Annual Financial Statements 2017

MANAGEMENT REPORT FOR THE GROUP AND PARENT COMPANY

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS 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 2017

1 COMPANY AND GROUP PROFILE

1.1 BUSINESS MODEL

Group structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

United Internet AG

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

Business operations

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

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

Access segment

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

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

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

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

Applications segment

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

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

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

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

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

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

Management

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

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

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

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

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

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

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

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

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

Main markets and competition

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

Competitive standing in the Access segment

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

Competitive standing in the Applications segment

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

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

Further target markets for the Group's application business outside Europe are the North American countries Canada, USA and Mexico. In the most important of these markets, the USA, United Internet is one of the 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, 2017, the United Internet Group employed a total of 9,414 people at around 40 domestic and foreign facilities.

Main locations (by headcount; > 50 employees)

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

1.2 STRATEGY

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

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

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

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

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

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

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

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

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

1.3 CONTROL SYSTEMS

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

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

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

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

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

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

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

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

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

1.4 RESEARCH AND DEVELOPMENT

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

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

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

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

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

Focus areas 2017

Access

Open access platform

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

Layer 2 Bitstream Access

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

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

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

"1&1 Digital-TV"

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

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

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

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

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

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

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

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

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

Business Applications

MyWebsite

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

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

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

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

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

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

Online Business Card

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

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

1&1 Website Checker

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

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

Alexa Skill

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

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

CaaS platform (Container-as-a-Service)

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

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

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

Consumer Applications

Big Data & Tracking

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

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

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

Log-in alliance

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

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

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

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

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

2 ECONOMIC REPORT

2.1 GENERAL ECONOMIC AND SECTOR CONDITIONS

General economic development

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: German Federal Statistical Office, January 2018

Development of sector / core markets

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

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

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

(Stationary) broadband market in Germany

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

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

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

Key market figures: broadband access (landline) in Germany

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

Source: PricewaterhouseCoopers, October 2017

Mobile internet market in Germany

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

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

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

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

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

Source: PricewaterhouseCoopers, October 2017

Global cloud computing market

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

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

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

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

Source: Gartner, December 2017

German online advertising market

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

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

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

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

Source: PricewaterhouseCoopers, October 2017

Legal conditions / significant events

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

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

2.2 BUSINESS DEVELOPMENT

Use and definition of relevant financial performance measures

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

United Internet defines these measures as follows:

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

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

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

Actual and forecast development

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

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

Forecast development

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

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

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

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

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

Special items

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

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

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

Special items 2016:

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

Special items 2017:

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

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

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

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

Actual development

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

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

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

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

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

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

Summary: actual and forecast development of business in 2017

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

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

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

Segment development

Access segment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Applications segment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) Without extraordinary income from revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million), without internally allocated M&A costs (EBITDA and EBIT effect: € -8.7 million) and without Trademark writedowns Strato (EBIT effect: € -20.7 million)

Group investments

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

Significant changes in investments

Takeover of Strato completed

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

Investment of Warburg Pincus closed

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

Investment in Tele Columbus increased

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

Investment in rankingCoach

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

Merger with Drillisch

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

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

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

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

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

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

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

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

Complete takeover of ProfitBricks

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

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

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

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

Merger of affilinet and Awin

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

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

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

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

Sale of yourfone Shop GmbH

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

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

Minority holdings in limited companies

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

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

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

Minority holdings in partner companies

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

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

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

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

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

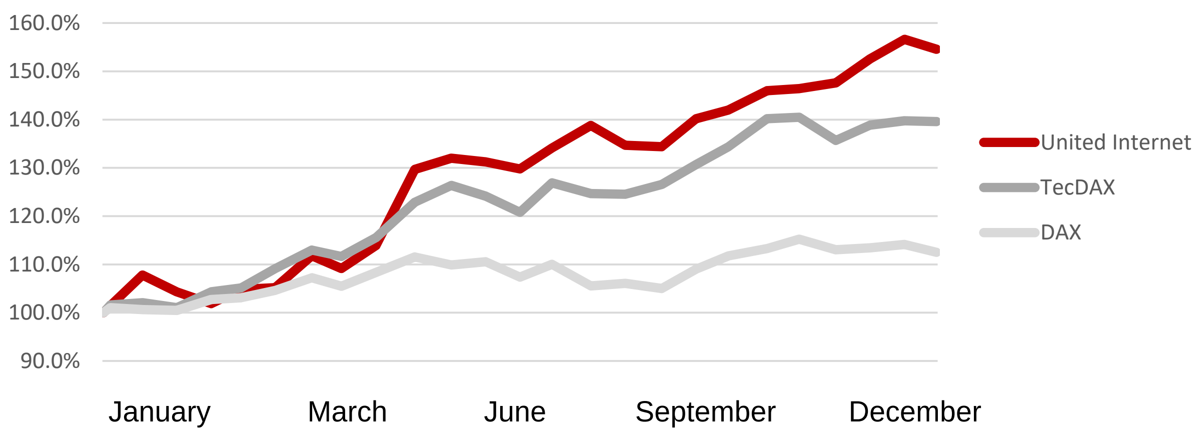
Following the contribution of affilinet GmbH to AWIN in October 2017, United Internet also holds a stake in AWIN AG (main activity: affiliate marketing). As of December 31, 2017, United Internet's share of voting rights amounted to 20.00%. AWIN closed its fiscal year 2017 with a positive result.

Share and dividend

Share

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

Share performance 2017, indexed



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

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

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

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

(1) EPS from continued operations

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

Share data

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

Shareholder structure

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

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

Dividend

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

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

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

Multi-period overview: dividend development

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

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

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

(3) As of: December 31

Annual Shareholders' Meeting 2017

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

Capital stock and treasury shares

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

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

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

Investor Relations

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

Liquidity and finance

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

New promissory note loan

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

Adjustment of existing promissory note loan

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

Adjustment of syndicated loans

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

Acquisition facility – takeover of Drillisch AG

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

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

Harmonization of bilateral credit and guaranty facilities

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

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

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

2.3 POSITION OF THE GROUP

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

Group's earnings position

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

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

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

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

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

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

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

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

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

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

Special items 2016:

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

Special items 2017:

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

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

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

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

(2) Net income I = Net income from continued operations; Net income II = Net income including discontinued operations

(3) EPS I = EPS from continued operations; EPS II = EPS including discontinued operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Group’s financial position

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

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

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

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

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

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

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

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

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

Group's asset position

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

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

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

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

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

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

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

Multi-period overview: development of relative indebtedness

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 POSITION OF THE COMPANY

Earnings of United Internet AG

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

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

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

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

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

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

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

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

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

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

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

Assets and financial position of United Internet AG

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

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

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

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

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

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

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

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

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

2.5 SIGNIFICANT NON-FINANCIAL PERFORMANCE INDICATORS

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

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

Sustainable business policy

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

Customer growth

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

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

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

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

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

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

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

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

Service quality

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

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

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

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

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

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

Product quality

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

Network quality

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

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

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

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

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

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

Security and data privacy

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

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

Customer retention and customer satisfaction

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

Employees

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

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

Headcount and key figures

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

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

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

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

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

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

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

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

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

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

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

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

Targeted staff support and ongoing development

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

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

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

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

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

Discovering and nurturing potential and performance from an early stage

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

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

Specialist training by colleagues for colleagues

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

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

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

Training held in high regard

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

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

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

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

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

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

Diversity

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

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

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

Multi-period overview: employees by gender

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

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

Multi-period overview: employee age profile

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

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

Multi-period overview: employees by country

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

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

Green IT

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

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

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

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

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

Social responsibility

“United Internet for UNICEF” foundation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 SUBSEQUENT EVENTS

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

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

4 RISK, OPPORTUNITY AND FORECAST REPORT

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

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

4.1 RISK REPORT

Risk management

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

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

Methods and objectives of risk management

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

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

Risks for United Internet

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

Strategy

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

Market

Competition

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

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

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

Business development and innovations

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

Legal & political

Regulation

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

Data protection

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

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

Litigation

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

Personnel

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

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

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

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

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

Fraud

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

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

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

Provision of services

Threat potential of the internet

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

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

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

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

Complexity and possible manipulation of hardware and software used

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

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

Complexity in development

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

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

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

Additional disclosures on risks, financial instruments and financial risk management

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

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

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

Liquidity

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

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

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

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

Financial covenants

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

Financial market

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

- Interest

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

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

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

- Currency

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

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

- Stock exchange prices (valuation risk)

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

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

Capital management

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

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

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

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

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

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

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

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

Probability of occurrence / possible impact of company risks

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

Assessment categories of company risks in ascending order

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

4.2 OPPORTUNITY REPORT

Opportunity management

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

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

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

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

Opportunities for United Internet

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

Broad strategic positioning in growth markets

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

Participation in market growth

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

Expansion of market positions

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

Entry into new business fields

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

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

Own landline infrastructure

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

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

Access to Telefónica mobile network

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

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

High vertical integration for applications

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

Internationalization

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

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

Acquisitions and investments

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

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

4.3 FORECAST REPORT

Expectations for the economy

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

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

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

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

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

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

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

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

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

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

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

Market / sector expectations

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

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

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

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

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

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

(Stationary) broadband market in Germany

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

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

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

	2018e	2017	Change
Sales	8.15	8.06	+ 1.1%

Source: PricewaterhouseCoopers, October 2017

Mobile internet market in Germany

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

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

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

	2018e	2017	Change
Sales	8.22	7.77	+ 5.8%

Source: PricewaterhouseCoopers, October 2017

Global cloud computing market

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

Market forecast: global cloud computing
(in $ billion)

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

Source: Gartner, December 2017

Online advertising market in Germany

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

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

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

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

Source: PricewaterhouseCoopers, October 2017

Expectations for the company

Conversion effects from IFRS 15

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

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

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

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

Forecast for the fiscal year 2018

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

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

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

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

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

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

Management Board’s overall statement on the anticipated development

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

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

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

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

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

Forward-looking statements

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

5 ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

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

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

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

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

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

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

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

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

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

6 DISCLOSURES REQUIRED BY TAKEOVER LAW

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

Composition of capital

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

Limitations affecting voting rights or the transfer of shares

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

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

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

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

There are no limitations affecting the transfer of shares.

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

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

Special rights

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

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

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

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

Powers of the Management Board to issue new shares

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

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

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

Powers of the Management Board to buy and use treasury shares

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

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

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

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

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

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

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

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

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

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

7 DECLARATION ON COMPANY MANAGEMENT / CORPORATE GOVERNANCE REPORT

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

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

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

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

Management and corporate structure

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

Supervisory Board

Working procedures of the Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In view of

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

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

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

Requirements for individual members

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

General requirement profile

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

Time availability

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

Conflicts of interest

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

Age limit for Supervisory Board members

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

No regular limit for duration of membership

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

Requirements regarding the composition of the Supervisory Board as a whole

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

Skills profile for the Supervisory Board as a whole

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

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

Diversity

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

Independence

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

Current composition of the Supervisory Board / implementation status

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

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

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

Management Board

Working procedures of the Management Board

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

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

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

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

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

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

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

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

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

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

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

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

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

Current composition of the Management Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Annual Shareholders' Meeting

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

Compliance

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

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

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

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

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

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

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

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

Financial disclosures / transparency

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

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

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

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

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

Accounting and auditing

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

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

Remuneration of Management Board and Supervisory Board

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

Stock option plans

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

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

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

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

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

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

The Code contains three different elements:

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

German corporations are obliged to observe the legal regulations.

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

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

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

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

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

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

Deductibles in the case of D&O insurance policies for Supervisory Board members
(section 3.8 para. 3 of the Code)
The D&O insurance policy for Supervisory Board members does not include any deductible. This is also not planned in the future as United Internet AG does not generally believe that the motivation and responsibility with which the members of the Supervisory Board conduct their duties can be improved by such a deductible.

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

Formation of committees
(section 5.3 of the Code)
In view of its current size with only three members, the Supervisory Board has not formed any committees and fulfills all its duties as a whole. Under these circumstances, the Supervisory Board cannot recognize how the formation of committees would improve the efficiency of its work.

Targets for the composition of the Supervisory Board
(section 5.4.1 para. 2 and 3 of the Code)
Following the resolution of past uncertainties in the regulatory environment, the Supervisory Board specified first concrete objectives regarding its composition in a resolution adopted on December 16, 2015 and will take these objectives into consideration when making election proposals at future Annual Shareholders' Meetings. It was decided not to set a regular limit for the duration of membership to the Supervisory Board as the Supervisory Board believes that such a limitation is not appropriate compared to other criteria for nominating Supervisory Board members and that it is ultimately at the discretion of the Annual Shareholders' Meeting to elect those candidates to the Supervisory Board whom they believe are best suited to representing their interests. The specific objectives of the Supervisory Board and the status of their implementation are published in the Company's Corporate Governance Report.

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

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

8 REMUNERATION REPORT

Principles of the Management Board remuneration system

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

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

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

The fixed remuneration component is paid monthly as a salary.

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

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

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

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

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

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

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

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

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

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

Value of benefits granted for the reporting period

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

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

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

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

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

Allocation for the reporting period

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

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

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

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

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

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

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

Principles of the Supervisory Board remuneration system

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

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

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

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

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

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

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

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

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

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

Employee stock ownership plans

Virtual stock option program for management (SAR)

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

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

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

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

Stock-based compensation for employees

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

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

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

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

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

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

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

9 DEPENDENT COMPANY REPORT

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

Montabaur, March 16, 2018

The Management Board

Ralph Dommermuth Frank Krause Jan Oetjen

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

CONTENTS

United Internet AG, Montabaur

Balance sheet as of December 31, 2017

Assets		December 31, 2017	December 31, 2016
	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		23,844.00	30,013.00
II. Property, plant and equipment			
Other equipment, operational and office equipment		71,905.00	103,381.00
III. Financial assets			
1. Shares in affiliated companies	3,101,018,302.35		1,558,389,772.94
2. Loans to affiliated companies	1,851,550,000.00		1,434,629,585.82
		4,952,568,302.35	2,993,019,358.76
		4,952,664,051.35	2,993,152,752.76
B. Current assets			
I. Accounts receivable and other assets			
1. Receivables due from affiliated companies	832,041,055.31		1,389,942,667.67
2. Other assets	41,440,329.48		121,030,829.67
		873,481,384.79	1,510,973,497.34
II. Cash in hand and bank balances		7,662,086.23	8,546,888.88
		881,143,471.02	1,519,520,386.22
C. Prepaid expenses		161,137.64	44,998.00
		5,833,968,660.01	4,512,718,136.98

Equity and liabilities		December 31, 2017	December 31, 2016
	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	-4,993,289.00		-3,270,943.00
		200,006,711.00	201,729,057.00
II. Capital reserves		457,976,677.74	457,976,677.74
III. Revenue reserves			
Other revenue reserves		364,317,980.53	425,910,087.86
IV. Balance sheet profit		2,544,414,430.21	1,161,684,818.97
		3,566,715,799.48	2,247,300,641.57
B. Accruals			
1. Accrued taxes	55,049,362.29		12,595,174.48
2. Other accrued liabilities	9,496,298.03		17,146,510.57
		64,545,660.32	29,741,685.05
C. Liabilities			
1. Liabilities due to banks	1,952,789,252.00		1,747,359,827.00
2. Trade accounts payable	337,498.11		610,610.13
3. Liabilities due to affiliated companies	233,744,078.98		458,438,773.07
4. Other liabilities	10,762,507.55		18,691,238.06
thereof from taxes EUR 10.762.507,55 (prior year: EUR 18.691.238,06)			
		2,197,633,336.64	2,225,100,448.26
D. Deferred tax liabilities		5,073,863.57	10,575,362.10
		5,833,968,660.01	4,512,718,136.98

United Internet AG, Montabaur
Income Statement for 2017

				2016
		EUR	EUR	EUR
1.	Sales	853,101.15		1,960,634.71
2.	Other operating income	1,434,786,221.78		6,249,430.61
			1,435,639,322.93	8,210,065.32
3.	Cost of materials			
	Cost of purchased services	0.00		884,414.01
4.	Personnel expenses			
	a. Wages and salaries	5,425,867.95		1,232,912.49
	b. Social security contributions	30,169.74		32,352.48
5.	Depreciation and amortization of intangible assets and property, plant and equipment	46,645.00		37,675.89
6.	Other operating expenses	13,783,834.95		14,023,781.10
			19,286,517.64	16,211,135.97
7.	Income from profit transfer agreements	141,462,503.39		103,246,223.30
8.	Income from investments thereof from affiliated companies EUR 0.00 (prior year: EUR 120,000,000.00)	0.00		120,000,000.00
9.	Income from loans in financial assets thereof from affiliated companies EUR 96,986,618.24 (prior year: EUR 18,223,591.72)	96,986,618.24		18,223,591.72
10.	Other interest and similar income thereof from affiliated companies EUR 13,981,328.10 (prior year: EUR 20,585,054.98)	13,981,328.10		22,992,590.98
11.	Expense from loss transfer	10,461,211.00		249,140,689.64
12.	Interest and similar expenses thereof to affiliated companies EUR 3,918,891.09 (prior year: EUR 1,022,048.15)	37,977,683.22		24,988,759.86
			203,991,555.51	-9,667,043.50
13.	Taxes on income thereof income from the change in disclosed deferred taxes EUR 5,501,498.53 (prior year: expense of EUR 10,575,362.10)		77,909,915.96	29,648,854.01
14.	Result after taxes		1,542,434,444.84	-47,316,968.16
15.	Other taxes		1,588.00	1,225.00
16.	Net profit for the year (prior year: net loss for the year)		1,542,432,856.84	-47,318,193.16
17.	Profit carried forward		1,001,981,573.37	1,209,003,012.13
18.	Balance sheet profit		2,544,414,430.21	1,161,684,818.97

UNITED INTERNET AG, MONTABAUR

Notes to the Financial Statements for Fiscal Year 2017

GENERAL PROVISIONS

The annual financial statements for fiscal year 2017 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. 315a 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).

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 is carried 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.

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).

Drillisch AG and Telecommunication SE

On May 12, 2017, the Management Boards of United Internet AG and Drillisch AG, Maintal, entered into a business combination agreement (each with the approval of their respective Supervisory Boards) governing the step-by-step acquisition of 1&1 Telecommunication SE by Drillisch AG. The aim of the overall transaction was to contribute 1&1 Telecommunication SE to Drillisch AG and thus create a powerful full-service telecommunications provider under the umbrella of United Internet AG with considerable potential for synergies and growth.

The merger of 1&1 Telecommunication SE and Drillisch AG was completed in two steps. In the first step, United Internet contributed 9,372 shares of 1&1 Telecommunication SE (7.75% of the share capital of 1&1 Telecommunication SE) to Drillisch AG in the course of a capital increase for non-cash contribution conducted by Drillisch AG. In return, United Internet received 9,062,169 new shares in Drillisch AG.

In a second step, the remaining 111,628 shares in 1&1 Telecommunication SE held by United Internet (approx. 92.25% of the share capital of 1&1 Telecommunication) were contributed to Drillisch AG in return for the issue of 107,937,831 new Drillisch shares in total. To this end, there was a further capital increase for non-cash contribution under the exclusion of subscription rights. The approval of an Extraordinary General Meeting of Drillisch AG, held on July 25, 2017, was granted for this step.

The shares received in 1&1 Drillisch AG were valued – in accordance with exchange principles – at the prorated carrying amounts of the disposed shares in 1&1 Telecommunication SE (predecessor accounting). There was no release of hidden reserves.

The transaction was accompanied by a voluntary public tender offer submitted by United Internet AG for all outstanding shares of Drillisch AG. United Internet offers to purchase the no-par value bearer shares, each representing a proportionate amount of Drillisch AG share capital of €1.10, from the Drillisch shareholders.

On the reporting date, United Internet AG holds 67.06% of shares in Drillisch with a carrying amount of € 722,778k. In addition, United Internet AG holds 6.23% indirectly via its subsidiary United Internet Investments Holding GmbH.

Activities with business users and other telecommunications providers (wholesale) were not part of the above transaction. This business continues to be operated by 1&1 Versatel and was transferred to United Internet Service Holding GmbH, Montabaur, by means of a carve out (from 1&1 Telecommunication SE). In order to fund the internal purchase price of 1&1 Versatel, deposits of € 1,020,269k were made by United Internet AG to United Internet Service Holding GmbH. The carrying amount of the shares in United Internet Service Holding GmbH rose to € 1,020,294k as of the reporting date.

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, Montabaur, initially to its subsidiary 1&1 Internet Holding SE, Montabaur, in the form of a mixed capital increase against the issue of new common shares and one preferred share, as well as a long-term vendor loan. The shares received in 1&1 Internet Holding SE as part of the capital increase for non-cash contribution of 1&1 Internet Holding SE, Montabaur, were valued – in accordance with exchange principles – at the prorated carrying amounts of the disposed shares (36,373 common shares and one preferred share) in 1&1 Internet SE (predecessor accounting). There was therefore no release of hidden reserves. The transfer of the remaining 84,627 common shares in exchange for a vendor loan resulted in income of € 1.4 billion for United Internet AG.

In a second step, United Internet AG contributed all common shares in 1&1 Internet Holding SE to a newly founded 1&1 Internet TopCo SE, Montabaur, against the issue of 66.67% of capital stock. The remaining 33.33% of shares in 1&1 Internet TopCo SE are held by Warburg Pincus. A purchase price of up to € 450 million was agreed for the 33.33% of shares held by Warburg Pincus. The carrying amount of the shares in TopCo SE rose to € 176,250 as of the reporting date. The shares received in 1&1 Internet TopCo SE as part of the capital increase for non-cash contribution of 1&1 Internet TopCo SE were valued – in accordance with exchange principles – at the prorated carrying amounts of the disposed shares in 1&1 Internet Holding SE (predecessor accounting). There was therefore no release of hidden reserves.

Further acquisitions

In the reporting period, Atrium 113. Europäische VV SE, Düsseldorf, was acquired for a purchase price of € 132k.

In the reporting period, Atrium 121. 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):

	Dec. 31, 2017	Dec. 31, 2017			Dec. 31, 2016
		Remaining term			
	Total	up to 1 year	of 1 to 5 years	over 5 years	Total *
Accounts receivable from affiliated companies	832,041	832,041	0	0	1,389,942
Other assets	41,440	41,440	0	0	121,031
	873,481	**873,481**	**0**	**0**	**1,510,973**

* All remaining terms up to 1 year.

Receivables from affiliated companies mainly comprise receivables from the United Internet Group's internal cash management system due from United Internet Investments Holding GmbH amounting to € 612,237k, due from United Internet Service Holding GmbH amounting to € 56,148k, and due from 1&1 Internet Holding SE amounting to € 69,915k.

Moreover, receivables from affiliated companies result from profit transfer agreements due from United Internet Investments Holding GmbH amounting to € 40,102k and from 1&1 Mail & Media Applications SE amounting to € 35,162k.

Other assets consist mostly of receivables due from the tax office (€ 37,678k).

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, 2017 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, 2017 the Company held 4,993,289 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 18, 2020 up to a limit of ten percent of capital stock. The purchase price may be no lower than ten percent of the share's market price, nor higher than ten percent above its market price. The authorization may not be used for the purpose of trading with treasury shares.

As of the balance sheet date 4,993,289 treasury shares were held.

In addition to a sale via the stock exchange or in another manner that ensures the equal treatment of all shareholders, the Management Board is authorized, subject to the approval of the Supervisory Board, to use the United Internet shares purchased based on the authorization granted on May 18, 2017, or any prior authorizations, pursuant to Section 71 (1) No. 8 AktG, for the following purposes:

a) Sale for cash consideration that is not significantly below the Company's share price listed on the stock exchange at the time of sale (without ancillary purchase costs). This authorization, however, shall only apply on condition that this is a proportional amount of no more than 10%, or if this value is lower, of the existing capital stock accounted for by the total sold shares when this authorization is implemented. Those shares with a subscription right which was excluded, by the direct or corresponding application of Section 186 (3) Sentence 4 AktG, for this authorization's duration at the same time should be counted toward the above-stated maximum threshold.

b) Sale for payment in kind, particularly within the scope of the direct or indirect purchase of companies, parts of a company or equity shares therein, or other assets including receivables from the Company, or entitlements to purchase assets, or as part of corporate combinations as a (partial) consideration.

c) The granting of United Internet shares as part of remuneration and/or employee stock ownership programs by which United Internet offers or transfers shares to United Internet AG Management Board members and/or to individuals who are in an employment relationship with the Company or with one of its current or former affiliates and/or management board members of corporations affiliated with the Company. Insofar as United Internet shares are to be transferred to members of the Company's Management Board, the decision on this shall be incumbent upon the Company's Supervisory Board.

d) The fulfilment of conversion or option rights and/or conversion obligations stemming from convertible bonds or warrant bonds issued by the Company or by corporations which are controlled or majority held by the Company.

e) Whole or partial cancellation without any further resolution of the Annual Shareholders' Meeting. The Management Board is authorized, subject to the approval of the Supervisory Board, to reduce the Company's capital stock by the capital stock proportion attributable to the redeemed shares. Subject to the approval of the Supervisory Board, the Management Board may determine, in derogation herefrom, that the capital stock shall remain unchanged upon cancellation and that instead, by way of cancellation, the proportional ratio of remaining shares to the capital stock shall increase. The Supervisory Board is authorized to amend Section 5 of the Company's by-laws in accordance with the respective utilization of its authorization to cancel shares.

Total shareholders' equity developed as follows (€):

Development of total shareholders' equity

Capital stock		
- Capital stock - December 31, 2016		205,000,000.00
- Open deduction of treasury shares acc. to Sec. 272 (1)a HGB - December 31, 2016	-3,270,943.00	
- Issue of treasury shares	277,654.00	
- Purchase of treasury shares	-2,000,000.00	
- Open deduction of treasury shares acc. to Sec. 272 (1)a HGB - December 31, 2017		-4,993,289.00
- Balance as of December 31, 2017		**200,006,711.00**
Capital reserves		
- Balance as of December 31, 2016		**457,976,677.74**
- Balance as of December 31, 2017		**457,976,677.74**
Other revenue reserves		
- Balance as of December 31, 2016		**425,910,087.86**
- Transfer to other revenue reserves (employee stock ownership plans)		13,621,390.08
- Purchase of treasury shares		-75,213,497.41
- Balance as of December 31, 2017		**364,317,980.53**
Balance sheet profit		
- Balance as of December 31, 2016		**1,161,684,818.97**
- Dividend payment		-159,703,245.60
- Net profit for the year		1,542,432,856.84
- Balance as of December 31, 2017		**2,544,414,430.21**
Total shareholders' equity		**3,566,715,799.48**

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 and the difference is offset with other revenue reserves. The nominal value of shares held on the balance sheet date December 31, 2017, amounting to € 4,993,289.00, 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 18, 2017 followed the proposal of the Management Board and Supervisory Board to carry forward part of the balance sheet profit 2016 amounting to € 1,001,981,573.37 and to distribute another part totaling € 159,703,245.60 as a dividend.

As of the reporting date, the balance sheet profit amounts to € 2,544,414,430.21. The balance sheet profit contains a carryforward from the previous year amounting to € 1,161,684,818.97. This amount was reduced under consideration of the dividend paid in fiscal year 2017 to € 1,001,981,573.37.

For the fiscal year 2017, the Management Board has proposed to the Supervisory Board the payment of a dividend of € 1.00 per share. The Management Board and Supervisory Board will discuss this dividend proposal at the Supervisory Board meeting on March 21, 2018. 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, 2017 the Company held 4,993,289 treasury shares, representing 2.44% of the capital stock of 205,000,000 shares. The average purchase cost per share amounted to € 37.36. 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 and adopted a new buyback program of up to 5,000,000 treasury shares.

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 fully exhausted.

ACCRUALS

Accrued taxes of € 3,428k 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 (€ 6,113k), for legal, auditing and consulting fees (€ 1,883k), and for bonuses and commissions (€ 348k).

The effect from discounting accruals recognized in interest expenses amounts to € 0k (prior year: € 456k).

LIABILITIES

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

	Dec. 31, 2017	**Dec. 31, 2017**			**Dec. 31, 2016**			
	Total	Up to 1 year	Remaining term of 1 to 5 years	over 5 years	Total	Remaining term up to 1 year	Remaining term of 1 to 5 years	over 5 years
Bank liabilities	1,952,789	247,289	1,305,500	400,000	1,747,360	421,860	1,228,000	97,500
Trade payables	337	337			611	611	0	0
Liabilities due to affiliated companies	233,744	233,744			458,439	458,439	0	0
Other liabilities thereof for taxes € 10,763k (prior year: € 18,691k)	10,763	10,763			18,691	18,691	0	0
	2,197,633	**492,133**	**1,305,500**	**400,000**	**2,225,101**	**899,601**	**1,228,000**	**97,500**

Bank liabilities as of December 31, 2017 amount to € 1,953 million. They comprise two promissory note loans totaling € 1,036 million, various syndicated loans totaling € 876 million, and the short-term use of a bilateral credit facility totaling € 41 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 (€ 214,737k), from services received from these companies (€ 4,888k), and from profit transfer agreements (€ 10,461k).

Other liabilities mainly consist of sales tax liabilities of € 8,372k.

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 € 5,074k as of December 31, 2017 (prior year: € 10,575k). Deferred tax assets amount to € 8,384k (prior year: € 1,637k) and result as of the reporting date from deductible temporary differences relating to intangible assets, as well as accruals. Deferred tax liabilities in the reporting period result from temporary differences relating to valuation differences between the trade and tax balance sheets, especially from investments, and amount to € 13,458k (prior year: € 12,212k). The calculation is based on a tax rate of 31.17% (prior year: 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 € 853k.

OTHER OPERATING INCOME

Other operating income mainly results from extraordinary income in connection with the disposal of financial assets totaling € 1,429,165k. This refers above all to income from the sale of shares in 1&1 Internet SE to 1&1 Internet Holding SE. The internal sale within the Group was made as part of the investment of Warburg Pincus. In addition, there was other operating income from internal Group charges of € 4,986k and from income not relating to the period from the reversal of accruals (€ 591k).

PERSONNEL EXPENSES

Adjusted for the effects from employee stock ownership plans, personnel expenses amounted to € 1,404k in the reporting period (prior year: € 1,250k).

OTHER OPERATING EXPENSES

Other operating expenses mainly comprise the expenses for legal, consulting and audit fees (€ 10,816k; prior year: € 12,163k).

INCOME FROM PROFIT TRANSFER AGREEMENTS

Income from profit transfer agreements refers to the profit transfers of 1&1 Mail & Media Applications SE amounting to € 99,982k, of United Internet Investments Holding GmbH totaling € 40,102k and of United Internet Service Holding GmbH totaling € 1,378k.

INCOME FROM INVESTMENTS

Income from investments amounts to € 0k (prior year: € 120,000k)

EXPENSES FOR LOSS ASSUMPTIONS

Expenses for loss assumptions mainly comprise the compensation expense for United Internet Corporate Services GmbH (€ 10,459k).

INCOME TAXES

Income taxes of € 77,910k comprise current taxes for 2017 of € 80,618k (of which € 40,267k for corporation tax and the solidarity surcharge and € 40,351k for trade tax) and € 2,793k from previous years. There was an opposing effect from the reversal of deferred tax liabilities amounting to € 5,501k.

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, 2017, the Management Board consisted of the following members:

Ralph Dommermuth (CEO), Montabaur

Robert Hoffmann (COO), Kelkheim (until December 31, 2017)

Frank Krause (CFO), Kronberg/Taunus

Jan Oetjen (Management Board member for Consumer Applications), Karlsruhe

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

After serving on the Management Board of 1&1 Internet SE for eleven years, five of which as CEO of 1&1 Internet SE and Member of the Board for Business Applications at United Internet AG, Robert Hoffmann stepped down from the Management Board of United Internet at his own request on December 31, 2017 in order to pursue new entrepreneurial challenges.

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 (until December 31, 2017)

- united-domains AG, Starnberg, member of the supervisory board (as of October 28, 2016), chair of the supervisory board (as of November 1, 2016)
- home.pl S.A., Stettin / Poland, member of the supervisory board (as of November 1, 2016)

Frank Krause

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

Martin Witt (until September 30, 2017)

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

Jan Oetjen
- Affilinet GmbH, Munich
  chair of the advisory 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 2017. The fixed remuneration component is paid monthly as a salary. The size of the bonus depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on 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 as of fiscal year 2016 and for the following years.

In fiscal year 2017, total remuneration for the Management Board without share-based payments amounted in total to € 1,306k (prior year: € 1,121k). Of this total, € 660k or 50% was fixed, € 323k or 25% was variable, and € 323k or 25% were other special payments and 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 lay 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 2017, Mr. Robert Hoffmann exercised 250,000 of the subscription rights granted in previous years at a strike price of € 16.06.

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 the fiscal year 2017, Mr. Frank Krause exercised 50,000 of these subscription rights at a strike price of € 40.00.

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):

2017	Fixed €k	Variable €k	Special and fringe benefits €k	Total fixed, variable, special and fringe benefits €k	Market value of share-based payments granted in 2017 €k *
Ralph Dommermuth	0	0	0	0	-
Robert Hoffmann	300	184	12	496	-
Frank Krause	360	139	311	810	0
	660	323	323	1,306	0

2016	Fixed €k	Variable €k	Special and fringe benefits €k	Total fixed, variable, special 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

* 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 2017, Mr. Frank Krause received a special payment of € 300k.

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 2017, 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 2017, the members of the Supervisory Board also held seats on supervisory boards or similar committees of the following companies:

Kurt Dobitsch

- 1&1 Internet SE, Montabaur
- United Internet Investments Holding GmbH, Montabaur (formerly: United Internet Ventures AG) (until March 1, 2017)
- 1&1 Telecommunication SE, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur
- 1&1 Drillisch AG, Maintal (formerly: Drillisch AG) (as of October 16, 2017)
- Nemetschek AG, Munich (chair)
- Graphisoft S.E., Budapest / Hungary
- Vectorworks Inc., Columbia / USA
- Bechtle AG, Gaildorf
- Singhammer IT Consulting AG, Munich

Kai-Uwe Ricke

- 1&1 Internet SE, Montabaur
- United Internet Investments Holding GmbH, Montabaur (formerly: United Internet Ventures AG) (until March 1, 2017)
- 1&1 Telecommunication SE, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur (chair)
- STRATO AG, Berlin (as of May 17, 2017)
- 1&1 Drillisch AG, Maintal (formerly: Drillisch AG) (as of October 16, 2017)
- EUN Holdings LLP, Delaware / USA
- Delta Partners FZ-LLC, Dubai / Emirate of Dubai (chair)
- SUSI Partners AG, Zurich / Switzerland (president)
- Zalando SE, Berlin (until May 31, 2017)
- Virgin Mobile CEE, Amsterdam / Netherlands
- Cash Credit Limited, Cayman Islands (as of November 1, 2017)

Michael Scheeren

- 1&1 Internet SE, Montabaur (chair)
- United Internet Investments Holding GmbH, Montabaur (formerly: United Internet Ventures AG) (until March 1, 2017 – chair)
- 1&1 Telecommunication SE, Montabaur (chair)
- 1&1 Mail & Media Applications SE, Montabaur (chair)
- 1&1 Internet TopCo SE, Montabaur (until December 13, 2017)
- 1&1 Drillisch AG, Maintal (formerly: Drillisch AG) (as of October 16, 2017)
- STRATO AG, Berlin (as of May 17, 2017)

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):

2017	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

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

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

Contingent liabilities

The Company has guaranty facility in its name. As of the reporting date, guaranties totaling € 29,475k were outstanding from this facility.

In addition, the Company is jointly and severally liable for a guaranty facility granted by banks, which both the Company and various subsidiaries may use. As of the reporting date, guaranties totaling € 8,592k were outstanding from this facility.

As of the reporting date, no outstanding guaranty from one of the two guaranty facilities had been used. Due to the stable business position of the borrowing subsidiaries and United Internet AG, the risk involved in the contingent liabilities is currently regarded as very low.

The Company has issued a letter of comfort for 1&1 TopCo SE. In this connection, the Company has committed to accept responsibility for obligations received until December 31, 2017 in the following fiscal year and to lead the company in such a way that it can meet its payment obligations punctually and in full.

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

There were no significant events subsequent to the end of the reporting period with any material financial effect.

Montabaur, March 16, 2018

The Management Board

Ralph Dommermuth	Frank Krause	Jan Oetjen

Annex 1

Development of Non-Current Assets of United Internet AG in Fiscal Year 2017

		Acquisition and production costs				Accumulated depreciation				Net book value	
		1.1.2017 EUR	Additions EUR	Disposals EUR	31.12.2017 EUR	1.1.2017 EUR	Additions EUR	Disposals EUR	31.12.2017 EUR	31.12.2017 EUR	21.12.2016 EUR
I.	**Intangible assets**										
	Concessions, industrial and similar rights and assets as well as licenses in such rights and assets acquired for consideration	36,240.00	9,000.00	0.00	45,240.00	6,227.00	15,169.00	0.00	21,396.00	23,844.00	30,013.00
II.	**Property, plant and equipment**										
	Other equipment, operational and office equipment	264,278.83	0.00	76,892.17	187,386.66	160,897.83	31,476.00	76,892.17	115,481.66	71,905.00	103,381.00
III.	**Financial assets**										
1.	Shares in affiliated companies	1,558,389,772.94	2,393,577,831.39	850,949,301.98	3,101,018,302.35	0.00	0.00	0.00	0.00	3,101,018,302.35	1,558,389,772.94
2.	Loans to affiliated companies	1,434,629,585.82	1,920,924,828.40	1,504,004,414.22	1,851,550,000.00	0.00	0.00	0.00	0.00	1,851,550,000.00	1,434,629,585.82
		2,993,019,358.76	4,314,502,659.79	2,354,953,716.20	4,952,568,302.35	0.00	0.00	0.00	0.00	4,952,568,302.35	2,993,019,358.76
		2,993,319,877.59	4,314,511,659.79	2,355,030,608.37	4,952,800,929.01	167,124.83	46,645.00	76,892.17	136,877.66	4,952,664,051.35	2,993,152,752.76

United Internet AG, Montabaur Annex 2

Statement of investments as of December 31, 2017

	Capital share	Company equity as of Dec. 31, 2017	Net income / loss FY 2017
	in %	T€	T€
Shares held directly			
Atrium 113. Europäische VV SE, Düsseldorf	100.00	120	0
Atrium 121. Europische VV SE, Berlin	100.00	120	0
1&1 Mail & Media Applications SE, Montabaur (1)	100.00	968,686	0
MIP Multimedia Internet Park GmbH, Zweibrücken	100.00	43	-265
United Internet Corporate Services GmbH, Montabaur (1)	100.00	25	0
United Internet Investments Holding GmbH, Montabaur (formerly UI Ventures AG) (1)	100.00	128,438	0
United Internet Service SE, Montabaur (1)	100.00	120	0
United Internet Service Holding GmbH, Montabaur (1)	100.00	1,020,294	0
Drillisch AG, Maintal	73.29	6,548,838	158,402
1&1 Internet TopCo SE, Montabaur (2)	66.67	543,470	19,961
Shares held indirectly			
1&1 De-Mail GmbH, Montabaur (1)	100.00	25	0
1&1 Energy GmbH, Montabaur	100.00	-290	-1,778
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	6,980	2,557
1&1 Mail & Media Service GmbH, Montabaur (1)	100.00	25	0
1&1 Versatel Deutschland GmbH, Düsseldorf (7)	100.00	306,431	0
1&1 Versatel GmbH, Berlin (8)	100.00	140,054	3,823
A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur (1)	100.00	1,152	0
General Media Xervices GMX S.L., Madrid / Spain	100.00	0	0
GMX Italia S.r.l., Mailand / Italy	100.00	0	0
TROPOLYS Netz GmbH, Düsseldorf	100.00	32,640	14
TROPOLYS Service GmbH, Düsseldorf	100.00	20,256	11
United Internet Media Austria GmbH, Wien / Österreich	100.00	209	93
United Internet Media GmbH, Montabaur (1)	100.00	50	0
United Internet Sourcing & Aprenticeship GmbH, Montabaur	100.00	24	-1
Versatel Holding GmbH, Berlin (7)	100.00	151,637	0
Versatel Immobilien Verwaltungs GmbH, Düsseldorf	100.00	4,014	3
Versatel Telecommunications GmbH, Düsseldorf (6)	100.00	265,886	0
1&1 Berlin Telecom Service GmbH, Berlin (4) (22)	100.00	25	0
1&1 Logistik GmbH, Montabaur (4) (22)	100.00	25	0
1&1 Telecom Sales GmbH, Montabaur (4) (22)	100.00	25	0
1&1 Telecom Service Montabaur GmbH, Montabaur (4) (22)	100.00	967	0
1&1 Telecom Service Zweibrücken GmbH, Zweibrücken (4) (22)	100.00	544	0
1&1 Telecommunication SE, Montabaur (3) (22)	100.00	785,424	147,067
Blitz 17-665 SE, Munich (22)	100.00	120	0
Blitz 17-666 SE, Munich (22)	100.00	120	0
Drillisch Netz AG, Maintal (22)	100.00	642	20
Drillisch Logistik GmbH, Münster (22)	100.00	19,198	8,809
Drillisch Online AG, Düsseldorf (3) (22)	100.00	144,644	0
IQ-optimize Software AG (3) (22)	100.00	87	0
Mobile Ventures GmbH, Maintal (22)	100.00	984	3
yourfone Shop GmbH, Düsseldorf (19) (22)	100.00	8,329	-257
1&1 Telecom GmbH, Montabaur (5) (22)	100.00	1,143	0
1&1 Telecom Holding GmbH, Montabaur (22)	100.00	1,752,964	305,451
1&1 Cardgate LLC, Chesterbrook / USA (23)	100.00	373	369
1&1 Datacenter SAS, Strasbourg / France (23)	100.00	1,668	181
1&1 Internet Development SRL, Bucharest / Romania (23) (24)	100.00	2,884	1,253
1&1 Internet Espana S.L.U., Madrid / Spain (23)	100.00	988	985
1&1 Internet Holding SE, Montabaur (9) (23)	100.00	25,614	25,497
1&1 Internet Inc., Chesterbrook / USA (23)	100.00	19,351	3,362
1&1 Internet Ltd., Gloucester / UK (23)	100.00	1,953	1,920
1&1 Internet (Philippines) Inc., Cebu City / Philippines (20) (23)	100.00	742	72
1&1 Internet S.A.R.L., Saargemünd / France (23)	100.00	1,391	1,281
1&1 Internet SE, Montabaur (10) (23)	100.00	390,319	0
1&1 Internet Service GmbH, Montabaur (10) (23)	100.00	343	0
1&1 Internet Sp.z o.o, Warsaw / Poland (23)	100.00	234	-37
1&1 UK Holdings Ltd., Gloucester / UK (23)	100.00	71,847	-14
A1 Media USA LLC, Chesterbrook / USA (23)	100.00	127	6
Arsys Internet E.U.R.L., Perpignan / France (23)	100.00	137	3
Arsys Internet S.L., Logroño / Spain (23)	100.00	89,555	3,650
AZ.pl Sp. z o.o., Stettin / Poland (23)	100.00	769	684
Cronon AG, Berlin (10) (23)	100.00	56	0
DomCollect International GmbH, Montabaur (11) (23)	100.00	25	0
DomCollect Worldwide Intellectual Property AG, Zug / Switzerland (15) (23) (25)	100.00	257	-33
Fasthosts Internet Inc., Chesterbrook / USA (15) (23)	100.00	321	0
Fasthosts Internet Ltd., Gloucester / UK (23)	100.00	5,645	2,569
HBS Cloud Sp. z o.o., Stettin / Poland (23)	100.00	10	0
home.pl S.A., Stettin / Poland (23)	100.00	50,778	7,885

Statement of investments as of December 31, 2017

	Capital share	Company equity as of Dec. 31, 2017	Net income / loss FY 2017
	in %	T€	T€
Immobilienverwaltung AB GmbH, Montabaur (23)	100.00	507	74
Immobilienverwaltung NMH GmbH, Montabaur (23)	100.00	377	56
Nicline Internet S.L., Logroño / Spain (23)	100.00	503	154
ProfitBricks GmbH, Berlin (23)	100.00	-365	-5,458
ProfitBricks Inc., San Antonio / USA (23)	100.00	555	-109
Sedo GmbH, Cologne (11) (23)	100.00	13,428	0
Sedo Holding GmbH, Montabaur (23)	100.00	16,945	-2,399
Sedo.com LLC, Cambridge / USA (23)	100.00	4,356	83
STRATO AG, Berlin (10) (23)	100.00	9,716	0
Tesys Internet S.L., Logroño / Spain (23)	100.00	1,190	0
United Domains Inc., Cambridge / USA (23)	100.00	381	54
united-domains AG, Starnberg (23)	100.00	11,056	10,624
united-domains Reselling GmbH, Starnberg (12) (23)	100.00	25	0
Domain Robot Enterprises Inc., Vancouver / Canada (14) (23)	100.00	0	0
InterNetX Corp., Miami / USA (23)	100.00	1	-146
PSI-USA, Inc., Las Vegas / USA (23)	100.00	526	7
Schlund Technologies GmbH, Regensburg (13) (23)	100.00	25	0
DP ASIA Sp. z o.o., Stettin / Poland (14) (23)	100.00	2	0
DP EUROPE Sp. z o.o., Stettin / Poland (14) (23)	100.00	2	0
DP POLAND Sp. z o.o., Stettin / Poland (14) (23)	100.00	2	0
Intellectual Property Management Company Inc., Dover (Delaware) / USA (23)	100.00	325	97
InterNetX GmbH, Regensburg (21) (23)	95.56	10,375	4,383
Escrow.domains LLC, Washington USA (23)	75.00	-78	-100
premium.pl Sp. z o.o., Stettin / Poland (23)	75.00	373	93
DomainsBot S.r.l, Rome / Italy (18) (23)	49.00	690	169
uberall GmbH, Berlin (16)	30.34	129	-1,382
rankingCoach International GmbH (16)	29.93	-4,475	-1,796
Tele Columbus AG, Berlin (16)	28.52	560,718	-20,214
Open-Xchange AG, Nuremberg (16)	25.39	34,581	-823
Virtual Minds AG, Freiburg (16)	25.10	10,161	1,165
ePages GmbH, Hamburg (17)	25.01	2,342	-274
AWIN AG, Berlin (16)	20.00	78,599	1,899
Afilias plc, Dublin / Ireland (23)	< 20,00	-	-
AdUX.S.A, Paris / France (formerly 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 Drillisch AG
(4) profit transfer to 1&1 Telecommunication SE (direct/indirect)
(5) profit transfer to 1&1 Telecom Holding GmbH
(6) loss assumption by United Internet Service Holding GmbH
(7) profit transfer to 1&1 Versatel GmbH (direct/indirect)
(8) loss assumption by die Versatel Telecommunications GmbH
(9) loss assumption by 1&1 Internet TopCo SE
(10) profit transfer to 1&1 Internet Holding SE (direct/indirect)
(11) profit transfer to Sedo Holding GmbH (direct/indirect)
(12) profit transfer to united-domains AG
(13) profit transfer to InterNetX GmbH
(14) no operating business
(15) in liquidation
(16) based on published figures as of December 31, 2016
(17) based on published figures as of June 30, 2017
(18) contains DomainsBot Inc., Dover / USA
(19) sold on December 31, 2017
(20) Hùseyin Dogan (0.008%), Matthias Steinberg (0.008%), Joran Sison (0.008%), Gary Sancio (0.008%), Ernesto Cadino (0.008%)
(21) Hakan Ali (2,96%), Thomas Mörz (1,48%)
(22) held indirectly via Drillisch AG, Maintal
(23) held indirectly via 1&1 Internet TopCo SE, Montabaur
(24) Markus Huhn (1.00%)

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 October 23, 2017

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:
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:

18 Oct 2017

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	3.10 %	0.16 %	3.26 %	205000000
Previous notification	2.95 %	0.30 %	3.25 %	/

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	6353099	0.00 %	3.10 %

Total	6353099	3.10 %

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	319509	0.16 %
		Total	319509	0.16 %

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	3862	0.002 %
			Total	3862	0.002 %

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 UK Holdco Limited	%	%	%
BlackRock Asset Management Schweiz 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 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:

Publication on November 16, 2017

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:
Ministry of Finance on behalf of the State of Norway	Oslo Norway

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:

15 Nov 2017

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	2.96 %	0.00 %	2.96 %	205000000
Previous notification	3.03 %	0.00 %	3.03 %	/

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	6069775	0 %	2.96 %
Total	6069775		2.96 %	

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 %
					%
			Total		%

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)
Norges Bank	%	%	%

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 November 24, 2017

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:

20 Nov 2017

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	2.98 %	0.00 %	2.98 %	205000000
Previous notification	3.09 %	0.19 %	3.28 %	/

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	6110100	0.00 %	2.98 %
Total	6110100		2.98 %	

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 %
					%
			Total		%

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.	%	%	%

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:

Independent auditor’s report

To United Internet AG

Report on the audit of the annual financial statements and of the management report for the company and the group

Opinions

We have audited the annual financial statements of United Internet AG, Montabaur, which comprise the balance sheet as at 31 December 2017, and the income statement for the fiscal year from 1 January to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report for the company and the group of United Internet AG, for the fiscal year from 1 January to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the declaration on company management contained in section 7 of the management report for the company and the group or the declaration pursuant to Sec. 161 AktG [“Aktiengesetz”: German Stock Corporation Act] contained therein.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the fiscal year from 1 January to 31 December 2017 in compliance with German legally required accounting principles, and the enclosed management report for the company and the group as a whole provides a suitable view of the Company’s position.

- In all material respects, this management report for the company and the group is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report for the company and the group does not cover the content of the aforementioned declaration on company management or the declaration pursuant to Sec. 161 AktG contained therein.

Pursuant to Sec. 322 (3) Sentence 1 HGB ["Handelsgesetzbuch": German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report for the company and the group.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report for the company and the group in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report for the company and the group" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Investment of Warburg Pincus in the Business Applications business of United Internet AG

Reasons why the matter was determined to be a key audit matter

On 2 March 2017 WP XII Venture Holdings S.à r.l., Luxembourg (Warburg Pincus) acquired an investment in the United Internet Group's Business Applications business. In preparation for this transaction, United Internet AG contributed some of its shares in 1&1 Internet SE, Montabaur, in a capital increase to its subsidiary 1&1 Internet Holding SE, Montabaur, in return for the issue of new common shares and one preference share; carrying amounts were retained in accounting for this transaction, which therefore had no effect on profit and loss. United Internet AG generated significant income from the sale of the other shares in 1&1 Internet SE in return for a vendor loan to 1&1 Internet Holding SE. In a second step, United Internet AG contributed all of its common shares in 1&1 Internet Holding SE to a newly established 1&1 Internet TopCo SE in return for shares in the latter. Carrying amounts were retained in accounting for this transaction, which therefore had no effect on profit and loss. In light of the amount of income and the complexity of the transaction structure, the accounting for the transaction steps in connection with the investment of Warburg Pincus in United Internet AG's Business Applications business was a key audit matter.

Auditor's response

Our procedures comprised an assessment of the relevant contractual arrangements and other legal documents and an assessment of the accounting for the transaction steps in connection with the investment of Warburg Pincus in United Internet AG's Business Applications business in the annual financial statements of United Internet AG in accordance with German commercial law. In this context, we checked that the retention of carrying amounts in accounting for the contribution of shares in 1&1 Internet SE to Internet Holding SE and the subsequent contribution of the common shares in 1&1 Internet Holding SE to 1&1 Internet TopCo SE by way of non-cash capital increases was permissible in each case. In addition, on the basis of the relevant contractual arrangements we examined whether the income from the sale of the shares in 1&1 Internet SE to 1&1 Internet Holding SE in return for a vendor loan was recognized in the correct amount.

Our procedures did not lead to any reservations relating to the accounting for the investment of Warburg Pincus in United Internet AG's Business Applications business.

Reference to related disclosures

The Company's information on the contribution of the shares in 1&1 Internet SE to 1&1 Internet Holding SE and the shares of 1&1 Internet Holding SE to 1&1 Internet TopCo SE in connection with the investment of Warburg Pincus in United Internet AG's Business Applications business are contained in the section "Explanation of items in the balance sheet – investment of Warburg Pincus" in the notes to the financial statements.

2. Impairment of financial assets

Reasons why the matter was determined to be a key audit matter

The financial assets presented in the financial statements of United Internet AG amount to 85% of total assets and comprise shares in affiliated companies and loans to affiliated companies. The executive directors tested the shares in and loans to affiliated companies for impairment as of the reporting date, consulting an external expert in the process. The impairment test of shares in and loans to affiliated companies is based on the historical experience of each entity and the expectations as to their future development. These expectations are based on many assumptions, which means that judgment is used to determine the net realizable values. In light of this and in view of the significance for the asset, liabilities and financial performance of United Internet AG, the impairment of financial assets was key audit matter.

Auditor's response

As part of our audit procedures, we assessed the competence, capabilities and objectivity of the expert, obtained an understanding of the expert's work and assessed the suitability of the expert opinion commissioned by the executive directors for testing the impairment of the financial assets as audit evidence. We also assessed the valuations by United Internet AG and the expert with the aid of our internal valuation specialists with regard to the methodology used and checked whether the underlying business plans used for the valuations are consistent with the approved budget figures by the executive directors. In addition, we analyzed further assumptions and estimates subject to judgment (such as growth rates or cost of capital) used to determine the fair values of the financial assets to determine whether they are consistent with general and industry-specific market expectations. Furthermore, we checked the clerical accuracy of the models.

Our audit procedures did not lead to any reservations relating to the assessment of impairment of the financial assets by the executive directors.

Reference to related disclosures

The Company's information on the impairment of financial assets is contained in the section "Accounting and valuation principles" and in the section "Financial assets" in the notes to the financial statements.

Other information

The executive directors are responsible for the other information. The other information comprises

- the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Code contained in section 7 of the management report for the company and the group,
- the declaration on company management pursuant to Sec. 289f HGB and Sec. 315d HGB contained in section 7 of the management report for the company and the group.

Our opinions on the annual financial statements and on the management report for the company and the group do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report for the company and the group or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the executive directors and the supervisory board for the annual financial statements and the management report for the company and the group

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report for the company and the group that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report for the company and the group that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report for the company and the group.

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

Auditor’s responsibilities for the audit of the annual financial statements and of the management report for the company and the group

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report for the company and the group as a whole provides an appropriate view of the Company’s position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the annual financial statements and on the management report for the company and the group.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report for the company and the group.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report for the company and the group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report for the company and the group in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report for the company and the group or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.

- Evaluate the consistency of the management report for the company and the group with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report for the company and the group. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the Annual Shareholders' Meeting on 18 May 2017. We were engaged by the supervisory board on 18 May 2017. We have been the auditor of United Internet AG without interruption since fiscal year 2002.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Andreas Grote.

Eschborn/Frankfurt am Main, 21 March 2018

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Grote	Vorbrodt
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [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 16, 2018

Board of Management

Ralph Dommermuth   Frank Krause   Jan Oetjen