshold on March 21, 2013:

1. Objectives of purchasing the voting rights (Sec. 27a Abs. 1 Sentence 1 and Sentence 3 WpHG)

a- The acquisition was made by attribution in the course of an internal restructuring and serves neither the implementation of strategic objectives nor the generation of trading profits.

b- RD Holding GmbH & Co. KG does not intend to acquire further voting rights in United Internet AG via purchase or other means within the next twelve months.

c- RD Holding GmbH & Co. KG is not seeking to influence the composition of administrative, management or supervisory bodies of United Internet AG.

d- RD Holding GmbH & Co. KG is not seeking to significantly alter the company's capital structure, especially with regard to the ratio between equity and debt or its dividend policy.

2. Source of funds used for voting rights (Sec. 27a (1) Sentence 1 and Sentence 4 WpHG)

The acquisition of voting rights was made by attribution acc. to Sec. 22 (1) Sentence 1 No. 1 WpHG as well as Sec. 22 (2) WpHG. With regard to the purchase of voting rights in United Internet AG, no equity or debt was therefore used.

Publication on November 11, 2013

On November 4, 2013, Mr. Ralph Dommermuth, Germany, informed us according to Sec. 21 (1) of the WpHG that via shares his voting rights in United Internet AG, Montabaur, Germany, exceeded the 50% threshold of voting rights on October 18, 2011 and on that day amounted to 50.25% (corresponding to 108,029,511 voting rights of a total of 215,000,000 voting rights). Of this total, 42.06% of voting rights (corresponding to 90,429,511 voting rights) were attributable to him acc. to Sec. 22 (1), Sentence 1, No. 1 WpHG.

- Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft
- Ralph Dommermuth Verwaltungs GmbH
- United Internet AG

On November 4, 2013, Mr. Ralph Dommermuth, Germany, informed us according to Sec. 21 (1) of the WpHG that via shares his voting rights in United Internet AG, Montabaur, Germany, fell below the 50% threshold of voting rights on January 8, 2013 and on that day amounted to 46.83% (corresponding to 93,662,202 voting rights of a total of 200,000,000). Of this total, 46.83% of voting rights (corresponding to 93,662,202 voting rights) were attributable to him acc. to Sec. 22 (1), Sentence 1, No. 1 WpHG. The attributed voting rights are held by the following companies which he controls, whose share of voting rights in United Internet AG is equal to or more than 3%:

- Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft
- Ralph Dommermuth Verwaltungs GmbH
- RD Holding GmbH & Co. KG - RD Holding-Verwaltungs GmbH

Publication of voting right announcements acc. to Sec. 26a WpHG

Publication of total voting rights as of September 30, 2014:
United Internet AG hereby notifies that the total number of voting rights at the end of September 2014 amounted to 205,000,000.

Publication on December 6, 2016

Notification of voting rights pursuant to Sec. 26, Section 1 of the WpHG

1. Details of issuer

United Internet AG Elgendorfer Straße 57 56410 Montabaur Germany

2. Reason for notification

X	Acquisition/disposal of shares with voting rights
	Acquisition/disposal of instruments
	Change of breakdown of voting rights
	Other reason:

3. Details of person subject to the notification obligation

Name:	City and country of registered office:
Allianz Global Investors GmbH	Frankfurt/Main Germany

4. Names of shareholder(s)

holding directly 3% or more voting rights, if different from 3.

5. Date on which threshold was crossed or reached

01 Dec 2016

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1 + 7.b.2)	total of both in % (7.a. + 7.b.)	total number of voting rights of issuer
Resulting situation	4.78 %	0.06 %	4.84 %	205000000
Previous notification	4.99 %	0.06 %	5.05 %	/

7. Notified details of the resulting situation

a. Voting rights attached to shares (Sec.s 21, 22 WpHG)

ISIN	absolute		in %	
	direct (Sec. 21 WpHG)	indirect (Sec. 22 WpHG)	direct (Sec. 21 WpHG)	indirect (Sec. 22 WpHG)
DE0005089031	0	9799353	0.00 %	4.78 %

Total	9799353	4.78 %

b.1. Instruments according to Sec. 25 para. 1 No. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
				%
		Total		%

b.2. Instruments according to Sec. 25 para. 1 No. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
Contract for Difference	N/A	N/A	Cash	102,500	0.05 %
Equity Future	23.01.2017	N/A	Cash	26,300	0.01 %
			Total	128,800	0.06 %

8. Information in relation to the person subject to the notification obligation

	Person subject to the notification obligation is not controlled and does itself not control any other undertaking(s) holding directly or indirectly an interest in the (underlying) issuer (1.).
X	Full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity:

Name	% of voting rights (if at least held 3% or more)	% of voting rights through instruments (if at least held 5% or more)	Total of both (if at least held 5% or more)
Allianz SE	%	%	%
Allianz Asset Management AG	%	%	%
Allianz Global Investors GmbH	4.78 %	%	%

9. In case of proxy voting according to Sec. 22 para. 3 WpHG

Date of general meeting:	
Holding position after general meeting:	% (equals voting rights)

10. Other explanatory remarks:

Publication on December 8, 2016

Notification of voting rights pursuant to Sec. 26, Section 1 of the WpHG

1. Details of issuer

United Internet AG Elgendorfer Straße 57 56410 Montabaur Germany

2. Reason for notification

X	Acquisition/disposal of shares with voting rights
	Acquisition/disposal of instruments
	Change of breakdown of voting rights
	Other reason:

3. Details of person subject to the notification obligation

Name:	City and country of registered office:
Flossbach von Storch AG	Cologne Germany

4. Names of shareholder(s)
holding directly 3% or more voting rights, if different from 3.

5. Date on which threshold was crossed or reached

01 Dec 2016

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1 + 7.b.2)	total of both in % (7.a. + 7.b.)	total number of voting rights of issuer
Resulting situation	3.09 %	0.19 %	3.28 %	205000000
Previous notification	n/a %	n/a %	n/a %	/

7. Notified details of the resulting situation
a. Voting rights attached to shares (Sec.s 21, 22 WpHG)

ISIN	absolute		in %	
	direct (Sec. 21 WpHG)	indirect (Sec. 22 WpHG)	direct (Sec. 21 WpHG)	indirect (Sec. 22 WpHG)
DE0005089031		6328000	%	3.09 %

Total	6328000	3.09 %

b.1. Instruments according to Sec. 25 para. 1 No. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
				%
		Total		%

b.2. Instruments according to Sec. 25 para. 1 No. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
Put option on shares	16.12.2016	-	Physical	236000	0.12 %
Put option on shares	16.12.2016	-	Physical	150000	0.07 %
			Total	386000	0.19 %

8. Information in relation to the person subject to the notification obligation

	Person subject to the notification obligation is not controlled and does itself not control any other undertaking(s) holding directly or indirectly an interest in the (underlying) issuer (1.).
X	Full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity:

Name	% of voting rights (if at least held 3% or more)	% of voting rights through instruments (if at least held 5% or more)	Total of both (if at least held 5% or more)
Flossbach von Storch AG	%	%	%
Flossbach von Storch Invest S.A.	3.09 %	%	%

9. In case of proxy voting according to Sec. 22 para. 3 WpHG

Date of general meeting:	
Holding position after general meeting:	% (equals voting rights)

10. Other explanatory remarks:

Publication on December 28, 2016

Notification of voting rights pursuant to Sec. 26, Section 1 of the WpHG

1. Details of issuer

United Internet AG Elgendorfer Straße 57 56410 Montabaur Germany

2. Reason for notification

X	Acquisition/disposal of shares with voting rights
	Acquisition/disposal of instruments
	Change of breakdown of voting rights
X	Other reason: Voluntary group notification with triggered threshold on subsidiary level

3. Details of person subject to the notification obligation

Name:	City and country of registered office:
BlackRock, Inc.	Wilmington, DE United States of America (USA)

4. Names of shareholder(s)
holding directly 3% or more voting rights, if different from 3.

5. Date on which threshold was crossed or reached

21 Dec 2016

6. Total positions

	% of voting rights attached to shares (total of 7.a.)	% of voting rights through instruments (total of 7.b.1 + 7.b.2)	total of both in % (7.a. + 7.b.)	total number of voting rights of issuer
Resulting situation	3.05 %	0.44 %	3.49 %	205000000
Previous notification	3.09 %	0.36 %	3.45 %	/

7. Notified details of the resulting situation
a. Voting rights attached to shares (Sec.s 21, 22 WpHG)

ISIN	absolute	in %

	direct (Sec. 21 WpHG)	indirect (Sec. 22 WpHG)	direct (Sec. 21 WpHG)	indirect (Sec. 22 WpHG)
DE0005089031	0	6262167	0.00 %	3.05 %
Total	6262167		3.05 %	

b.1. Instruments according to Sec. 25 para. 1 No. 1 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Voting rights absolute	Voting rights in %
Lent Securities	n/a	n/a	656754	0.32 %
		Total	656754	0.32 %

b.2. Instruments according to Sec. 25 para. 1 No. 2 WpHG

Type of instrument	Expiration or maturity date	Exercise or conversion period	Cash or physical settlement	Voting rights absolute	Voting rights in %
Contract for Difference	n/a	n/a	Cash	241172	0.12 %
			Total	241172	0.12 %

8. Information in relation to the person subject to the notification obligation

	Person subject to the notification obligation is not controlled and does itself not control any other undertaking(s) holding directly or indirectly an interest in the (underlying) issuer (1.).
X	Full chain of controlled undertakings starting with the ultimate controlling natural person or legal entity:

Name	% of voting rights (if at least held 3% or more)	% of voting rights through instruments (if at least held 5% or more)	Total of both (if at least held 5% or more)
BlackRock, Inc.	%	%	%
Trident Merger, LLC	%	%	%
BlackRock Investment Management, LLC	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock Holdco 4, LLC	%	%	%

BlackRock Holdco 6, LLC	%	%	%
BlackRock Delaware Holdings Inc.	%	%	%
BlackRock Institutional Trust Company, National Association	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock Holdco 4, LLC	%	%	%
BlackRock Holdco 6, LLC	%	%	%
BlackRock Delaware Holdings Inc.	%	%	%
BlackRock Fund Advisors	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock Capital Holdings, Inc.	%	%	%
BlackRock Advisors, LLC	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock (Singapore) Holdco Pte. Ltd.	%	%	%
BlackRock (Singapore) Limited	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock (Singapore) Holdco Pte. Ltd.	%	%	%
BlackRock Asia-Pac Holdco, LLC	%	%	%

BlackRock HK Holdco Limited	%	%	%
BlackRock Asset Management North Asia Limited	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock (Singapore) Holdco Pte. Ltd.	%	%	%
BlackRock Asia-Pac Holdco, LLC	%	%	%
BlackRock HK Holdco Limited	%	%	%
BlackRock Cayco Limited	%	%	%
BlackRock Trident Holding Company Limited	%	%	%
BlackRock Japan Holdings GK	%	%	%
BlackRock Japan Co., Ltd.	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Australia Holdco Pty. Ltd.	%	%	%
BlackRock Investment Management (Australia) Limited	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Holdco 3, LLC	%	%	%

BlackRock Canada Holdings LP	%	%	%
BlackRock Canada Holdings ULC	%	%	%
BlackRock Asset Management Canada Limited	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Group Limited	%	%	%
BlackRock Advisors (UK) Limited	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Group Limited	%	%	%
BlackRock Luxembourg Holdco S.à r.l.	%	%	%
BlackRock (Luxembourg) S.A.	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Group Limited	%	%	%
BlackRock Luxembourg Holdco S.à r.l.	%	%	%
BlackRock Investment Management Ireland Holdings Limited	%	%	%
BlackRock Asset Management Ireland Limited	%	%	%

BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Group Limited	%	%	%
BlackRock International Limited	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Group Limited	%	%	%
BlackRock International Limited	%	%	%
BlackRock Life Limited	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Group Limited	%	%	%
BlackRock (Netherlands) B.V.	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Group Limited	%	%	%

BlackRock Investment Management (UK) Limited	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Group Limited	%	%	%
BlackRock Investment Management (UK) Limited	%	%	%
BlackRock Asset Management Deutschland AG	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Group Limited	%	%	%
BlackRock Investment Management (UK) Limited	%	%	%
BlackRock Asset Management Deutschland AG	%	%	%
iShares (DE) I Investmentaktiengesellschaft mit Teilgesellschaftsvermögen	%	%	%
BlackRock, Inc.	%	%	%
BlackRock Holdco 2, Inc.	%	%	%
BlackRock Financial Management, Inc.	%	%	%
BlackRock International Holdings, Inc.	%	%	%
BR Jersey International Holdings L.P.	%	%	%
BlackRock Group Limited	%	%	%
BlackRock Investment Management (UK) Limited	%	%	%

BlackRock Fund Managers Limited	%	%	%

9. In case of proxy voting according to Sec. 22 para. 3 WpHG

Date of general meeting:	
Holding position after general meeting:	% (equals voting rights)

10. Other explanatory remarks:

AUDIT OPINION OF THE INDEPENDENT AUDITOR

We have issued the following opinion on the financial statements and management report:

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report for the group and the company of United Internet AG, Montabaur, for the fiscal year from January 1 to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report for the group and the company in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report for the group and the company based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report for the group and the company. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements [and supplementary provisions of the partnership agreement/articles of incorporation and bylaws] and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report for the group and the company is consistent with the annual financial statements, complies with the legal requirements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks relating to future development."

Eschborn/Frankfurt am Main, March 20, 2017
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 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 Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Montabaur, March 17, 2017

Board of Management

Ralph Dommermuth Robert Hoffmann Frank Krause Jan Oetjen Martin Witt